

Cabo Verde

Blue Bond Note



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ABBREVIATIONS AND ACRONYMS

ADAD	<i>Associação para a Defesa do Ambiente e Desenvolvimento</i> , Association for the Protection of the Environment and Development
AfDB	African Development Bank
CaSUEB	<i>Cadre Stratégique Unifié pour l'Economie Bleue</i> , Unified Strategic Plan for the Blue Economy
DBS	Development Bank of Seychelles
GDP	Gross Domestic Product
GEF	Global Environment Facility
GOS	Government of Seychelles
ENAPOR	<i>Empresa Nacional de Administração dos Portos</i> , National Port Administration Company
ESG	Environment, Social, and Governance
FAO	Food and Agriculture Organization of the United Nations
IBRD	International Bank for Reconstruction and Development
IFI	International Financial Institution
INDP	<i>Instituto Nacional de Desenvolvimento das Pescas</i> , National Institute of Fisheries Development
MSMEs	Micro, Small, and Medium Enterprises
PCG	Partial Credit Guarantee
PNIEB	<i>Programme National d'Investissement pour l'Economie Bleue</i> , National Investment Program for the Blue Economy
PRAO-CV	<i>Programme Régional des Pêches en Afrique de l'Ouest - Cabo Verde</i> , West Africa Regional Fisheries Program - Cabo Verde
SDG	Sustainable Development Goal
SeyCCAT	Seychelles Conservation and Climate Adaptation Trust
SWIOFish3	Third South West Indian Ocean Fisheries Governance and Shared Growth Project
TNC	The Nature Conservancy
UGPE	<i>Unidade de Gestão de Projetos Especiais</i> , Special Projects Management Unit
UNDP	United Nations Development Programme
WARFP	West Africa Regional Fisheries Program

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The report is based on multiple consultations and discussions held in May 2019 with Mr. Paulo Veiga, Secretary of State, Ministry of Maritime Economy, and Ms. Alcidia Alfama, Director of Resources Mobilization Department, Ministry of Finance, as well as a broad range of stakeholders of the blue economy, including line ministries and agencies (Maritime Economy, Observatory of the Blue Economy, ENAPOR, Agriculture and Environment, Tourism, Energy, Finance, Central Bank); private sector (Banco Comercial do Atlantico, Fishing boat owner association, Artisanal fishermen associations); civil society (Biofera, ADAD); research community (INDP); and several technical and financial partners (AfDB, EU, FAO).

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EXECUTIVE SUMMARY

Cabo Verde witnessed spectacular social and economic progress between 1990 and 2008, but economic growth has decelerated significantly since then. Despite the challenges associated with being a small archipelago economy, the country enjoyed fast economic growth for two decades, driven mainly by the rapid development of all-inclusive tourist resorts. This growth translated into substantial welfare improvements for the population and Cabo Verde's transition from low- to middle-income status in 2007. Since 2009 and with the global financial crisis, economic growth slowed and the country's debt increased significantly.

The Government of Cabo Verde recognizes the growth potential of its coastal and marine natural capital and the need to preserve it. It is increasingly paying attention to the potential of a blue economy strategy that could serve as a key enabler of growth and poverty reduction while preserving the environment and increasing its resilience to climate change. An ambitious blue economy strategy would foster the country's resilience to climate change. It would protect key natural buffers to extreme events, better preserve natural capital, diversify the economy, and lift some of the most vulnerable out of poverty. The Government approved the *National Charter for the Promotion of the Blue Economy* in 2015 and created a *National Observatory for the Blue Economy* in 2018. It is also preparing a strategy and an investment plan to operationalize this vision.

Shifting to a blue economy will require access to affordable financing at scale. The current state budget and available development assistance will fall short of the financing requirements to promote a rapid shift toward a blue economy. The timing of this shift is perhaps even more relevant as Cabo Verde is transitioning from low-income to middle-income status and as it will have progressively less access to concessional finance in the future.

The Government of Cabo Verde requested the World Bank to explore the feasibility of issuing a

blue bond to finance an initial phase of its blue economy strategy, leveraging the Bank's experience in supporting the issuance of the very first sovereign Blue Bond in the Seychelles in 2018.

This report concludes that a blue bond—with the right volume and the right rate—would be an adequate instrument for Cabo Verde. It would support the government's strategy to diversify borrowing sources in anticipation of transitioning out of concessional lending. It would also build on one of the country's main assets, its ocean, as articulated in the blue economy strategy, currently being finalized. The blue bond would be a developmental exercise and it would introduce the country to sustainable investors. Building on the experience of the first sovereign Blue Bond issued by the Seychelles, it is possible to lower the bond's rate to attractive levels through credit enhancement features, such as a partial credit guarantee. Given the high debt stock of Cabo Verde, the study recommends a blue bond not greater than US\$10–15 million.

The sectors best fitted for blue bond financing could be ecotourism, marine plastic, and sustainable fisheries, as they would be most likely to combine development impact, revenue generation, preservation of the coastal and marine environment, and attractiveness to blue investors. The report recommends a small number of large investments, which reduce transaction costs. Multiple, smaller investments is possible but it would require the use of one or several intermediary vehicles to manage the proceeds of the blue bond, for instance through a credit line, a revolving fund, or a grant mechanism.

Natural resources management prerequisites would have to be in place before such investments can be financed by a blue bond. This will prevent blue economy investments from creating a price signal that could be detrimental to the preservation of the coastal and marine resources.



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INTRODUCTION

Recognizing the growth potential and the preservation needs of its coastal and marine natural capital, the Government of Cabo Verde is increasingly placing attention on the potential of a blue economy strategy as a key enabler of growth and poverty reduction while also protecting the environment. After adopting a National Charter in 2015 and creating a dedicated National Observatory in 2018, it is currently preparing a set of documents that will help define such a strategy and the related investments, with the support of the African Development Bank (AfDB) and the Food and Agriculture Organization of the United Nations (FAO).

Financing the development of this blue economy will be a challenge for Cabo Verde, which recently graduated to a middle-income country and will see its access to concessional finance narrow while non-concessional finance is expected to remain expensive in the medium term. Cabo Verde will therefore have to explore innovative avenues to finance its blue economy. Recent years have seen an increase in such innovative financing for the protection of oceans and the development of blue economies worldwide: climate finance, debt swaps, blue bonds, impact bonds, fiscal reforms, remittance mobilization, sovereign parametric insurance, credit, or equity funds are all instruments that could be explored by Cabo Verde.

In this context, the Government of Cabo Verde has asked the World Bank to explore the feasibility of issuing a blue bond, capitalizing on

the financial institution's experience in supporting the Seychelles to issue the first ever Blue Bond in 2018. The objective of this study is to assess the feasibility for the Government of Cabo Verde to issue a blue bond, as one of several innovative options to finance the blue economy in the country.

The findings of this effort are detailed in this exploratory note. The first section briefly presents the blue economy context in Cabo Verde. A more comprehensive analysis of the country's blue economy context and strategy is currently being undertaken by the Government with the support of AfDB and the FAO. The second section explains what a blue bond is and how previous initiatives are helping define it. The third section proposes a design for a blue bond in Cabo Verde, including its likely cost, credit enhancement features, merits and limitations, and issuance process. The last two sections aim to give some more context to the blue bond by suggesting some potential areas of investments—ecotourism, marine plastics, and fisheries—(Section 4) and possible channeling arrangements for the proceeds in the country.

This exploratory note is mainly targeted toward the Government of Cabo Verde, including its Ministries of Finance; Maritime Economy; Tourism and Transport; Industry, Trade and Energy, Infrastructure, Planning and Housing; and Agriculture and Environment. Its audience also includes specialized agencies of the Government, international financial institutions (IFIs) and bilateral donors, and other potential investors.

1 The Blue Economy in Cabo Verde

1.1 Country Context

Cabo Verde geography is unique but challenging.

Located 500 kilometers off the west coast of Africa, Cabo Verde is an archipelago of 10 islands. The country has an estimated population of half a million who live on nine of the islands. Only 10 percent of its territory is classified as arable land, and the country possesses limited mineral resources. The dispersion of the country's small population across nine islands that are scattered within a large water area constitutes a major constraint to growth and development. It limits economies of scale and creates significant connectivity issues, as well as challenges for service delivery including energy, water, education, and health.

Despite the challenges associated with being a small island economy, Cabo Verde witnessed spectacular social and economic progress between 1990 and 2008, driven mainly by the rapid development of inclusive tourist resorts. Cabo Verde's impressive achievements were grounded in political stability, sound economic policies, and strong institutions that maintained the rule of law, underpinned its open democracy, and kept corruption under control. In 2007, it transitioned to lower-middle-income status, becoming the only non-extractive economy in Sub-Saharan Africa to do so in such a relatively short time. The fast economic growth has translated into substantial welfare improvements for its population.¹

During 2009–2015, economic growth decelerated significantly, a result of the protracted impact of the global financial crisis. Countercyclical fiscal measures did not restore growth and instead led to a sharp increase in the stock of debt. After an average growth of about 1 percent during 2009–2015, real gross domestic product (GDP) expanded by 4 percent in 2017, and

by an estimated 4.7 percent in 2018, reflecting robust activity in the industry, fishery, commerce, and tourism sectors.²

1.2 The Blue Economy

Cabo Verde's natural capital is among its most strategic assets but is under pressure. The country's ocean and coastal zones are already supporting most of the country's economy and are seen as a promising new frontier for future economic growth, encompassing varied sectors including tourism, fisheries, aquaculture, renewable energy, maritime transport, extractives, and marine biotechnology and bioprospecting. The exploitation of the country's coastal and marine environment has been largely opportunistic. Insufficient planning and control is leading to increasing pressures on its natural capital—perhaps its most important national asset—which undermines the tourism industry. Cabo Verde is considered one of the world's 11 most endangered marine biodiversity 'hotspots', yet the country ranks only 78 out of 141 countries on the 'enforcement of environmental regulations' in the Travel and Tourism Competitiveness Index. Enforcement of environmental regulations remains inadequate and environmental management has suffered from the unclear assignment of roles and responsibilities. Solid waste management is not always up to standard.

Cabo Verde is highly vulnerable to climate change. The country is already highly exposed to natural disasters, including droughts, extreme storms, sea level rise, and volcanic eruptions. Historical data show that Cabo Verde has always suffered from recurrent severe droughts, which have taken a heavy toll on the livelihoods of the people and affected their resilience. Climate change is expected to rapidly increase Cabo Verde's exposure to extreme weather events and have the potential to significantly derail its achievements and

¹ World Bank. 2018. *Republic of Cabo Verde, Adjusting the Development Model to Revive Growth and Strengthen Social Inclusion. Systematic Country Diagnostic*. World Bank, Washington, DC.

