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Blue Finance: How much debt can the ocean sustain?

Implications for coastal fishing communities in South Africa

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Ensuring the socio- economic rights and decent work conditions for South Africa Small- scale fishers.

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Highlights:

1 Over the past decade, international strategies for ocean conservation have changed radically. Increasingly, conservation projects are based on raising money through financial markets and are, therefore, intended to provide investors with profitable returns. Many refer to this as 'blue finance'. International support for this is growing, and it is considered a critical way to bridge an imagined funding gap to save marine biodiversity.

2 What can be understood as the *financialisation of conservation* has produced so-called innovative financial instruments, including blue bonds and debt for ocean swaps. These are now being heavily promoted in African countries, including South Africa. These have become closely aligned with global ambitions for the 30x30 target. Yet many people are unsure what these financial instruments are and how they work.

3 Blue finance is considered in its early days. However, already US conservation organisations, led by The Nature Conservancy, have refinanced over $2.5 billion in debt for ocean swaps in just five countries. A blue bond is also being pursued for the Great Blue Wall Initiative by the UN, for which South Africa is a partner country. This not only aims to meet the 30x30 target but also propel blue growth and produce thousands of new 'blue jobs' across Southern and East Africa.

4 Despite overwhelming international support for blue finance, there are several reasons why blue bonds and debt swaps pose risks to small-scale fishing communities. They can be opaque financial transactions that manipulate the debts of Southern countries, leading to a transfer of wealth and power to unaccountable US conservation organisations, now working in close partnership with investment firms and the banking sector. They further entrench the reckless view that saving nature must produce never-ending profits for the private sector. SSF communities are already wary of the impact of the 30x30 agenda, and the threats this causes may be amplified where this is driven by the needs of private capital.

5 Confronting blue finance is a daunting prospect. The lack of transparency and public participation surrounding these deals must be exposed. So too must the underlying logic of the *funding gap*. A lack of finance is not the root cause of the biodiversity and climate crisis. These are crises of affluence and short-term profiteering, which are existential problems driven by poorly regulated global financial markets. Lasting solutions that promote livelihoods and food security must, therefore, come from political and cultural change, not through manipulating debt.

Photo: Masifundise, South Africa – www.masifundise.org.za

Introduction

This brief provides small-scale fishing (SSF) organisations in South Africa with information about several financial instruments gaining international support for ocean conservation. Specifically, it looks at what is taking place in bond markets, including blue and sustainability-linked bonds, as well as debt swaps. Although most people have heard about these instruments, many are unsure how they work and their implications. This is unsurprising. Most of us need to be more knowledgeable about global finance and bond markets. However, the financial industry's tendency to use complex jargon is often deliberately designed to confuse and avoid scrutiny of what is taking place. Therefore, people from SSF communities must have access to jargon-free information about these financial instruments to equip them with the knowledge to engage in debates about their use.

Beyond simply explaining these seemingly complex financial instruments, the report is motivated by concerns that these instruments can threaten small-scale fishers' livelihoods. Unfortunately, there are many positive presentations of these blue bonds and debt swaps where the risks are obscured. These give the impression that they benefit nature conservation and those who depend on nature for their livelihoods while helping poor countries grow their economies and escape a debt trap. What takes place in these deals is more complex and contentious. They often undermine democratic governance and the participation of groups such as small-scale fishers in decision-making. Instead of challenging the destructive power of global financial markets, they transform nature into another commodity for profiteering by financiers. These financial instruments are, therefore, a convenient distraction from more progressive solutions, including moving the economy from dependence on capitalist growth and allowing communities the autonomy necessary to manage their commons.

This report is divided into three parts. The first puts these financial instruments in a wider context, noting the popularity of what is commonly called 'conservation finance' – or 'blue finance' when applied to the oceans. In simple terms, conservation finance represents efforts to attract private investors toward saving nature. This requires conservation projects to provide profitable returns. Many different areas are proposed for conservation finance, but a critical theme now is the 30x30 agenda. The mission—now agreed to by parties of the UN Convention on Biodiversity—is to expand protected areas to 30% of the surface of land and the oceans by 2030. As described below, achieving the 30x30 target will likely be a focus for blue finance, which is already evident in the *Great Blue Wall Initiative*, of which South Africa is a part.

The second part of this report describes blue bonds (and their spin-offs) and debt for ocean swaps. These financial instruments—which are focussed on the debts of Southern countries—are gaining popularity and are seen by many international organisations as solutions to advancing marine conservation. This part of the report describes the origin of these deals, how they are regulated, and it gives some examples of where they have been used.

The report's final section begins by considering the relevance of bonds and swaps for South Africa. It also describes the reasons why these financial instruments are contentious, as they can threaten the livelihoods of coastal SSF communities, undermine democratic governance, and potentially transfer wealth away from coastal communities to foreign investors.

Before engaging the main parts of the paper, there is a vital background to appreciate. This concerns the current debt crisis in Africa. We cannot fully understand how organisations leverage African countries' debts to save nature without understanding how and why these debts have reached such unbearable limits.

The prelude: Understanding Africa's odious debt crisis

It is now well reported that most African countries are trapped in an escalating debt crisis. Debts to foreign creditors have reached a point where paying them back undermines African states' ability to pay for essential public services. Many countries are at the point of a debt default, where they cannot maintain debt repayments.

Recent analysis often blames the pandemic and the war in Ukraine for this situation. However, that is misleading. Though the pandemic pushed many off the edge, this debt crisis has taken shape over the past decade, and many countries were on the precipice well before 2021. At the beginning of the pandemic, UNICEF found that in countries such as Mauritania and Ghana, for every US dollar the government spent on health, education and social services, another two dollars went toward paying foreign creditors. [1] In Chad, Togo, and the Gambia, it was $3. In South Sudan, it was $11. This year, the United Nations calculated that over 3 billion people live in countries where their governments pay more to foreign creditors than they spend on education and health combined.[2] The ability to service these debts is severely undermined by the vagaries of international trade and the scale of illicit financial flows, estimated to be about $90 billion in Africa for 2020.[3]

The accumulation of foreign debt comes from several sources. A prominent event was the last financial crisis in 2008. Since then, and predominantly because of austerity caused by bailing out banks back home, Western donors and multi-lateral banks have transformed aid. An element of this has been a gradual reduction in total aid giving from traditional bilateral donors. This accelerates a long trend that has seen loans replace grants. In Sub-Saharan Africa, the amount of aid given as loans, as opposed to grants, more than doubled after the financial crisis.[4] The interest rates on some of these loans have been creeping up, making them ever more onerous. Furthermore, many of these loans can be classified as 'tied aid'. This works like a boomerang; although it looks destined for poorer countries, it comes back to the donor because it is spent on services provided by their own companies.[5]

Another dimension to the escalating debt crisis in Africa has been China's lending surge. Financing from China to developing countries was limited until the global financial crash in 2008. But there was a remarkable increase after that, which peaked around 2016. Much of this debt is hidden from public scrutiny. However, a conservative estimate is that China's total lending to all developing countries increased from about $30 billion in 2008 to about $350 billion by 2017, with Africa accounting for $70 billion of that total. By 2014, the value of China's loans surpassed the amounts the Paris Club donors gave (i.e. the US, European countries and Japan), and was more than the total provided by the World Bank. China provides a small number of grants to African countries, so the vast majority of the debts owed by African governments to China are in the form of interest-bearing loans.[6]

Yet shrinking aid and the growth of Chinese lending are not the main causes of Africa's precarious situation. The most significant problem has been African governments borrowing money on global capital markets, predominantly through so-called Eurobonds. This is the name for a loan from private investors (such as US and European asset management firms and hedge funds) taken out by governments in a foreign currency, and most Eurobonds are, in fact, in US dollars. This growth in raising money via Eurobonds has been encouraged by international development organisations to reduce aid dependence. Banks in Western countries—who help African governments issue these bonds to investors—have also aggressively marketed Eurobonds, as these provide lucrative commission fees. JP Morgan, Goldman Sachs, Bank of America and Credit Suisse are among the leading banks in the Eurobond market. Investor appetite has also meant bonds have been 'oversubscribed', resulting in many governments (as advised by bankers) borrowing far more than they should. In 2014 the Zambian government proposed borrowing $500 through a Eurobond, whereas US investment banks convinced them to borrow $1 billion.[7] In 2020, Zambia declared it could not afford to repay the loan.

