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Introduction

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Preface

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Description

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BLUE BONDS AS A TOOL FOR FINANCING OCEAN CONSERVATION: LEGAL AND REGULATORY CHALLENGES IN INDIA

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Abstract

Ocean ecosystems provide food security, livelihoods, coastal protection and biodiversity, yet their conservation competes with limited public budgets and uneven access to long-term finance. Blue bonds have emerged as debt instruments intended to direct capital towards sustainable marine and water-related activities. Their promise depends not merely on attaching an environmental label to a security but on enforceable rules governing eligible expenditure, disclosure, independent review, impact measurement and accountability. This article examines the legal and regulatory challenges of using blue bonds to finance ocean conservation in India. It adopts a doctrinal method, analysing the framework of the Securities and Exchange Board of India (SEBI), which since 2023 treats blue bonds as a sub-category of green debt securities, alongside environmental legislation, the sovereign transactions in Seychelles, Belize and Ecuador, and international blue-finance guidance. The article argues that India possesses important components of a blue-finance framework, but that an activity-based definition within a green-debt regime does not by itself create a dedicated, comprehensive blue-bond regime. The resulting gaps concern taxonomy, use-of-proceeds controls, verification, impact reporting, sovereign credit support, community participation and remedies for misleading environmental claims. The article proposes a proportionate framework that integrates financial regulation with marine-conservation outcomes, and concludes that blue bonds should supplement, not replace, public conservation funding and must protect coastal communities as well as ecosystems.

Keywords: Blue Bonds; Sustainable Finance; Ocean Conservation; SEBI; Environmental Regulation; Marine Biodiversity

1. Introduction

The ocean is an ecological system and an economic resource. The International Finance Corporation (IFC) estimates that the ocean economy sustains more than 100 million full-time jobs.[1] Mangroves, coral reefs, seagrass beds and salt marshes provide services that are difficult and expensive to replace, yet they face pressure from pollution, habitat loss, unsustainable fishing, coastal development and climate-related hazards. Sustainable Development Goal 14 frames their protection as a global objective,[2] but public budgets and conventional development finance alone may not meet the scale and duration of the need.

Blue bonds are debt instruments whose proceeds are allocated to eligible projects intended to protect or sustainably use ocean and water resources.[3] They are generally treated as a thematic subset of green finance,[4] and the idea reached the market in October 2018, when Seychelles issued what the World Bank described as the world's first sovereign blue bond.[5] The label creates no special legal status and does not prove that a project produces ecological benefit. The legal question is therefore not only how capital can be raised, but how an issuer's environmental promise can be made credible, measurable and enforceable.

The question is pressing for India, which has a long coastline, large coastal populations and marine ecosystems of national and international importance. India has already taken a first step: since 2023 the regulations of the Securities and Exchange Board of India (SEBI) treat blue bonds as a sub-category of green debt securities.[6] Yet an activity-based definition within a green-debt regime is not automatically a complete framework for ocean projects, which carry distinct ecological risks, cross-sectoral impacts and community consequences. This article argues that India should build on its 2023 recognition of blue bonds and develop a dedicated blue-finance framework, covering eligible activities, project-level safeguards, independent review, reporting, grievance mechanisms and consequences for misrepresentation. Such a framework should ensure that financing supports conservation and sustainable livelihoods rather than relabelling ordinary expenditure.

2. Research Questions and Methodology

The article asks four questions: (i) what distinguishes blue bonds legally from other thematic bonds; (ii) how far India's securities and environmental laws can regulate their issuance and use; (iii) which regulatory weaknesses may expose investors, ecosystems and coastal communities to harm; and (iv) which reforms would make blue bonds accountable and suitable for Indian conditions.

The study uses doctrinal legal research. It analyses SEBI's regulations and circulars, the Environment (Protection) Act, 1986, the Coastal Regulation Zone Notification, 2019 and wildlife legislation, and uses the Seychelles, Belize and Ecuador transactions and European Union legislation as comparative illustrations. The method is qualitative. It conducts no interviews, surveys or original impact measurement, and its conclusions are legal and policy arguments rather than empirical findings about every blue-bond transaction. The law and market information are stated as available on 25 October 2026.

