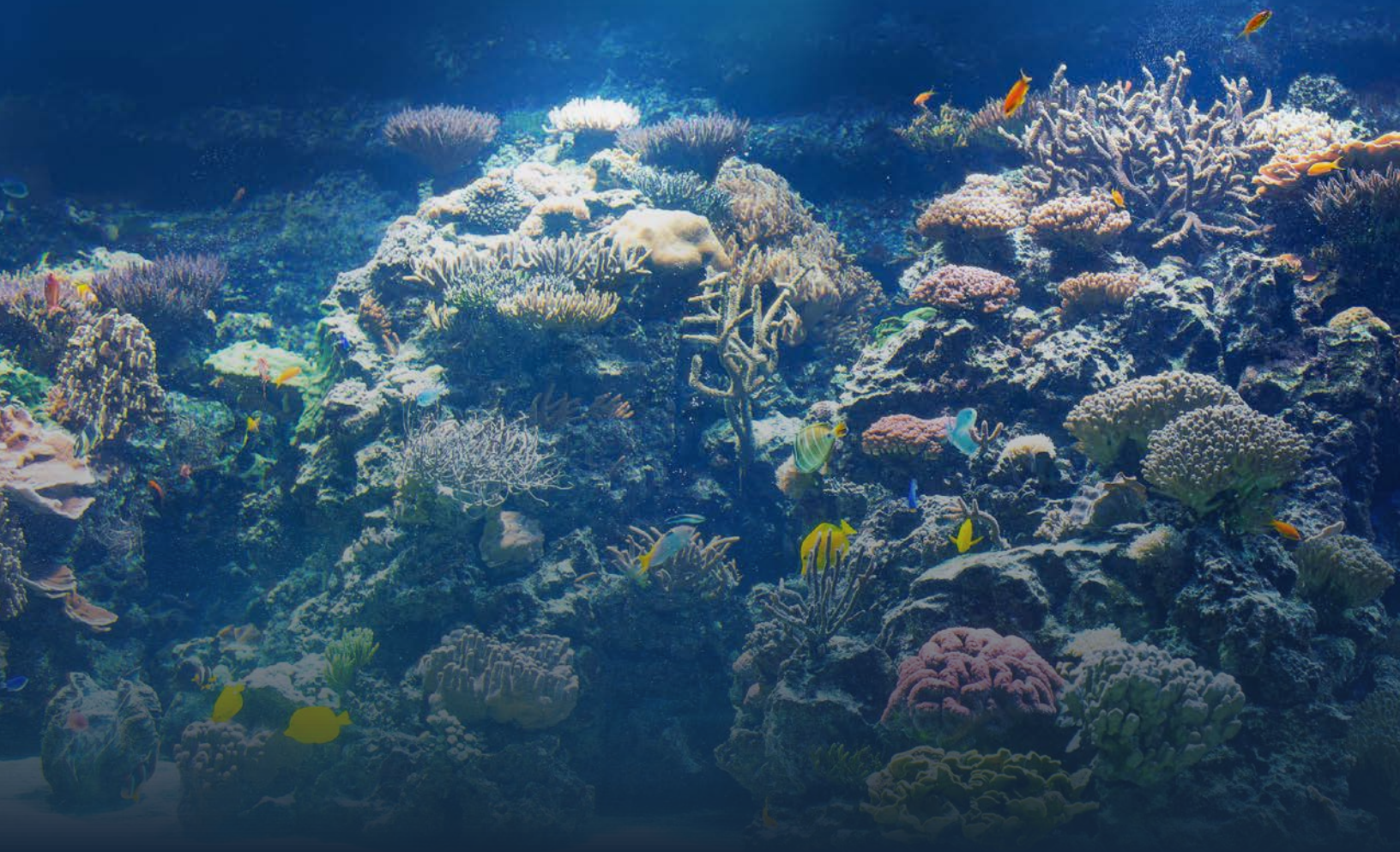


Accelerating Blue Bonds Issuances in Latin America and the Caribbean



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About IDB Invest

IDB Invest, a member of the IDB Group, is a multilateral development bank committed to promoting the economic development of its member countries in Latin America and the Caribbean through the private sector. IDB Invest finances sustainable companies and projects to achieve financial results and maximize economic, social, and environmental development in the region. With a portfolio of \$13.1 billion in asset management and 385 clients in 25 countries, IDB Invest provides innovative financial solutions and advisory services that meet the needs of its clients in a variety of industries.

About the United Nations Global Compact

As a special initiative of the UN Secretary-General, the United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universal principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals. With more than 12,000 companies and 3,000 non-business signatories based in over 160 countries, and 69 Local Networks, it is the largest corporate sustainability initiative in the world.

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INTRODUCTION

As the largest asset class in the global financial market, estimated at US\$128.3 trillion as of 2020,¹ the bond market can play a significant role in catalyzing investments to achieve the Sustainable Development Goals (SDGs).² Investors continue to show a strong appetite for a range of thematic bonds, such as green bonds, to meet the demand for more transparency and alignment with the SDGs.

Thematic bonds are a traditional debt instrument and very similar to standard bonds. However, the proceeds from a thematic bond are used for projects that contribute to sustainable development, as demonstrated through additional reporting requirements.

While there are significant financing gaps to fill, implementation of the SDGs will also open up exciting market opportunities. The United Nations (UN) estimates that achieving the SDGs could result in economic benefits of at least US\$12 trillion by 2030 for the private sector and create 380 million new jobs. Based on these estimations, developing countries are projected to receive about 50% of estimated economic benefits and about 90% of new jobs. Furthermore, action on climate change would result in savings of about US\$26 trillion by 2030.³

A broad range of stakeholders involved in the realization of the SDGs, including companies, governments, cities, assets, infrastructure projects, and public-private partnerships, can participate in the issuance of bonds. The bond market is also a longer-term, lower-risk asset class that matches the profile of SDG-related activities, making the financial mechanism uniquely positioned to help catalyze the large-scale investments needed to achieve the SDGs.⁴

1. [Bond Market Size, International Capital Market Association \(ICMA\)](#).

2. [United Nations Global Compact Action Platform on Financial Innovation for the SDGs, SDG BONDS | Leveraging Capital Markets for the SDGs, 2019](#).

3. [United Nations Secretary-General, Roadmap for Financing the 2030 Agenda for Sustainable Development, 2019-2021](#).

4. [UN Global Compact, 2019, SDG Bonds | Leveraging Capital Markets for the SDGs, 2019](#).

Blue bonds are emerging as an innovative financing instrument to mobilize capital to solve social and environmental challenges, create sustainable ocean and water-related business opportunities, and signal responsible ocean stewardship in line with the SDGs and the Paris Agreement. A sustainable ocean economy can create a triple win for people, nature, and the economy by fighting climate change, providing nutritious food for a growing population, and providing almost unlimited renewable energy.

According to the [High-Level Panel for a Sustainable Ocean Economy](#), capital to finance the transformation to a sustainable ocean economy is readily available. US\$90 trillion is projected to be invested over the next decade on infrastructure alone, much of which will be on or near the ocean. If grounded in global principles and standards, finance can catalyze responsible policy and business practices across the land-sea interface.⁵

Sustainable ocean investments are on the rise. In a recent survey, 72% of investors classified the sustainable ocean economy as investable. Thousands of sustainable ocean ventures are emerging across all continents.⁶

Blue bonds are structured in much the same way as any other thematic bond. As with standard bonds, they provide capital to issuers who agree to repay the debt with interest over time. Issuers of blue bonds, however, commit to using all or the majority of the proceeds to finance or refinance blue (ocean or water-related) projects.

The thematic bond principles developed by the International Capital Market Association (ICMA) are widely supported by issuers, investors and underwriters. Until specific blue bond principles are developed, the ICMA principles for green, social sustainability-linked and sustainable bonds can be used, and mapping indicates there is significant potential for blue bonds nested within these categories. For most purposes, the “blue” label is a tool for the issuer to signal to the market and describe its sustainability strategy seeking to advance a healthy, productive ocean, as well as access to water.

Since 2017, IDB Invest has structured and/or purchased a total of 20 thematic bond issuances in Latin America and the Caribbean (LAC), including six Green Bonds, eight Social Bonds, and five Sustainable Bonds⁷ valued at US\$1.3 billion, which includes the mobilization of US\$500 million of private Capital.

As a developmental finance institution, IDB Invest sees the vital importance of the ocean and the blue economy in the region, as well as the potential for development impact from ocean-based projects. With several coastal and island states in the region, the sustainable expansion of the blue economy represents an especially important opportunity to support sustainable development. This paper is a collaboration between IDB Invest and the UN Global Compact. It aims to accelerate blue bond issuance by providing insight and guidance for issuing blue bonds to fund sustainable ocean and water-related business opportunities in LAC.

5. Transformations for a Sustainable Ocean Economy: A Vision for Protection, Production and Prosperity; High Level Panel for a Sustainable Ocean Economy. 2020.