Before the 2008 financial crisis, in sub-Saharan Africa, only South Africa, Mauritius and Seychelles had ever raised capital by issuing a sovereign Eurobond. By late 2008, another three countries issued their first ones: Ghana, the Republic of Congo and Gabon. By 2014, 17 others had

also done so, and by 2017 the number reached 21, with many governments issuing multiple bonds over this period, partly to help finance debt repayments on previous ones. In 2011, the total amount of money raised in Africa through sovereign bonds was $5 billion, but in 2018 alone (a year that coincided with China scaling back its loans), new bonds issued by African governments raised an estimated $27 billion. In total, by 2022, African countries had borrowed an estimated $140 billion from Eurobond markets over the past decade.[8] This year African governments are due to pay out well over $100 billion to investors, an amount that increases next year and the year after that.[9]

Today, **commercial loans represent most of the foreign debt held by African countries**. What makes this so alarming is that Eurobonds come with high interest rates. In some countries these bonds provide annual dividends to investors of more 16%. These rates, which are higher than the loans provided by China, are perceived as grossly unfair and predatory, down to the discretion of international credit rating agencies who are not accountable or transparent about their methodologies. The banking fees, which are often not publicly disclosed, are also expensive, amounting to between 3-7% of the value of the bonds.

But beyond these loans' high costs is the lack of transparency. Governments issue sovereign bonds with almost no explanation or publicity.[10] Over the past few years, hidden debts worth billions of dollars have been revealed in Mozambique, Kenya, Gambia, Gabon, the Republic of Congo and Zambia. Unsurprisingly, corruption scandals have emerged on many of these deals. Some debt experts consider much of the Eurobond borrowing in Africa to be *illegitimate*, and argue that citizens should not be expected to repay the loans. Law courts in London and New York (where disputes between investors and issuers of bonds are adjudicated) take a different view.

However, **we are now entering a new era**, one where the bond bonanza is on hold. Reckless borrowing over the past few years means that most African countries are considered too risky for bond investors. Since the pandemic, South Africa has been the only country in sub-Saharan Africa to raise money by issuing sovereign bonds. In this situation, African governments are advised to find novel ways to raise capital. This sets the scene for intensifying efforts by African countries to return to the bond markets with green, blue or social bonds. For countries in a dire situation, debt-for-nature swaps are becoming an appealing proposition. The question, however, is whether these supposedly ethically themed bonds and swaps will define a new era of unsustainable debt or, as their supporters hope, it will unleash a prosperous period of green and blue growth.

BOX 1

What is a Eurobond?

A bond is a way of borrowing money. When a government issues a bond, it is called a 'sovereign bond'. The term Eurobond is quite confusing. It describes a bond where the borrower raises money in a foreign currency. Eurobonds are not ways of borrowing Euros, and in fact, most Eurobonds used by African governments are in US dollars, although some are in Euros.

When an organisation raises money via these Eurobonds, it borrows a lump sum from a lender. The lump sum is usually referred to as the principal. The borrower promises to return this principal after a fixed timeframe, which is commonly known as the date of maturity. Regarding sovereign bonds, a short maturity is five years, and a longer maturity is anything beyond 12 years. In return for lending the lump sum, creditors are paid an annual dividend. How much they receive is based on the agreed interest rate of the principal. Usually, this interest rate is called the 'coupon rate'. A bond with a principal of $1 million with a 5% coupon will, therefore, give creditors $50,000 every year until the bond reaches its maturity, at which time the creditors will be paid back the $1 million.

An organisation wanting to borrow money from a Eurobond works with an investment bank to issue these bonds and attract investors. Investment banks advise the bond issuer on how much money they can access and at what interest rates. A bond is then sold in smaller units to investors, referred to as bond notes. It is marketed with a prospectus. That sets out the legal terms of the bond and tells the investors something about what the money will be used for. In reality, the prospectus for sovereign Eurobonds tends to be vague on the use of proceeds, which prevents accountability. Many prospectuses are also not made publicly available.

The coupon rate (or interest rate) is determined by several factors, not all of which are transparent. The length of maturation is one factor. Generally, coupon rates are lower for bonds with a short life span. Another variable is how risky the investment is. That is determined by international credit rating agencies, which are based in the US and include the big three firms of Moodys, S&P Global and Fitch. The highest credit rating from these companies is given to sovereign bonds from Northern countries such as the US. There is very little chance that the US government will not pay back investors, so bonds issued by the US government come with a low coupon rate. Corporate bonds tend to be rated as riskier. For organisations that look very risky, bonds are categorised as 'speculative', which means they come with high coupon rates. Eurobonds issued by governments of Southern countries tend to fall into this category, given their vulnerable economies, perceived rates of corruption, and history of defaults.

An important aspect of understanding bonds is that bond notes are tradeable assets. Once an investor buys bond notes from an issuer, they can then sell these to other investors. This creates what is known as the *secondary market* in bonds. The market value of bond notes goes up or down for all sorts of reasons, and it is hard for outsiders and non-experts to understand. However, the market value of African Eurobonds tends to go down when the country owing the money is in a financial crisis, particularly if there is a worry that they may default on payments. Some investors consider it in their interest to get rid of their bond notes, whereas others see this as an opportunity to get bond notes at a discount. Without this secondary market, a debt swap (to be explained) would be impossible.

Photo: Masifundise, South Africa – www.masifundise.org.za

Part 1: The rise of conservation finance

Amid this backdrop of the escalating debt crisis in Africa, the past 15 years have seen tremendous changes in the strategies used by the most powerful organisations involved in conserving nature. These two developments are related. At the heart of these changes has been the quest to fund conservation projects via private investors. According to supporters of this mission, the conservation movement has been held back by limited financial support: most conservation efforts have relied on public funding, development aid or the gifts of wealthy philanthropists. The shortfall in funding for conservation is commonly referred to as the 'funding gap'.

Several reports have provided estimates on the size of this funding gap. An influential study by an American organisation called the Paulson Institute, in collaboration with The Nature Conservancy (TNC), was published in 2020.[11] They estimated that the world needs to spend $700 billion more annually to address the dramatic decline in biodiversity. Current spending was estimated at $124 billion a year. In their flagship 'State of Finance for Nature' report, United Nations Environment Programme estimated that by 2022 the amount spent on conserving nature annually was about $150 billion, and argued that this must rise to $484 billion a year by 2030.[12] Although both estimates are based on dubious evidence and methods, these huge sums of money are routinely used by those raising and spending money on conservation projects.

All presentations on the funding gap argue that public money and philanthropists will not be able to provide this additional money. So, the only viable source is the trillions of dollars circulating in global financial markets. WWF, in a report coauthored by the bank Credit Suisse and the business consulting firm McKinsey, argue:

> "Although there is some scope to increase and/or refocus non-market sources of conservation finance, there is a limit to what government budgets can provide, particularly in light of the continued fiscal constraints in developed countries. Consequently, there is an urgent need for the international community to develop new and innovative sources of finance. To achieve the order of magnitude of scale-up needed, it is crucial that the field of conservation finance expands from donor-driven financing toward a commercial, investor-driven market."[13]

Accordingly, conservation projects must provide a financial return to make them attractive to private investors. This leads to conceptualising nature as an asset valued in monetary terms that can be traded. This is not necessarily a new idea. However, what is remarkable is the sheer scale of what is going on.

Many organisations refer to this effort to draw financial capital into conservation as 'conservation finance'. The concept started to gain momentum after the financial crash of 2008, and today it is a booming industry, affecting billions of dollars. It has been put at the forefront of the work of multilateral banks, such as the World Bank and the African Development Bank; it is at the forefront of work on the green and blue economy by UN agencies; it is a priority for almost all of the big environmental NGOs from the US and Europe, and it is also a focus of work for investment banks, asset management firms and hedge funds. Additionally, conservation finance has caused phenomenal growth in boutique financial organisations, specialising in helping asset managers to find profitable environmentally-themed projects to finance. For the past decade or so, all international and regional conferences or programmes for the blue economy focus on private financing, and most are now launched in partnership with financial institutions, such as JP Morgan, Goldman Sachs and Credit Suisse, as well as business consulting firms, such as McKinsey.

The momentum toward conservation finance is important for many reasons. However, two deserve particular attention.

It has transformed the big environmental NGOs engaged in ocean conservation. The focus on global capital markets to fund conservation projects has meant that big environmental NGOs, such as TNC, PEW, WWF, IUCN etc., are not only working closely with investment banks and other types of financial institutions, but increasingly the senior management teams of these organisations, as well as their governing boards, are made up of people with work experience in finance. Leaders from the financial world are increasingly occupying senior positions in the world's most influential conservation organisations, bringing the mindset, strategies and contacts of global financial capitalism with them.