3. Concept and Structure of Blue Bonds

A blue bond is a debt security through which an issuer raises capital for projects associated with marine conservation or a sustainable blue economy, such as sustainable fisheries, marine protected areas, coral and mangrove restoration, reduction of marine plastic pollution, wastewater infrastructure and climate resilience for coastal communities. International guidance stresses that the label should rest on clear project eligibility, transparent governance and reporting, not on a broad claim that a project relates to the sea.[7] Issuers may be sovereigns, public financial institutions, municipalities or companies. A blue bond is not a grant: the issuer remains obliged to repay principal and interest, and environmental expenditure does not remove credit risk.

In market practice a blue bond is aligned with the Green Bond Principles of the International Capital Market Association (ICMA), so that blue is treated as a subset of green.[8] Those principles are voluntary process guidelines, not law.[9] Two structural families can be distinguished. The first is the conventional labelled bond, in which an issuer earmarks proceeds for qualifying projects, as in Seychelles. The second is the debt conversion, in which a special purpose vehicle raises new financing, often with public credit enhancement, and uses it to buy back existing sovereign debt at a discount. The state then owes a cheaper obligation and commits part of the savings to conservation, as in Belize and Ecuador.

The label also requires legal discipline. A project may be coastal yet environmentally harmful, and financing something already required by law may add no conservation effort. A robust framework must therefore distinguish four related but separate questions: eligibility, legal compliance, allocation of funds and verified environmental outcomes.

4. International Developments and Lessons

4.1 Voluntary principles and guidance

No binding international instrument governs blue bonds. The market is organised instead by layered voluntary standards: the Green Bond Principles and Green Loan Principles; the Sustainable Blue Economy Finance Principles launched by the UN Environment Programme Finance Initiative (UNEP FI) in March 2018;[10] and the IFC Guidelines for Blue Finance of January 2022, since expanded in a second version.[11] In September 2023 ICMA, the IFC, the Asian Development Bank, UNEP FI and the UN Global Compact consolidated these into a practitioner's guide that defines a blue-economy typology, eligibility criteria and indicators.[12] The guide is expressly voluntary.[13] Its strength is flexibility. Its weakness is that none of it is enforceable against an issuer as such: unless incorporated into regulation, listing requirements or contract, enforcement depends on disclosure law, bond documentation and market discipline.

4.2 The Seychelles sovereign blue bond (2018)

Seychelles issued a US$15 million, ten-year bond to three institutional investors, supported by a US$5 million partial guarantee from the World Bank and a US$5 million concessional loan from the Global Environment Facility that partly subsidises coupon payments.[14] Proceeds were channelled through a Blue Grants Fund and a Blue Investment Fund,[15] and the bond had no individual credit rating, so its pricing depended heavily on the guarantee and subsidy.[16] The case shows how public institutions can help a state reach private capital for ocean purposes. It is not proof that blue bonds deliver conservation success. Socio-legal scholarship argues that the Seychelles model prioritises commercial interests over local fishing communities and pushes small island states to finance climate solutions at the price of indebtedness.[17] The lesson for India is two-sided: risk-sharing and dedicated funds can enable financing, but legal design must also address distributional impact, transparency and independent evaluation.

4.3 Belize (2021) and Ecuador (2023)

In November 2021 Belize closed a US$364 million blue bond arranged by Credit Suisse for The Nature Conservancy.[18] A special purpose vehicle enabled Belize to buy back its existing superbond at 55 cents on the dollar, reducing the principal from US$553 million to US$364 million.[19] The structure rested on US$610 million of political risk insurance from the US Development Finance Corporation (DFC) and a commitment by Belize to protect 30 per cent of its ocean.[20] Sources differ on the conservation funding the deal will generate.[21]