6. Responsible Investor Research and Credit Suisse. [Investors and the Blue Economy. 2020.](#)

7. [Thematic Bonds Supported by IDB Invest. 2020.](#)


THEMATIC BONDS

Sustainable bonds are debt securities used to finance pre-defined sustainable activities, projects, or assets. The majority of these bonds issued are “use of proceeds” (UoP). Existing frameworks include green, social, sustainable and sustainability-linked bonds. For green and social bonds, the ICMA principles have helped standardize the market, providing a framework that covers the UoP, process for project evaluation and selection, management of the proceeds, and reporting. These frameworks enhance the thematic bond integrity and transparency, crucial for the expansion of this market.

The green bond market has seen rapid growth, with more than [US\\$1 trillion in total issuance](#) since 2010. More recently, there has been a shift from mostly green bonds to a wider mix of social, green, and sustainability bonds.

While the pandemic caused a slight slowdown in the green bond market at the beginning of 2020, this has been made up for by the increase in COVID-19 social bond issuances (with themes of healthcare, and support for small- and medium-sized enterprises [SMEs], up eightfold from 2019. In 2020, [sustainable debt hit a new record, reaching the greatest volume of issuance in a single year at US\\$732.1 billion](#) across bond and loan varieties raised with environmental and social purposes in mind. With many key stakeholders looking toward a resilient recovery, there is a strong market appetite for issuing sustainable bonds.





As the thematic bond market has rapidly developed, investors and issuers have innovated new instruments to drive capital toward projects and companies that align with the SDGs and/or the Paris Agreement targets. The issuance of the first SDG-Linked Bond by Enel at the end of 2019 led to the development of the ICMA Sustainability-Linked Bond Principles. As opposed to sustainable bonds, which measure use of proceeds, sustainability-linked instruments are outcomes-based, measured by key performance indicators (KPIs) and linked to an issuer's overall sustainability strategy.

The recent development of Sustainability-Linked Bonds show there is space for innovation in the market. Emerging financial mechanisms can feed strong investor appetite to meet their sustainable portfolio goals. However, the market continues to require certain market standards across all thematic bonds.

Therefore, to provide investors comfort with blue bonds while they are still in a nascent phase, aligning with existing standards and principles will enable market development. Additionally, issuances of a benchmark size will support growth by establishing market expectations around issue characteristics.

Developing blue criteria against which investors can evaluate the bond will further build a market foundation. Several taxonomies have already been developed for ocean industries, including shipping and aquaculture, by leading second-party opinion providers and other external stakeholders (such as the Climate Bonds Initiative).

THEMATIC BONDS LABELS



GREEN BONDS

Proceeds from Green Bonds are exclusively assigned to the financing of projects with an evident environmental benefit.



SOCIAL BONDS

Proceeds from Social Bonds are exclusively assigned to the financing of projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially for target populations.



SUSTAINABLE BONDS

Proceeds from Sustainable Bonds are exclusively applied to finance or refinance a combination of both Green and Social Projects.



BLUE BONDS

Proceeds from Blue Bonds are assigned to financing or refinancing water-related and/or ocean-based projects with evident positive impact on the achievement of the Sustainable Development Goals.

There is not yet a definitive global definition of green, social or sustainable bonds, but the market is coalescing around certain standards, notably those of ICMA. All bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed-income securities. The majority of these bonds issued are UoP or asset-linked bonds, though there is emerging interest in instruments that are outcomes-based, such as Sustainability-Linked Bonds.

REFERENCES:

- [ICMA Green Bond Principles](#)
- [ICMA Social Bond Principles](#)
- [ICMA Sustainability Bond Principles](#)

WHY BLUE?

- Blue bonds as a separate category allow for the development of research, case studies and best practices specifically for water-related projects and oceanic health with a social inclusion and economic empowerment angle, something that may be overshadowed if the project sits within green and sustainable bonds.
- Creating a broader consensus of what constitutes “blue” validates those wishing to signal ocean stewardship. It can also affirm issuers who may have previously believed that the financing of their assets or business operations did not fit neatly or was not easily communicated within recognized green, social or sustainability bond frameworks.
- “Blue” eligibility criteria will open opportunities to a broader range of issuers operating in sectors with high potential for all types of sustainable development to access funding through the thematic bond market. Blue bonds can benefit blue carbon, shoreline protection, ocean energy, offshore renewables, seafood and aquaculture, trade and transportation, tourism and recreation, telecoms and media, agriculture, consumer goods—to name but a few.
- At the core of sustainable finance is the achievement of the SDGs. There is an urgent need to accelerate progress towards 2030, which will require an estimated US\$2.5 trillion annual investment. Innovating new sustainable financial mechanisms, such as blue bonds, expands issuer participation towards all 17 interconnected SDGs in support of the blue economy and incentivizes ocean stewardship through well-defined standards.

NESTING BLUE BONDS WITHIN SUSTAINABLE BONDS:

Although there is not yet a set of blue bond principles under ICMA standards, the concept fits well under the ICMA thematic bond principles. Until there is a widely accepted set of blue bond principles, issuers are encouraged to use the ICMA sustainable bond guidelines, adapted to a blue UoP. In the longer term, it is expected that a widely accepted set of blue bond principles will be developed.

For blue bonds to fit well as a sub-category to green, social or sustainable bonds, several factors should be considered:

1. The bond document framework for the UoP should substitute for a blue (ocean or water)-related use.
2. The framework that defines the eligibility criteria for the blue UoP should be externally verified through a second-party opinion (SPO).
3. Issuers will need to educate investors around blue economy criteria to credibly demonstrate the UoP qualifies as blue.
4. Where possible, the issuance should be embedded in a broader corporate strategy that demonstrates the company’s overall commitment to sustainability and the SDGs, beyond the specific projects being financed.

8. [OECD, How Blended Finance Can Plug The SDG Financing Gap](#).

ELEMENTS IN A THEMATIC BOND FRAMEWORK

The ICMA thematic bond principles have helped to standardize the market, providing a framework that covers the UoP, process for project evaluation and selection, management of the proceeds, and reporting.

- 1 | USE OF PROCEEDS (UOP)**

Relevant “blue” projects to which the proceeds will be allocated are appropriately described in the offering documentation for security.
- 2 | PROJECT EVALUATION AND SELECTION**

The plan for the UoP, the environmental and/or social benefit of financed projects, and the objectives of the company are demonstrated by the issuer.
- 3 | MANAGEMENT OF PROCEEDS**

Net proceeds are appropriately tracked by the issuer. A formal internal process to track compliance and reporting mechanisms in line with global standards is beneficial to ensure transparency.
- 4 | REPORTING**

Information on the UoP should be reported at least annually. The annual report should include a list of the projects to which the proceeds have been allocated, a description of the projects and their expected impact, as well as the amount allocated for each. Where possible, quantitative and/or qualitative data to measure impact are especially preferable to investors.

Until there is a standard global definition of sustainable/blue bonds, ICMA principles serve as a good reference. They contain guidance on reporting and high-level data capture. Specific requirements are determined among related parties participating in the transaction. An SPO provider will also set expectations for qualifications to be considered a blue bond.

A fifth step to conduct an external review by an independent SPO provider is increasingly becoming the market norm:

5 | EVALUATION

A further distinction from standard bonds is that an external review is conducted. An issuer can opt for an SPO, Verification, Certification or Green/Social/Sustainability Bond Rating. The second party evaluates the bond framework, including the proposed use of proceeds, project selection and evaluation process, as well as oversight and reporting structure, to ensure alignment with the relevant principles.

SPOs offer credibility and transparency and are becoming standard market practice. Approximately 92% of labeled deals (green, social, sustainable, etc.) have external reviews and third-party opinions, with many investors requiring them. IDB Invest aims to set best practices and require external reviews for all thematic bond structures.

Cost: Blue bonds, like green bonds, may generate additional costs compared to a standard bond with no specific features. These include costs associated with external reviews, reporting and internal planning/preparation. IDB Invest is prepared to assist clients to advance sustainable finance instruments.

Issuers are also becoming increasingly aware that there are benefits of thematic bond issuances, especially high investor demand and improved financing terms such as larger transaction size and longer maturities, which may serve to mitigate the additional costs associated with the issuance of a blue bond. Additionally, there is emerging research showing that issuing a thematic bond can bring a host of other benefits, such as higher brand visibility and improved equity valuation.



BUILDING A FRAMEWORK FOR BLUE BONDS

Previous issuances of blue bonds have focused on investments within marine conservation and restoration, as well as water-related infrastructure. By expanding eligibility criteria and frameworks, blue bonds can also fund business opportunities that positively impact the ocean and support sustainable development.

Blue finance should be grounded in global principles and standards. The UN Global Compact [Sustainable Ocean Principles](#) provide one such set of principles. These principles provide a standard reference point for responsible business practices in the ocean. Companies signing on to the principles commit to incorporate ocean sustainability considerations into their overall strategy and to measure their impact on the ocean with an aim toward continuous improvement. By endorsing the principles, companies demonstrate their commitment to ocean sustainability and the SDGs to the market, investors, and other key stakeholders.