Conservation finance is the cause and effect of changes to the work of international development organisations, such as the World Bank, the African Development Bank, the United Nations and the European Union, as well as most of the leading Western bi-lateral donors, such as the US, UK, France and Nordic countries. Their primary role now is to treat development aid as a catalyst for private finance. In doing so, they realise that private investors are wary of putting their money into projects in purportedly risky countries. So, a dominant development aid strategy is to help attract foreign capital into developing countries by de-risking. What this means in practice is summed up well by the World Bank in an introduction to its programme for the "Blue Economy for a Resilient Africa":

"Fully implementing a Blue Economy approach in Africa and addressing the ocean crisis, which includes climate change, requires scaling up the financial resources available. This scaling up will require fostering sustainable private investment, providing an enabling environment for investors, and leveraging official development assistance and guarantee products to buy-down risk for private sectors to invest in the higher-risk Blue Economy sectors…To attract private investors, African countries may need policy reforms to create an enabling environment and leverage official development assistance and guarantee products to buy-down risk for the private sector. Several financial instruments can also be pursued to encourage partnership with the private sector."[14]

Critics of these developments often use the concept of 'financialisation' to describe what is going on. This is another potentially confusing piece of jargon. But it is an important term. There are many different definitions of this word, but a good one is:

> "Financialization refers to the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level"[15]

Recognising the financialisation of conservation helps put it in a broader context. Financialisation is spreading to all parts of social life, including education, health, housing, the media and even sport. It is a worrying trend as financialisation is seen by many to be driving extraordinary levels of inequality, as well as corrupting democratic governance and elevating the power of financiers over everyone else.[16]

The UN Biodiversity Agreement and funding 30x30.

Many interrelated global initiatives promote private capital for ocean conservation. One of these has been international efforts surrounding the blue economy concept, which is now familiar to everyone working on marine fisheries. Private finance is always included in regional and national blue economy strategies. It has become a defining feature of what blue growth means in practice.

Another impetus stems from the global response to the climate disaster, as oceans are gaining attention for their role in mitigation and adaptation. Again, meetings such as the United Nations Climate Change Conferences have served as an essential platform for advocacy by environmental NGOs, international development organisations and investment banks on scaling up private capital and showcasing innovative financial instruments such as green and blue bonds. One of the most controversial elements of these meetings has become the failed pledge by industrialised countries to deliver on promises of climate finance and the proposed establishment of a loss and damage fund. Many organisations fear that private finance will be used to make up the shortfall. This is convenient in an era of austerity and could be used to avoid meeting pledges on genuine aid.

A third place where private capital is put high on the agenda is the meeting of the United Nations Biodiversity Conference parties. This has been particularly important for SSF organisations and deserves special attention.

During the last meeting, held in December 2022, nations finally agreed to deliver 30x30 as set out in the third target of the so-called Kunming-Montreal Global Biodiversity Framework. For many of the world's most powerful organisations engaged in conservation, this is the *holy grail*. It was, however, very difficult to reach a consensus on this agreement. Organisations working from the perspective of indigenous peoples and small-scale fishers and farmers worked hard to amend the draft text. Most importantly, civil society organisations have argued that such a massive expansion of protected areas by 2030 may restrict access to the commons for many people, including those with limited access to other sources of food and income.

Parties to COP responded to these fears by agreeing to include language that conditions the 30x30 target with protection for indigenous peoples and traditional uses of land and the oceans. Much rests on how governments choose to interpret this.[17]

Less media attention was paid to Target 19 of the Biodiversity Framework, which was also subject to intense debate and rival views behind the scenes. This deals with how countries will pay for such an ambitious scaling-up of protected areas. The introduction of the Biodiversity Framework referenced the 'funding gap' of $700 billion. However, recognising that this might be an unreasonable sum of money, Target 19 demands that at least $200 billion every year needs to be provided for protecting and expanding biodiversity, including meeting Target 3.

Those drafting the text decided that only a small part of this increase should come from public money. Funds committed by governments, including those provided as development aid for less developed countries, should increase by $20 billion a year. The remainder was left for private investments. That means 90% of the additional funding for saving and restoring biodiversity is planned to come from conservation finance. The text of Target 19 further clarifies how this $180 billion can be secured:

> "Leveraging private finance, promoting blended finance, implementing strategies for raising new and additional resources, and encouraging the private sector to invest in biodiversity, including through impact funds and other instruments; [and] Stimulating innovative schemes such as payment for ecosystem services, green bonds, biodiversity offsets and credits"

There were many submissions by civil society organisations that opposed Target 19. These failed to change the final agreement. Instead, those responsible for the text agreed to *tack on* an extra subsection to Target 19 to appease critics of financialisation. This awkward additional text (which became sub-section F) describes that solving the funding gap should also include:

> "Enhancing the role of collective actions, including by indigenous peoples and local communities, Mother Earth-centric actions and non-market-based approaches including community-based natural resource management and civil society cooperation and solidarity aimed at the conservation of biodiversity"

It was recognised that few people understood what is meant by "Mother Earth-centric actions". So the drafters explained this in a footnote, which reads:

> "Ecocentric and rights-based approach enabling the implementation of actions towards harmonic and complimentary relationships between peoples and nature, promoting the continuity of all living beings and their communities and ensuring the non-commodification of environmental functions of Mother Earth".

Thus, when it comes to saving nature and paying for the 30x30 target, the final agreement from COP15 contains a fundamental point of tension. On the one hand, the dominant framing considers the biodiversity crisis as one of insufficient financing, which requires enhancing the role of the private sector and expanding market-based solutions. In advancing this view, the commodification of nature is promoted through things such as green bonds, biodiversity credits and payments for ecosystem services. On the other hand, it includes this text that promotes nature's non-commodification and rejects market-based approaches.

The tensions between different parts of Target 19 are an essential introduction to opposing views about conservation finance. It should not, however, suggest that the trend toward conservation finance is being revised or that alternatives are being taken seriously by organisations such as the UN. Far from it. This is revealed in the supporting document for the agreement, which sets out a 'resource mobilisation strategy'.[18] This further details how the $200 billion milestone will be achieved. The document elaborated on how private finance can be mobilised and market-based systems can be deployed at a larger scale. There was no reference in the text to non-market mechanisms or the rejection of commodification of nature. As one critical commentary published by Heinrich Boell Stiftung argued, although there are some good aspects to the biodiversity agreement, the 'ugliest' part is how Target 19 has opened up conservation to corporate capture and the whims and wishes of financial markets.[19]

BOX 2

South Africa, Marine Protected Areas and the *Great Blue Wall*

National policy for Marine Protected Areas in South Africa has been directed by the Ocean Economy component of a national strategic policy document called **Operation Phakisa**, launched in 2014. Developed by the business consulting firm McKinsey, this described incrementally increasing MPAs towards covering 10% of the country's oceans by 2030. When it was launched, there were 24 MPAs in South Africa, covering about 0.5% of the country's oceans. Most of these were coastal MPAs situated in near the shore, in areas used by coastal communities for fishing. In 2016, a further 22 MPAs were proposed and subject to public consultation. These were finalised in 2019, adding a further 4.5% of the oceans to the MPA target, with several of these designated in offshore areas. Small-scale fisher organisations have continued to condemn the top-down process of how these areas have been gazetted, and they have complained by a lack of compensation, as well as the brutality directed toward fishers from law enforcement agencies.

Until recently, the South African government resisted international campaigns for 30x30. It declined the offer of joining the High Ambition Coalition for Nature and People, launched at the One Planet Summit in France in January 2021. The High Ambition Coalition has been focused on the 30x30 pledge and was established as a precursor to the UN Conference on Biodiversity. However, South Africa is a signatory of the Biodiversity Agreement that was finalised at the end of 2023, and is therefore committed to its targets.

Further impetus for the realisation of 30x30 stems from the launch of the **Great Blue Wall Initiative**. The concept was developed by the IUCN and was launched at COP26 in Edinburgh. It has become a complex multilateral programme supported by numerous organisations, including the United Nations Economic Commission for Africa, the African Union Commission, the United Nations Development Programme (UNDP) and the Indian Ocean Commission (IOC). It has three overarching aims, including creating 10 million new 'blue jobs', sequestering 100 million tonnes of carbon and expanding the coverage of MPAs to 30% of the West Indian Ocean.

An international meeting was held in 2023 in Moroni, Comoros in 2023 to advance this initiative, which produced the "Moroni Declaration for Ocean and Climate Action in Africa". This declaration further committed governments, including South Africa to implement the Great Blue Wall. In launching the Moroni Declaration, the Executive Secretary of the Economic Commission for Africa, Antonio Pedro, announced that his organisation was working with partners to launch a regional "**blue bond**" to help with finance.