In May 2023 Ecuador exchanged commercial bonds of about US$1.6 billion for a US$656 million bond issued by a special purpose vehicle, GPS Blue Financing DAC.[22] Backed by an Inter-American Development Bank guarantee and DFC insurance, the bond was rated Aa2 although Ecuador's sovereign rating was Caa3.[23] The transaction was reported to generate more than US$450 million for conservation of the Galápagos,[24] and the bond was notably not labelled blue, anticipating ICMA's position that a blue label requires all proceeds to finance eligible projects.[25]

Three lessons follow. First, the credit quality of such instruments depends on public or development support rather than on project revenue. Secondly, conservation commitments are negotiated inside financing contracts, which blurs the line between contract and public policy. Thirdly, the label itself was not decisive, since Ecuador's bond reached scale without it. For India, which would approach blue finance mainly through listed-securities regulation, disclosure rules alone cannot address guarantees, conditionality or community impact.

5. India's Existing Legal and Regulatory Framework

5.1 Securities regulation: blue bonds as green debt securities

SEBI introduced disclosure requirements for green debt securities in 2017 and later reviewed the framework.[26] Its consultation paper of August 2022 on green and blue bonds considered eligible sectors and the risk of greenwashing.[27]

The decisive step came on 2 February 2023, when an amendment to the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 widened the definition of green debt security to include blue bonds, described as funds raised for sustainable water management, including clean water and water recycling, and for the sustainable maritime sector, including sustainable shipping, sustainable fishing, fully traceable sustainable seafood, ocean energy and ocean mapping.[28] A circular of 6 February 2023 revised the disclosure requirements, including guidance against greenwashing, for issuances launched on or after 1 April 2023.[29] Blue bonds in India are therefore not an unregulated category. They are a sub-category of green debt securities.

The design has two limits. It is activity-based: it offers no marine-specific safeguards, exclusions or outcome indicators, and the word sustainable carries much of its weight. And it governs only the securities relationship. Whether a project is lawful, environmentally acceptable and fair to communities depends on other laws and on facts on the ground. The securities framework is a necessary but not a sufficient component of a blue-finance regime,

and issuers should obtain a current legal assessment because circulars are revised.

5.2 The ESG debt framework and offshore listing

In June 2025 SEBI issued a framework for social bonds, sustainability bonds and sustainability-linked bonds, leaving the existing framework in place for green debt securities and therefore for blue bonds.[30] The new framework requires an independent third-party reviewer or certifier to confirm alignment with recognised standards.[31] There is also a jurisdictional gap: when SEBI revised its framework, most green bonds issued by Indian issuers were reported to be listed on offshore exchanges outside its reach.[32] By contrast, the exchanges of the International Financial Services Centre already host a notable proportion of ESG-labelled debt,[33] which suggests a setting in which to pilot a more detailed blue-bond standard.

5.3 Environmental, coastal and constitutional law

Securities law sits beside environmental law, which no financing label displaces. The Environment (Protection) Act, 1986 empowers the Central Government to take measures to protect and improve the environment and to prevent, control and abate pollution.[34] The Coastal Regulation Zone (CRZ) Notification, 2019 regulates specified coastal stretches and recognises ecologically sensitive areas, which is directly relevant to projects near beaches, mangroves, coral reefs and tidal flats.[35] The Wild Life (Protection) Act, 1972 protects specified species and protected areas.[36] Financing a port, aquaculture facility, wastewater plant or restoration project does not excuse the project proponent from required approvals or standards. Permissions depend on location, coastal-zone classification and the relevant coastal zone management plan, so the position must be checked at project appraisal.

Article 48A of the Constitution directs the State to protect and improve the environment, and Article 51A(g) makes this a fundamental duty of citizens.[37] International instruments such as the United Nations Convention on the Law of the Sea and the Convention on Biological Diversity form part of the wider legal context,[38] but they are not substitutes for detailed bond-market rules.