Sector-specific [practical guidance](#) is available to complement the Sustainable Ocean Principles and illustrate how a specific sector may adopt the principles. For each principle, the guidance provides a set of actions that a company can implement. Currently, available guidance includes [Aquaculture](#), [Oil and Gas](#), [Seaweed](#), Fisheries, Shipping and [Offshore Renewable Energy \(ORE\)](#). Practical guidance for additional sectors is currently being developed, including an analysis of the sustainability challenges and opportunities of each sector.

In the [2020 Transformations for a Sustainable Ocean Economy](#), endorsed by the 14 heads of state comprising the High-Level Panel for a Sustainable Ocean Economy, the Sustainable Ocean Principles are cited as a strong example of principles to drive blue finance that can catalyze responsible policy and business practices across the land-water-ocean interface. Additional principles include the [WWF Sustainable Blue Economy Finance Principles](#) and the UNEP Finance Initiative's [Sustainable Blue Economy Finance Principles](#).

THE BLUE ECONOMY

When looking at water-related or ocean-based projects, there is a need to consider not only protection and restoration, but also productivity and potential, and tapping into the vast resources that can support sustainable development. In recent years, the ocean has produced US\$2.5 trillion in goods and services globally each year, and the asset value of the ocean has been estimated at US\$24 trillion.⁹ Acceleration in the blue economy is projected to continue as the population grows and the demand for more sustainable food, energy, and transportation rises.

Ensuring a healthy ocean provides significant opportunities for business and economic growth. An overall reference for the challenge of balancing ocean protection and production is the [Ocean Stewardship 2030](#) report published by the UN Global Compact. The report builds upon the [5 Tipping Points for a Healthy and Productive Ocean](#), which point to a number of blue opportunities to support the 2030 Agenda for Sustainable Development:

- **Sustainable Seafood:** Covering 71% of the earth, the ocean could sustainably produce significantly more food to provide adequate nutrition for the 820 million people currently estimated to be food insecure and achieve Goal 2, which promotes ending hunger and improving food security through sustainable food systems.

9. Transformations for a Sustainable Ocean Economy: A Vision for Protection, Production and Prosperity: High Level Panel for a Sustainable Ocean Economy, 2020.



- **Decarbonized Shipping:** Shipping moves 80% of the world's goods within and between continents and nations. Decarbonized shipping can be a key factor in reaching the SDGs through increasing sustainable global trade.
- **Ocean Renewable Energy:** Making ORE a key part of energy policy will support the greenhouse gas (GHG) emission reductions needed by 2030 to meet the Paris Agreement targets of achieving net-zero carbon by 2050 and limiting temperature change to no more than 2 degrees above pre-industrial levels.
- **End Waste Entering the Ocean:** For the ocean to continue functioning healthily and provide the necessary resources to meet the SDGs, there is an urgent need to eliminate waste entering the ocean and move toward a circular economy and restore the health of the ocean.
- **Mapping the Ocean:** Large parts of the ocean and seabed remain relatively unexplored. Greater ocean data will provide crucial information on marine ecosystems for climate change mitigation and adaptation, influencing how we interact with and manage the ocean to sustainably produce food and energy.

Furthermore, the blue economy should be considered through the lens of the interrelations among all of the 17 SDGs, and impacts across environmental, social, and governance dimensions. An ocean-based approach to development can help address high unemployment, food and energy insecurity, poverty, and vulnerability to climate change.¹⁰

For example, fully traceable, sustainable seafood has a strong social focus and attention on preventing human rights violations, as well as promoting decent work and economic growth. With 3 billion people worldwide dependent on the ocean as their primary source of protein, the blue economy is also critical to ensuring food security.¹¹

There are also many nature-based solutions related to the ocean and coastlines that can be implemented to mitigate and adapt to climate change. Nature-based solutions can tackle further interconnected challenges such as food security, disaster risk management, and water availability. Prioritizing nature-based solutions in the LAC region will require a multi-stakeholder and multi-sectoral approach, so increasing awareness of the benefits, especially within the private sector, will be critical.¹²

Restoring mangrove forests and wetlands represents one such nature-based solution, as it protects coastal communities from storms and flooding. Additionally, coastal restoration increases habitats for biodiversity, which also benefits fishing and tourist activities in the community. Furthermore, mangroves, tidal marshes, and seagrass meadows sequester and store carbon. By removing carbon dioxide (CO₂) from the atmosphere, these ecosystems serve as vitally important net carbon sinks, known as “blue carbon”. Coastal ecosystems need to be restored and protected because of the significant role they can play in climate change mitigation.¹³

10. Alleng, G. Edwards, G., Fragano, N. 2020. [Can the Blue Economy spark a sustainable and inclusive recovery in the Caribbean?](#) Inter-American Development Bank (IDB).

11. Food and Agriculture Organization of the United Nations. 2018. [The State of World Fisheries and Aquaculture 2018: Meeting the Sustainable Development Goals](#).

12. Inter-American Development Bank. Sep 2020. [Mainstreaming of Natural Capital and Biodiversity into Planning and Decision-Making: Cases from Latin America and the Caribbean](#). IDB, 2020.

13. International Union for Conservation of Nature. [Issues Brief- Blue Carbon](#).

OCEAN RETURN ON INVESTMENT

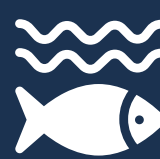


Every **US\$1** invested in scaling up global offshore wind production generates a benefit estimated at **US\$2-17**, depending on the cost of offshore energy production and transmission and the types of generation that would be displaced.

The value of the return on investment (ROI) will increase as the costs for offshore wind energy generation fall because of improvement in technologies and actions to reduce integration costs.



Every **US\$1** invested in **decarbonizing international shipping** and reducing emissions to net-zero is estimated to generate a **return of US\$2-5**. The analysis assumed the significant capital expenditure to switch to zero-carbon emissions will happen after 2030, and limiting the analysis to 2050 captures only a portion of returns from these investments, which will continue beyond 2050.



Every **US\$1** invested in increasing production of **sustainably sourced ocean-based protein** (to ensure a healthy, balanced diet by 2050) is estimated to **yield US\$10 in benefits**.

The increase in demand for ocean-based protein to provide a healthy diet for 9.7 billion people by 2050, which would replace a percentage of emission-intensive land-based protein sources, can be achieved by reforming wild-capture fisheries and by increasing the sustainable production of ocean-based aquaculture.

Source: [A Sustainable Ocean Economy for 2050: Approximating its Benefits and Costs](#)



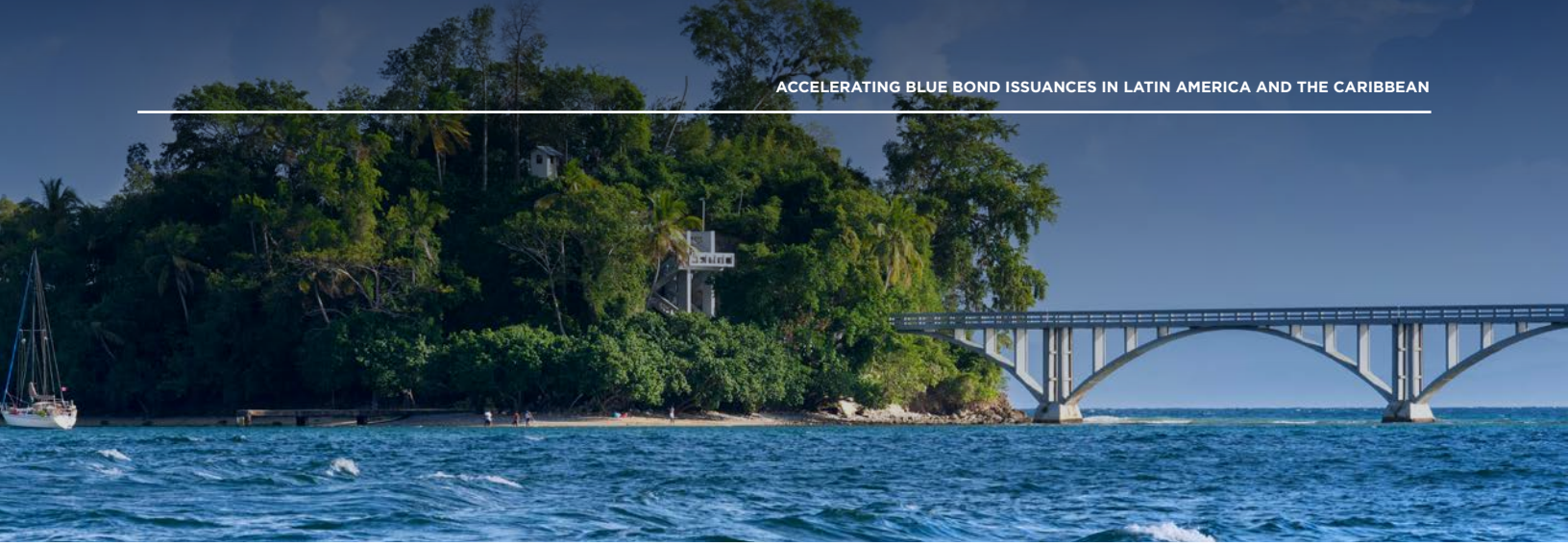
Investments in a sustainable ocean economy are not just good for the ocean, they also represent an excellent value proposition. Investing US\$2.8 trillion today in just four ocean-based solutions—offshore wind production, sustainable ocean-based food production, decarbonization of international shipping, and conservation and restoration of mangroves—would yield a net benefit of US\$15.5 trillion by 2050, a cost-benefit ratio of more than 5:18.¹⁴

With the vast opportunities for the ocean to support the achievement of the SDGs, there is a critical need to scale up ocean-based solutions and investments in the blue economy. Investment in the ocean offers a good return.¹⁵ However, Goal 14: Life below water currently receives the second-lowest amount of capital invested of any of the SDGs. One reason for the low level of funding for ocean-based projects is that investors perceive a lack of investment opportunities, especially with financial instruments and capital structures that can attract large institutional investors. At the same time, ocean industries need further capital to advance sustainable business opportunities.