Part 2: Instruments of Blue Finance

Organisations working on conservation finance have developed numerous ideas for bringing private capital into conservation programmes. We cannot cover all of them here, but the following section looks at two of the most important financial instruments routinely championed by the international community. These are blue bonds, including a derivative called 'sustainability-linked bonds' and debt swaps. These are closely related to each other as they draw conservation spending into global bond markets.

2.1 Blue bonds

To understand blue bonds, it is necessary to understand the market in green and social bonds introduced during the financial crisis 2008. The European Investment Bank and the World Bank raised capital through bonds they claimed would be used to finance climate-mitigating projects. Subsequently, the World Bank called these green bonds. Over the next few years, advocacy for the growth of green bonds as a mechanism to raise money for addressing climate change gained momentum. They were, for example, given prominence at the Earth Summit in 2012. After that, they took off in popularity. The International Finance Corporation, an agency of the World Bank focused on lending money to the private sector, raised $1 billion from a green bond in 2013, and later that year, the first green bond was issued by a corporation, Vasakronan, a Swedish property developer offering ecological housing. This opened the floodgates on corporate green bonds in Europe, the US, and China. The government of Poland was the first to issue a sovereign green bond in 2016, and Nigeria and Fiji issued the first sovereign green bonds from developing countries in 2017. Thus, by the mid-2010s, the global green bond market had spread to bonds issued at multiple scales, involving multilateral lenders, national governments, sub-national authorities and the corporate sector.

Growth in green bonds is usually described as 'spectacular' or 'exponential'. The total value of green bonds issued in 2022 reached about $700 billion. Forecasts for the next few years will see the market in green bonds grow to more than $1 trillion. Although that is a lot of money, green bonds represent less than 1% of the value of all bonds issued worldwide.

What makes a bond green?

Green bonds work the same way as any other bond (see the explainer above). The only difference between a green bond and a bond not labelled as a green one is that the issuer promises to spend the money they have borrowed on green things. The obvious question is who defines what is green, and who checks that the money has been spent on green things?

There are no mandatory criteria for labelling a bond green. Instead, there are voluntary guidelines. Many of these have been developed in different parts of the world, but the International Capital Markets Association (ICMA), based in Zurich, provides the gold standard. This global organisation represents the interests of financial markets by providing a range of guidelines and standards for their activities. In 2012, the World Bank formed a multi-stakeholder group among bankers and asset managers to develop the Green Bond Principles under the auspices of the ICMA. The resulting principles, published in 2014, offer a framework for bond issuers to follow. The core features of this framework are as follows:

- 100% of the proceeds of the green bond should be reserved entirely for green spending.
- Issuers must provide investors with clear information on how the proceeds will be used.
- The proceeds of the bonds should be held in a separate or visible account.
- Issuers must report on the environmental impact of the bond.

Additionally, it is recommended that bond issuers employ an independent company's services to verify the green bond's likely environmental impact. These reports are known as 'second opinions'. Four research companies (all of them based in Europe) have cornered the market, but each has since been taken over by the world's largest credit rating agencies in the US. This is important: the credit rating agencies are the same organisations that verify the environmental credentials of green bonds (and the blue equivalents).

A striking feature of the Green Bond Principles is that they do not define what green means. Instead, they provide examples of projects suitable for investment. This leaves much room for interpretation. Although the ICMA sets out rules for bond issuers to follow, there is no system to check if these rules are implemented.

Alongside the ICMA principles is the UK-based organisation, the Climate Bonds Initiative. They provide a certification system (similar to the one provided for fish by the Marine Stewardship Council). This offers clients certificates for various climate and environmental-themed bonds arranged by other sectors (the fisheries sector has yet to be added but is in the pipeline). This year, the European Union also launched a European Green Bond Standard, which is presented as a rival to the one provided by the ICMA. That is also voluntary, so any organisation can choose these alternative standards over ICMA principles. Finally, many governments have developed their own standards for bonds issued in their local currencies. In South Africa, for example, the Johannesburg Stock Exchange has a green bond standard, essentially a copy of the ICMA Principles.

From green to social bonds

The popularity of green bonds has inspired various spin-offs, which have prompted the ICMA to produce three additional principles. The most significant development was the creation of a new category of 'social bonds'. These are bonds where proceeds are spent on socially positive outcomes, such as poverty reduction, education or health. Another derivative of social bonds is Sustainable Development Goal bonds, where the money raised is linked to delivering on one or several SDGs. The government of Benin raised the first SDG bond in 2022 for $500 million.

Then, there is another category known as 'sustainability' bonds. These are bonds where the use of proceeds is shared between green and social spending. Finally, yet another category with its own ICMA principles is called 'sustainability-linked bonds'. As described below, these bonds link coupon payments to delivering key performance targets with a social or environmental theme.

The result of all these different themed bonds is confusing. What further contributes to this confusion is that these social and green-themed bonds are usually called 'Environmental, Social and Governance bonds', or ESG bonds. Oddly, there is no definition or principle for a *governance bond*, and none have ever been issued.

BOX 3

Does the greenium exist?

A key selling point for green and social bonds is that they help issuers raise capital at a preferable rate to standard bonds. This is thought to be possible because of a strong market demand for green investing. It is now standard jargon to refer to this preferential lending rate as the 'greenium'.

Many studies have explored if this is greenium exists. The evidence is inconclusive. At best, African governments who have issued green (or social) bonds, such as Nigeria and Benin, have achieved a very small reduction in the coupon payments – roughly 0.2%. The interest rates African governments get for their ethically themed bonds are, therefore, about the same as they get for normal bonds, which are generally very high due to the poor credit rating they receive. **Green bonds are therefore expensive debt**.

Strong investor demand does exist for green or social bonds. However, rather than lowering the interest rates, it tends to encourage issuers to borrow too much money. For these reasons, the expansion of green, social or blue bonds comes with the risk of exacerbating the debt crisis in Africa.

So, where do blue bonds fit?

In 2018, the World Bank helped the government of the Seychelles issue the world's first blue bond. That was described as a bond intended to support ocean conservation and the development of the blue economy. This definition is important as it does not only link blue bonds to environmental outcomes, but also to activities that might grow the 'blue economy'.

The Seychelles blue bond was fairly small, raising $15 million. It had a maturation time of 10 years and a coupon rate of 6.5%. When released, it was presented as an example of how developing countries and Small Island Developing States (SIDS) could attract foreign investors into their blue economy. But it was an unusual transaction for many reasons.[20]

One of these was that the bond was only offered to three investors, each hand-picked by the World Bank. The World Bank provided a partial credit guarantee for the blue bond, which helped reduce the coupon rate payments: the World Bank's guarantee lowered the perception of risk for Seychelles defaulting on repayments. However, 6.5% is still relatively high for a sovereign bond and a very good return for the three investors. The Global Environment Facility (GEF), which the World Bank also manages, provided the government of the Seychelles with a loan of $5 million to help cover the cost of the coupon payments for these investors. The GEF, therefore, subsidised the blue bond, taking on the responsibility for covering the bulk of the coupon payments. The Rockefeller Foundation in the US provided a grant of $425,000 towards the fees for lawyers involved and the commission fees for Standard Chartered, the bank chosen to arrange the bond. So, although the Seychelles blue bond was used as a 'proof of concept', it was not a good example showing that southern countries can attract foreign capital to grow their blue economies. Instead, it was an example of what is known as 'blended finance', where public funds (i.e. development aid) are used to facilitate investments from the private sector. Without the public funds, it is highly unlikely that the blue bond would have been issued as the Seychelles would not have been able to afford it.

Another peculiar aspect of this deal was that no international standard described what a blue bond was. The World Bank treated it as a blue equivalent of a green bond. However, the World Bank did not follow the ICMA principles—which had ironically been created by the World Bank. For example, no second opinion was produced for the Seychelles blue bond and no commitment was made for regular reporting on the use of proceeds. Nearly five years since the bond was issued, the government of the Seychelles has still failed to provide a public report on how the proceeds have been used.

Since the Seychelles issued the first blue bond, there have been indications that the World Bank, working through the ICMA, will produce a separate Blue Bond Principle. However, progress has been slow. In the meantime, several organisations have issued their own guidelines for issuers of blue bonds, including:

- The UN's Food and Agriculture Organisation Blue Finance Guidance note on blue bonds, which links blue bonds to achieving blue growth. [21]
- The UN Compact's 'Practical Guidance to Issue a Blue Bond', which recommends that issuers link bonds with the UN's Sustainable Ocean Principles.[22]
- The Asian Development Bank's Sovereign Blue Bond Guidelines.[23]
- And most recently, in January 2022, the International Financial Corporation (IFC), the investing arm of the World Bank, released what it called the Blue Bond Guidance, which links blue bonds to the ICMA principles and the SDGs.[24]

There are, therefore, multiple efforts to establish a formal blue bond category amid a confusing array of standards and references for issuers to draw on.

