Charting progress: As bond issuance climbs, what's next for the blue economy?

From the Field

Key Insights

- An increasing range of sustainable finance frameworks are emerging across different sectors and areas of the blue economy, serving as useful templates for issuers.
- The scope for what qualifies as a blue bond is smaller compared with the green bond market. Industry guidelines can help asset managers define which projects are eligible for blue financing.
- Clarity over data and reporting is expected to improve over time as blue bond issuance increases.

Willem Visser
Sector Portfolio Manager, Impact and Emerging Markets

While blue bonds are still a relatively nascent type of sustainable debt, the market is evolving. Increased corporate issuance and the emergence of blue bond frameworks across different sectors are signaling a sea change for this asset type and for the blue economy in general.

Corporate issuers take the plunge

Sovereigns, quasi-sovereigns, and development banks typically have led the way on blue bond issuance. However, corporate issuers are now coming to the fore as companies with business activities tied to healthy oceans seek financing for initiatives that look to minimize adverse impacts on marine ecosystems. Blue bonds are the only category of sustainable bonds that have achieved continuous year-on-year growth over the last three years, according to the Intercontinental Exchange (ICE)—which recorded a 10.6% year-on-year issuance increase.[1] Corporates are now the main issuers of blue bonds.

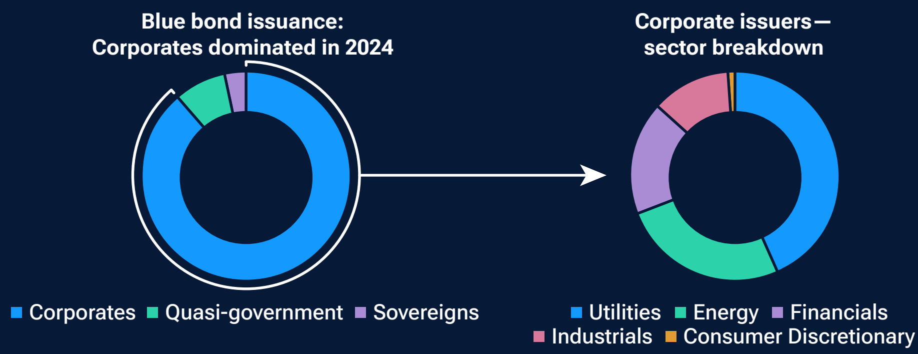
Blue bonds and the UN SDGs

Blue bonds are used exclusively to finance ocean-friendly or clean water projects that align with two of the United Nations Sustainable Development Goals (UN SDGs): SDG 6 (Clean Water and Sanitation) and SDG 14 (Life Below Water). Both goals are underfunded, particularly in emerging markets—an important consideration, given that oceans make up more than 70% of the Earth's surface. Investment in emerging markets to enhance water resources can help to advance SDGs that encompass health, reduced inequalities, and gender equality.

[1] ice.com/insights/sustainable-bond-report-2024.

Corporates were the main issuers of blue bonds in 2024

(Fig. 1) Sovereigns made up only a small proportion of 2024 blue bond issuance, research shows.



Source: ICE (see Additional Disclosure).

Industry guidelines have provided greater clarity

The establishment of clear guidelines and industry standards has made a big difference to investors looking to direct capital toward projects aligned with the blue economy. In September 2023, the International Capital Market Association's (ICMA) published industry guidance in partnership with other organizations, including the International Finance Corporation (IFC). This built on existing global market standards that underpin global sustainable bond markets, including green bonds. Importantly, the guidelines have specified that all proceeds must be allocated to the financing or refinancing of blue economy projects. This differentiates blue bonds from the likes of debt-for-nature swaps, which involve investors restructuring sovereign debt in exchange for funneling money into a country's conservation or biodiversity efforts. These debt-for-nature deals may focus on marine conservation or blue projects but typically do not require 100% of proceeds to be channeled into the blue economy.