Projects within the blue economy are also well suited to financing through a bond issuance in that many require large amounts of capital upfront, with long, stable returns over time — for example, offshore energy, shipping and aquaculture projects. Therefore, there is an identified need to finance sustainable ocean business opportunities or strategies through financial structures in which large institutional investors can invest. Blue bonds provide a targeted vehicle to secure capital for ocean-related projects and companies that are planning to make a significant contribution to the SDGs.

14. High Level Panel for a Sustainable Ocean Economy. [Ocean Solutions that benefit people, nature and the economy. 2020.](#)

15. [A Sustainable Ocean Economy for 2050.](#)



REGIONAL CONSIDERATIONS

The LAC region shares a vast part of the Atlantic and Pacific oceans. The sea accounts for 60% or more of the sovereign territory of 22 countries in the region, with a coastline that extends over 70,000 km, where many of the region's largest urban and rural areas are located. In the Latin American region, 25% of the population lives on the coast, and in the Caribbean, the population living on the coast is nearly 100%.¹⁶

Twenty-three Caribbean states are small island developing states. A 2012 report by the World Bank estimated that gross revenues in the Caribbean region from ocean use amounted to at least US\$407 billion, mostly through shipping, mineral resources, tourism and fisheries.¹⁷

In some low-income countries and small island developing states, tourism alone and other important ocean-based sectors can account for over 20% of GDP, compared to 2% for OECD countries. Because of this greater reliance on ocean-based sectors, developing countries are likely to face greater risks from rapidly deteriorating marine ecosystems.

The evolution of ocean-based sectors could either accelerate progress towards sustainable development or reinforce current trends of environmental degradation and social exclusion.¹⁸

The rapid deterioration of ocean health is, therefore, of particular importance to address in the LAC region. The region faces an urgent need for financing and investment in sustainable infrastructure and sector development, which has been exacerbated by the pandemic. Business action and funding are urgently needed to meet these goals.

Blue bonds, like green bonds, will constitute a tool to shape standards and guidance to trace the impact of several ocean-related industries that not only have a positive environmental impact, but also a positive effect on communities whose livelihoods depend on ocean activities.

16. Watson, G. and Katzman, J. *A Continent of Oceans: Latin America's Blue Economy*. IDB, 2020.

17. Alleng, G. 2020. *The Caribbean can make waves with a blue ocean economy*. IDB, 2020.

18. *Sustainable Ocean for All: Harnessing the Benefits of Sustainable Ocean Economies for Developing Countries*. OECD, 2020.

OPPORTUNITIES FOR ISSUANCE

There are two key categories of blue bonds with relevance for IDB Invest:

- Projects that are directly operating in or by the ocean, seas, and freshwaters, such as ports, shipping, tourism, fisheries, aquaculture, offshore energy and water management
- Projects that have a direct impact on the ocean, seas, and freshwaters, such as consumer-packaged goods, agriculture, textile, water and sanitation, and infrastructure

For projects falling under each of the above dimensions, the environmental, social and governance impact should be considered. Potential blue bond issuers should also demonstrate an overall commitment beyond the specific UoP to the advancement of the SDGs.

Funding opportunities within the blue economy include projects that mitigate negative as well as accelerate a positive contribution to sustainable development. Examples of negative impacts include agrochemical runoff and poor waste management, and positive impacts include offshore renewable energy and sustainable fisheries. Blue economy activities also have social and economic impacts, positive and negative, that must be taken into consideration, like livelihood security, human rights, anti-corruption measures or gender parity actions.

Bond issuances may also come from issuers at various stages in their sustainability journey, provided they set robust, transparent, and verifiable targets. Industries and companies that are in transition may also access the sustainable bond market to accelerate progress toward a net-zero future.

The shipping sector provides an interesting example of an industry in transition, as it is not considered a “green” industry today, but decarbonizing shipping will be critical to mitigating climate change. In this way, the finance sector can support the transition of heavy industry by funding activities that move the industry in a decarbonized direction.

The following charts provide an overview of the blue economy context within the LAC region for each of the IDB Invest priority sectors, including the sector’s relevance to ocean sustainability, economic opportunities and the associated SDGs.



ENERGY

SUSTAINABLE OCEAN RELEVANCE: OFFSHORE RENEWABLE ENERGY

The ORE industry is projected to be a US\$1 trillion business by 2040, capable of delivering up to a million ongoing full-time jobs globally, many of which can be transferable from the fossil fuel industry. The post-COVID 19 forecast for offshore wind remains unchanged, as most projects are already financed and under construction (IEA 2020).

There is also the potential to unlock co-location benefits with other offshore industries; for example, ocean-based energy could meet the increasing demand for energy-intense desalinated seawater or support marine aquaculture operations. Analysis shows that on average there is a net positive benefit from expanding the sector. The present value of benefits is estimated to be US\$0.3 to US\$6.8 trillion over 30 years.

Offshore wind technology has the potential to be an important component of the energy mix in LAC countries. In the Caribbean region, investments in energy efficiency, renewable energy and energy resilience show potential to lead to US\$16 billion in net economic benefits over the next 20 years.¹⁹ Both shallow water fixed bottom and offshore floating wind are expected to expand rapidly in the next decade globally. For the region, this represents an opportunity for energy security and sustainable green growth.

- Chile has great potential as an offshore wind resource. Its proximity to the coast avoids transmission costs.
- Brazil has the second-longest coastline in Latin America. There is the opportunity for integrating offshore wind energy to power oil platforms to help minimize adverse effects from oil and gas (O&G) operations. Brazilian O&G reserves are at depths over 2,000 meters. Using offshore wind would force installations to use floating structures. Strategically integrating offshore wind technology has great potential here.
- Colombia, Puerto Rico, and the Argentine Patagonia also have good potential for ORE development.
- In Latin American drought areas (e.g., Colombia and the Caribbean Islands) the production of potable water via desalination is powered by offshore wind.

RELEVANT SDGs:



19. Alleng, G. Edwards, G., Fragano, N. 2020. [Can the Blue Economy spark a sustainable and inclusive recovery in the Caribbean?](#) IDB, 2020.

TRANSPORT

SUSTAINABLE OCEAN RELEVANCE: DECARBONIZING SHIPPING, PORTS

Latin America and the Caribbean have in recent years accounted for about 17% of the world's total maritime cargo. However, the regional share in the maritime transport industry is smaller. Data from UNCTAD indicates that Latin American and Caribbean companies account for only 0.39% of container transport capacity.²⁰ There is, therefore, a significant opportunity to scale up the maritime sector in the region.

Latin America needs investment of US\$55 billion by 2040 to boost the maritime and port industry. Half of the investment required in the medium term, (US\$15 billion) is to be made in ports in Mexico, Brazil and Panama. The outlook by 2040 for the maritime and port sector in LAC suggests an attractive environment for investors, based on factors such as GDP growth, industrial diversification and modernization, strengthening of the services sector, improvement of logistics corridors and port modernization.²¹

As infrastructure is built within the maritime and port sectors, consideration of sustainability and transitioning to a net-zero resilient economy will be critical. Lowering the shipping sector's carbon footprint is crucial to the sustainability of the sector and the fight against climate change. In recognition of this, the IMO has adopted a strategy to reduce GHG emissions from international shipping by at least 50% by 2050 compared with 2008.²² This strategy is due to be reviewed every five years and there is the possibility that this strategy will become more ambitious.

Beyond carbon emissions, there are additional environmental impacts to be mitigated, such as marine pollution. Although there are instruments covering the disposal of plastic waste generated on-board ships (Annex V of the International Convention for the Prevention of Pollution from Ships and the Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter and its 1996 Protocol), there are no known protocols or standard operating procedures on the day-to-day management of litter.