Will there be a blue bond wave?

It was anticipated that the launch of the Seychelles blue bond would inspire many others. A report by Morgan Stanley Bank in 2019 predicted a wave of blue bonds over the next few years.[25] However, by 2021, few had been issued. Several companies working in aquaculture have issued green bonds that could have been described as blue, but because there was a lack of international agreement on what defined a blue bond, they chose not to. Over the past few years, numerous conferences and workshops have targeted coastal and island states preparing them for issuing blue bonds. A common claim is that blue bonds are where green bonds were a decade ago, and that blue bonds will grow exponentially over the next 10 years.

Donors are also offering technical and financial support to countries. For example, the development of blue bonds has become a focus of several UN agencies in national programmes. In Africa, UNDP is working with the government of Benin to issue a blue bond. This project falls under

the UN's Biodiversity Finance Plan (BIOFIN) for developing countries, launched in 2012. Recent statements by senior people at the UN, including Achim Steiner, the UNDP administrator, confirm that blue bonds are among the financial instruments being prioritised for developing coastal states.[26]

A breakthrough in the blue bond market occurred in 2021 when the Asian Development Bank issued two blue bonds simultaneously, raising just over $300 million.[27] The proceeds of those blue bonds will be used to offer government loans for bankable projects throughout Asia and the Pacific. However, there is limited public information on where the money will go and for what projects.

At COP26 in Scotland, the UK government released information that it was helping the government of Fiji to launch a blue bond valued at $50 million. The UK has provided a grant of GB£400,000 (about $500,000) to the United Nations Development Programme (UNDP) to help organise the blue bond, including identifying a list of bankable projects.[28] However, the launch of this project keeps being pushed back, with the latest information being that it will be sold to investors late in 2023.

Finally, as noted above, one of the most ambitious plans for launching a blue bond has been announced by the United Nations Economic Commission for Africa. This is a regional blue bond to fund the Great Blue Wall initiative. Details about this project are thus far also lacking, and it is unclear who will issue the bond and how the proceeds will be managed.

2.2 Sustainability-linked bonds

So-called *sustainability-linked bonds* are an important innovation in the green bond market that could become important for blue finance. Also known as performance-based bonds, they are relatively new but predicted to become more popular, particularly in developing countries. The key design element of these bonds is that the coupon rate for investors depends on whether the bond issuer achieves certain targets.

The origin of this innovation lies in a consortium of African and European conservation organisations, who invented a 'Rhino Bond'. Originally this was designed so investors in the bond would get a lower coupon payment if the consortium of conservationists were able to increase the population of rhinos in selected game reserves in South Africa. It was, therefore, a bet: if the conservationists fail, the investors get a bigger pay-out; however, if the conservation works, they lose some money.

The original idea failed to take off, so the World Bank stepped in to help back the plan and changed the formula. Now, investors in the Rhino Bond are given a bonus if the rhino population increases. This bonus is provided by a grant supplied by the GEF. This version of the Rhino Bond was released in 2021, with the World Bank referring to it as a 'Wildlife Conservation Bond'. The World Bank suggests these could be used in other locations and for other species. This is another example of how organisations such as the World Bank use development aid money to entice investors into for-profit conservation schemes in developing countries.

Sustainability-linked bonds have also become popular among multinational companies. For example, Tesco supermarket in the UK has launched one based on reducing its carbon emissions. Unlike the World Bank's Rhino Bond, investors lose money if Tesco succeeds.

A breakthrough in the market for these bonds came in 2022 when the governments of Chile and Uruguay each issued sovereign sustainability-linked bonds. Here again, investors in these sovereign bonds get increased coupon payments if the national government fails to deliver on performance indicators. In the case of Chile, these indicators were linked to carbon emissions and renewable energy, whereas in Uruguay, the performance indicators included an increase in forest cover.

So why are these types of bonds gaining increased popularity? One reason is that investors claim they like knowing their money is having a measurable impact: there is more assurance in an SLB that an investor's money has had a good impact compared to a green bond. Yet there are other reasons why *issuers* prefer these to other bonds. The main reason is that **there is no obligation to account for how the money raised is spent**. A green bond requires the issuer to be transparent about where the money goes, and it requires 100% of the proceeds to be spent on green things. A sustainability-linked bond does not come with these same conditions. The issuer can use the money in any way they want. The only important thing is reporting on progress towards the performance indicators. This is an attractive aspect for governments, as the proceeds of SLB's can be used to cover debt repayments to other creditors.

Sustainability-linked bonds will continue to gain support from international organisations for developing countries. Such bonds also align well with global targets for conservation, including 30x30. The IFC's Blue Bond Guidance encourages countries to consider how these can be used in the blue economy, including meeting targets for expanding marine protected areas.

BOX 4

Greenwashing and a crisis of credibility

Although green and social bonds continue to grow, the entire market in ESG bonds is losing credibility. This is due to an enormous number of stories about greenwashing, where the issuers have used money raised from green bonds for dubious spending. There is no longer any surprise about this among industry analysts. The voluntary standards developed by the ICMA do not define what green means. Additionally, research by three law professors in the US found that over 70% of green bonds explicitly aligned to the ICMA Principles come with legal disclaimers that allow issuers to use the proceeds for non-green spending. In other words, most green bonds amount to empty promises.

Source: Curtis, Q., Weidemaier, M. & Gulati, M. (2023) 'Green bond, empty promises', Available at SSRN,

2.3 Debt for Ocean swaps

Unlike blue bonds, debt swaps have a much longer history. They were invented by US conservation organisations working in South America in the late 1980s. Back then, they primarily focused on rainforest conservation and were called debt-for-nature swaps. For several reasons, they fell out of favour by the late 1990s. However, in the area of conservation finance, they have been reinvented and now involve far greater sums of money. The Nature Conservancy (TNC) has been at the forefront of this revival, and a primary focus of its work has been using these swaps to advance the 30x30 goal of ocean conservation. These are often referred to as *debt-for-ocean swaps*.

The basic idea behind a debt swap involves a creditor (the organisation that has lent money to a developing country's government) agreeing to forgo a portion of what is owed to them. The savings this generates for the developing country are then redirected to conservation. That seems straightforward. However, the mechanisms involved can be highly complex, and each debt for nature swap is unique in how it is structured.

To simplify, there are two basic forms of a debt swap:

- The first can be called a *two-way swap, (or a bilateral swap)*. It involves the creditor agreeing to forgo debt repayments for a promise by the debtor to spend all or part of the money on conservation. All two way swaps involve the money developing countries owe to foreign aid donors, such as the German or US government.
- The second, which is more complex, can be called a *three-way swap (or a tripartite swap)*. It involves a third party—usually a US conservation organisation—buying the debt off creditors on behalf of the debtor nation. Most three-way swaps involve money owed by developing countries to private lenders, such as the owners of their sovereign bonds. However, there are cases where these types of debt swaps have involved bilateral aid as well. In this case, the US conservation organisation offers to buy a proportion of outstanding debt from bilateral lenders.

TNC's approach to debt-for-ocean swaps falls into the second category. Their first debt-for-ocean swap was concluded in 2015. Like the blue bond, this also involved the government of the Seychelles. In this case TNC bought about $21.5 million of debt owed by the Seychelles to bilateral lenders, including the UK, Italy and France. South Africa was also part of this deal, as it has been a lender to the Seychelles government. The South African government, therefore, sold some of the debt owed by Seychelles to TNC, although details of how much money was involved have never been disclosed.

The deal relied on TNC convincing the creditors to sell their debt at a discount. Eventually, the donors agreed to a discount of 6.5%. That means, for every dollar the donor countries would have been paid by Seychelles, they agreed to be paid 93.5 cents. The deal in Seychelles resulted in the government committing to increase its MPA coverage to 30% of its oceans. That was an extraordinary commitment, given the small amount of money generated for the country.

Although the deal in Seychelles was the largest debt-for-nature swap in history (as calculated by the total amount of money involved), TNC described it as merely a 'proof of concept'. In other words, it was a pilot for something much more ambitious. In 2018, TNC launched what it called an 'audacious plan'. This is an initiative to conclude debt for ocean swaps in at least 20 coastal and small island countries. TNC is targeting the Eurobond debts of countries, not the money owed to bilateral lenders (as was the case in Seychelles).

