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Editorial Office
230 Park Ave., 7th Floor, New York, NY 10169 (800) 543-6862
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IFC Releases Guidelines for Blue Finance

*By Kevin L. Turner and Lara M. Rios**

The International Finance Corporation Guidelines for Blue Finance has set forth the framework for structuring, evaluating and monitoring blue bond issuances and blue loans. The authors of this article discuss the guidelines and why they are important.

The International Finance Corporation (“IFC”), part of the World Bank Group, has released its Guidelines for Blue Finance¹ (“Guidelines”). The Guidelines set forth the framework for structuring, evaluating and monitoring blue bond issuances and blue loans, including eligible blue uses of proceeds, alignment with applicable Sustainable Development Goals, and additional factors related to governance, verification and impact monitoring.

A “Blue Loan” is a loan that is aligned to the Green Loan Principles² (“GLP”) and where the proceeds are exclusively dedicated to finance or refinance activities that contribute to ocean protection and/or improved water management.³

A “Blue Bond” is a fixed income instrument that is aligned to the Green Bond Principles⁴ (“GBP”) and where the proceeds are exclusively dedicated to finance or refinance activities that contribute to ocean protection and/or improved water management.⁵

IFC promulgated the Guidelines by building upon the GLP, developed by the Loan Syndications and Trading Association (“LSTA”), and the GBP, developed by the International Capital Market Association (“ICMA”). These principles establish best practices for green bonds and loans through specific eligibility, transparency, monitoring and disclosure recommendations, with the

* Kevin L. Turner is a partner at Holland & Knight LLP focusing his practice on international financing transactions, particularly within emerging markets and developing nations, through representation of project developers, corporate borrowers, financial institutions and investment funds. Lara M. Rios is a partner at the firm representing clients in connection with structuring complex finance and capital markets transactions, both domestic and cross border, with a particular focus on the energy/infrastructure industry and Latin America. The authors may be contacted at kevin.turner@hkllaw.com and lara.rios@hkllaw.com.

¹ https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/guidelines-for-blue-finance?CID=IFC_LI_IFC_EN_EXT.

² https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf.

³ See Guidelines Annex II.

⁴ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>.

⁵ See Guidelines Annex II.

goal of establishing a common framework for market participants. Until IFC's release of the Guidelines, there have not been widely adopted principles for blue finance.

WHY THE GUIDELINES ARE AN IMPORTANT DEVELOPMENT

Blue finance is a subset of the larger green finance market that has expanded rapidly in the last several years. As private sector and government investors, issuers and financial institutions have chosen (or been mandated) to focus more on climate issues and environmental, social and governance (“ESG”) more broadly, green finance tools such as sustainability-linked loans (“SLLs”) and sustainability-linked bonds (“SLBs”) have developed to meet this market need.

As the green finance market has evolved, blue projects that are focused on marine sustainability and clean water protection, while still in their infancy, are becoming more common. A few examples of blue finance in practice include:

- The U.S. International Development Finance Corporation (“DFC”) entered into a master insurance contract with The Nature Conservancy (“TNC”) under which TNC will undertake up to 20 projects that restructure sovereign debt and redirect a portion of the loan payments to fund grants and capitalize an endowment fund for long-term funding of conservation activities. The goals of these activities are to conserve and enhance marine and coastal ecosystems, strengthen governance and management of such ecosystems, and create resilient ecological and human communities. DFC and TNC currently have projects underway in Barbados, Saint Lucia and Belize.
- IDB Invest issued an AU\$50 million (approximately \$36 million), 10-year fixed rate bond, the first blue bond in Latin America and the Caribbean. The proceeds will support projects that expand clean water and sanitation to people in Latin America.
- The Republic of Seychelles launched the world's first sovereign blue bond, designed to support the expansion of marine-protected areas, improved governance of priority fisheries and the development of the Seychelles' blue economy.

IFC will use these new Guidelines in its own investment decisions and hopes that the Guidelines will provide benchmarks and best practices for the blue finance market.

OVERVIEW OF THE GUIDELINES

Eligibility

The below schematic from the Guidelines is useful in determining the initial eligibility of a blue finance activity.⁶



The Project Aligns with Sustainable Development Goals (“SDG”) 6 or 14

- SGD 6:⁷ Ensure availability and sustainable management of water and sanitation for all.
- SGD 14:⁸ Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

The Project Falls within GLP and GBP Parameters

The issuer or borrower should develop a framework consistent with the GLP and GBP, including specifically:

- Use of Proceeds—how will the project plan to contribute to SDG 6 or 14 and be consistent with the GLP and GBP?
- Project Assessment and Selection—how will the project be assessed and selected?
- Management of Proceeds—how will the proceeds be managed?

⁶ See Guidelines Figure 1.

⁷ <https://sdgs.un.org/goals/goal6>.

⁸ <https://sdgs.un.org/goals/goal14>.

- Reporting—how will the project’s impact be reported?

Permitted Use of Proceeds

The Guidelines map activities under SDG 6 and 14 against the GLP and GBP to arrive at the following list of eligible activities for blue finance:⁹

- Water supply: investments in the research, design, development and implementation of an efficient and clean water supply;
- Water sanitation: investments in the research, design, development and implementation of water treatment solutions;
- Ocean-friendly and water-friendly products: investments in the value chain, including production, packaging and distribution of environmentally friendly products that avoid water or ocean pollution;
- Ocean-friendly chemicals and plastic-related sectors: investments in the research, design, development and implementation of measures to manage, reduce, recycle and treat plastic, pollution or chemical wastes in coastal and river basin areas;
- Sustainable shipping and port logistics sectors: investments in the research, design, development and implementation of water and waste management and reduction measures in shipping vessels, shipping yards and ports;
- Fisheries, aquaculture and seafood value chain: sustainable production and waste management and reduction measures that meet, keep or exceed the Marine Stewardship Council (“MSC”) certification standards or equivalent;
- Marine ecosystem restoration;
- Sustainable tourism services; and
- Offshore wind renewable energy facilities.

ADDITIONAL BEST PRACTICES

- The green framework of issuer/borrower would describe its governance process for assessing and selecting blue activities. Additionally, for IFC related investments, IFC will ensure that the issuer/borrower implements environmental and social risk management measures.
- The green framework of issuer/borrower would describe how proceeds will be managed in line with the GLP and GBP.

⁹ See the Guidelines for more details on eligible projects under each category.

- The issuer/borrower takes steps to gather necessary data for the use of proceeds in an allocation report and for impact reporting, and implements the relevant impact indicators from the ICMA Handbook for Impact Reporting.¹⁰
- The Guidelines strongly recommend that the issuer/borrower receive an external review to confirm that the blue loan or blue bond is consistent with the GLP and GBP. Second-party verification or opinions have become customary in the market.

¹⁰ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf>.