

Finance Tools for Coral Reef Conservation: A Training Guide

Nature Bonds

Developed by the Conservation Finance Alliance and Wildlife Conservation Society for the International Coral Reef Initiative

Content drawn from Finance Tools for Coral Reef Conservation: A Guide (2018)

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Nature Bonds: Overview

- Definition: Financial instruments issued to borrow money from investors for projects that conserve and sustainably use nature.
- Value: Bonds can be issued by public or private entities (governments, corporations, nonprofits) with the proceeds invested in projects that have clearly defined and measurable environmental benefits in addition to financial returns
- Economic model: investment with return based activities (economic or financial).
- Other names: “Green Bonds”, “Blue Bonds”, “Climate Bonds”
 - Green Bonds: mostly clean energy and infrastructure
 - Blue Bonds: focus on marine or coastal activities and investments
 - Climate Bonds: target climate mitigation and adaptation.

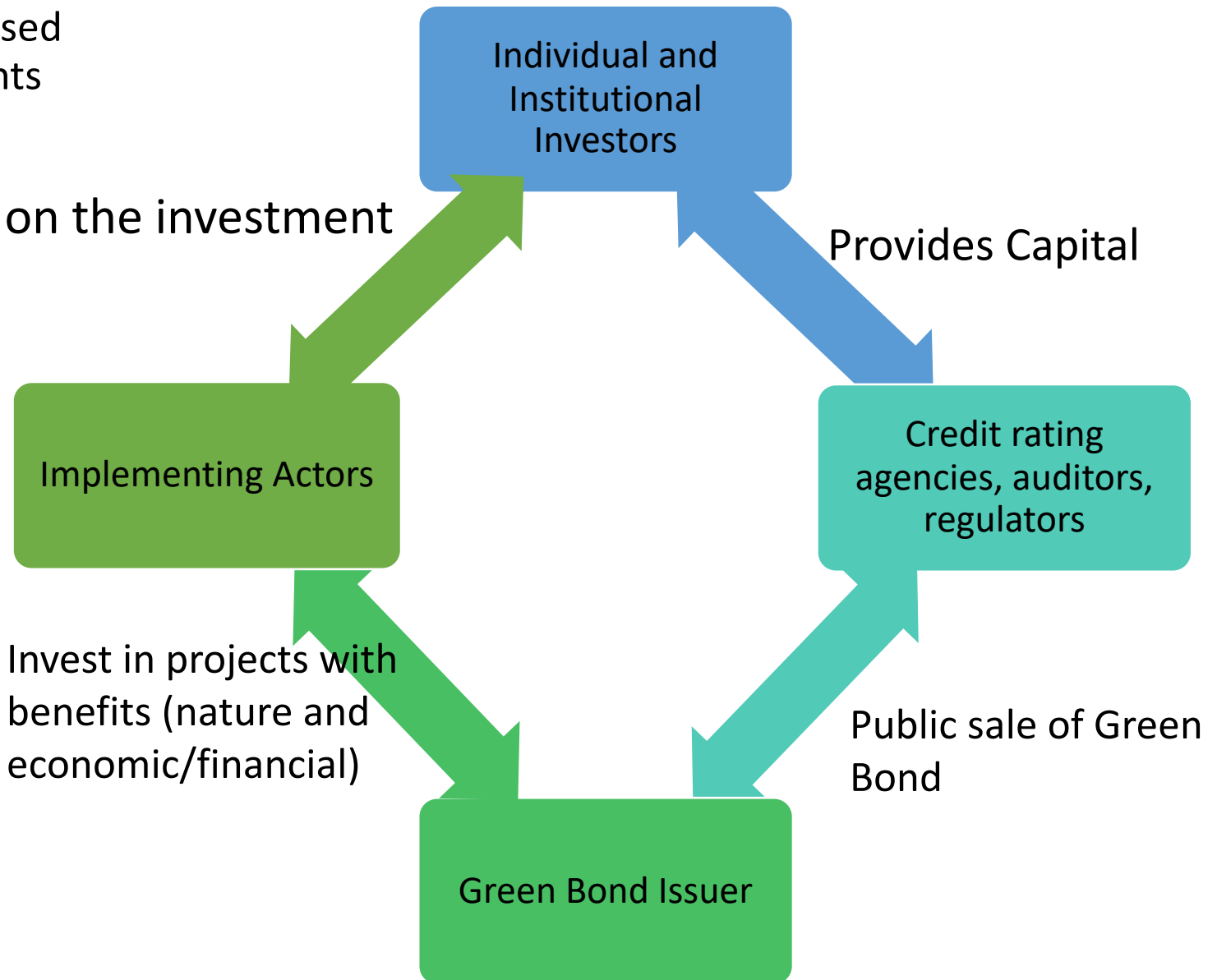
Nature Bonds – How does it work?