Sector-specific frameworks serve as useful templates

Another key development is the emergence of sustainable finance frameworks developed by issuers across different sectors. These frameworks are often created in accordance with other internationally recognized guidelines—and help issuers ensure that their projects meet best practices, align with their sustainability strategies, and are in line with appropriate and up-to-date regulatory requirements. Frameworks might include principles on the use and management of proceeds, project evaluation, and selection processes, as well as measurement and reporting. A recent example is the Sustainable Finance Framework that DP World used for its blue bond (see case study). We believe this framework is well structured and could be used as a guide for other logistics companies and issuers in different sectors to scale blue issuance. The proliferation of sustainable finance frameworks across sectors could support the growth and consolidation of market standards and foster the creation of best practices (much like what we have observed in the green bond market) while offering valuable input to issuers.

Nuances remain around blue project eligibility

As the market grapples with how to assess and define different project categories, asset managers will need to navigate any nuances sensibly. The scope for what qualifies as a blue bond is smaller compared with the green bond market, and there can be some ambiguity over eligibility due to a wide range of potential blue projects. Asset managers should look to ICMA and IFC guidelines to help define

> "The establishment of clear guidelines and industry standards has made a big difference to investors....

project eligibility, and a second-party opinion provider[2] can then provide validation for that project.

Growing demand could drive data improvements

Data are an important consideration for investors when looking at issuers' data collection systems and measurement strategies. For example, DP World's Sustainable Finance Framework outlines how the selection of projects is guided by a data-driven prioritization framework and eligibility criteria. Data collection and analysis play a crucial role in several areas of the blue economy, such as marine ecosystem monitoring. While many companies are making impressive strides across their data and reporting efforts, a rise in blue bond issuance and appropriate engagement with issuers could boost disclosure further over the next few years. If more companies are willing to provide details on their reporting and key performance indicators (KPIs) in relation to marine biodiversity and other areas of the blue economy, this could help incentivize improvements in data quality. In the green bond market, we have observed that the quality of reporting has improved as the market matures—and as investors continue to engage with issuers on KPI monitoring. The same kind of improvements could also be seen across the blue bond market over time.

Charting the course

So, where do we see the blue bond market going over the next few years? Sustainable debt issuance has grown exponentially over the last decade, yet blue bonds are still in their infancy. In terms of growth rates, as a subset of green financing, we expect a similar trajectory for blue bonds as the more mature green bond market.

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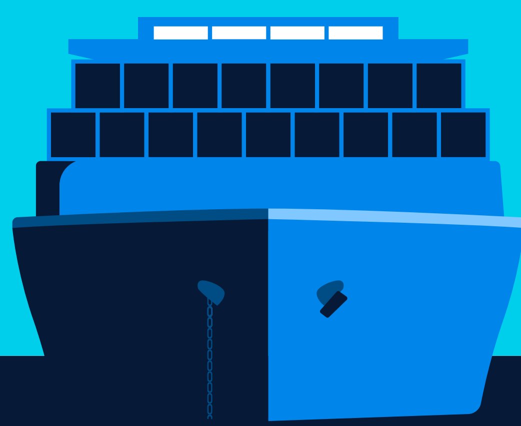
[2] Second-party opinion providers are appointed by issuers as external reviewers to determine whether their blue bond framework is aligned with the relevant principles and guidelines.

Case study: Partnering with DP World on the first blue bond issued by a Middle Eastern corporate

In December 2024, DP World issued its inaugural blue bond and became the first Middle Eastern corporate to issue a blue bond.

T. Rowe Price played a key role supporting this innovative transaction—from introductory meetings at a third-party sustainability conference to supporting the framework and offering suggestions around terms and, finally, being an anchor investor in the primary issuance. This collaboration with issuers allows T. Rowe Price to steer allocation of proceeds toward more underfunded SDGs, in this instance to SDG 14, Life Below Water.

The proceeds from this USD 100 million five-year inaugural blue bond are tied to DP World's Sustainable Finance Framework. It is expected to be allocated to projects across several areas, including sustainable marine transport and sustainable shipping fuels; sustainable port operations; marine pollution prevention; and marine ecosystem management, conservation, and restoration. This in turn will promote the rollout of sustainable shipping fuels, port operations, and the conservation and restoration of marine ecosystems and reefs. These enhancements should result in reduced greenhouse gas emissions, reduced ocean acidification, and enhanced marine ecosystems.



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