

# TAKING THE PACIFIC OCEAN BOND FORWARD

BRIEF

## THE PACIFIC OCEAN IMPACT BOND

### Focus/ Purpose

- Directly addresses prioritized issues in the ocean surrounding the Pacific Islands.
- Funds raised will deliver direct, upfront funding to address policy reform, governance, monitoring, and enforcement mechanisms, supporting existing or new marine spatial planning exercises to deliver specific measures that improve ocean health.

### Implementation Modality

- The key implementation modalities of this bond concept are:
- A government with the fiscal capacity to issue a bond
  - High-level commitment to Sustainable Development Goals
  - Capacity and expertise to design the bond architecture, including attracting guarantees and co-financing sources
  - Sources of repayments and modeling cash flow over the life of the bond
  - Attractiveness to international impact investors
  - Necessary environmental information to satisfy high impact investment standards and bond accountability, and to assess positive benefits to the Pacific Ocean and resilience of communities

## THE PACIFIC OCEAN RESILIENCE BOND

### Focus/ Purpose

focuses on identifying measures, businesses and projects that can improve the resilience in the region, in particular protecting or rehabilitating natural capital in the oceanscapes to adapt to climate challenges. The purpose of the bond is to provide finance for resilient infrastructure that will have a direct and positive impact on marine life, and permanently improve the biodiversity and productivity of the ocean. Examples include investing in nature-based solutions, as well as improved water and waste management systems to reduce water pollution. This focus distinguishes the Pacific Ocean Resilience Bond from just a purely disaster resilience approach. Instead, this bond aims to increase ocean resilience overall.

### Implementation Modality

- An experienced bond issuer with a strong investor network, large institutional with ocean-related environment programs and corporate culture which will satisfy the requirements of bond finance and will be attractive to investors
- Will need to work closely with regional governments and regional organizations to develop projects and geographies which will deliver return on investment and ensure Pacific Ocean health and benefit the resilience of the Pacific communities

## THE PACIFIC MITIGATION BOND

### Focus/ Purpose

The Pacific Ocean Climate Mitigation Bond focuses on financing climate transition needs in the Pacific. Mitigation activities reduces the CO2 impact on the ocean. The bond issuer would be a sector-focused corporate entity with a presence in the region, or a bank. The focus of the bond is on increased investment in renewable energy, such as solar, wind, marine, and reduced dependency on imported fuel in marine shipping which contributes to ocean warming and acidification. This includes commercial investments in marine and other renewable energy and clean shipping, including green port strategies.

### Implementation Modality

- Provide the private sector with a financing opportunity for greening operations to meet international commitments
- Strong ESG requirements to ensure impact measures are met on top of satisfying financial cashflow considerations
- At present, there is some interest from Fiji and the Marshall Islands in a shipping bond. However there is more established interest in renewable energy projects among several countries. The level of private sector interest from shipping and energy companies is not known.



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## THE PACIFIC MITIGATION BOND

### THE PACIFIC OCEAN IMPACT BOND

### THE PACIFIC OCEAN RESILIENCE BOND

#### Next Steps

##### Identify corporate entity

- First key actions step in a mitigation bond issuance is to identify corporate entity or commercial bank with presence in the region of sufficient size and with appropriate credit interested in a commercial bond issuance.
- alignment of projects lined up to be in support of international, regional or national commitments is important.
- Active consultation with the appropriate government entities or international groups are important.
- For example, most renewable energy projects are currently funded through public investment and scaling up with require a private entity's investment. There could be national renewable targets, or green port strategies that should be considered. A demonstration of how a reduction on the negative impacts on ocean health through the projects would be important.

##### Feasibility of bond issuance would mean to:

- Develop a clear list of projects to be funded and an assessment of their readiness.
- Assess return on investments on projects that bond proceeds will be used for. Clear positive cashflows from the project will be essential
- Consider the need to have guarantor support from a multilateral development bank for credit enhancement, or an insurance company for project development risks.

##### For impact:

- Ensure close linkages between bond design and internationally accepted ESG standards and requirements given the stringent expectations of investors in this space. A POB-ESG Guide has been developed for reference.

#### Next Steps

##### Negotiations with MDB

Priority should be given to negotiations with a Multilateral Development Bank operating in the region gauging interest in issuing a Pacific Ocean Resilience Bond, noting that existing initiatives make ADB and the World Bank likely candidates

##### Assuming an MDB issuance, priority should be given to:

- Review options for governance arrangements at the regional and national level for disbursing and reporting on the use of the proceeds
- Establish partnership arrangements with national governments and regional to assess capacity needs in terms of policy reform, legislation needs, skills, information required
- Develop list of potential fundable projects in consultation with regional organizations and national governments ensuring it is consistent with international, regional and national commitments
- Identify potential co-financing institutions such as Global Environment Facility or Green Climate Fund, as well as potential impact investors
- Structure the bond based on understanding of project cashflows and ESG requirements
- Develop strong indicators and program monitoring to ensure ocean health benefits by first establish baselines in the water and sanitation, waste management, and telecommunications sectors and an on-going monitoring program

#### Next Steps

##### Secure guarantor support

First, the sovereign bond issuer will need to secure guarantor support, and so partnership with a multilateral development bank is critical.

##### Collaboration

Next, collaboration with a multilateral bank and or an international donor will help identify co-financing partners and prospective investors.

##### Identify capacity needs

The bond issuer should identify institutional capacity needs to design governance structure. - a multi-departmental approach, led by Finance Ministry is preferable.

##### Establish Partnership

On the financial side, priority should be given to establish a partnership with a multilateral development bank or equivalent institution to:

- Undertake/review the financial feasibility analysis to assess opportunities available for credit enhancement and secure guarantees;
- Identify potential co-financing institutions such as GEF and potential impact investors;
- Identify capacity needs to proceed with the design of the bond transaction; and
- Identify activities and potential repayment sources (either through government budget or through taxes and fees)
- **Use of Proceeds:**
- Stakeholder consultation to develop governance and sustainable fisheries and value chain activities;
- Assess the policy reform and legislation needed for ocean governance and transitioning to sustainable fisheries and value chains;
- Review options for governance arrangements for disbursing and reporting on the use of the proceeds; and
- Develop projects which generate ocean health benefits, including indicators development and a data collection, and ongoing monitoring program

for more information:

[www.ffa.int/prop](http://www.ffa.int/prop) <https://opocbluepacific.net/>

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