The first debt-for-ocean swap TNC concluded involving commercial debt was in Belize in late 2021. It refinanced a Eurobond issued by the Belize government valued at $533 million. This was a staggering achievement for an environmental NGO. Here the discount creditors agreed to was much bigger than in the Seychelles—approximately 45%. One of the main reasons creditors agreed to this was that Belize was about to default on the bond repayment. In this case, getting a lump sum payment for a debt that might not otherwise be repaid was considered a good deal.

To finance this transaction, TNC worked with Credit Suisse to raise $365 million through a new bond, which TNC called a 'blue bond'. However, it was not really a blue bond as the proceeds of the bond were used to refinance debt, not for ocean conservation. As with Seychelles, the deal came with a commitment from the Belize government to enlarge its MPA coverage to 30%. That was not as impressive as the Seychelles deal, because Belize already had over 20% of its oceans declared as an MPA at the time of the swap.

Other similar deals followed. The TNC concluded a debt-for-ocean swap in Barbados, refinancing debt owed through two bonds valued at $155 million. Here creditors agree to a much lower discount: just 9.5%. This is because Barbados was not in such a dire economic situation. Barbados also committed to enlarging its MPA coverage to 30%, a much larger commitment than Belize as the MPA coverage in Barbados was only 1% at the time of the deal. In 2023, PEW Charitable Trust and the Ocean Finance Organisation concluded a similar debt-for-ocean swap with the government of Ecuador. That involved refinancing bonds worth $1.6 billion. It was facilitated by an advisory firm started by former employees of TNC, and therefore followed the TNC model. In July 2023, TNC finalised a debt-for-ocean swap with the government of Gabon. In this case, TNC has lent the Gabon government money to refinance $500 million worth of debt it owed to foreign bondholders.

Many other countries are thought to be at the advanced stage of agreeing on debt-for-ocean swaps with TNC, including Kenya, South Africa and Mozambique. It is important to step back and take note of the enormity of what is taking place. Since 2021, US conservation organisations have restructured more than $2.5 billion worth of debt held by five developing countries in exchange for commitments to meet the 30x30 target. They aim to scale up debt swaps in at least 20 countries over the next few years.

BOX 5

Who is The Nature Conservancy?

TNC is the world's largest conservation organisation measured in financial assets and revenues. In 2021, TNC declared its revenues for conservation programmes at just over $1.8 billion—more than the government revenues of Belize and Ecuador combined. Mean while the value of its assets was $9.3 billion—about twice the GDP of Barbados. Much of its growth has been achieved through its work on financial investing and using innovative financial instruments. After the financial crash in 2008, TNC appointed an investment banker from Goldman Sachs as CEO, and he was tasked with changing the organisation's strategy to work more closely with financial institutions and private investors. Consequently, TNC launched a sister organisation called "NatureVest", in partnership with the US investment bank, JP Morgan. NatureVest is the investing arm of TNC that leads its debt-for-nature swaps. The most recent issued by TNC report describes finalising deals worth $3.1 billion. At the same time it launched NatureVest, TNC appointed several elites of the financial world to its governing board, including Larry Fink, the CEO of Blackrock, the world's largest asset management firm (estimated to control $10 trillion). Blackrock is also a prominent investor in Africa's Eurobonds.

TNC's relationship with conservation finance is now highly complex. It is a prominent organisation working to promote the use and regulation of instruments such as green and blue bonds, while it is also an issuer and investor of these bonds. In 2022, TNC launched its own green bond to raise $350 million in capital for further investment in conservation projects. Providing interest-bearing loans to developing countries to restructure their debt has become another source of considerable revenue issued by TNC: TNC borrows money at a lower rate than it lends to developing countries. Rather than relieving the debts of developing countries, it is now becoming an important creditor in its own right.

What takes place in debt-for-ocean swaps?

These debts-for-ocean swaps are complex, with several elements that can be simplified as follows:

1. The US conservation organisation (i.e. TNC or PEW) approach creditors with an offer to sell their debt. If the creditors agree, then the conservation organisation helps the debtor country to raise cash to buy out these creditors. In these debt buybacks, countries offer the bondholders a price just above the value of the bond notes on secondary markets but at a lower price than the face value of the debt. In the process, the developing country has either reduced the amount they have to pay to external creditors or restructured debt repayments on a more favourable basis. This creates a saving for the developing country, which is money that the government then commits to spending on marine conservation. *[note: there is minimal sacrifice by the bondholders in this deal as they still sell their bond notes above the price the bond is trading at on secondary markets].*
2. The US conservation organisation helps the debtor country raise cash in several ways. In the Seychelles, TNC lent the government money from its reserves, which was topped up by cash it received for the deal from philanthropists. However, in the other deals, such as Belize and Ecuador, TNC borrowed money to finance the deals by working with an investment bank to issue a 'blue bond'. Because it is clear to investors that TNC depends on revenues from debt-distressed countries in the South to repay this loan, they are only willing to invest at high interest rates. To get around this, TNC obtains a credit guarantee from the US government or a development bank, which reassures investors their money is safe. This allows TNC to borrow at a lower rate. This money is then lent to the debtor country via a 'blue loan'.
3. The loan given to developing countries by the conservation organisation is not only used to buy out creditors. It is also used to pay other expenses. This additional part of the loan from US conservation

organisations to developing countries is much larger than many realise. For example, the loan was for roughly $64 million in Belize. This money is used for various expenses, including:

- An amount that is put into an endowment fund for marine conservation. This money will be invested by TNC (or on its behalf by an asset management firm) in other stocks and bonds, thereby gaining interest and growing in value over time. The resulting fund will be eligible for conservation spending only in the future (i.e. in 20 years' time).
- Legal and management fees for the various private organisations involved in the deal, including fees for the conservation organisation, lawyers, investment bankers etc. These fees are extensive, and they represented about $20 million in Belize.
- Money that is needed to help attract investors in the 'blue bond' (described below). This money is used to offer specific buyers bond notes at a discount. In Belize, for example, $10 million was set aside to attract investors in this way.

4 As part of the debt swap deal, the US conservation organisation creates a new NGO in the debtor country. In Belize, this is called the Belize Fund for Sustainable Future. In Ecuador, it is called the Galapagos Life Fund. This NGO is intended to operate in the country but is owned by the US conservation organisation and registered back in the US state of Delaware, a noted tax haven. This new NGO has a multi-stakeholder governing board comprised of a majority of non-government organisations (including the US conservation organisation), and seats reserved for government representatives. The purpose of this new NGO is to administer grants to other organisations working on marine conservation and the blue economy in the debtor country.

5 The debtor government provides the money to be used by this new NGO from the savings it made in the debt buyback. This money is made available in two separate streams:

- An annual lump sum is paid immediately after the debt swap and usually lasts for 20 years. This represents the savings achieved between what would have been paid to Eurobond holders and what is paid on the blue loan.
- The government gives the US conservation organisation a lump sum that is paid into an endowment fund. That is not available for immediate use but is invested in financial markets. After 20 years, when the endowment fund has grown, the money is transferred to the new NGO to be used to continue grants for ocean conservation projects.

6 The debtor country signs a *conservation agreement* with the US conservation organisation. The most significant part of the agreement for debtor countries is to enlarge the marine protected areas to 30% of their oceans. However, this is not the only commitment. Others include changes to national laws and policies affecting the management of marine ecosystems, including policies to advance eco-tourism, aquaculture and carbon trading. The agreement consists of fines if the debtor country fails to uphold commitments. These fines can be substantial, starting at about $1 million for each breach of contract. The money from the fines is handed over to the new NGO to be added to the pot for issuing grants.

BOX 6

Hidden profits in debt swaps?

There is a lot of confusion surrounding the financial implications of debt for nature swaps. One element of this is that media reports portray bondholders who consent to these deals as swapping their debt for pledges to save nature. This is wrong. Bondholders in these deals are still being paid above market rates for their bond notes that are trading below face value on secondary markets. Debt buybacks happen quite frequently, and the discounts achieved in debt for nature swaps are no different from other debt restructuring deals. Nothing suggests that debtor countries are getting a better deal by including conservation commitments.

There is also confusion surrounding the financing of these deals. A key element is the difference between the 'blue bond' raised by the US conservation organisations and the 'blue loan' given by them to debtor countries. In the case of Belize, the annual audit report of the TNC describes that the loan (to last for 19 years) given to it by Credit Suisse comes with an interest rate of 1.6%, rising to 4.7% in 2025.[29] However, TNC's loan to Belize starts at 3%, rising to 6.04% in 2026. Over the lifetime of this agreement, TNC will receive an estimated $82 million in what looks like profit, above and beyond the $14 million it charges to Belize as a management fee.[30] Some of this $82 will be used by TNC to cover costs, including paying for the political risk assurance provided by the US government. However, more transparency is needed, including public access to blue loan contracts, to fully understand how profits in these transactions are produced and used.