6. Principal Legal and Regulatory Challenges

6.1 Absence of a clear blue taxonomy

A central problem is deciding what counts as blue. A definition that is too narrow excludes useful conservation, while one that is too broad lets ordinary coastal development carry a

sustainability label. Voluntary typologies are contested at the edges: the second version of the IFC Guidelines, for example, extends eligible activities to shipping and aquaculture alongside marine conservation.[39] Where the definition itself relies on the word sustainable, as SEBI's does, the exercise risks circularity unless an external benchmark gives the adjective content. Comparative law shows a statutory alternative. The EU Taxonomy Regulation treats the sustainable use and protection of water and marine resources as an environmental objective,[40] and the European Green Bond Regulation ties use of proceeds to taxonomy-aligned activities, subject to limited flexibility.[41] India needs science-informed categories, exclusions and safeguards based on measurable contribution to marine health, sustainable resource use and pollution prevention.

6.2 Bluewashing and disclosure liability

Bluewashing is the use of an ocean label to suggest benefits that the use of proceeds does not deliver, and scholarship has begun to examine critically how blue bonds are labelled.[42] The market has partly corrected itself: Ecuador's issuer forwent a blue label rather than risk a contested one.[43] But a voluntary label is not itself a legal promise. Liability usually arises, if at all, through the rules on misleading offering documents and breach of contractual covenants, and the covenants of labelled bonds often treat departure from a use-of-proceeds commitment as a reporting matter rather than an event of default.

A framework should therefore require that the environmental promise appear consistently in the offering document, the published blue-bond framework and the bond terms, and should specify the consequences of material non-compliance while preserving all remedies under applicable law. SEBI has begun to address the problem with guidance against greenwashing, which warns against using proceeds outside the definition and against untrue claims of third-party certification.[44] The remaining question is whether general anti-greenwashing rules are fine-tuned enough for marine projects, where outcomes such as ecosystem recovery are slow, diffuse and hard to measure.

The appropriate remedy depends on the applicable securities law, the issuer's status, the offer documents and the contractual structure. It would be inaccurate to assume that every breach of a voluntary blue-bond framework automatically entitles investors to repayment or creates a statutory cause of action. Where a label was materially misleading, corrective disclosure and regulatory scrutiny may matter as much as contractual remedies, which is why the blue label should not be treated as a marketing statement detached from the formal offer documents.

6.3 Allocation, verification and external reviewers

Investors need to know that proceeds reach the identified projects. Issuers should disclose arrangements for unallocated balances, refinancing, project substitution and intermediaries, and keep auditable records. Segregated accounts help, but equivalent traceability can be achieved through other transparent and auditable systems. Verification is harder. A pre-issuance opinion shows alignment with a standard, not that a project will succeed, and allocation reporting does not prove ecological improvement. Marine outcomes need baselines and project-specific indicators such as habitat condition, water quality, fish stocks or plastic leakage.

The IFC strongly recommends a second opinion confirming consistency with the Green Bond Principles,[45] and SEBI's framework requires third-party review of matters such as project selection and the management of proceeds.[46] Yet whether investors may rely on such opinions, and what duty a reviewer owes to bondholders, is largely untested. The European Green Bond Regulation offers a statutory answer through registration and supervision of external reviewers.[47]

6.4 Standardisation and project-specific ecology

A uniform reporting template improves comparability, but marine ecosystems are not interchangeable: the best indicators for mangrove restoration differ from those for wastewater infrastructure or sustainable fisheries. Regulation should prescribe a common minimum set of disclosures while allowing additional indicators suited to the ecosystem and project, and issuers should explain why their indicators can measure the stated objective and disclose material methodological changes over time. This avoids box-ticking standardisation while still letting investors compare basic information across issuances.

6.5 Sovereign structures, conditionality and the limits of the bond form

Sovereign blue bonds raise questions that green-bond rules do not address. In Ecuador the new bond's rating stood sixteen notches above the sovereign's because of guarantee and insurance, not because of any change in repayment capacity.[48] Risk thus passes to public institutions and ultimately to taxpayers. That is a legitimate policy choice, but it should be transparent, including whether guarantors acquire reimbursement or subrogation rights against the sovereign. The ranking of swapped debt in a later restructuring, and the governance of special purpose vehicles that control conservation funds, are also unsettled. Critics argue that the

Galápagos structure was costly,[49] while supporters point to the debt-service savings and conservation funding;[50] fuller disclosure is needed to judge between them. Special purpose vehicles such as the Belize Blue Investment Company and GPS Blue Financing DAC isolate a transaction from the sovereign's general credit, but they also create governance distance between the public that bears the sovereign risk and the entities that control conservation funds, and market standards do not answer questions of fiduciary duty, audit and public accountability.[51] Public guarantees and concessional support can make conservation projects financeable but create fiscal exposure, so the rationale for support, the beneficiary, the maximum exposure and the expected public benefit should be disclosed, and the cost of the bond compared with feasible alternatives.