² International Monetary Fund. 2019. *2019 Article IV Mission to Cabo Verde, IMF Staff Statement*.

prevent further progress.³ However, Cabo Verde's climate mitigation, adaptation strategies, and financial capacities remain limited. The country ranks just 79 on the 'climate change readiness score', which is lower than its aspirational peers, including the Seychelles, Mauritius, and Saint Lucia. Regarding the impact of climate change on fisheries, Cabo Verde Hazard Index is 78 on a scale up to 100.⁴

Recognizing the growth potential and the preservation needs of its coastal and marine natural capital, the Government of Cabo Verde is increasingly placing attention on the potential of a blue economy strategy as a key enabler of growth and poverty reduction while also protecting the environment and increasing its resilience to climate change. The 'blue economy' concept seeks to promote economic growth, social inclusion, and the preservation or improvement of livelihoods while at the same time ensuring environmental sustainability of the oceans and coastal areas.⁵ An ambitious blue economy strategy would therefore also foster the country's resilience to climate change, by protecting key natural buffers to extreme events, better preserving its natural capital, diversifying its economy, and contributing to lifting the most vulnerable out of poverty.

The Government approved the National Charter for the Promotion of the Blue Economy in Cabo Verde in 2015 and created a National Observatory for the Blue Economy in 2018, housed in the Ministry of Maritime Economy. Envisioning the blue economy as an option to diversify the country's growth model, expand its access to markets, integrate global value chains, and build resilience, the Charter covers a range of sectors, such as fisheries and marine aquaculture,

processing of fishery resources, coastal tourism, construction and maintenance of ships and leisure boats, passenger transport services and ocean freight, port operations, and integrated coastal development. While highlighting directions to maximize the returns from the country's marine resources, the Charter also strongly emphasizes social and environmental sustainability, acknowledging the necessity to strengthen coastal communities, conserve biodiversity and habitats, and take action against climate change.

The Government is currently preparing three strategic documents to operationalize this vision, with the support of AfDB and the FAO: (a) a Unified Strategic Plan for the Blue Economy (*Cadre Stratégique Unifié pour l'Economie Bleue*, CaSUEB); (b) a National Investment Program for the Blue Economy (*Programme National d'Investissement pour l'Economie Bleue*, PNIEB); and (c) a National Promotion Program for the Blue Economy.

The blue economy strategy is designed to foster Cabo Verde's contribution to the 14th Sustainable Development Goal (SDG 14). SDG 14 aims to conserve and sustainably use the oceans, seas, and marine resources for sustainable development. The country's policy instruments detailed above are aligned with this objective and its 10 targets, including preventing and reducing marine pollution (14.1), sustainably managing and protecting marine and coastal ecosystems (14.2), regulating harvesting and ending overfishing (14.4), increasing the coastal and marine area under conservation (14.5), and increasing the economic benefits from the sustainable use of marine resources (14.7).

³ Republic of Cabo Verde. 2017. *Intended Nationally Determined Contribution of Cabo Verde*.

⁴ World Bank. 2018. *Republic of Cabo Verde, Adjusting the Development Model to Revive Growth and Strengthen Social Inclusion. Systematic Country Diagnostic*. World Bank, Washington, DC.

⁵ World Bank and United Nations Department of Economic and Social Affairs. 2017. *The Potential of the Blue Economy: Increasing Long-term Benefits of the Sustainable Use of Marine Resources for Small Island Developing States and Coastal Least Developed Countries*. World Bank, Washington, DC.

1.3 Financing Gap

Shifting toward a blue economy will provide Cabo Verde with an opportunity to diversify and grow its economy while better preserving the resources upon which that blue economy will rely. In turn, this would help make the country more resilient to external shocks, create jobs, and increase national revenue.

It will also require access to affordable financing at scale. Over the course of the next year, Cabo Verde will translate what is still a long-term sustainable development strategy into a more actionable investment plan. While a more precise financial picture will be provided at that stage, it is already clear that the current state budget and available development assistance will fall short of

the financing requirements to foster a rapid shift toward a blue economy. This situation is even more significant that Cabo Verde is transitioning from low-income to middle-income status and will have progressively less access to concessional finance.

This financing gap will require the country to explore new ways of accessing finance, especially from the private sector. Examples of alternative financing sources for the blue economy include, for instance, climate finance, debt swaps, blue bonds, reforming of tourism taxation, or mobilizing of remittances. Acknowledging this situation, the Government of Cabo Verde has commissioned the World Bank to explore the feasibility of issuing a blue bond to finance the development of its blue economy, which is the purpose of this note.



2 What is a Blue Bond?

2.1 A Definition

A blue bond is a debt instrument issued by governments, development banks, or others to raise capital from investors to finance marine and ocean-based projects that have positive environmental, economic, and climate benefits. Blue bonds are modelled after green bonds, issued by similar actors to fund projects with positive environmental and climate benefits (see box). Blue bonds are very similar to green bonds, except that they are 'blue' because they fund marine and ocean-based projects whereas green bonds fund land-based projects. Blue and green bonds are bought by investors who have a specific mandate to invest in

sound investment propositions that also create clear social and environmental benefits.

Few blue bonds have been issued in the past. The first, US\$15 million Blue Bond was issued by the Government of Seychelles (GOS) in 2018 and the transaction, that de facto serves as a reference, is described below and in annex A. In January 2019, the Nordic Investment Bank issued a SEK2 billion (US\$200 million) Blue Bond to protect and rehabilitate the Baltic Sea. In addition, The Nature Conservancy (TNC) is currently preparing its own blue bond, or a series of blue bonds, to finance debt restructurings (also described below).

GREEN BONDS

Green bonds are fixed income, liquid financial instruments that are used to raise funds dedicated to climate-mitigation, adaptation, and other environment-friendly projects. They can also be referred to as climate bonds. The first green bond was issued in 2008 by the World Bank and the European Investment Bank and the market has since then seen strong growth. In 2018, almost US\$170 billion was issued—a record.

Green bonds are issued by IFIs (the World Bank being a major issuer), corporations, and national and local governments. 2017 saw Fiji and Nigeria issue the first sovereign green bond for a small island developing state and an African country, respectively, and the number of sovereign-issued green bonds is increasing rapidly.

After several years of individual, ad hoc criteria for investments and reporting, the industry developed the Green Bond Principles in 2014. These voluntary process guidelines emphasize the required transparency, accuracy, and integrity of information that will be disclosed and reported by issuers to stakeholders and provide standards for the use of proceeds, the process for project evaluation and selection, the management of proceeds, and the reporting.

The labelled bond market is expanding beyond green bonds, and the market for environment, social, and governance (ESG) bonds is growing fast. Recent polls show that demand for such investments is growing even faster. The Global Sustainable Investment Alliance estimated that the total size of all investments that are being run according to an ESG mandate was US\$31 trillion in 2018, up from US\$23 trillion in 2016. In parallel, credit ratings agencies are increasing their focus on ESG risks. ("Green Bonds Investors Cite Benefits of ESG Sector." *Financial Times*, June 13, 2019).



2.2 Specific Requirements of a Blue Bond

The use of blue bond proceeds meets the requirements of both concessional finance and private markets. As blue bonds are currently issued with the support of IFIs or nongovernmental organizations, the use of their proceeds has to meet similar quality requirements on environmental and social safeguards and procurement and financial management standards, for instance. In addition, the investors being often private funds with a social and environmental mindset, the use of proceeds should align with their specific needs. Specific requirements of a blue bond include the following:

- **Environmental and social benefits.** The proceeds should finance marine and ocean-based projects that have positive environmental, economic, and climate benefits. The blue bond should contribute to preserving or improving the health of the ocean. Blue bond proceeds cannot simply finance investments in coastal and ocean-based sectors, as these investments could very well harm the environment or the surrounding communities if the appropriate safeguards are not in place, for instance.
- **Revenue generation.** While the responsibility of the repayment of the principal and interest would likely lie with the Government of Cabo Verde without any connection to the underlying investments, investors might prefer to support revenue generating activities, at least in part.
- **Storyline.** Attracting private investors would require the Government to prepare specific marketing materials and tell a story about the proposed investments. This story would need to be more straightforward than what would usually be described in a typical donor project document.
- **Reporting.** Investors would want to see the story they have been told unfold through quantified indicators, and that would

require efficient monitoring, evaluation, and reporting systems in place before the blue bond is placed. Such indicators could include a measure of the biomass or the income generated through investments, reduction in overfishing, mangrove restored, reduction in marine plastic pollution, for example.

- **Disbursement.** Investors and the Government alike would want the blue bond financing to disburse rapidly once it is placed. Impact investors prefer to see their financing at work, and the relative high cost and short maturity of the financing would make idle funds costly for the Government. A significant share of the envisioned investments should therefore be ready before the bond is placed.

The readiness of the underlying investments and implementation arrangements is a critical aspect of a blue bond. The investments, their accompanying studies, and the project implementation arrangements, all must be ready before the blue bond is placed so that the funds can be used as soon as they are available. As is described in Section 4, blue bond investments often have prerequisites related to environmental sustainability—it is what makes them ‘blue’. These prerequisites also need to be operational before the blue bond is placed or the financing of the investments would be delayed. In some contexts, and depending on the choice of investments to be financed, the issuance of a blue bond can therefore be a long-term process. In the case of the Seychelles Blue Bond, described below and in Annex A, the preparation of the Blue Bond project lasted 19 months, and the issuance of the Blue Bond took another year. This was despite strong Government commitment, a generally good level of readiness, and a favorable context of required environmental management initiatives: a national marine spatial planning and several fisheries management plans were being prepared in parallel and served as foundations for the Blue Bond investments.

2.3 The Seychelles Experience

The first Blue Bond was issued by the GOS in 2018 with a value of US\$15 million and a maturity of 10 years, with specific credit enhancement features. The issuance of the bond was supported by a partial World Bank guarantee (US\$5 million) and a concessional loan from the Global Environment Facility (GEF) (US\$5 million), which partially subsidized payment of the bond coupons. These credit enhancement instruments allowed for a reduction of the price of the bond by partially derisking the investment of the impact investors and subsidizing the coupons. As a result, the bond pays a 6.5 percent annual coupon to investors, but the GEF loan reduces the cost to the Seychelles to 2.8 percent.

The US\$15 million proceeds of the Seychelles Blue Bond capitalize a Blue Grants Fund and a Blue Investment Fund that deliver grants and loans to activities supporting the expansion of marine protected areas and the implementation of fisheries management plans in the Seychelles. These funds are managed by preexisting institutions, the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) and the Development Bank of Seychelles (DBS).