RELEVANT SDGs:



20. United Nations Economic Commission for Latin America and the Caribbean (ECLAC). [LAC's Shipping industry in the international context](#). 2020.

21. [Caf.com](#) Analysis of port investment in Latin America and the Caribbean, 2040 Outlook.

22. IMO Action to Reduce Greenhouse Gas emissions from International Shipping.

AGRIBUSINESS

SUSTAINABLE OCEAN RELEVANCE: END WASTE ENTERING THE OCEAN

The OECD-FAO Agricultural Outlook 2019-2028 report projected that Latin American and the Caribbean would account for over 25% of global agricultural and fisheries exports by 2028. At the time of the report's release, Latin American and the Caribbean accounted for 14% of global agricultural production. The report also highlighted certain challenges to ensure that future growth was sustainable. One of the necessary developments highlighted to enable inclusive, sustainable growth was greater environmental protection.²³

Operations within the agriculture sector can have negative impacts on the marine ecosystems as runoff-containing fertilizers enter the ocean. For example, 80% of all marine pollution in the Caribbean region comes from land-based sources, mostly untreated wastewater, litter, and agricultural run-off.²⁴ Excess nutrients and waste from agriculture contribute to eutrophication in the ocean, setting off a chain reaction in the ecosystem.

The chain reaction begins with excessive growth of algae and plants, which eventually decompose, producing large amounts of carbon dioxide. The increased carbon dioxide levels in turn lead to ocean acidification, which adversely affects growth of fish and shellfish. Eutrophication can also create what are known as “dead zones” where oxygen levels reduce to the point where marine life can no longer be sustained. This can ultimately lead to diminished amounts of ocean-based foods and economic losses.²⁵

Given the potential growth of the agriculture sector in the LAC region, prevention of agricultural runoff will be key to safeguarding the health of the ocean. Runoff can be prevented through crop- and site-specific fertilizer best management practices, optimizing fertilizer application to only what the plants take up. Practices that improve nutrient-use efficiency (NUE) and effectiveness prevent nutrient runoff and GHG emissions. Guiding frameworks include the [UN Global Compact Principles for Sustainable Soil Management](#) and the [FAO Code of Conduct for the sustainable use and management of fertilizer](#).

RELEVANT SDGs:



23. OECD/FAO (2019), [OECD-FAO Agricultural Outlook 2019-2028](#).

24. Diez, S.M., Patil, P.G., Morton, J., Rodriguez, D.J., Vanzella, A., Robin, D.V., Maes, T., Corbin, C. (2019). Marine Pollution in the Caribbean: Not a Minute to Waste. Washington, D.C. World Bank Group.

25. National Oceanic and Atmospheric Administration (NOAA). [What is eutrophication?](#) National Ocean Service website.

SOCIAL INFRASTRUCTURE

SUSTAINABLE OCEAN RELEVANCE: SUSTAINABLE SEAFOOD

The ocean's vast resources and economic benefits have the potential to reduce poverty, improve gender parity, provide food and energy security, and contribute to a resilient, net-zero future. With a growing focus on the potential for ocean-based solutions to support the transition to a net-zero economy, there must simultaneously be a strong commitment to improving the livelihood of everyone.

Many people depend directly on the ocean for their livelihood, especially within blue economy sectors. For example, fishing, tourism and port activity are heavily dependent on coastal ecosystem services.

Another notable example is that, despite their fundamental contribution to nutrition, food security and local livelihoods, many small-scale fishing communities remain marginalized. Further, women's contributions to fisheries are often overlooked, undervalued and underrepresented.

Empowering women both economically and socially within the blue economy is also necessary to achieve gender balance. Seaweed harvesting is increasingly being undertaken by women, offering employment, empowerment and economic opportunities.

Sustainable growth of the blue economy must incorporate social considerations, including contributing to food security as well poverty alleviation and decent work for those employed in the sector.

RELEVANT SDGs:



AQUACULTURE

SUSTAINABLE OCEAN RELEVANCE: SUSTAINABLE SEAFOOD

Global aquaculture production is projected to reach 109 million tons in 2030, an increase of 32% (26 million tons) over 2018.²⁶ Sustainable management of the ocean's fish stock could significantly increase profit for the fishing industry; experts estimate the "dormant" extra potential to be around US\$83 billion.

There are many ways to sustainably farm the ocean, with opportunities such as innovating alternative protein feed ingredients, promoting lower-trophic aquaculture production and consumption, multi-trophic aquaculture and restorative aquaculture. With better management, the fish stock could recover and would result in more high-quality fish being caught.

Globally, aquaculture production has grown to be close to the total overall number of fish caught. In the LAC region, however, marine capture fisheries represent 80% of fishing and aquaculture production. Fish caught in the LAC region accounts for nearly 15% of the worldwide total. Fishing and aquaculture are estimated to provide a livelihood for 1.8 million people in the LAC region. The sector is therefore economically, nutritionally and socially fundamental.²⁷

Several social dimensions are particularly relevant for the aquaculture and fisheries sector. Ensuring traceability in seafood requires a sectoral shift toward preventing illegal, unreported and unregulated (IUU) fishing, as well as human rights violations and forced labor. These are prevalent issues in the sector, in part because of the difficulty faced in monitoring international operations, informality, inadequate regulations, etc. International human rights organizations, such as the [Danish Institute for Human Rights](#), have focused particular efforts on the fisheries and aquaculture sectors, calling for human rights due diligence across the complex value chains.

RELEVANT SDGs:



26. Food and Agriculture Organization (FAO) of the United Nations. [The State of World Fisheries and Aquaculture](#). FAO, 2020.

27. FAO. [Food systems and COVID-19 in Latin America and the Caribbean: Towards inclusive, responsible and sustainable fisheries and aquaculture](#). FAO, 2020.

MANUFACTURING

SUSTAINABLE OCEAN RELEVANCE: END WASTE ENTERING THE OCEAN

Coastal areas around the world are being affected by pollution from inland sources, including wastewater and nutrient runoff, which causes coastal eutrophication (accumulation of organic waste that causes certain types of algae to proliferate), degradation of water quality, and deterioration of coastal marine ecosystems. Analysis of the clean water indicator, which measures ocean pollution levels, shows that water quality problems are extensive but more serious in some equatorial areas, particularly in parts of Asia, Africa, and Central America. The Caribbean Sea is second only to the Mediterranean Sea in terms of plastic pollution.

Despite their contribution to the economy, there is limited awareness of the state of the ocean and seas. The quality of nearshore marine waters is affected by the dumping of solid and liquid wastes by ships, abandoned fishing nets and ballast water discharges, river effluents containing runoff from agricultural chemicals, inadequate wastewater treatment, deforestation, and coastal development. Manufacturing in LAC cities affects the ocean through the mass waste, sewage water, and chemicals that are poured into the rivers with final effects on the ocean.

As marine species interact with the pollution, biodiversity is also negatively impacted. Addressing harmful pollutants is particularly important in the region given that it contains over 50% of the world's biodiversity.²⁸ For the LAC region, the marine pollution problem also has indirect economic consequences, negatively impacting tourism, recreation, fisheries, and industry in general. Plastic is the No. 1 type of pollution in the waters of LAC, with most originating from land-based sources.

In 2016, the LAC region ranked fourth for quantity of plastic consumed, with 8% of the global total. An analysis conducted by the World Bank found that the LAC region generated 11% of the world's municipal waste. Of this municipal waste, only 4.5% was recycled in the LAC region, the lowest recycling rate across all regions.²⁹

In analyzing waste management in the region, the social welfare of the community of informal waste pickers should also be considered. Thousands of informal waste pickers in the region play a significant role in the quantity of plastics that is collected and recycled. However, these workers often face hazardous and undignified labor conditions. Involving this community of informal waste pickers, already experts in waste management, in the development of the necessary infrastructure can lead to improved conditions, dignity, and quality of life for them. Placing a higher value on plastic through design for recycling would lead to a higher retained value for collectors.³⁰

More and more companies are joining the fight against excess plastic in the oceans through initiatives ranging from innovative designs that incorporate recycled plastic to the search for enzymes and organisms that can break it down. Other examples are sports shoes and T-shirts made from abandoned fishing nets or developing biodegradable containers and eco-friendly packaging.

RELEVANT SDGs:



28. USAID. [Marine Debris and Biodiversity in Latin America and the Caribbean](#). 2019.

29. Brooks, A., Jambeck, J., Mozo-Reyes, E. [Plastic Waste Management and Leakage in Latin America and the Caribbean](#). 2020.

30. The Pew Charitable Trusts and Systemiq. [Breaking the Plastic Wave](#). 2020.

TELECOMMUNICATIONS, MEDIA AND TECHNOLOGY

SUSTAINABLE OCEAN RELEVANCE: MAPPING THE OCEAN, OCEAN DATA

The ocean plays a significant role in the telecommunications sector. An estimated 99% of international data is transmitted by wires at the bottom of the ocean through submarine communications cables.³¹ Careful planning and surveying of marine routes allow for the laying of cables with minimal environmental impact.