- Identical to traditional bonds except the use of proceeds is directed at nature supportive activities.
- The International Capital Market Association's "Green Bond Principles" determine whether a bond qualifies as green. The 4 Principles are
 - Use of Proceeds: issuer should declare green projects the funds will support
 - Process for project evaluation and selection: Issuer should outline investment decision-making process
 - Management of Proceeds: the proceeds should be moved to a sub-portfolio
 - Reporting: the issuer should report at least annually on investments, detailing environmental benefits accrued
- The Climate Bonds Initiative has identified four main types of green bonds:
 - Green Use of Proceeds Bond, Green Use of Proceeds Revenue Bond, Green Project Bond, Green Securitized Bond

Nature Bonds

Economic Model:
Return based
investments

Return on the investment

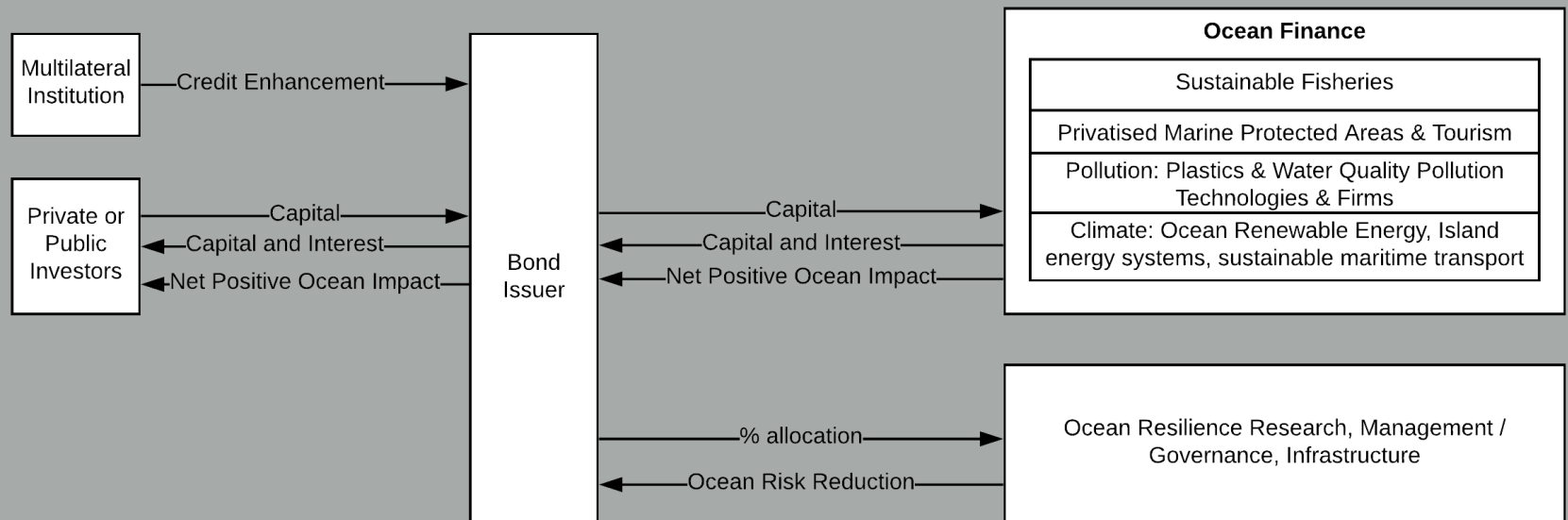


Nature Bonds – Conservation Activity Relevance

- Nature Bonds are targeted towards positive environmental practices.
- In context of coral reef preservation, can generate funds to revitalize or protect reefs.
- Third parties (development banks, other multilaterals, NGOs, other governments) can offer guarantees or concessionary rates to mitigate the risk of default - affordable interest rate
- Can be used to finance the implementation of national programs related to biodiversity and conservation – sovereign bonds
- Resilience bonds (conceptual) offer a different model for financing reef conservation - recognition that upfront investments in programs that foster resilience will help reduce expenses in the event of a catastrophic event

Nature Bonds – Stakeholders

- Green Bonds issuer(s)
- Green Bonds investor(s)
- Green Bonds partner(s)
- Credit rating agencies and auditors
- Regulators
- Credit guarantors and other intermediaries



Nature Bonds – Feasibility Assessment

- A regulated capital market to govern the issuance of debt must be in place for retail bonds
- The projects being financed by the bond must have a clear economic benefit (for sovereign bonds), or be able to generate enough cash to pay back both the interest and the principal of the private bonds in the relevant time frame
 - Nature Bonds are not a viable approach to finance “business as usual” management costs of a protected area.
 - Clear, measurable outcomes must be projected, achieved and reported.
- The size of the bond market and the existence (and competition among) financial intermediaries, credit rating agencies and market indexes can reduce the costs of issuing Nature Bonds

Nature Bonds – Revenue Potential

- The volume of labelled green bonds has grown steadily since 2013.
- Demand for green bonds is quite high. Investors with over USD 60 trillion of assets under management have made public commitments to make responsible investments - Green bonds can help them achieve their pledges.
- Green bonds issuance tops USD 200 billion (USD 202.2bn as of October 2019).
- Currently, Green bonds for conservation (Nature Bonds) do not make up a significant proportion of the total Green Bonds issued.
- Top allocation of proceeds include energy, buildings, transport, with water only accounting for 9% of the total.

Nature Bonds – Case Study: Blue Bond, Seychelles

- Issued in 2018 by the Republic of the Seychelles for the purpose of financing activities related to marine conservation and sustainable fisheries in the Seychelles
- USD 15 million debt issue – Sovereign Bond – private investors
- Supported by:
 - \$5 million loan guarantee from the International Bank for Reconstruction and Development (World Bank)
 - USD 5 million concessional loan from the Global Environment Facility (GEF)
- The capital will go to two implementing entities (SeyCCAT and Development Bank of Seychelles) and the funds will be used to finance the National Fisheries Program
- Increased tax revenue from economic development programs designed to promote a healthy and sustainable fishing industry will enable bond repayment
- See more [Information here](#)



Photo Courtesy of: Valerie Hukalo