The Seychelles had put in place an enabling environment that paved the way to the issuance of the Blue Bond. It had been preparing a marine spatial planning for several years, in partnership with TNC, to improve the understanding of the current and future use of their coastal and marine space, plan for the sustainable development of its blue economy, and expand the network of marine protected areas. It had also prepared fisheries management plans to create the conditions for expanded business opportunities while better preserving the fish resources. These planning instruments were key to the issuance of the Blue Bond, as they helped guarantee that the activities that it would finance would not increase the pressure on the country's marine resources.

The Seychelles Blue Bond was designed to fill a specific financing gap. The implementation of the

marine spatial planning and the fisheries management plans was hampered by a lack of financing. The Seychelles, a small island developing state with a high income, has difficulties accessing affordable financing beyond the limited concessional financing proposed by bilateral and multilateral donors. The Blue Bond was seen as an innovative way to attract private investors at a relatively low cost.

The Seychelles Blue Bond was privately placed with three socially responsible impact investors based in the United States, namely Calvert Impact Capital, Nuveen, and Prudential. It was designed as a general obligation of the Seychelles and its repayment is not dependent on any obligations created through the use of the proceeds.

The World Bank supported the Seychelles in reaching out to investors and designing the Blue Bond. Some of the assistance provided by the World Bank included market outreach to make sure that financing terms were attractive to the Seychelles and consistent with the project objectives; direct support in the design of the Blue Bond, including the coordination of the International Bank for Reconstruction and Development (IBRD) commitments and GEF contribution; liaising with investors to identify buyers of the issue; and documentation of the transaction involving coordination of legal teams of the arranger and client.

The World Bank also advised the Seychelles on how to structure the use of proceeds from the Blue Bond. The GOS and the World Bank prepared an investment project alongside the Blue Bond and included the Blue Bond activities into that project (the Third South West Indian Ocean Fisheries Governance and Shared Growth Project, SWIOFish3). The World Bank provided dedicated funding and technical support to help prepare the different investments and related documentation and set up the required implementation arrangements (for example, project unit, Blue Bond disbursement vehicles) for the Blue Bond proceeds. Annex A describes these arrangements in greater detail.

2.4 The Blue Bonds for Conservation

In April 2019, TNC announced its objective of raising US\$40 million of 'Blue Bonds for Conservation' to finance ocean conservation around the world.⁶ The proceeds of this financing will be used to restructure a portion of the sovereign debts of coastal and island countries, leading to lower interest rates and longer repayment periods. In each country, and against a commitment to protect at least 30 percent of the country's near-shore ocean areas, TNC would establish a trust fund to pay for the new marine protected areas and other conservation actions using savings from the debt restructuring and philanthropic dollars.

The initiative will not involve issuing bonds and does not fall into the blue bond category as defined above. This initiative is more a fundraising effort to finance debt restructurings. Rather than issuing capital market bonds, the 'Blue Bonds for Conservation' will borrow directly from commercial banks. The fundraising, a mix of commercial loans and philanthropic grants, will help finance multiple debt restructuring while lowering the transaction costs compared to individual fundraising. TNC aims to deliver the Blue Bonds for Conservation model in 20 countries over the next five years. It has already secured US\$23 million in grant funding from various donors and aims for US\$40 million in up-front philanthropic funding.



⁶ <https://www.nature.org/en-us/explore/newsroom/the-nature-conservancy-s-audacious-plan-to-save-the-world-s-ocea/>.

3 A Blue Bond Design for Cabo Verde

This section discusses the potential cost of a blue bond for Cabo Verde, its merits and limitations, and the issuance process.

3.1 Preliminary Assessment

The Government of Cabo Verde has a sovereign rating of B, which is comparable to many other African neighbors. Yet, unlike many rated African countries, it has little to no experience borrowing in the global capital markets. The absence of a Eurobond yield curve, built by previous issuance, for example, makes it difficult to assess the cost that Cabo Verde would face if it were to issue a new bond, whether blue, green, or plain vanilla.

Cabo Verde is heavily indebted and most of its total debt is with foreign creditors. Yet the majority of this debt is concessional (multilateral, bilateral) rather than commercial. While the stock of debt is today close to 125 percent of GDP, because of its long-term nature and low cost, its debt service is assessed as manageable by the International Monetary Fund.⁷ In this context, Cabo Verde's borrowing capacity will be limited in the near future and prioritization of investments will be critical.

Given these factors, if Cabo Verde gives priority to the issuance of a blue bond, there may be little scope for the country to pursue a blue bond that is higher than US\$10–15 million in volume. Any new debt issuance must be undertaken carefully and aligned with ongoing efforts to reduce the stock of debt as a share of GDP and continue improving debt sustainability. At face value, importantly, any new issuance in the capital markets, regardless of target audience, would be costly, without some form of risk mitigation. Because of Cabo Verde's lack of track record in the international capital markets and its relatively high stock of total debt and also because sustainable investors do not offer discounts to borrowers that use proceeds to fund blue or green activities, the expected cost of a new issuance would likely be near the wider end of the range for single B issuers

in Africa. The wider end of the range would be approximately 9–10 percent per year, in dollar terms, or 7–8 percent in euro markets, for a 10-year maturity. The latter tenor may be feasible in U.S. dollars but would be slightly more challenging in euros, where a 5-year maturity would be more achievable for a first-time issuer. However, given the links between the Cabo Verde economy and the euro, the foreign exchange regime, and the foreign exchange volatility, focusing the operation in euros might be a preferable option.

At near double-digit borrowing levels on the international market, Cabo Verde would benefit from considering credit enhancement features, or guarantees, to support a new borrowing. This strategy would help reduce risk for investors and therefore improve terms such as facilitating a potentially longer maturity and materially lowering the cost or coupon of the bond. Such an approach was used successfully in the case of the Seychelles in 2018, where a partial guarantee of principal risk on a US\$15 million private placement bond reduced the coupon from approximately 8.5–9.0 percent to 6.5 percent. The actual cost to the Seychelles was even lower for the Government, as an additional commitment from the GEF was made available to help pay the semiannual coupons. The effective cost was thus below 3 percent, and similar engineering may be feasible for Cabo Verde. Moreover, the team believes that a blue bond without credit enhancement or guarantees would be very difficult for Cabo Verde to achieve effectively. The potential bond would need the financial support of international or bilateral financial institutions and/or other stakeholders, including through a guarantee covering around half or more of the principal.

⁷ International Monetary Fund. 2018. *Staff Report of the 2018 Article IV Consultation*. International Monetary Fund, Washington, DC.

3.2 Merits and Limitations

A blue bond could be one of several financing options for the blue economy, with its own limitations. While potential credit enhancement features would lower the cost of a blue bond in comparison to a plain vanilla bond, it would likely bear a higher interest rate and materially shorter maturity than concessional finance. It would furthermore slightly increase the indebtedness of Cabo Verde, one of the most heavily indebted countries of Sub-Saharan Africa, as does any borrowing, whether domestic or concessional. In this context, a new blue bond issuance should be coordinated carefully to ensure debt sustainability.

The impact of the blue bond placement on the debt sustainability of Cabo Verde would however not likely be material. The size of the appropriate borrowing would be small relative to the current debt portfolio of the country (about US\$2.3 billion, or 125 percent of GDP). While the country remains at high risk of debt distress, the debt sustainability analysis conducted in March 2018 by the International Monetary Fund confirms that despite the high stock of public debt, debt service remains manageable due to the highly concessional terms of external debt, which accounts for 75 percent of total public debt. Because of this situation, the Government should establish priorities instead of defaulting to seeing the blue bond and blue investments as an extra financing.

The issuance of a blue bond would also be valuable to Cabo Verde. Besides raising financing for the objectives targeted by the blue bond, such an issuance would promote Cabo Verde on the global blue economy stage, potentially attracting new partners to support its development goals and more foreign capital downstream. Additionally, as Cabo Verde is in the process of transitioning from low income to middle-income status, which reduces its access to concessional financing, the issuance itself would build the capacity of the Government to engage with markets and investors. Over time, market-based financing will become increasingly critical and more directly tied to the continued growth and sustainability of the economy. Cabo Verde could also contribute to further refining blue

bond criteria beyond fisheries, should the issue be used to finance other kinds of blue economy objectives. The first sovereign Blue Bond issued by the Seychelles was indeed almost solely focused on sustainable fisheries.

3.3 Bond Issuance Process

The volume of the borrowing and amount of guarantee required should be driven by actual needs for the activities targeted, borrowing appetite of the Government, investor preferences, and willingness to collaborate and support from stakeholders. International or bilateral financial institutions can facilitate in designing the appropriate strategy with the Government, onboarding potential bank partners for the issuance, bringing in legal counsel, identifying possible investors, arranging additional support from other stakeholders, and so on to improve chances for a successful issuance. Given the expected small size of the blue bond, private impact investors who support the blue economy objectives globally would seem the most appropriate audience for the issuance. A private placement rather than a public offering would be more suitable for a borrowing of this nature, particularly given the very small size of the bond.

The blue bond would most probably represent a general obligation of the Government of Cabo Verde, without any connection to, or dependence on, the repayment of any new obligations created through the use of the proceeds raised by the issuance. The Government would place a sovereign obligation (the Blue Bond) to private investors to raise funding, which would be specifically designated for the sustainable development of the country's blue economy, and the details of the investments would have to be worked out before the issuance (see Section 4).

In this context, therefore, it would be ideal to develop a blue economy investment operation with a financial institution that could anchor the issuance. An investment project could support the appropriate design of the targeted blue activities, establish any necessary implementation arrangements and safeguards, and provide the

capital needed to guarantee the blue bond, preferably on a partial basis. The ideal currency of issuance for the blue bond would be the euro, given the composition of hard currency flows into the Cabo Verde economy. The final structure and terms of the obligation can be defined according to project needs, market feedback, and the availability of credit enhancement instruments from partners and stakeholders.

With the right design and a firm commitment from the Government, financial institutions and other stakeholders to move forward with a blue bond, an issuance could be achieved within 2020. Discussion with market counterparts, legal counsels, and potential investors could begin in parallel with project preparation. It would be important to agree to a timeline and adhere to it, to keep transaction costs manageable. An indicative road map for the issuance of the blue bond is provided in Annex B.



4 Potential Blue Bond Investments

The Government of Cabo Verde is currently preparing a set of documents to define the short- to medium-term priority areas of its blue economy strategy and the related investment plan. This section of the exploratory note is not meant to circumvent the work in progress but rather provide some insight into what a blue bond could finance.

During a scoping mission undertaken in May 2019, three areas of the blue economy were identified that garnered significant interest from stakeholders and would be most likely to combine development impact, revenue generation, preservation of the coastal and marine environment, and attractiveness to blue investors: tourism, marine plastic, and fisheries. A blue bond could very well finance projects in other areas though, and this scoping is indicative. For each of the sectors, we present the context, the key constraints, the opportunities, and a discussion on a potential blue bond support.