Submarine cables are important for marine and climate research. Many ocean observation areas worldwide use submarine cables in the ocean for data transmission and power transfer. Furthermore, increased data collection and mapping of the ocean will allow for cables to be better placed to avoid incidental damage. Greater access to telecommunications technology for all is a key component of inclusive, sustainable development. Providing access to technology in developing countries has the potential to achieve lasting, positive impacts on education, economic prosperity, social inclusion, and environmental protection.

In the LAC region, several geographic areas and communities remain unconnected to telecommunications technology, or poorly served. Several factors contribute to this, including later deployment of mobile technologies in LAC compared to OECD countries, a lesser degree of competition, and lower population density. These factors can affect the deployment of both national terrestrial connectivity links as well as international submarine connectivity links.

Gaps in affordability and quality have led to slower adoption of telecommunications services in the LAC region compared to OECD countries. Forty percent of OECD's lowest-income population has to allocate 2% of its monthly income to access a basic 1 GB mobile broadband tariff, while their LAC peers have to allocate 10% of their monthly income.³²

Submarine digital connectivity infrastructure on the Pacific coast remains limited, causing a gap in the LAC's international connectivity. Because the Pacific shore is significantly deeper, deploying international submarine cables will require greater financial resources and technology. In the LAC region there are a significant number of submarine cables landing on the Atlantic and Caribbean shores, though there are very few international submarine cables connecting to Africa and Europe.

Opportunities to fill current gaps in connectivity include mitigating infrastructure deployment gaps through technological innovation; sharing digital connectivity infrastructure assets to reduce costs, and business strategies targeted to reach underserved communities. Enabling policy frameworks can also aid in attracting private sector investments in digital connectivity infrastructure deployment.

RELEVANT SDGs:



31. Main, Douglas. [Undersea Cables Transport 99 Percent of International Data](#). Newsweek, 2015.

32. [Digital Connectivity: The Infrastructure of the Future](#). Pau Puig Gabarró, Institutions for Development Sector Connectivity, Markets, and Finance Division, IDB May 2020.

TOURISM

SUSTAINABLE OCEAN RELEVANCE: ENDING WASTE ENTERING THE OCEAN, SUSTAINABLE SEAFOOD

Preservation of ocean habitats is of particular relevance in the Caribbean region. A significant portion of the Caribbean's economy is heavily reliant on tourism, which in many places is tied to the beautiful beach habitats. According to the International Monetary Fund, tourism accounts for 50 to 90% of GDP and employment in most Caribbean countries.³³

The Caribbean economies' dependence on coastal and marine resources is among the highest in the world. A World Travel & Tourism Council analysis showed that in 2019 alone, the Caribbean travel and tourism sector accounted for US\$58.9 billion of the region's GDP (13.9%) and 15.2% of total employment.³⁴

The livelihood of many people in the region, therefore, depends on a healthy, productive ocean. Tourism operations can play a key role in mobilizing coastal restoration, creating circular economy initiatives, and sourcing seafood from sustainably sourced, local fisheries. These represent a few critical areas for action within the sector.

OPPORTUNITIES:

- In 2020, the UN Economic Commission for Latin America and the Caribbean noted the importance of cruise ships and tourism for the development of the Caribbean. Between 2010 and 2018, cruise passengers in the Caribbean rose from 6.2 to 11.3 million, an average annual growth rate of 7.8% over nine years.³⁵
- During the period 2006–2012, the top forms of marine litter collected in the Caribbean were plastic drink bottles (19.6%), plastic and paper bags (16.9%), caps and stoppers (11.4%), utensils, glasses, and plates (9.6%), and glass bottles (6.7%). Together with cigarette butts, these are among the top items collected in global clean-up campaigns.³⁶
- The Caribbean is home to 26,000 km of coral reefs, representing 7% of these ecosystems worldwide.³⁷
- According to the World Resources Institute, 75% of coral reefs in the Caribbean currently face medium- and high-threat levels. About 10% of coral reefs are on the verge of collapse and show no live coral cover. Moreover, 70% of beaches in the region are rapidly eroding.³⁸

RELEVANT SDGs:



33. Srinivasan, Krishna, et al. "COVID-19 Pandemic and the Caribbean: Navigating Uncharted Waters" International Monetary Fund. 2020.

34. World Travel & Tourism Council. Caribbean. Annual Research: Key Highlights. 2020.

35. UN ECLAC. [Main challenges for cruise industry in the Caribbean](#). Special Session at the Conference Cartagena dialogue on "Cruise, Ports and Cities." 2020.

36. Brooks, A., Jambek, J., Mozo-Reyes, E. [Plastic Waste Management and Leakage in Latin America and the Caribbean](#). 2020.

37. Burke, Lauretta. Maidens, Jonathan. [Reefs at Risk in the Caribbean](#). World Resources Institute. 2004.

38. Burke, Lauretta. Maidens, Jonathan. [Reefs at Risk in the Caribbean](#). World Resources Institute. 2004.

BANKS AND FINANCIAL INTERMEDIARIES

SUSTAINABLE OCEAN RELEVANCE: FINANCING WILL BE A KEY ENABLER TO ACCELERATE OCEAN-BASED SOLUTIONS

The financial institutions in LAC must strengthen their contribution to sustainable economic growth by developing innovative instruments to address the most challenging development issues in the region. Surveys of financial flows in Latin America suggest that blue-themed transactions currently make up less than 5% of the total sustainable finance products. Sustainable water, wastewater treatment and aquatic biodiversity are the primary recipients of sustainable finance funding.³⁹

Within its mandate, IDB Invest invests extensively in local financial institutions, up to a threshold of 33% of total equity. This gives IDB Invest a degree of leverage to influence these institutions to dedicate a larger portion of their loan portfolio to finance sustainable ocean businesses and activities in the sectors outlined above.

Banks can incorporate the Sustainable Ocean Principles in their credit allocation, risk management and compliance processes to facilitate more lending to the ocean- or water-based industries.

Both public and private financial institutions in Latin America have successfully issued green and sustainability bonds that include water- or ocean-related elements as part of the UoP. IDB Invest has played an important role as an anchor investor in many of these issuances.⁴⁰ By encouraging financial sector issuers to issue blue bonds, IDB Invest could play a similar role as a catalytic investor and improve the flow of capital to blue-themed projects.

RELEVANT SDGs:



39. Sustainable Financial Products in the Latin America Banking Industry: Current Status and Insights (Mejia-Escobar et al, 2020)

40. [Sustainability bond of the year - bank - Bancolombia](#).

IDB INVEST - ROLE AND TOOLS FOR BUILDING THE MARKET

The active support of IDB Group will be an essential building block to kickstart the market and create investor confidence in blue bonds, especially in Latin America and the Caribbean. The IDB Group has supported over 30% of thematic issuance in LAC. The IDB Group follows a holistic approach to promote the participation of issuers and foster the confidence of investors in thematic bonds. The institution can encourage the private sector's participation while attracting institutional investors.

IDB Invest can support the market in building a pipeline of issuance. At the macro level, IDB Invest can engage with national and regional development institutions as well as policymakers to create a common understanding of the blue economy and incentivize the construction of blue projects. As an investor in numerous local financial institutions, IDB Invest can use its influence to encourage lenders to originate loans for blue businesses at the local level. This includes building capacity to raise awareness, ensuring that local financial institutions have the capabilities and expertise to assess and lend to sustainable blue businesses and projects. It also includes being more cognizant of potential blue issues in which IDB Invest can co-invest or package. It can also support local banks to go to market with blue bonds of their own.

As the main actor in private sector thematic issuance, IDB Invest works with issuers to include its key requirements as a multilateral development bank into bond documentation, which would include UoP toward blue use.

IDB INVEST TOOLS INCLUDE:

1. FINANCIAL PRODUCTS

Bond Subscription: IDB Invest can purchase a partial or total portion of the issuance of public or private debt securities, including asset backed securities. IDB Invest's participation as an anchor investor sends a strong signal to the market about the quality of the borrower and helps enhance the credibility of the bond, thus attracting local and/or international investors.

Partial or total credit guarantees: A credit guarantee improves the risk profile of debt instruments. IDB Invest can issue partial or total credit guarantees to cover bond issuances, leveraging their triple-A credit rating and crowding in institutional investors.

Warehousing Lines: IDB Invest can grant revolving lines to acquire and accumulate assets for an exit in the capital markets via securitization (issuance of an Asset-Backed Security (ABS) bond).

B-Bonds: IDB Invest creates alternative structures to mobilize institutional investors. IDB Invest can act as lender of record for an entire project financing and sells participation to a Special Purpose Vehicle (SPV) which in turn sells notes to institutional investors.

2. ADVISORY SERVICES AND ESG ENHANCEMENT

IDB Invest offers support to commercial financial institutions, private corporations, and national development banks to prepare for their issuance of Thematic Bonds. IDB Invest supports clients by issuing bonds to:

1. Assess eligibility and capacity for thematic bond issuance, including improving corporate governance before issuing;
2. Support the development of frameworks; and
3. Support obtaining third-party verification.