Conservation commitments raise further public-law questions. Belize committed to protect 30 per cent of its ocean,[52] and Ecuador committed annual sums to conservation and an endowment.[53] Placing such policy inside financing agreements raises questions of executive authority, durability across changes of government and accountability to affected coastal communities. Finally, the bond form works only where an issuer has jurisdiction. A coastal state has sovereignty over its territorial sea and sovereign rights in its exclusive economic zone,[54] but the high seas have no equivalent issuer, and the 2023 Agreement on Biodiversity Beyond National Jurisdiction creates no revenue-bearing counterparty to which a bond can be linked.[55] Marine conservation produces public goods with little cash flow, so grants and budgetary allocations remain necessary, and blue bonds should not encourage governments to shift essential environmental obligations into debt.

6.6 Institutions, communities and public information

Blue-bond projects involve securities regulators, environmental and coastal authorities, fisheries departments and local bodies whose mandates overlap but differ. Without coordination, a project may be assessed financially without ecological expertise, or approved environmentally without a way for investors to monitor proceeds.

Community effects need equal attention. Conservation can restrict fishing or coastal access and impose unequal costs on small-scale fishers and coastal residents. The practitioner's guide acknowledges social co-benefits,[56] but guidance is not a safeguard: without binding requirements for consultation, grievance mechanisms and benefit-sharing, costs may fall on communities that no regulator is placed to protect. Project information must also be accessible beyond institutional investors, through plain-language summaries, a named responsible

authority and a practical complaints channel, and confidentiality should not conceal the destination of funds or material environmental risks. Blue bonds remain debt, so issuers must repay even if a project underperforms, and additionality must be tested so that bonds fund conservation that would otherwise be underfunded rather than merely refinance existing spending.

7. Proposed Framework for India

The analysis supports six proposals, offered as suggestions rather than prescriptions.

First, a blue taxonomy. SEBI, with environmental and marine-science authorities, should build on the existing treatment of blue bonds by developing a dedicated blue module that sets eligible activities, minimum safeguards, exclusions and the evidence needed to show contribution to marine conservation. It should be compatible with international guidance and linked to coastal law, including CRZ compliance and environmental clearance.

Secondly, a public blue-bond framework before issuance, stating objectives, eligible categories, the project-selection process, management of proceeds, reporting commitments and material risks, and whether proceeds fund new projects, refinance existing expenditure or both, with a plain-language summary.

Thirdly, stronger independent review. Reviewer independence, competence, methodology and conflicts should be disclosed, post-issuance assurance should test allocation and impact reporting, and a registration or accreditation regime should be considered, for which the European model is a precedent.[57]

Fourthly, allocation and impact reports until full allocation and at intervals thereafter, with a common minimum content (location, objective, baseline, amount allocated, monitoring method, material risks and reporting period) and project-specific indicators. Where impacts cannot yet be measured reliably, issuers should say so rather than imply success.

Fifthly, proportionate remedies for materially misleading claims, diversion of proceeds or persistent non-reporting, including corrective disclosure, investigation, regulatory action and contractual remedies, with bond documents stating the consequences of non-compliance and the process for replacing an ineligible project.

Sixthly, safeguards and coordination: consultation with coastal communities before decisions become irreversible, accessible grievance channels and monitoring of livelihood effects; an inter-agency mechanism linking securities, finance, environment, fisheries and coastal authorities; transparent justification of public guarantees against feasible alternatives; and

legislative oversight of long-term conservation commitments embedded in sovereign financing agreements.