4.1 Tourism⁸

4.1.1 Context and Key Constraints

The tourism sector is a central pillar of Cabo Verde's development but its contribution to growth is weakening. In the last 15 years, international tourism to Cabo Verde has grown substantially, and in 2016 tourism output was US\$0.7 billion and comprised 45 percent of GDP. It is the main source of foreign exchange earnings and directly and indirectly supports around 39 percent of total employment. The 2008 financial crisis saw a brief pause in the continued increase in visitor arrivals, which recovered progressively at around 10.0 percent annual growth today compared to 11.5

percent before the crisis. The contribution of the tourism sector to GDP only grew until 2010, after which it remained constant. More importantly, receipts in U.S. dollars per arrival have steadily declined. In 2007, tourism revenue was about US\$1,500 per arrival. By 2015, Cabo Verde bottomed at US\$800 per arrival.

The sector is poorly diversified in terms of products, operators, and geography. The country is mostly sold as a 'sun, sea, and sand' destination, anchored around a few international brands, and depending on a handful of tour operators for tourism inflows. Two of the nine inhabited islands, Sal and Boa Vista, claim an 80 percent market share. As a result, local small and micro enterprises (which comprise 92 percent of the 9,400 firms in Cabo Verde) are not sufficiently participating in tourism services or involved in tourism supply chains. Over-reliance on a few international hotel chains for tourism also exposes the economy to substantial risks.

Spillover effects of the dominant all-inclusive type of tourism toward the rest of the economy are low. While the larger accommodation establishments provide substantial domestic employment, they are all foreign owned, and many of the profits are sent abroad. Surveys of large all-inclusive resorts indicate that currently, average discretionary spending is only €7 to €13 per tourist per day. Typically, only between one-third and one-half of this spending takes place outside the hotel. Moreover, even though labor is predominantly provided by nationals (an estimated 87 percent overall), management positions are still dominated by foreigners.

Large resort hotels import most of their food and beverage needs. Hotels import an annual total of €26 million in fish, fresh fruit, and vegetables, and only an estimated 20 percent of fish and 10 percent of fruits and vegetables are sourced domestically. Hotel operators attribute this to the national agricultural and fisheries supply chains'

⁸ Most of the information included in this section is extracted from the Strategic Country Diagnostic conducted by the World Bank in 2018 and the 2018–2030 Tourism Development Plan of the Government (GOPEDS-Turismo).

World Bank Group. 2018. *Republic of Cabo Verde: Adjusting the Development Model to Revive Growth and Strengthen Social Inclusion. Systematic Country Diagnostic*. World Bank, Washington, DC.

República de Cabo Verde. 2019. *Grande Opções do Plano Estratégico de Desenvolvimento Sustentável do Turismo em Cabo Verde (GOPDES-Turismo) (2018-2030)*. Boletim Oficial, I Série, Número 2. January 9, 2019.



safety certifications. Connectivity is another reason, with agricultural production zones mostly on different islands than where the hotels are located. Despite substantial public investment in transport-related infrastructure in recent years, inter-island logistical services remain unaffordable for many and are often unreliable, representing a significant constraint for the integration of local markets. The recent privatization of inter-island maritime transport may provide some responses to this issue.

Cabo Verde's natural capital is under severe pressure from irresponsible hotel construction and unsustainable tourist practices. Rapid tourism growth on the islands of Sal and Boa Vista is causing environmental and social concerns, revealing tourism's current unsustainable management. In addition, overfishing, limited enforcement of environmental and building regulations, unregulated coastal sand extraction for construction purposes, and various forms of pollution all pose a significant threat to the quality of the country's natural environment. Environmental issues are particularly significant for Cabo Verde, as the health of the tourism industry depends largely on the natural beauty of the archipelago.

4.1.2 Opportunities

Beyond its impressive beaches and sand dunes, Cabo Verde's tourism offer is remarkably diverse. This illustrates a serious branding and marketing challenge for the industry to go beyond its current single product—sun, sea, and sand—image. Cabo Verde also offers coral reefs for snorkeling and diving, one of the world's three main sea turtle nesting sites, game fishing, water sports (including sailing, yachting, windsurfing, and kitesurfing), hiking and trekking in rich hill ecosystems, volcano exploration, birdwatching, and canyoning. Similarly, its famous music, festivals, and cultural heritage are relatively unexplored as tourist products. For the most part, these are yet to be packaged and promoted to the international tourism market.

A diversified and more inclusive and sustainable tourism sector constitutes one of Cabo Verde's most likely pathways to growth and poverty

reduction. To sustain the steady growth of the sector and create the jobs that are urgently needed for Cabo Verde's youth, the nature, direction, and form of future planning and investment in the tourism sector needs to change and diversify. Diversification is likely to spread the benefits more widely across the islands. Forecasts by the World Travel and Tourism Council suggest substantial growth potential for added value and employment. Diversified tourism would generate jobs away from the main tourist resorts and also reduce pressure on housing infrastructure on Sal and Boa Vista.

In this context, the promotion of ecotourism is among the priorities of the Government for the next decade. Ecotourism is generally characterized as nature based, organized around the observation and appreciation of nature and the traditional cultures linked to it, involving small groups of tourists and small, locally owned and diverse host businesses. It also minimizes negative impacts on the natural and sociocultural environment. As such it is one of several solutions to the challenge of developing a more diversified, inclusive, and sustainable tourism that the Government of Cabo Verde has identified.

Cabo Verde is already developing ecotourism. The Government is preparing or implementing several initiatives.

- The Ministry of Tourism and the Tourism Fund are promoting ecotourism through ecotourism promotion studies for each protected area, ecotourism investments in Santo Antão and soon in São Nicolao and Fogo and drafting of sustainable tourism masterplans for each of the country's islands (financed by the Competitiveness for Tourism Development Project).
- The One Family, One Tourist Program aims at developing rural tourism to reduce rural poverty. It will provide support to rural families to remodel or expand their homes, to offer 'bed and breakfast' type services to tourists. The program will also promote local tourism micro-enterprises for an alternative tourism experience, including

restaurant and bar services, housekeeping, guided tours, IT services and web marketing, trekking, local products, food and handicraft products, transport, and so on.

- The BIO-TUR project is a 5-year (2017–2022) US\$4.5 million project financed by the Government of Cabo Verde, the GEF, and the United Nations Development Programme (UNDP). It aims at mainstreaming biodiversity considerations into the tourism sector while strengthening the conservation of Cabo Verde’s important biodiversity by operationalizing a critical new subset of protected areas.

4.1.3 Blue Bond Eligibility

Ecotourism could be a strategic area of investment for a blue bond. With its focus on social inclusion, environmental preservation, and revenue generation, ecotourism is very much in line with the objectives of a blue bond as long as there is a connection with the coastal and marine environment. Activities aimed at promoting ecotourism in the country could therefore be financed by the proceeds of a blue bond, including, for instance, promotion and preservation of the country’s natural capital (enhancement of marine protected areas and selected natural and cultural sites, including diving sites and fishing villages, promotion of traditional fishing practices); promotion of environmental sustainability in tourism (eco-labeling of hotels, restaurants, and experiences); better inclusion of small, local operators in the tourism value chains (through facilitated access to credit, training); and so on.

The preservation of the coastal and marine environment being at the heart of the blue bond rationale, environmental sustainability prerequisites will have to be set. These prerequisites will ensure that the activities financed by the blue bond will not harm the marine environment. They will be specific to the risks related to each eligible investment. For example, investments in or close to a protected area would require that the appropriate protected area management plan is in place and effective.

The World Bank is already supporting the Government of Cabo Verde in the tourism sector.

In 2016, it approved a US\$5 million 5-year project designed to create the conditions necessary to increase investment into and diversification of the tourism sector, including through the design and implementation of a quality label for small accommodation establishments. In parallel, it is currently undertaking analytical work focused on assessing the potential for increasing links between tourism and the local economy along two pathways: better integrating local produce into the tourism value chains and developing a local experience offer that would go beyond food and hospitality. The Government of Cabo Verde and the World Bank could explore using these vehicles to help prepare the issuance of a blue bond and the related investments.

4.1.4 Examples of Activities

Table 1 proposes an indicative list of tourism activities that could be considered as investments under a blue bond as well as related potential prerequisites. This list is provided for illustration purposes only, and it does not presume the result of the required feasibility studies nor the approval of the related investments.

Table 1: Indicative List of Tourism Activities and Related Prerequisites

Focal Area	Example of Activity	Prerequisites
Promotion and preservation of the natural capital	Improvement of tourist experience in protected areas	Protected area management plan operational
	Promotion of sites of interest (for example, fishing villages, diving sites, traditional fishing practices)	Social and environmental impact assessment Protected area management plan operational if in or near a protected area
Promotion of environmental sustainability in tourism	Eco-labelling of hotels, restaurants, and experiences including reduction and improved management of fresh water and waste	Protected area management plan operational if in or near a protected area
Inclusive tourism value chains	Training	
	Facilitated access to credit (for example, revolving fund, guarantee fund)	Would depend on the underlying investment

The impact of investments in sustainable tourism could be measured by indicators such as the surface area of land and sea under some form of protection, the share of ecotourism within the tourism sector, or the share of eco-labelled hotels and restaurants.

4.2 Marine Plastic Pollution

4.2.1 Context and Key Constraints

Marine plastic pollution is a worldwide issue and it affects Cabo Verde. According to Scientific American, 8 million tons of plastics are dumped in the ocean each year (about one truck of garbage per minute). Marine plastics affect marine ecosystems and the services they provide to tourism, fishing, shipping, health, and food chains. In addition to the environmental damage, the financial toll is huge. The remote and sparsely populated islands of Cabo Verde are not exempt from the worldwide marine plastic pollution, and the northern and eastern shores of the archipelago are particularly exposed to debris washing up on the beaches.

The potential impacts on Cabo Verde are worrisome. Marine plastics are endangering the health of the marine and coastal ecosystems and of the population, in a country where desalinized water currently supplies 60 percent of the population and visitors⁹ and fish is the primary source of protein. They are also affecting fishing and

could have long-lasting repercussions on tourism if the increasing amounts of marine plastic washing ashore are not cleaned up regularly.

As in many small island developing states, waste management is an issue in Cabo Verde.¹⁰ Most of the 17 existing landfills are poorly controlled, located in areas of environmental or landscape value, or prone to waste dispersion. Indiscriminate dumping causes soil, air, and water contamination and poses threats to environmental and human health. Moreover, the undifferentiated collection of waste hampers recycling opportunities. The small and sparse population limits economies of scale, the remoteness makes investments more expensive, the availability of suitable land for landfills is restricted, the reliance on imported goods increases the amount of packaging and waste, and the tourist arrivals grew much faster than the waste treatment capacity. The Government estimates that it produces around 17,000 tons of plastic, approximately 10 percent of its total waste.¹¹

⁹ Governo do Cabo Verde. 2017. *Plano Estratégico de Desenvolvimento Sustentável 2017/2021*.