Where necessary, IDB Invest defines an action plan with clients to strengthen the environmental, social or governance performance at the level of the issuance and the issuer.

3. ADVOCACY

IDB Invest has been working towards developing integrity and transparency of the asset class, to foster issuer and investor confidence. As a part of IDB Invest's advocacy, the bank has published sustainability protocols, updated policies [on Access to Information](#) and [Environmental and Social Sustainability](#), published sector guidelines and engaged in public-private sector dialogues, innovation labs, and other knowledge-sharing platforms such as the Green Bond Transparency Platform to improve investment environments and promote the adoption of best practices for the capital markets.

4. MANAGING FOR IMPACT

IDB Invest's mandate is to maximize development impact while maintaining financial sustainability, a two-sided objective shared with many impacts and ESG investors. Therefore, IDB Invest developed its Impact Management Framework⁴¹, an end-to-end series of tools and practices that support the complete project lifecycle and integrate impact and financial considerations into portfolio management.

Its Impact Management Framework allows IDB Invest to build, measure, and manage a portfolio of financially sustainable investments that contribute to the fulfillment of SDGs. The framework is also fully aligned with common market practices, such as the Impact Management Project's five dimensions of impact and the Operating Principles for Impact Management⁴². IDB Invest applies its Impact Management Framework to thematic bond transactions to target high-impact sector opportunities and systematically assess the expected impact of each investment, as well as to enhance the dissemination of the results achieved.

41. [IDB Invest's Impact Management Framework: Managing a Portfolio for Impact](#).

42. IDB Invest's alignment with these Principles was independently verified in 2020. See: Disclosure Statement: Operating Principles for Impact Management and the Independent verifier's limited assurance report on the alignment of IDB Invest with the Operating Principles for Impact Management.

MOVING FORWARD: RECOMMENDATIONS TO ACCELERATE THE BLUE BOND MARKET

Scaling the market will require blue bond recognition, developing benchmarks around issuance size and terms, blue pipeline development, government and large corporate involvement, and strong reporting. While these are early days in the blue bond market, the following will help in evolving the market, similar to the green bond growth journey over the past decade:

1. Create blue investment opportunities by increasing recognition of the vital role of the ocean in sustainable development: A healthy, productive ocean offers significant economic opportunities to support a growing population and mitigate environmental degradation.

There is an opportunity for further work to provide guidance and relevant examples that relate to ocean stewardship along with a range of SDGs, to help companies identify relevant blue financing opportunities. Many bonds today that are labeled as “green” could also be considered “blue.” This is partly because blue projects may be labeled as green when they also benefit carbon emission reduction.

A blue bond tag or label may facilitate the development of genuine blue bond issuances. It would also provide some clarity to investors who seek alignment with ocean sustainability. Additionally, education will be key in increasing awareness and understanding of the unique value proposition of blue instruments and their return on investment for the environment, society, and business.

2. Collaborate with governments and multilateral development banks: Public-private partnerships will be particularly relevant given the smaller size of many companies in LAC, and particularly in Caribbean regions. The establishment of a fund or a vehicle that supports numerous smaller transactions may also defray transaction costs on a per-dollar basis.

Government issuances, along with benchmark corporate issuances, will be important in building the market and quickly setting the stage for smaller market players to enter. Also, prioritization by multilateral development banks such as the World Bank and IDB Invest can build confidence to support issuers across a spectrum of sectors and sizes, thereby increasing access.

3. Contribute to evolving standards for strong reporting to build a transparent and credible market: Blue taxonomies, criteria, metrics, and benchmarks are emerging in various ocean- and water-related sectors. Examples include carbon emissions in shipping fleets, IUU fishing catch, water intensity of production, freshwater table measurements, etc.

There is increasing convergence around those types of UoP that could constitute a standard of their own or a commonly accepted standard to specific industries. There is also increasing convergence around what companies are being asked to report with respect to sustainability, given that sustainable operational practices are increasingly seen as a way to mitigate risk. The “Blue Projects” section in Annex 1 points to examples where blue metrics are steadily being developed.

CONCLUSION

As the thematic bond market matures, and ways to identify and measure opportunities related to water and the ocean are developed, blue bonds can be a strong tool to fund sustainable business opportunities within the LAC region.

Blue bonds can encourage a shift within the LAC region from small land-based economies to large, powerful ocean-based economies.

Given the particular reliance on the ocean demonstrated in the region, ensuring a healthy, productive ocean will be critical to meet not only SDG 14, but all 17 of the interconnected SDGs fostering social inclusion, economic empowerment through environmental protection.

Expanding the blue economy within the region can be a key driver in transitioning to an inclusive, low-carbon and resilient future. With the sustainable bond market continuing to reach new heights, the blue bonds are positioned to see impressive growth.

ANNEXES

1. BLUE PROJECTS

There are several taxonomies or criteria sets at various stages of development that provide sector-specific criteria for sustainable financing. Multi-stakeholder collaboration has contributed to an increasing convergence around what constitutes “blue.” The list below draws on existing taxonomies that are publicly available, as well as consultations with leading financial institutions, banks and second-party opinion providers, to provide an overview. Blue projects outlined here serve as examples for potential issuers evaluating opportunities in their operations. Participants in the bond transaction, as well as second-party opinion providers, will further define specific criteria to validate blue eligibility.

ENERGY

Examples of blue projects in the offshore renewables sector:

Scaling up offshore renewables, increase the renewable energy installed capacity within their portfolio. Related investments include:

1. Building or modifying appropriate vessels to install and support construction, service, and maintenance of offshore assets.
2. Building and operationalizing appropriate shipyards to construct and service vessels
3. Land-based infrastructure, including ports.
4. Development of the supply chain, such as:
 - Marine contracting and logistics. For example, even with the port and vessels in place, a qualified workforce is needed to implement and operate.
 - Project logistics
 - Up-front intelligence in project design permitting readiness of offshore wind turbines; supply chain integration.
 - Equipment acquisition. The supply chain needs to be available, with consideration given to the local population and developing local capacity.

AGRIBUSINESS

Examples of blue projects in the aquaculture/fisheries sector:

1. Sustainable feed across operations based on GHG emissions savings relative to comparable products
2. Achieving Aquaculture Stewardship Council (ASC) certification for fish farms
3. Construction of fish farms designed to mitigate the risk of escape
4. Climate proofing fisheries
5. Ensuring exclusion of endangered species within supply chains (IUCN Red List; CITES)
6. Circularity in waste management
7. Investments for a registered Fishery Improvement Project (FIP)
8. Reuse or recycling of all plastic equipment, including nets, ropes, etc.
9. Investments to meet, maintain or exceed the Marine Stewardship Council (MSC) certification

TOURISM

Examples of blue projects in the tourism sector:

1. Funding for implementation of a zero single-use plastic system, including plastic bottles, amenities, and bags in tourism enterprises
2. For tourism enterprises with food services, development of programs that transition to sustainably sourced seafood procurement, achieving certification of the chain of custody for products from the Marine Stewardship Council or the Aquaculture Stewardship Council
3. Support education programs for sustainable fisheries and sourcing from local fishermen, with data collection training to identify species and give insight into to health of the ecosystem
4. Eliminating species that were endangered or critically endangered by IUCN from supply chains
5. Licensed sustainable tourism in marine conservation areas
6. Improving coastal health through the protection and restoration of coral reefs, mangroves and seagrasses

TRANSPORT

Examples of blue projects in the shipping sector:

1. Investment in land-based infrastructure for the production of low-carbon fuels as well as the land-based storage and bunkering infrastructure needed for supply
2. Charging stations and refueling assets dedicated to storing zero-emission fuels or electric energy to power and propel ships
3. Implementing retrofits and new-builds in the shipping fleet to include the machinery and onboard storage needed to run on low-carbon storage
4. Transitioning to the use of low and zero carbon fuels including ammonia (NH₃), hydrogen and synthetic methanol
5. Investments in water treatment capacities for shipping vessels
6. Solid waste receptacles in ports to allow for proper waste management and prevent marine pollution
7. Port electrification to cut a ship's engine when docked and derive power from the port, which would ideally be from ORE

Examples of blue projects within the port sector:

Decarbonization - port operations:

1. Energy efficiency improvements for buildings and other activities
2. Electrical and hydrogen port equipment
3. In-site green hydrogen production (via electrolysis), storage and dispensing; mobile dispensing equipment
4. In-port renewable electricity generation, storage and distribution; smart port grids
5. Electric and hydrogen port vessels (smaller vessels such as pilots)
6. Sequestration of carbon emissions via habitat creation within the port boundary
7. Grid connection reinforcements

Decarbonization - shipping and hinterland transport:

8. Shore power provision for ships (to remove the need for ships to run their auxiliary engines at berth)
9. EV recharging facilities
10. In-port hydrogen refueling stations for transport
11. In-port hydrogen generation, storage and bunkering
12. Automated port gates to manage truck arrivals and departures, therefore reducing congestion
13. Mass transit facilities for transportation to and from the port, for workers and customers