8. Conclusion

Blue bonds can mobilise private and institutional capital for marine conservation, but the label has no independent power to ensure ecological benefit. India has relevant building blocks: SEBI's 2023 recognition of blue bonds as a sub-category of green debt securities, the related disclosure rules, environmental legislation and coastal regulation. They do not yet form a dedicated, integrated regime with uniform eligibility criteria and outcome reporting. The greatest risks lie in bluewashing, weak traceability, thin verification, opaque sovereign credit support and inadequate attention to community impact.

Common minimum standards should apply to use of the blue label whatever the issuer: transparent eligibility, clear use-of-proceeds rules, credible review, periodic reporting and consequences for materially misleading claims, with more demanding obligations for high-risk projects or public guarantees. Blue bonds should supplement, not replace, public responsibility for conservation, and are most defensible where the financing structure matches the project's revenue and risk profile and public support is transparent. Environmental approvals must remain binding conditions, and affected communities must be able to participate and seek redress. A credible Indian framework would treat financial integrity, ecological effectiveness and social legitimacy as connected requirements.

The proposal is not that every blue bond be regulated identically. A sovereign bond, a listed corporate debt security and a project-finance instrument involve different risks and legal obligations, and a proportionate framework should scale its demands accordingly. What should not vary is the integrity of the label: a bond that invites investors to rely on the word blue should be able to show publicly what was financed, what was achieved and who answers if the claim proves wrong.

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[36]Wild Life (Protection) Act 1972 (Act 53 of 1972), as amended.

[37]Constitution of India, arts 48A and 51A(g).

[38]United Nations Convention on the Law of the Sea (adopted 10 December 1982, entered into force 16 November 1994) 1833 UNTS 3; Convention on Biological Diversity (adopted 5 June 1992, entered into force 29 December 1993) 1760 UNTS 79.

[39]IFC (n 1) (noting the extension of Version 2.0 to shipping and aquaculture).

[40]Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment [2020] OJ L198/13, art 9 (listing the sustainable use and protection of water and marine resources as an environmental objective).

[41]Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds [2023] OJ L2023/2631.

[42]Arınç Onat Kılıç, 'Beyond Bluewashing: A Critical Examination of Labeling Blue Bonds' (2024) 163 *Marine Policy*.

[43]IFR (n 24) (reporting ICMA's September 2023 reiteration of the all-proceeds principle for blue labels).

[44]'SEBI Lists Do's and Don'ts to Deal with Greenwashing' (PTI) (n 32).

[45]Mayer Brown (n 4) (recording the IFC's strong recommendation of a second opinion confirming consistency with the Green Bond Principles and Green Loan Principles).

[46]Vinod Kothari Consultants (n 26) (noting the introduction of disclosure requirements and the appointment of a third-party reviewer or certifier). See also Pradeep Ramakrishnan and Nikhil Chaudhary, 'SEBI and the Reform on Sustainable Finance (Part 2 of 3)' (2023) 58(5) *The Management Accountant Journal* 60.

[47]Regulation (EU) 2023/2631 (n 40) (establishing a registration and supervisory regime for external reviewers of European Green Bonds).

[48]Columbia Threadneedle, 'Ecuador's $650 million debt-for-nature swap' (n 22).

[49]'Deal in Ignominious Green in the Galapagos' (CADTM) <https://www.cadtm.org/Deal-in-Ignominious-Green-in-the-Galapagos> accessed 25 October 2026. The source is an advocacy publication, and its figures should be read as the critics' position rather than as an audited assessment.

[50]IFR (n 24).

[51]Rounds (n 19).

[52]DFC, 'DFC Provides $610 Million in Political Risk Insurance' (n 20).

[53]IFR (n 24).

[54]UNCLOS (n 37).

[55]Agreement under the United Nations Convention on the Law of the Sea on the Conservation and Sustainable Use of Marine Biological Diversity of Areas beyond National Jurisdiction (adopted 19 June 2023) UN Doc A/CONF.232/2023/4.

[56]ADB and IFC (n 7).

[57]Regulation (EU) 2023/2631 (n 40).

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