¹⁰ Ibid.

¹¹ Governo do Cabo Verde. 2017. *Plano Estratégico de Prevenção e Gestão de Resíduos (PENGer)*.

However, most of the marine plastic pollution originates from overseas. Anecdotal evidence suggests that most of the plastic debris found on the country's shores come from the international fishing industry and neighboring coastal countries of West Africa. A recent cleaning-up campaign gathered several tons of plastic debris on stretches of beach a few hundred meters wide, but there are currently no overall assessments of this marine plastic pollution. The debris could be pushed ashore by the Canary current. Cabo Verde has therefore little control over the source of the issue beyond regional and international cooperation.

4.2.2 Opportunities

The Government considers the waste sector to be strategic and has embarked on a large transformation plan. Its main objectives and targets, as well as a program of action, are defined in its National Strategic Plan for the Prevention and Management of Waste 2015–2030. The recycling of solid waste is a key component of the plan and will require the construction of landfills, composting units, and waste transfer units and the acquisition of equipment. Cabo Verde has banned the marketing and use of conventional plastic bags in 2017 and plans to increase its control over single-use plastics in the near future.

While the progressive restriction of plastics used in Cabo Verde is necessary, additional measures are needed to limit and dispose of the marine plastics washing ashore given the transboundary nature of plastic pollution in the country. Beyond internal measures aimed at progressively banning the use of unnecessary plastics, Cabo Verde will have to invest in regularly cleaning up its sea and beaches, transporting and storing the plastic waste, and recycling as much as possible. Initiatives are already emerging in the country, ranging from ad hoc cleanings of beaches by local organizations to recycling of plastics, but they would have to be scaled up to match the breadth of the issue.

4.2.3 Blue Bond Eligibility

The proliferation of marine plastics is a growing worldwide concern and a blue bond could be used to tackle it in Cabo Verde. It would have

clear marine environmental benefits, both locally and globally, could include revenue generating investments, and would certainly attract international impact investors, whose awareness of the issue is growing fast. Investments could include recycling, reuse and transformation of plastics, research and development to promote alternatives to single-use plastics, waste collection and storing, awareness raising, cleaning-up campaigns, support to policy making, and so on. The blue bond could also support exploration of new business opportunities in upcycling and recycling of waste, including plastic.

The impact of investments in marine plastics could be measured by indicators including the volume of plastics collected and recycled, the national use of single-use plastics, or the innovative business ventures supported by the blue bond.

4.3 Fisheries

4.3.1 Context and Key Constraints

Fisheries is a key sector of the national economy. Although fishing itself only contributes about 1 percent to the GDP, fish transformation accounts for around 7 percent of GDP¹² and its impact on employment (around 10,000 jobs but recent reliable statistics are lacking) and food security makes it a strategic sector for the Government. The processing subsector (mainly canned tuna and tuna loins) is well developed and provides a significant part of the sector's jobs and about 80 percent of the country's product exports.¹³ The national fleet consists of an artisanal and a semi-industrial sector and targets tuna, small pelagics, and demersal resources. Cabo Verde also grants access to its exclusive economic zone to foreign fleets for highly migratory species like tuna, mostly to French, Portuguese, and Spanish fishing vessels under an agreement with the European Union.

¹² United Nations Development Programme. 2016. *Project Document: Mainstreaming Biodiversity Conservation into the Tourism Sector in Synergy with a Further Strengthened Protected Areas System in Cabo Verde*.

¹³ European Union. 2018. *Ex-post and Ex-ante Evaluation Study of the Sustainable Fisheries Partnership Agreement between the European Union and the Republic of Cabo Verde*.

Coastal fisheries are threatened by difficult conditions and unsustainable practices. The productivity of the coastal fisheries of Cabo Verde, targeted by the national fleet, is low because of a narrow continental shelf. Fishing grounds are small, scattered, and sensitive to exploitation. Rough conditions make fishing in coastal waters difficult. In addition, decreasing catches reveal a probable overexploitation of many coastal species that is compounded by insufficient fisheries management, low levels of compliance, and ineffective surveillance.

Fisheries value chains for domestic fisheries remain underdeveloped. The contribution of the sector to the economy is limited by the lack of infrastructure, including ice factories, cold storage, refrigerated transport, and markets. The domestic market is limited and scattered across the nine inhabited islands and increasing fish prices has reduced the local consumption of fish.¹⁴ More importantly, the fisheries value chains did not integrate the tourism value chains, mostly for lack of adequate fish handling practices and marketing opportunities. As a result, it is estimated that only about 20 percent of hotel fish consumption is bought locally, even though local fish costs about a third of the price of imported fish and tends to be of higher quality. Finally, the export market is mostly targeting the European Union, for which quality criteria are strict and few facilities have the required approvals. The resulting lack of competition, with two large canneries accounting for 80 percent of the exports of fishery products, seems to create price distortions for fishers.

4.3.2 Opportunities

Diversifying and expanding seafood value chains could be a promising inclusive development strategy. Small-scale, artisanal fishers are among the poorest segments of the population and do not benefit from the growth of the tourism industry. Improved links between the domestic seafood and tourism value chains could be a leverage for a more inclusive growth. If hotels were to source a larger proportion of fish locally, this would likely increase the revenue of local fishers, save hotels sizable

expenses each year, and improve the tourist experience. This is currently limited by information asymmetries related to demand volumes and price along the value chain, as well as still unmet food safety and quality standards. Similarly, promoting niche seafood products and investing in export infrastructure for the European Union market could allow fishers to diversify their marketing and receive a price premium on their catch.

Shifting the fishing effort from nearshore coastal waters to intermediate coastal or high seas or other activities could help benefit the fishers and the marine ecosystems. Declining stocks in coastal waters contribute to the declining economic productivity of the artisanal fisheries. It is also a sign of overexploitation of these fisheries. Promoting the replacement of small, artisanal boats targeting depleting species by larger and more modern vessels able to fish farther and longer would foster the preservation of the coastal fisheries and the targeting of higher-value species. Supporting the refitting of some of the artisanal boats for tourism activities and training the fishers to enter the tourism sector could achieve similar results.

These fisheries development strategies would require strong and effective fisheries management measures. Expanding seafood value chains would increase the price of the fish sold. To avoid the negative impacts of creating such a price signal, it will be necessary to limit the fishing effort through the appropriated fisheries management measures and surveillance. Similarly, opening up new fisheries will only help replenish overexploited fish stocks if the number of boats authorized to fish these stocks is limited and decreasing. The related management measures will therefore have to be in place. With a limited fish production, investments in the value chains will also have to be limited and these should be determined by carrying capacity assessments.

4.3.3 Blue Bond Eligibility

With the right fisheries management measures in place, such investments could be suitable for a blue bond. The fisheries sector is a pillar of the blue economy, and its sustainability, profitability,

¹⁴ Ibid.

and inclusiveness will probably be central to its development strategy in Cabo Verde. Investments in fisheries value chains help build adherence around stricter fisheries management measures and can help compensate for any loss of access. These management measures are unavoidable to guarantee the preservation of the coastal and marine environment and the sustainability of any investment in the related value chains. This mix of environmental preservation, poverty reduction, and revenue generation would make such investment attractive to blue bond investors.

The Government of Cabo Verde and the World Bank have already partnered to prepare the ground for such investments. Between 2009 and 2016, the World Bank financed a US\$8 million project in Cabo Verde, known as the West Africa Regional Fisheries Program - Cabo Verde (*Programme Régional des Pêches en Afrique de l'Ouest - Cabo Verde*, PRAO-CV) and part of the West Africa Regional Fisheries Program (WARFP). The objective of the project was to strengthen the capacity of Cabo Verde to govern and manage

targeted fisheries, reduce illegal fishing, and increase local value added to fish products. Its main achievements included a reduction in illegal fishing activities, the adoption of a new Sector Policy Letter in 2014, the full registration of small-scale vessels, the enhancement of national inspection capacity through a functioning vessel monitoring system and newly recruited and trained inspectors which are now on Government payroll, and a participatory surveillance system through coastal surveillance stations. The project also laid the groundwork for fisheries co-management, which is now taken up by the Government under the UNDP/GEF-funded BIO-TUR project.

4.3.4 Examples of Activities

Table 2 proposes an indicative list of fisheries activities that could be considered as investments under a blue bond as well as related potential prerequisites. This list is provided for illustration purposes only, and it does not presume the result of the required feasibility studies nor the approval of the related investments.

Table 2: Indicative List of Fisheries Activities and Related Prerequisites

Focal Area	Example of Activity	Examples of Prerequisites
Integrating seafood and tourism value chains	Demand analysis to better understand the tourism market	
	Cold chain (cold storage, refrigerated transport)	Fisheries management plan operational Demand analysis completed Assessment of maximum carrying capacity for investment
	Specific marketing infrastructures (for example, markets, procurement centrals)	Fisheries management plan operational Demand analysis completed Assessment of maximum carrying capacity for investment
Promoting niche seafood products and exports	Labelling of sustainable and traditional fishing practices	Fisheries management plan operational Sustainability defined in the related management plan
	Building and/or certification of processing facilities for export to the European Union	Assessment of maximum carrying capacity for investment in post-harvesting sector Related management plan operational
	R&D for innovation in post-harvesting and marketing	Assessment of maximum carrying capacity for investment in post-harvesting sector Related management plan operational
Shifting the fishing effort away from nearshore waters	Refitting vessels for longline tuna fishing	Fleet management plan and fisheries licensing framework for origin and destination fisheries operational Domestic tuna fisheries management plan operational Sustainability of tuna stocks Associate growth of the services and processing sector
	R&D for underexploited or unexploited fisheries	Policy and regulation on new and emerging fisheries enacted
	Refitting vessels for underexploited or unexploited fisheries	Fleet management plan and fisheries licensing framework operational for the origin and destination fisheries Mechanism in place for R&D of the unexploited fisheries
Supporting transitions to the tourism and other sectors	Tourism training for fishers	
	Refitting vessels for tourism	Fleet management plan operational for the origin fishery

The impact of investments in fisheries could be measured by indicators including the share of key species rebuilding, the ratio between consumer price and landed catch price, the number of fisheries management plans implemented, the fishing capacity in a given fishery, or the proportion of landed catch in labelling scheme.