Decarbonization - city or region linked:

14. Facilities for offshore energy construction, operation maintenance and decommissioning
15. Import or export of green hydrogen
16. Modal shift from heavy goods vehicles (HGVs) on road network to low emissions cargo vessels
17. Export of captured carbon to offshore storage facilities
18. Activities linked to industrial decarbonization; e.g., hydrogen production, storage, and distribution

Enabling the growth of offshore wind capacity:

19. Investment in new infrastructure as well as upgrading, redesigning, and adapting existing facilities, enabling ports to consolidate operations, maintenance and service in dedicated port hubs to offer efficiencies (e.g., more capable vessels that can complete installations faster)
20. Significant investment in upgrading infrastructure of current port facilities to handle the development of floating offshore windfarms

WATER AND SANITATION

Examples of blue projects in the water and wastewater treatment industries:

1. Activities to support sustainable water management, including the reduction of water consumption in agriculture, manufacturing, and other commercial operations
2. Investment in infrastructure for drinking water treatment, storage and sustainable supply
3. Building capacities to analyze and respond to watershed risk
4. Funding for desalination plants and water treatment plants, especially in coastal areas with connections to and eventual impact on the ocean
5. The transition from anaerobic to aerobic wastewater treatment, separate solids from wastewater management systems
6. Generating electricity from sewage methane or biogas production from thermal hydrolysis
7. Removal of pavement; creation of new substrate to improve groundwater absorption and reduce runoff

2. RESOURCES

- [Ocean Stewardship 2030](#)
- [Practical Guidance to Issue a Blue Bond](#)
- [Blue Bonds reference paper](#)
- [UN Global Compact Sustainable Ocean Principles](#)
- [Practical Guidance for the Sustainable Ocean Principles](#)
- [SDG Bonds | Leveraging Capital Markets for the SDGs](#)
- [Poseidon Principles](#)
- [WWF Sustainable Blue Economy Finance Principles](#)
- [UNEP Finance Initiative's Sustainable Blue Economy Finance Principles](#)
- [UNEP FI The Rising Tide: Mapping Ocean Finance for a New Decade](#)
- [Climate Bonds Initiative](#)
 - Sector criteria for:
 - [Marine Renewable Energy](#)
 - [Shipping](#)
 - [Waste Management](#)
 - [Water Infrastructure](#)
- [International Capital Market Association](#)
 - [ICMA Green Bond Principles](#)
 - [ICMA Social Bond Principles](#)
 - [ICMA Sustainability Bond Principles](#)

3. RECENT DEVELOPMENTS IN THE BLUE MARKET

2019

- In 2019, [the Republic of Seychelles launched the world's first sovereign blue bond](#). The 10-year, US\$15 million bond was designed and implemented with the support of the international community, the World Bank Group and the Global Environment Facility. Proceeds from the bond support the expansion of marine protected areas, improved governance of priority fisheries and the development of the Seychelles' blue economy.
- The Asian Development Bank (ADB) [launched the Oceans Financing Initiative](#), part of its US\$5 billion Healthy Oceans Action Plan, to create opportunities for the private sector to invest in bankable projects that will help improve ocean health. A further objective is to provide technical assistance grants and funding. These objectives will be achieved through instruments such as credit risk guarantees and capital market blue bonds.
- The Nature Conservancy [launched the Blue Bonds for Conservation program](#). The program helps countries increase their marine protected areas by easing their debt burden and assisting with associated costs for planning and maintenance. Through the blue bonds program, the Nature Conservancy “helps buy back sovereign debt at a discount using loan funds from investment banks to restructure the debt.”

2020

- In January 2020, Mowi ASA became the first seafood company to issue a green bond. The 5-year, EUR 200 million senior unsecured green bond issue was significantly oversubscribed. The UoP will finance green projects outlined in the [bond framework](#).

Green project categories in the framework include:

- Environmentally sustainable aquaculture
- Sustainable feed, ensuring full traceability of feed raw materials and a low feed conversion ratio key elements of Mowi's sustainable feed strategy
 - Including requirement compliance with the company's policy on 100% deforestation-free soy (ProTerra certified or by certification scheme with equivalent requirements)
- Sustainable fish farms, in line with Mowi's sustainability work on biodiversity; pollution prevention and fish welfare; and third-party certifications in salmon farming
 - Including funding investments related to fish farms that are certified, or in preparation to become certified, by the Aquaculture Stewardship Council (ASC) salmon standard
- Sustainable processing, with a strong focus on plastics management, energy consumption, water usage and waste management within primary and secondary processing facilities
 - Including investments related to certification for facilities using chain of custody (CoC) to ensure traceability of ASC products

Speaking about the bond issuance, Mowi CFO Kristian Ellingsen said:

“We are committed to the principles of the United Nations Global Compact and pursue an integrated sustainability strategy aligned with the UN's Sustainable Development Goals”.

-
- In June 2020, Grieg Seafood, a signatory to the Sustainable Ocean Principles, issued a senior unsecured green bond issue of NOK1,000 million. This transaction was also significantly oversubscribed.

The green project categories in the [bond framework](#) include:

- Environmentally sustainable aquaculture
 - 100% of marine ingredients comply with the sustainability standard set by Marine Stewardship Council (MSC), or the International Fishmeal and Fish Oil Organization Responsible Supply Standard (IFFO RS) including FIPs and where 100% of soy ingredients are certified according to the sustainability standards Proterra or Round Table on Responsible Soy
 - Notably feed purchased from Cargill Aqua Nutrition was to be excluded from the UoP, until parent company Cargill Inc. “significantly reduces their soy-related deforestation risk in Brazil”
- Pollution prevention and control
- Water and wastewater management
- Waste management

“As we see it, there is no contradiction between clean seas, healthy fish and financial profit. That is what we have incorporated into our approach to sustainable business and our green bond framework.”

Renete Kaarvik, Global Finance Officer, Grieg Seafood ASA, speaking at the Accelerating Blue Bond Issuance to Fund Sustainable Ocean Business webinar

- In October 2020, Nordic Investment Bank (NIB) [issued a new Nordic-Baltic blue bond focusing on water-related investments](#). Proceeds from the 5-year SEK1.5 billion bond will be allocated to selected wastewater treatment, water pollution prevention and water-related climate change mitigation projects. Of the bond issuance, Luca De Lorenzo, head of sustainability and mandate at NIB, said, “This blue bond shows NIB’s continued commitment to protecting our water resources – it is only through constant, firm action that we can restore the much-needed health of our water ecosystems.”
- The Bank of China [announced Asia’s inaugural blue bonds](#), totaling the equivalent of US\$ 942.5 million, which are also the first self-labeled international blue bonds issued by a commercial bank. The bond framework is aligned with the ICMA Green Bond Principles. Proceeds from the blue bonds will be allocated to “boost the expansion of the sustainable blue economy through marine-related green projects across various domestic and overseas markets, including but not limited to offshore renewable energy and wastewater treatment.

The blue bond issuance followed emerging policies from the Chinese government focusing on promoting the blue economy. In addition, the China Banking and Insurance Regulatory Commission (CBIRC) had stipulated that stakeholders should explore innovative green financial products, such as blue bonds, to mitigate negative environmental impacts and support a transition to a low-carbon, circular economy.

ACRONYMS

ADB	Asian Development Bank
ASC	Aquaculture Stewardship Council
CBIRC	China Banking and Insurance Regulatory Commission
CFO	Chief Financial Officer
EUR	Euro
FAO	Food and Agriculture Organization
FIP	Fishery Improvement Project
GDP	Gross Domestic Product
GHG	Greenhouse Gases
HGV	Heavy Goods Vehicle
ICMA	International Capital Market Association
IDB	Inter-American Development Bank
IFFO RS	International Fishmeal and Fish Oil Organization Responsible Supply Standard
IMO	International Maritime Organization
IUCN	International Union for Conservation of Nature
IUU	Illegal, Unreported and Unregulated
KPIs	Key Performance Indicators
LAC	Latin America and the Caribbean
MSC	Marine Stewardship Council
NIB	Nordic Investment Bank
NOK	Norwegian krone
OECD	Organisation for Economic Co-operation and Development
ORE	Offshore Renewable Energy
SDGs	Sustainable Development Goals
SEK	Swedish krona
SPO	Second-Party Opinion
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UoP	Use of Proceeds
WWF	World Wildlife Fund

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THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

HUMAN RIGHTS

- 1 Business should support and respect the protection of internationally proclaimed human rights, and
- 2 make sure that they are not complicit in human rights abuses.

LABOUR

- 3 Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4 the elimination of all forms of forced and compulsory labour;
- 5 the effective abolition of child labour; and
- 6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- 7 Business should support a precautionary approach to environmental challenges;
- 8 undertake initiatives to promote greater environmental responsibility; and
- 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- 10 Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

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