

DEAL: Seychelles' sovereign blue bond

It's hoped that other countries will also use this type of debt instrument, which is modelled on a green bond

Olly Jackson, EMEA reporter

The Seychelles' 10-year blue bond, a world first, had to overcome a number of structuring issues including addressing risks associated to the country's BB- credit rating.

The \$15 million issuance will finance ocean protection projects and help the country's burgeoning fisheries sector. It has a coupon of 6.5% and will be redeemed in three equal instalments of \$5 million in 2026, 2027 and 2028.

"We couldn't just pull documents off the shelf," said Paul Hunt, partner at Latham & Watkins, who advised the World Bank in this transaction. "One of the big issues in investing in environmental instruments of this type is a lack of liquidity. Tax bases are too small to pay for these efforts and governments of developing or small nations cannot afford huge interest payments, which would be risky in any event."

In order to alleviate these issues, the deal was supported by the World Bank and the Global Environment Facility (GEF), with the former providing a \$5 million grant to guarantee the bond, and the latter a \$5 million loan to subsidise payment of the bond coupons.

The loan provided by the GEF allowed for a reduction in the price of the bond through partially reducing the risk of the investment and reducing the interest rate for the Seychelles government. As a result, the coupon to be paid from other government resources is decreased from 6.5% to 2.8%, and significantly helps to reduce the risk of default.

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COUPON/MATURITY

The 10-year issuance has a coupon of 6.5% though credit enhancement means the coupon payable by the government of the Seychelles is reduced to 2.8%.

CREDIT ENHANCEMENT

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There are three investors in the private placement: Calvert Impact Capital, Nuveen and Prudential, all US-based and the reason why the bond was issued in US dollars. The US dollar also helps to simplify the structure of the bond, with the guarantee and GEF non-grant instrument pilot also in US dollars.

The bond has no individual credit rating as it was privately placed to these three

investors, so it is effectively being treated as sovereign debt.

While the structure of the bond is unique, Hunt said it was partly modelled on the green bond pioneered by the World Bank more than a decade ago.

The World Bank has a history of guaranteeing loans on the one hand and widely held sovereign bonds on the other. Given the high concentration of the initial noteholder pool in this transaction, the World Bank worked to create a hybrid structure from its own precedents, with elements of both types of guarantees.

This new structure is something that the World Bank wants to use as a model for island and coastal nations in the future.

The bond is also innovative because of the way the proceeds are to be used. They will be put towards the management of sustainable-use marine protected areas and priority fisheries, and to expand seafood value chains to maintain sector growth while fish stocks are rebuilding.

Jan Robinson, technical assistant at the Seychelles Ministry of Finance, Trade and the Blue Economy said a key element in the design of the transaction was that the bond is priced at market rather than concessionary rates.

“Therefore, though this is the first of its kind, it’s likely to stimulate market interest and potential uptake by other sovereigns and capital investors,” he said.

The blue bond forms an integral part of the financing for a \$25.3 million project by the government of Seychelles, called the Third South West Indian Ocean Fisheries Governance and Shared Growth Project.

“Leveraging several funding sources generates scale for project impacts and reduces overall risk,” said Robinson.

Though the bond is small in market terms, it’s significant in relation to the current value of the fishery and aquaculture value chains in Seychelles. It’s hoped it will provide significant and sector-wide transformation through carefully targeted investment.

Tear sheet

The legal team comprised Clifford Chance acting as transaction counsel for the government of the Seychelles and Latham & Watkins as external counsel for the World Bank. Standard Chartered acted as placement agent for the bond.