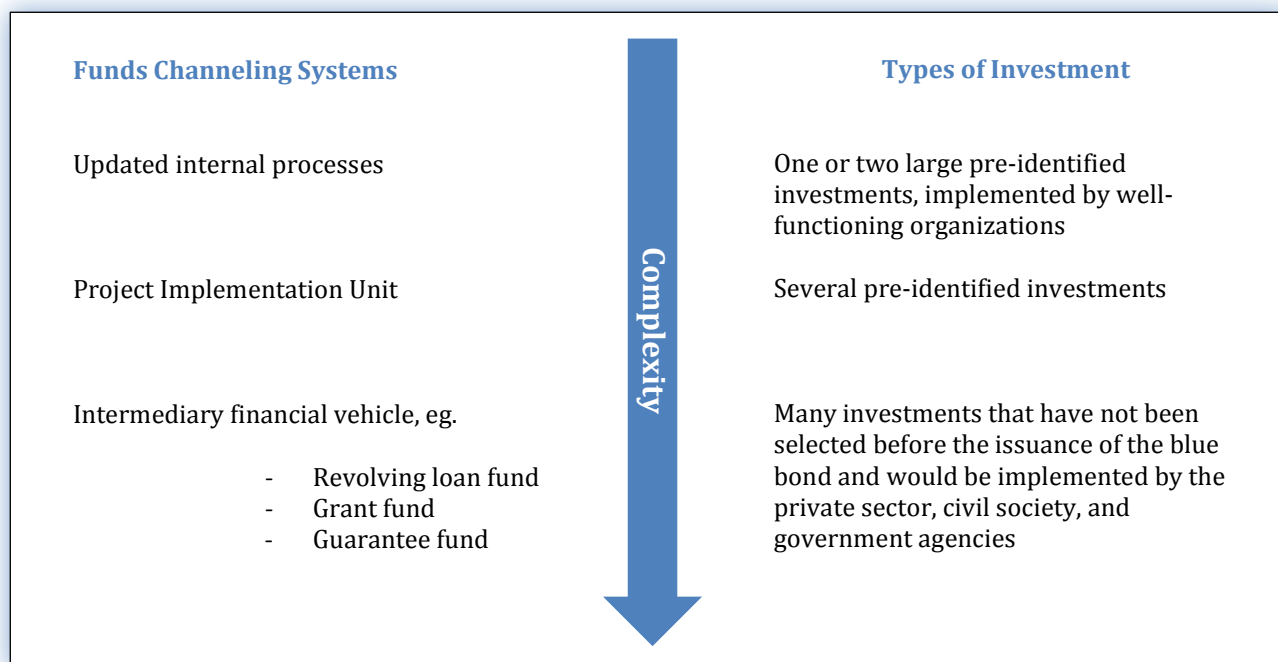
5 Possible Arrangements for the Channeling of Blue Bond Proceeds

An appropriate funds channeling system should be in place before the blue bond is placed. Once the blue bond is placed and its proceeds are in the hands of the Government, these proceeds will have to be channeled to the end users. Depending on the type of investments supported by the blue bond, this channeling could take different forms of varied complexity. The channeling system's complexity will therefore affect the preparation of the overall blue bond scheme, and the design of activities and funds channeling system should be carefully considered in light of the desired time frame for the issuance of the blue bond. This section aims at giving an insight into usual funds channeling and management

systems that could be used for blue bond proceeds in Cabo Verde.

Several types of institutional arrangements could be designed to channel the funds. Figure 1 lists them on a complexity gradient and shows what types of investments could match each type of channeling system. They are described in further detail below. This is a simplified view of institutional arrangements: the Government of Cabo Verde could choose a different system or a system that mixes several of the proposed arrangements. The funds channeling system should also be acceptable to the investors, including potential donors.

Figure 1: Different Types of Funds Channeling Systems and Related Investments



5.1 Updated Internal Processes

The most basic institutional arrangement would be to update existing financial management and disbursement processes to account for the use of the blue bond proceeds.

Such an update would most likely be needed to include specific requirements of investors and partnering financial institutions (like the World Bank) to meet international standards in financial, social, and environmental management, among

others. This simple implementation arrangement would only require straightforward adjustments during the blue bond preparation process and would certainly contribute to a faster bond issuance. It would be adequate if the blue bond was to finance a very limited number of large investments (typically one or two) and if these investments were to be implemented by high-capacity organizations.

5.2 Project Implementation Unit

A specific implementation unit could be set up to channel the blue bond proceeds and implement the investments in collaboration with the beneficiaries. This standard implementation arrangement for donor-funded projects allows for a centralization of the administrative functions required for the use of blue bond proceeds (financial management, procurement, disbursement, environmental and social management, auditing, monitoring and evaluation, reporting, and so on). A Project Implementation Unit would most likely be set up if several investments were to be financed with the blue bond proceeds or beneficiaries lack capacity to comply with investor requirements in terms of funds management and project implementation. Setting up a Project Implementation Unit would take more time than updating internal processes, as it would require designating or hiring staff, finding office space, opening accounts, setting up procedures, and so on. In addition, the pace of implementation of many activities by a Project Implementation Unit is often slower than anticipated during the early years of a project due to the learning process and unforeseen hurdles. This would slow down the disbursement of the blue bond proceeds.

Cabo Verde's experience in Project Implementation Units could be valuable. Cabo Verde is regularly using Project Implementation Units for donor-funded projects, included in the case of World Bank-funded projects. The Government set up Special Projects Management Units (*Unidades de Gestão de Projetos Especiais*, UGPE) within several ministries to implement projects financed by different donors. They meet the fiduciary standards of international investors.

Project-specific Project Implementation Units have also been created, like the BIO-TUR project management unit at the National Directorate of the Environment, currently managing the BIO-TUR project. In the past, the PRAO-CV unit was set up within the Ministry of Environment, Rural Development, and Marine Resources to implement the Cabo Verde component of the West Africa Regional Fisheries Program.

5.3 Special Financial Vehicles

Special financial vehicles—including revolving funds, grant funds, or guarantee funds—can also be used to channel the blue bond proceeds to the beneficiaries. Such vehicles award financing (loans, grants, or guarantees) to beneficiaries once project proposals have been received, reviewed, and approved. They can operate on a call for proposal or a rolling basis. Proposals should meet certain criteria that could include the sector, the beneficiary, the size of the enterprise or the project, and so on, in addition to the more classical criteria of impact and financial and economic soundness.

- A **revolving fund** is a facility that grants loans to beneficiaries at a potential lower cost than the local market in exchange for specific development priorities. Once the borrower repays the principal and interest, the repayments can then be used to finance additional projects, thereby allowing the capital to 'revolve'. Revolving funds are therefore sustainable beyond the duration of the initial project and can even grow over time if the interest rate is high enough.
- A **grant fund** offers grants to its beneficiaries, usually on a call for proposal basis. These grants can be used to finance activities that do not generate monetary revenues in the short term or whose benefits are public. The number of available grants is limited by their size and the initial capitalization of the fund, and the grant fund closes once the capital is exhausted.
- A **guarantee fund** provides third-party credit risk mitigation to lenders (for

example, local commercial banks) with the objective of increasing access to credit for micro, small, and medium enterprises (MSMEs). In the case of a partial credit guarantee (PCG), this risk mitigation happens through the absorption of a portion of the lender's losses on the loans made to MSMEs in case of default, typically in return for a fee. A guarantee fund can be a critical policy instrument for easing financing constraints for MSMEs, as well as improving the information available on MSME borrowers and building the credit origination and risk management capacity of lenders.

Using such financial vehicles allows for more flexibility in the design of the blue bond project.

Since revolving funds, grant funds, and guarantee funds review project proposals emanating from potential beneficiaries on an ongoing basis, they do not require identifying the investments to be financed by the blue bond before it is placed. They also give access to the blue bond financing to a larger array of potential beneficiaries. Since they would screen the projects along 'blue' criteria, they would also help promote the development of the blue economy among the private sector and civil society.

These financial vehicles do however require more upstream work.

The selected fund(s) would have to be created legally and administratively. The loan, grant, or guarantee criteria would have to be agreed before the blue bond is placed, and this includes the sectors of intervention, the eligible activities within the sectors, the environmental and social prerequisites, the acceptable profile of beneficiaries, among many. In addition, procedures would have to be agreed upon for: the submission of proposals, their technical and financial review, and their selection; the disbursement of funds; the monitoring and evaluation; the application of environmental and social safeguards; the reporting, and so on.

Several similar funds already exist in Cabo Verde:

- The **Environment Fund** (*Fundo de Ambiente*) is financed by a tax on non-degradable packaging that generates approximately US\$8 million per year. Managed by the Ministry of the Environment, it funds projects that contribute to the general preservation of the environment in Cabo Verde. Around 60 percent of its proceeds are transferred to municipalities, 10 percent are transferred to civil society and the private sector, and 30 percent remain with the Ministry of the Environment.
- The **Tourism Fund** (*Fundo de Sustentabilidade Social para o Turismo*) is financed by a tax on hotel nights that generates around US\$11 million annually, with a current annual growth of around 10 percent. Managed by the Ministry of Tourism, it finances projects at the central government and municipal levels. The projects are selected on a proposal basis, with a selection process that targets current tourism weaknesses.
- A mutual credit guarantee system, CVGarante, was launched in 2010 but has been highly ineffective. In response, the Government is currently creating a new **public credit guarantee fund** (ProGarante) with the support of the World Bank. It would be possible to create a 'blue window' within the scheme to stimulate the delivery of loans to underserve subsectors of the blue economy while reducing their cost.
- **Commercial banks** could also serve as an intermediary for the proceeds of the blue bond, and some have played a similar role in the past. Commercial banks, however, often lack the capacity to assess fisheries or other blue investments on technical grounds, an issue that often led to poor financial performance of the sector in the past. The creation of a dedicated committee that would undertake the technical analysis of the proposals would be key.



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Conclusion and Next Steps

Cabo Verde may consider issuing a blue bond to finance the development of its blue economy. The Government is progressively adopting a blue economy approach, with a view to contributing to growth and poverty reduction while preserving its critical natural capital. At the same time, Cabo Verde is transitioning from a low-income to a middle-income status, thus away from concessional finance. One of the near-term challenges for the country will therefore be to finance the development of its blue economy, and it will have to explore more market-based financing options. The objective of this report is to explore the feasibility of a blue bond, one of the more innovative financing alternatives.

The report concludes that the issuance of a blue bond would be a viable and interesting option for Cabo Verde—with its own merits and limitations. With the right amount (US\$10 to US\$15 million) and the right rate (close to the 3–4 percent range), a blue bond would be an adequate instrument to support the strategy of Cabo Verde to diversify borrowing sources, in anticipation of the transition away from concessional lending. The blue bond would be a developmental exercise for Cabo Verde and it would introduce the country to sustainable investors. In issuing a blue bond, Cabo Verde would also help build this market, as only one sovereign blue bond has been issued in the recent past, by the Seychelles, mostly focused on fisheries. While potential credit enhancement features could lower the cost of a blue bond in comparison to a plain vanilla bond, the issuance would inevitably bear a higher interest rate and shorter maturity than concessional finance. It would furthermore marginally impact the debt profile of Cabo Verde, one of the most heavily

indebted countries of Sub-Saharan Africa, as would any borrowing, whether domestic or concessional. In this context, the issuance of a blue bond should be coordinated carefully to ensure debt sustainability and avoid crowding out other priority financing needs of the country.