BOX 7

A rival form of a debt swap: The case of Cabo Verde

Bilateral debt swaps are an alternative to the 'three-way' debt swaps commonly used by US conservation organisations. An important recent example occurred between Portugal and Cabo Verde. Here, the government of Portugal agreed to write-off outstanding debt owed by Cabo Verde on the condition that the country spends the money on projects addressing climate change. It is reported that this will amount to about 140 million Euros (about $150 million). This can be considered a form of *conditional debt forgiveness*. One reason this might be regarded as preferential to the debt swaps being used by TNC is that the government of Cabo Verde has more control over these funds, as opposed to agreeing to transfer savings to a new NGO controlled by a foreign conservation group. It also appears that Portugal is being more charitable in these deals than commercial creditors in the deals brokered by TNC. However, much depends on how they account for this act of debt forgiveness.

Donor countries have an obligation to provide development aid, and most set a target each year for spending. There is now increasing pressure on developed countries to provide additional transfers to support poorer countries in dealing with the costs of the climate disaster. In this case, Portugal might declare the amount written off for Cabo Verde as contributing to these obligations. Yet, if Portugal declares the value of the swap as a grant, this will reduce its commitment to providing aid. In doing so, the debt swaps will replace the money Portugal provides for other developing countries. Seen in this way, the swap does not cost Portugal anything. Nor does it contribute to increasing the wealth transfers from rich countries to poorer ones in the context of the climate disaster.

2.4 How do blue bonds, sustainability-linked bonds and debt swaps relate to one another?

The description of blue bonds and debt for ocean swaps illustrates their differences. International organisations promote the blue bond as a way to raise capital for saving nature and growing the blue economy. However, it does this by increasing a nation's debt. In this instance, the debt is seen as positive because it will fund activities that create economic growth. This is seen as good debt. On the other hand, the debt swap treats the debt of developing and coastal states as problematic, and servicing this debt prevents the country from spending on marine conservation. This is considered bad debt.

The different attitudes towards debt underlying these two instruments suggest contrasting solutions: some may advocate developing countries receiving debt swaps, and others may promote blue bonds. However, organisations promoting blue finance do not think in this way. Bonds and debt swaps are considered alternative options in a blue financing toolkit. They are instruments to be used depending on the situation in developing countries. This is explained well in a report published by the African Development Bank, written by a US consulting firm.[31] This advised on the logic of how to decide when to use which tool:

- Green or blue bonds make sense for countries with relatively stable debt levels and where governments can assure investors of a pipeline of bankable projects.
- Sustainability-linked bonds are preferable for countries not in a healthy economic position. This is because a proportion of the debt raised through these deals can be directed towards managing debt repayments for other creditors. The sustainability-linked bond is also attractive for countries that are judged as risky places for investors, because they come with more robust assurances that the money can be linked with specific outcomes.
- Debt swaps are preferable for countries that are in a dire financial situation.

We should not imagine that this advice will be applied in reality. The use of different financial instruments is generally more haphazard than this. Some countries that cannot afford to acquire new debt may be enticed into selling blue bonds, and it is possible that some countries that are not experiencing an extreme debt crisis may have the opportunity to broker a debt swap. How these instruments are used is, therefore, hard to predict. The work of international organisations supporting these deals appears to be based more on opportunity than objective criteria or careful planning. Thus, the Seychelles agreed to a debt swap in 2015, but then followed this up with a blue bond in 2018. This may be a blueprint for the future: blue bonds lead to debt swaps and vice versa, suggesting a continuous cycle of borrowing and refinancing.

Photo: Masifundise, South Africa – www.masifundise.org.za

Part 3: What are the implications of blue finance for small-scale fishers in South Africa?

Debt swaps and blue bonds, including their derivatives such as 'sustainability-linked bonds', are complex financial transactions. For small-scale fishing organisations to engage in national and international debates on the use of these instruments, it is vital that they understand how these deals work. The devil is often in the details. Unfortunately, the organisations promoting and profiting from these deals have ample ways of confusing the people affected by them. This includes, for instance, making the deals seem more generous than they are. What is often obscured from the public is how much money is being made by intermediaries and conservation organisations.

Having now described what these financial instruments are, it is worth asking: What are the implications for small-scale fishing organisations in South Africa? Are there reasons to be concerned?

3.1. Will blue finance develop in South Africa?

Whether any particular country will issue a blue bond or enter into a debt swap is hard to predict. Information on plans to use these types of financial instruments is often kept confidential. Citizens in the Seychelles, Belize, Barbados and Gabon, for example, were not informed about their governments working with TNC on debt for ocean swaps until the deals were concluded. Fiji, on the other hand, has announced its intention to sell a blue bond for several years. In general, African governments raise bonds with little public consultation, and there is no requirement to conduct public consultations in the ICMA's Green Bond Principles or the Blue Bond Guidance offered by the IFC. **These are standards designed for the interests of investors, not the citizens affected by these deals**.

While there should be caution in predicting the use of these instruments in South Africa, several developments suggest they will be placed on the agenda (if they have not been already).

1. TNC lists South Africa as one of the countries for its *audacious plan*. In presentations provided by TNC, it is described that consultations with the government about a debt for ocean swap had taken place by 2022. TNC has an office in South Africa and, therefore, already has experience working with the South African government. Debt for ocean swaps have become one of the most high-profile success stories for TNC; therefore, it is likely to be something pushed by the headquarters of TNC for its regional offices.
2. The South African government has signed onto the Great Blue Wall Initiative. As described by the UNECA during the recent meeting in Comoros, parties to this have agreed to pursue a regional blue bond.[32] Work is already underway on arranging this, although there is no guarantee it will happen. There is also no information on what a regional blue bond would look like. It might be issued collectively by the 10 governments involved in the Blue Wall Initiative, or the UN might issue it on behalf of these governments.
3. South Africa is one of the countries that is being supported by the UN's BIOFIN programme. South Africa produced a Biodiversity Finance Plan in 2018, which included pursuing a blue bond as one of several options for increasing finance for marine conservation.[33] A BIOFIN conference was held in Cape Town in May 2023 to explore innovations in biodiversity financing, including blue and green bonds.[34]
4. National environmental NGOs working on marine protected areas in South Africa are dominated by those supporting blue finance. For example, a multi-stakeholder meeting convened in June 2023 by the Department for Forestry Fisheries and the Environment aimed to develop strategies for achieving Target 3 of the Global Biodiversity Framework.[35] This event was co-sponsored by TNC, OCEAN 5 and IUCN; three of the biggest NGOs working on blue finance internationally. Among the meeting's other sponsors was the 'Sustainable Finance Coalition'. This was established by

WWF and the Wilderness Foundation in 2019 as an initiative to design innovative mechanisms to raise private finance for conservation in South Africa. It includes projects that raise debt financing for protected areas, as well as the expansion of carbon trading and biodiversity offsets. In short, the key players funding and contributing to national debates on ocean conservation are all advocates for blue finance.

5 South Africans are also involved in blue finance projects abroad. The debt-for-ocean-swap finalised in Ecuador involved PEW Charitable Trust and the Ocean Finance Company. Although the latter is registered in the Netherlands, it was created by Erik Wandrag, a South African who has specialised in raising finance for energy and mining ventures in Africa.[36] The Ocean Finance Company is now responsible for administrating the Galapagos Fund in Ecuador (created and financed through the debt swap). These networks could be important for developing blue financing deals in South Africa.

6 There are also regional developments that may influence South Africa. For example, in 2023, WWF proposed a debt-for-nature swap in Zambia. Also, in 2023, Mozambique was offered a bilateral debt-for-climate swap with Belgium.

While it remains uncertain whether South Africa will go forward with blue bonds, debt swaps or other innovative blue financing instruments, the international support for these, combined with the growing attention placed on them by organisations working in South Africa, strongly suggests blue financing will become a feature of national efforts to expand MPAs and grow the blue economy.

3.2. What are the reasons to be concerned?

Blue finance presents a worrying picture for small-scale fishers in South Africa, as it does in many other coastal and island states. Perhaps first and foremost, the links to the 30x30 agenda will raise concerns over the threat of 'ocean-grabbing'. This report does not review the evidence of what has taken place in South Africa to date, although it is worth noting that a recent study concluded:

> "In South Africa, the history of MPAs is one that has resulted in dispossession for many local communities and has been rooted in top-down conservation enforced by external state-led authorities that adopts a 'fences and fines' approach. The subsequent lack of access to marine resources has disrupted local coastal communities who rely on the ocean and coasts for their livelihoods, cultural practices, and well-being, resulting in dispossession and increased marginalization"[37]

Beyond the injustices that could follow the implementation of 30x30, there is also a wide range of other criticisms that exist for blue finance or climate finance more generally.