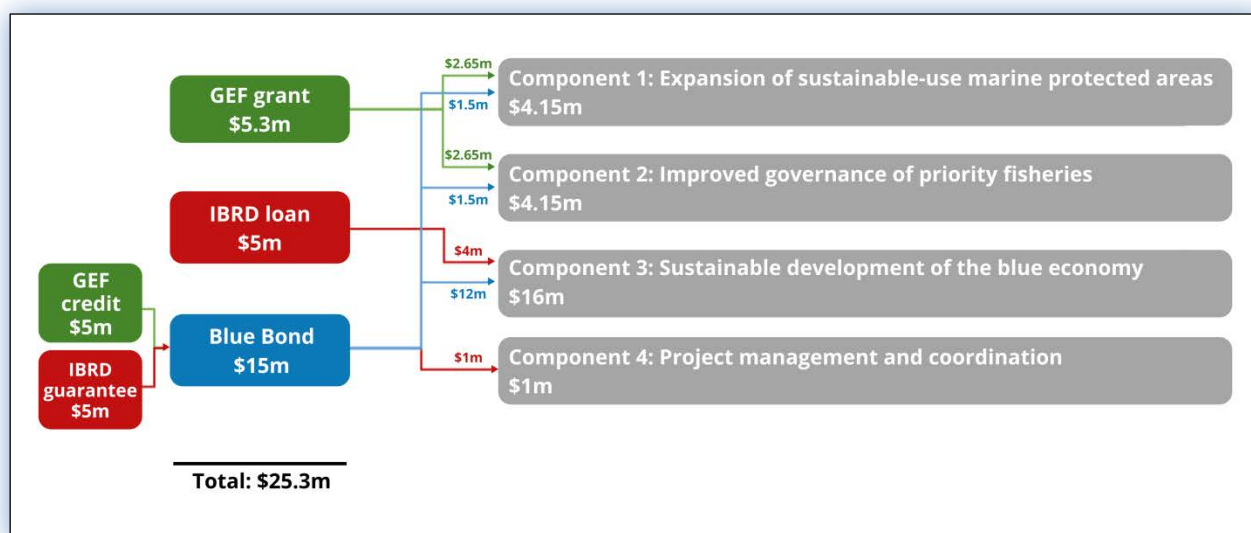
Several steps are required before Cabo Verde can issue a blue bond. The Government is currently preparing several documents required to operationalize its blue economy strategy, including an investment plan. This plan will be essential to further define the investment needs and identify what a blue bond could finance. Since Cabo Verde would require credit enhancement features to lower the blue bond's rate, such as a guarantee, it would have to partner with one or several international financial institutions able to offer such features, help with the bond issuance process, and prepare an underlying investment project. In addition, one of the prerequisites of issuing a blue bond is that natural resources management measures -and their related monitoring and verification procedures- are in place to guarantee that any investments supported by the bond will bring benefits to the marine environment (see Sections 2.2 and 4). Cabo Verde will have to define the required management measures in line with the envisioned investments and implement them before the blue bond can disburse its proceeds. There are three next steps to be undertaken by Cabo Verde to prepare the issuance of a blue bond: prioritizing the investments; partnering with a financial institution to prepare a project, the bond issuance, and credit enhancement features; and designing and implementing the natural resources management measures.

Annex A - The Use of Blue Bond Proceeds in Seychelles

1. Project Design¹⁵

In Seychelles, the US\$15 million Blue Bond financing was integrated into an investment project prepared by the GOS with the support of the World Bank. The Blue Bond became one of the financing sources for SWIOFish3, alongside a US\$5 million loan from IBRD and a US\$5.3 million grant from GEF. In parallel, the Blue Bond benefited from credit enhancement features: a US\$5 million guarantee from IBRD and a US\$5 million concessional credit from GEF (see figure A.1).

Figure A.1: Flow of Funds of the SWIOFish3 Financing



SWIOFish3 is supporting the GOS in achieving its dual objective of marine resources conservation and expansion of seafood value chains. Seafood value chains are a cornerstone of the country's blue economy strategy and their expansion is expected to deliver long-term, resilient growth; jobs; and food security and is the focus of Component 3 of the project. However, this development will not be sustainable if the marine resource base is not properly managed, which is supported by Components 1 and 2. Because marine and coastal resource management will potentially translate into reduced access to the resource, Component 3 also compensates fishers for any loss of access and fosters adherence to the management measures. As such, Components 1, 2, and 3 are intimately linked.

SWIOFish3 created a Blue Grants Fund and a Blue Investment Fund to contribute to this dual objective. These two funds are capitalized with the proceeds of the Blue Bond. The activities eligible for the Blue Grants Fund contribute to the expansion of the sustainable-use marine protected areas network under Component 1 and to the management of fisheries under Component 2. The Blue Investment Fund has been created as a revolving fund to extend commercial loans to projects aimed at sustainably expanding the seafood value chains under Component 3.

¹⁵ See the Project Appraisal Document of SWIOFish3 for more information.

2. Project Components and Activities

Component 1: Expansion of sustainable-use marine protected areas (US\$4.15 million, including US\$2.65 million GEF and US\$1.5 million Blue Bond). This component of the project supports the GOS in implementing its pledge to protect an increasing share of its maritime space. It builds on the marine spatial planning exercise that the GOS is undertaking through a scientific and consultative process. This exercise identified 15 percent of the exclusive economic zone as medium biodiversity areas and another 15 percent as high biodiversity areas. The medium biodiversity areas allow for some sustainably managed economic activities, including fisheries and tourism, and will be gazetted as ‘sustainable-use marine protected areas’. They are the focus of Component 1. The high biodiversity areas are managed under stricter protection and are supported by a parallel project financed by GEF and the UNDP.

- Subcomponent 1.1 expands the coverage of sustainable-use marine protected areas through research, the preparation of related management plans and specific regulations, and consultations to periodically revise their zoning.
- Subcomponent 1.2 enhances the effective management of these sustainable-use marine protected areas through targeted investments in communication, capacity building, control and surveillance, environmental research and data collection, and promotion of more sustainable practices.
- Approximately 10 percent of the Blue Bond proceeds are channeled through the Blue Grants Fund to strengthen the sustainable-use marine protected areas network (Subcomponent 1.3). A list of eligible activities is proposed in table A.1.

Component 2: Improved governance of priority fisheries (US\$4.15 million, including US\$2.65 million GEF and US\$1.5 million Blue Bond). This component of the project has a greater focus on fisheries management at a national level.

- Subcomponent 2.1 supports the finalization and the implementation of the Mahé Plateau and the Praslin fisheries management plans, the most important fisheries management instruments of the country. This entails communication, capacity building, control and surveillance, environmental research and data collection, promotion of more sustainable practices, and economic diversification. In parallel, it helps prepare and implement other fisheries management plans, including for the sea cucumber and tuna fisheries at the national level, thus covering over 90 percent of the fisheries in value and volume. It also prepares and implements a fleet management and development plan and provides technical assistance to the fisher association to enhance their participation in fisheries management.
- Subcomponent 2.2 consolidates the existing fisheries and marine environment statistics by developing a fisheries information management system and providing targeted training to government statisticians. It also improves the fisheries economic monitoring by financing technical assistance and training and operational costs of the nascent Fisheries Economic Intelligence Unit and by designing and setting up a satellite economic account for fisheries.
- Subcomponent 2.3 reinforces the country’s capacity to manage its fisheries sector through a review and update of the fisheries institutional framework, the drafting of a fisheries sector policy note, assessment of the current public support to the sector, and capacity building and ad hoc technical assistance for the relevant public entities.

- Approximately 10 percent of the Blue Bond proceeds are channeled through the Blue Grants Fund to contribute to the management of these fisheries (Subcomponent 2.4). A list of eligible activities is proposed in table A.2.

Component 3: Sustainable development of the blue economy (US\$16 million, including US\$4 million IBRD and US\$12 million Blue Bond). Component 3 helps finance the sustainable development of the Seychelles blue economy and supports increased value addition in the aquaculture, industrial, semi-industrial, and artisanal fishing and processing sectors. IBRD funds are used under Subcomponents 3.1 to 3.4 to improve the enabling environment for the development of the blue economy and generate a pipeline of investments. A Blue Investment Fund has been created under Subcomponent 3.5 with the Blue Bond proceeds to provide loans for such investments.

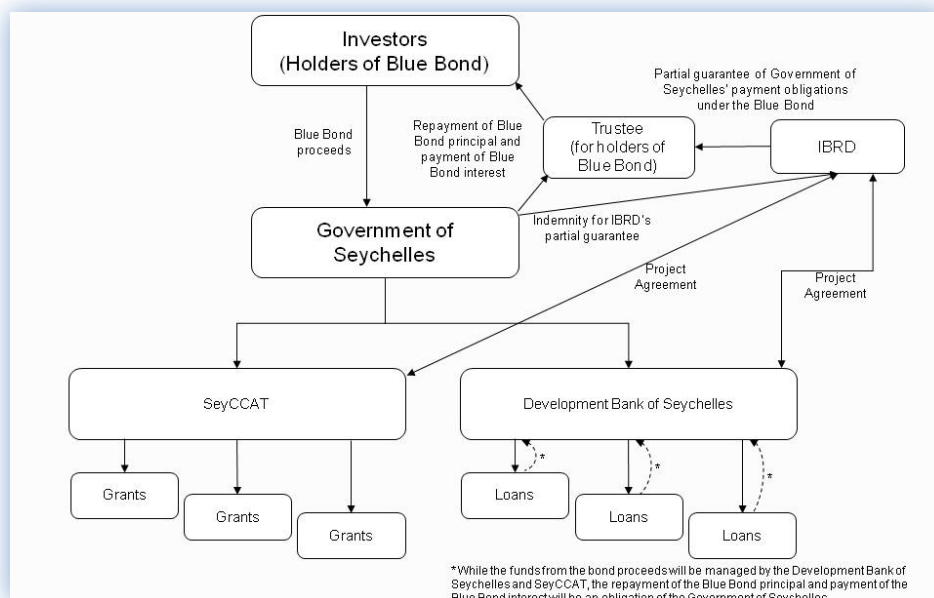
- Subcomponent 3.1 facilitates the expansion of seafood value chains and promotes synergies with other value chains (for example, tourism), including through targeted studies (identification of opportunities), capacity building to fishers and operators, and investments in initiatives led by artisanal fishers (including an innovative fish auction house and a labeling scheme for sustainable artisanal fisheries).
- Subcomponent 3.2 strengthens the enabling environment for local investments in the aquaculture sector (environmental and social impact assessments, capacity building, and training courses and long-term human capital development plans).
- Subcomponent 3.3 finances studies and technical assistance to improve the planning and decision-making mechanisms related to investments in the blue economy. In particular, it finances the different feasibility studies linked to activities eligible under the Blue Investment Fund. It also develops the understanding of the role of women and youth in the sector and proposes and implements strategies to close any gender or age gaps. In addition, it develops and implements policies and standards to improve recruitment and retention of local crew and skippers with a view to improving the labor conditions and the attractiveness of jobs at sea for the Seychellois, including women and youth.
- Subcomponent 3.4 augments the Seychelles' ability to export its seafood products by investing in its sanitary and phytosanitary monitoring capacity (enhanced monitoring program, training, equipment, and technical assistance).
- Subcomponent 3.5: approximately 80 percent of the Blue Bond proceeds are channeled through the Blue Investment Fund to finance private and public investments aimed at facilitating the implementation of the Mahé Plateau fisheries management plan and the transition from open-access to better-controlled fisheries. These investments include alternative business opportunities for fishers in the seafood value chain, the restructuring of fishing capacity, and the rebuilding of fish stocks. To avoid these investments creating a price signal that would increase the pressure on the resource, the GOS developed a list of acceptable projects that includes management prerequisites (for example, management plan operational), as detailed in table A.3.

Component 4: Project management and coordination (US\$1 million IBRD). The last component supports the coordination and implementation of the project, through a Project Implementation Unit.

3. Implementation Arrangements

The proceeds of the Blue Bond follow two tracks. Under the first track, the GOS transferred a portion of the Blue Bond proceeds (US\$3 million) to SeyCCAT to establish a Blue Grants Fund. Grants are made to public and private entities on a project proposal basis to fund activities related to the operationalization of sustainable-use marine protected areas, the implementation of the Mahé Plateau fisheries management plan, and the transition from open-access to better-controlled fisheries. Under the second track, the GOS transferred the remainder of the Blue Bond proceeds (US\$12 million) to the DBS for the establishment and management of a Blue Investment Fund. Commercial loans are made to projects consistent with the provisions of the Mahé Plateau fisheries management plan and with a specific focus on economic diversification and sustainability. While the Blue Investment Fund is capitalized by the Blue Bond proceeds, the repayment of the Blue Bond is considered an obligation of the GOS and is linked financially to the Blue Investment Fund.

Figure A.2. Flow of Funds of the Blue Bond Proceeds



The Blue Grants Fund is administered by SeyCCAT. SeyCCAT is an independent, nationally based, public-private trust fund established in 2015 to manage the funds generated by a debt restructuring intended to provide a sustainable flow of funds to support the long-term management and expansion of the Seychelles system of protected areas and other activities that contribute substantially to the conservation, protection, and maintenance of biodiversity. SeyCCAT has a planned grants program with a focus on sustainable fisheries related to marine protected area management and expansion. To avoid the establishment of a duplicative competing structure and to facilitate the administration of the grants program, the planned SeyCCAT grants program was merged with the aforementioned proceeds of the Blue Bond to create a single Blue Grants Fund with an expanded focus and list of eligible projects. The Blue Grants Fund has segregated financing windows to ensure the separation and traceability of funds. The SeyCCAT Grants Committee reviews and recommends projects for approval under the Blue Grants Fund and the SeyCCAT Board of Directors has final approval.

The Blue Investment Fund is administered by the DBS, a national development financing institution with a specific mandate to assist in the economic development of the Seychelles. Similar to the Blue Grants Fund,

proposed loans need to be compliant with a list of eligible activities which is also evaluated against management prerequisites for the target activity to be funded by the Blue Investment Fund to ensure the environmental sustainability of the proposed investment and avoid creating a price signal that would increase pressure on the fisheries. To ensure that projects are sound from a fisheries perspective, the DBS convenes a Technical Committee (notionally consisting of various Government ministries, fisher associations, and civil society organizations) to provide a technical review and recommendation for loan applications. If the Technical Committee recommendation is positive, then the loan application is sent back to the DBS for standard loan processing procedure and financial appraisal. The DBS Board has final approval over all loans.

4. Eligible Activities

The GOS prepared indicative lists of eligible activities to be funded by the proceeds of the Blue Bond, via the Blue Grants Fund and the Blue Investment Fund.

Table A.1: Indicative List of Eligible Activities for the Blue Grants Fund under Component 1

Activity Focal Area	Prerequisites	Eligibility of Application
Research for fisheries management (for example, stock assessment, socioeconomics)	Marine Spatial Planning Phase I complete (zones confirmed)	Compliant with Marine Spatial Planning allowable activities table and regulations Seychelles Bureau of Standards research approval or Seychelles Fishing Authority mandate
Development and implementation of management plans	Marine Spatial Planning Phase I complete (zones confirmed) Marine Spatial Planning governance and implementation plan operational	Application demonstrates context-specific due diligence
Education and awareness programs	None	Application demonstrates context-specific due diligence
Capacity building and training activities	Marine Spatial Planning governance and implementation plan operational	Zone-specific capacity building needs assessment complete
Strengthening of monitoring, control and surveillance	Management plan operational for relevant zone(s), which includes approved monitoring, control and surveillance protocol	Demonstrates engagement with relevant authorities and authorized officers unless otherwise specified in monitoring, control and surveillance protocol
Promotion of sustainable practices in marine tourism	Marine Spatial Planning manuals of best practice/protocols operational	Licensed (hirecraft) and permitted (Fisheries Act 2014) operators

Table A.2: Indicative List of Eligible Activities for the Blue Grants Fund under Component 2

Activity Focal Area	Prerequisites	Eligibility of Application
Research for fisheries management and development	Management plan drafted or operational	Research explicitly linked to management standards (for example, reference points) in plan Seychelles Bureau of Standards research approval or Seychelles Fishing Authority mandate
Fisheries management planning	Fishery-specific licensing system operational Fisheries management units defined by Seychelles Fishing Authority	Stakeholders consulted on proposal Includes Ecosystem - Approach to Fisheries and co-management Consistent with regional measures if applicable (for example, Indian Ocean Tuna Commission)
Education and awareness programs by fisher associations	None	Association registered Application demonstrates context-specific due diligence
Capacity building support to fisher associations	Association registered or statement of intent to register	Application demonstrates context-specific due diligence
Strengthening of monitoring, control, and surveillance	Management plan operational, which includes approved monitoring, control, and surveillance protocol	Demonstrates engagement with relevant authorities and authorized officers unless otherwise specified in monitoring, control, and surveillance protocol
Promotion of sustainable practices in fisheries capture, services and post-harvesting sectors (for example, energy efficiency)	For capture fisheries, management plan and fishery-specific licensing system operational	Capture fishing: Sustainability further defined by Marine Spatial Planning and management plan Value chain data collected and shared
Preparation of proposals to the Blue Investment Fund (for example, feasibility study, business plan)	Elaboration of a standardized assessment methodology for the proposals to the Blue Investment Fund	Compliant with Blue Investment Fund indicative list Compliant with Sustainable Investment Scheme
Research and development on new or underexploited resources	Policy and regulation on new and emerging fisheries enacted	Seychelles Fishing Authority research approval involves existing fishing boats/operators Data sharing agreement
Research and development for innovation in post-harvesting and marketing	Assessment of maximum carrying capacity for investment in post-harvesting/service sectors Management plan operational (depending on product)	Application demonstrates context-specific due diligence Data sharing agreement

Table A.3: Indicative List of Eligible Activities for the Blue Investment Fund

Focal Area	Activity	Prerequisites	Eligibility of Application
Stock rebuilding	GOS purchase of catch limit portion		
	GOS buyback of catch of individual vessels (linked to decommissioning)		
	GOS purchase of catch shares		
Restructuring of fishing capacity	Refitting vessels for tourism	Fleet management plan and fisheries licensing framework operational (phase 2 of management plan)	Refitting feasible
	Refitting vessels for longline tuna fishing	Demersal fleet management plan and fisheries licensing framework operational (phase 2 of management plan) Domestic tuna fisheries co-management plan operational Sustainability of the tuna stocks (regional conservation management effective) Associated growth of the services and processing sector	Refitting feasible
	Refitting vessels for underexploited or unexploited fisheries	Fleet management plan and fisheries licensing framework operational (phase 2 of management plan) Mechanism in place for research and development of the unexploited fisheries	Refitting feasible
	Vessel decommissioning or buyback	Related fisheries management plan operational and catch limits adopted	
Aquaculture	Land-based production of high-value niche products (for example, crustaceans, sea urchins, ornamental corals, and fish)	Mariculture master plan operational Support services available	Compliant with the mariculture master plan Land allocated
	Sea ranching of high-value products (for example, sea cucumbers)	Mariculture master plan operational Support services available	Compliant with the mariculture master plan Land and seabed allocated

Focal Area	Activity	Prerequisites	Eligibility of Application
Fish processing and value addition	Medium- to large-scale processing and product development, with an emphasis on pelagic species (for example, tuna loins, sashimi-grade tuna, bycatch)	Positives results from 'the value-chain and feasibility study to guide investments in the processing and services sector' Fishing Port Development Committee strengthened	Approval by the Fishing Port Development Committee, if relevant Land allocated
	Small- to medium-scale bio-refineries for fish processing by-products (for example, oil, collagen, amino acid, mineral production)	Positives results from 'the value-chain and feasibility study to guide investments in the processing and services sector' Fishing Port Development Committee strengthened	Approval by the Fishing Port Development Committee, if relevant Land allocated
Services sector/logistics support	Ancillary enterprises for cold storage and cold-chain maintenance	Positives results from 'the value-chain and feasibility study to guide investments in the processing and services sector'	Approval by the Fishing Port Development Committee, if relevant Land allocated
	Small- to medium-scale enterprises for agencies providing vessels services (for example, stevedoring, chandlery). Focus on integration of logistical services to include ice, bait, and gear for the demersal and semi-industrial fisheries	Positives results from 'the value-chain and feasibility study to guide investments in the processing and services sector'	Approval by the Fishing Port Development Committee, if relevant Land allocated
	Small- to medium-scale enterprises for logistical services to the aquaculture sector, including security services for onshore and offshore installations	Mariculture master plan in place	Land allocated
Services sector/scientific support	Fisheries observer companies		
	Environmental monitoring consultancy firms		
	Fisheries science and management consultancy companies		

Annex B - A Blue Bond Issuance Road Map

The figure below proposes a broadly indicative road map and timeline for the issuance of a blue bond, and the details would vary greatly depending on the specificities of the blue bond and the reactivity of the different partners.