At a higher level of analysis, the financialisation of conservation represents a flawed model for managing natural resources sustainably and to the benefit of those whom rely on them most. Conservation finance (and its blue offspring) is based on the idea that the climate emergency and the biodiversity crisis can and must be solved while making money for financial investors. This insistence that saving nature is contingent on economic growth is reckless and terrifying. Multilateral organisations, such as the UN, the World Bank and the African Union, remain unrelenting in their commitment to green and blue growth, despite mounting evidence that society and biodiversity cannot sustain continuous economic growth, irrespective of its colour. The most significant barrier to addressing the climate and biodiversity crisis is no longer 'climate deniers' but those convinced that the solutions must and should be an opportunity for further capitalist growth.[38]

Confronting the impossibility of blue growth remains a vital task, although one which may seem too abstract or difficult for many organisations to take on in national meetings on ocean conservation. However, more immediate and tangible points of criticism can be raised against these innovative financial instruments. These might be used by civil society to push back against the expanded use of these financial instruments.

Transparency

A critical theme in the history of debt swaps has been the need for more transparency surrounding these deals, as well as the failure to consult the people most affected by them. However, this is unlikely to happen as the process of negotiating debt buybacks is treated confidentially amid concerns about how it will affect the value of other outstanding debts and countries' credit ratings. The nature of these deals means that high levels of publicity are avoided until the contracts are concluded.

Even after they are finalised with banks and investors, this attitude towards secrecy appears to continue. In each of the five debt for ocean swaps concluded by US conservation organisations, various information has been withheld from the public. In Belize, for instance, TNC has yet to disclose the final contract between itself and the government, including information on conservation commitments and the financial penalties for missing targets. These documents are not available in Ecuador and Gabon either. There is also a lack of public information on the loans provided by TNC to the government and the terms of the so-called blue bonds. Requests for access to information sent to TNC are ignored.[39] Even journalists working for organisations like Bloomberg News find it hard to locate this critical information.[40]

In theory, blue bonds (unconnected to debt swaps) are less worrying for their lack of transparency. If they follow international standards, then they should involve public disclosure of information on government plans for the use of funds, and there will be freely accessible information on the terms of the bond, including the maturation length and the coupon payments. Governments ought to commit to annual reporting on the use of funds. However, there tends to be weak enforcement of these commitments. A survey of existing green and social bonds issued by governments shows that many do not produce annual reports, and those that do provide superficial information.[41] Investors exert no pressure to obtain this information. As such, there remains an enormous task by civil society organisations to track the use of proceeds. This is often hindered by governments and their international partners.

Democratic participation and the threat to national sovereignty

Although related to poor levels of transparency, blue finance allows for an objectionable transfer of power to unelected and unaccountable organisations. This is one of the most contentious issues involving debt for ocean swaps. US conservation organisations manipulate developing countries' indebtedness to determine national ocean governance policy. The conservation contracts of these deals are legally binding documents that span 20 years. However, there is no public consultation about the contents of these agreements. Such an arrangement would never be accepted by civil society organisations in the US or Europe. This is why, ever since they were invented in the 1980s, debt swaps have been characterised as forms of eco-imperialism or neo-colonialism.[42]

Blue bonds can work similarly. That is because organisations facilitating them, such as the UN or the World Bank, tend to determine how the money is spent. They often describe this as developing a pipeline of 'bankable projects' that attract investors.

Debt swaps are considered positive because they establish a new national organisation to receive and administer funding. Additionally, the US conservation organisation has requested national governments to conduct marine spatial planning based on a participatory model in all the debt-for-ocean swaps. Debt swaps can, therefore, be said to advance democratic participation. The problem, however, is that these deals also tend to give foreign conservation organisations a prominent seat at the table. In TNC's swaps with the Seychelles, Belize, Barbados and Gabon, TNC has a permanent position on the governing board of the new conservation organisations, and they determine who is selected for other jobs. These are not democratic or representative bodies.

The situation in Ecuador is particularly troubling. The organisation that has been given the responsibility for running the Galapagos Life Fund is the Ocean Finance Company. This was set up to broker the deal, and its South African staff has no track record of working on ocean conservation.[43] The Galapagos Life Fund has 11 positions on its governing board, five of which include representatives from the government and six from conservation NGOs, one of whom is the PEW Charitable Trust. The resulting fund has an estimated budget of $14 million a year, and it is left to the discretion of the fund how this money is spent.

With this setup, there are serious concerns about the ability of organisations representing small-scale fisheries to contest decisions that may negatively affect their livelihoods. Suppose debt-for-ocean swaps proliferate, as predicted. In that case, a few US conservation organisations, working in partnership with investment banks and extensive asset management firms, will have a powerful influence over a vast area of the world's oceans. Few would endorse this unhealthy scenario. Yet this is the outcome of financialisation: the erosion of democratic accountability and the transfer of power to an unaccountable financial elite.

In Belize, research by the BBC revealed that applications made for grants from the Belize Fund for Sustainable Future have been contentious. Substantial grants have been provided to non-government organisations involved in policing marine protected areas and for coral reef

restoration, but an application by the country's main organisations representing small-scale fisherfolk for a smaller grant to help fishers cope with the closure of fishing grounds was rejected.[44]

The illusion of wealth transfers

It is essential for those opposed to 'blue finance' to expose the economic reality of these financial instruments. This can be explained in relation to the UN Biodiversity Agreement. This agreement presents private finance as one of several income streams to help developing countries bridge an imagined 'funding gap'. It is described alongside development aid and public finance, creating the mistaken impression that private finance transfers wealth to developing countries. The examples of blue bonds and debt swaps show this to be an illusion. Much of what passes as conservation finance is loans from investors to developing countries, with high-interest rates and commission fees.

Private finance creates debt that falls on developing countries' citizens to repay. If $180 billion is provided to developing countries for financing biodiversity conservation, then much more will flow back to investors, lawyers and investment banks. It is a transfer of wealth from the people of developing countries to wealthy organisations and individuals. This is also a core tendency of financialisation; not only does it erode democratic governance, but it also creates and exacerbates inequality.

In this perspective, it is essential to scrutinise the concept of 'risk'. International development agencies work to attract investors in developing countries by trying to 'de-risk' investments, including through credit guarantees and blended finance arrangements. Without this support, it is thought that investors might stay away. However, strategies to de-risk investments subsidise these deals, transferring development aid to private investors. It is dubious to imagine these investors are exposed to risk in the first place. Their assets are relatively safe and protected by international law. The most significant risk in these transactions falls on the supposed beneficiaries: people in developing countries who will have to repay the loans, irrespective of whether the proceeds have been used productively or squandered.

The fallacy of the funding gap

The flaw of the underlying model also raises doubt over the idea of the funding gap. This is now the dominant message behind instruments such as blue bonds and debt swaps. The inability of countries to manage resources, such as marine biodiversity—so it is believed—comes from a lack of money. Small-scale fishers are well-placed to challenge this. A lack of finance has not depleted the oceans of fish or caused pollution and climate change. To believe this story is to fall into the trap of equating conservation with poverty. A more convincing view is that affluence and the pursuit of it have been the dominant theme in the destruction of nature.

Challenging blue finance, therefore, means rejecting the funding gap story. In doing so, small-scale fishing organisations should consider research on positive outcomes in fisheries management and ocean conservation. What evidence exists for the benefits of large-scale government programmes, including those funded through multi-million-dollar loans or grants? Have such programmes, such as those sponsored by the World Bank, been a resounding success? We lack adequate research on these topics, but multiple failed programmes for coastal and fisheries development in Africa suggest that large amounts of money do not lead, in a straightforward way, to gains in the sustainable and equitable management of marine resources. Often, they can make matters worse. It is, therefore, reasonable to question why so many organisations believe that dramatically scaling up the funds for conservation programmes will save nature.

Civil society organisations working to amend the text of the UN Biodiversity Agreement offer an alternative perspective. A core feature of the Mother-Earth-centric approach is that solutions to equitable and sustainable management of nature depend on political arrangements and cultural attitudes. It should not be viewed in terms of financing and encouraging the profiteering on conservation through market-based systems. At the heart of their request is biodiversity conservation grounded on community-based management. Additional money might be needed to support this, but money is not the primary barrier to success.

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