

Beyond Dramatic Imagery

While Seychelles Blue Bond scheme for conservation funding is often portrayed in glowing terms, the initiative has several inherent contradictions

In 2011, Seychelles began a collaboration with The Nature Conservancy to restructure the country's debt and plan a new conservation area. The so-called 'debt-for-nature swap' freed up funds from Seychelles' cumbersome national debt, helping fund a new conservation area with 'no-take' and 'sustainable use' zones. The deal was finalized in 2016. Since then, media outlets around the world have hailed the project that has now rezoned approximately 350,915 sq km of ocean as conservation area.

Such staggering numbers make it easy to rally behind the effort. Headlines like 'Seychelles preserves swathes of marine territory in debt-for-nature deal', or gimmicks like 'Debt for dolphins' appeared in British media outlets in early 2018, after the first areas were protected. In October 2018, the hype shifted to Seychelles' launch of the Blue Bond for conservation funding. It is an additional financing mechanism for conservation and development.

The initiative uses marine spatial planning to minimize conflict among ocean activities. Yet it has invited to the

The Nature Conservancy hopes to replicate this model in other countries, claiming that 'everybody wins' from this debt swap. (See the TedTalk titled 'An ingenious proposal for scaling up marine protection'.) It is important to not take their word as a given. A critical analysis shows contradictions inherent to the initiative.

What is the Seychelles Blue Bond? How did it come about?

The Seychelles Blue Bond is a pilot project led by the World Bank. Interviews available online with representatives from the initiative suggest the idea was first discussed among Seychelles, the Prince of Wales' Charities International Sustainability Unit and the World Bank. The bond was devised to gather private capital from investors hoping to profit from projects that have positive environmental outcomes. Three US-based investment firms—Nuveen, Prudential Financial and Calvert Impact Capital—invested US\$5 mn each in the bonds, hoping to receive in ten years their principal amounts plus interest.

Repayments of this US\$15 mn, plus interest, will come from Seychelles' national budget. The World Bank and the Global Environmental Facility (GEF) stepped in and reduced investor risk, lowering Seychelles' interest repayment costs by providing it additional credit and guarantees. Put simply, a 'blue' bond is like a regular bond, but the capital raised must go towards environmentally friendly projects related to the ocean.

Seychelles needs alternative funding for conservation because its economy depends on sustainable use of marine resources and is vulnerable amid global economic crises. Firstly, Seychelles' biggest revenues derive

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negotiating table industries with a poor environmental track record, including tourism and aquaculture entities. What's more contentious, though, is the presence of industries like oil and gas exploration. It is also not clear exactly how debt-for-nature swaps and blue bonds promote conservation success and sustainable development.

*This article is by **Patrick John Bolliger** (patrick.bolliger@nmbu.no), a master's student in International Environmental Studies at the Norwegian University of Life Sciences (NMBU), Ås, Norway*

from tourism arrivals and export of fish products, with a large share stemming from European markets. It has to import essential commodities like oil and gas and has been hit by increasing energy prices. It sits precariously at the whim of some European countries.

The country's foreign debt became too much for its small economy after the 2008-2009 global economic crisis. It forced the government to accept assistance from the International Monetary Fund (IMF) and the World Bank; the loans were tied to austerity measures. Despite this, Seychelles has maintained a strong social welfare system. Besides, Seychelles is now categorized as a 'high income country', limiting its access to development aid. Its small-scale fisheries are said to be overcapitalized. That is, its fishing efforts have increased while catches have remained relatively stable. They mainly target demersal species through trapping and line fishing in near-shore waters.

This led to another World Bank project called SWIOFish3 (Third South West Indian Ocean Fisheries Governance and Shared Growth Project). The aim of the project is to

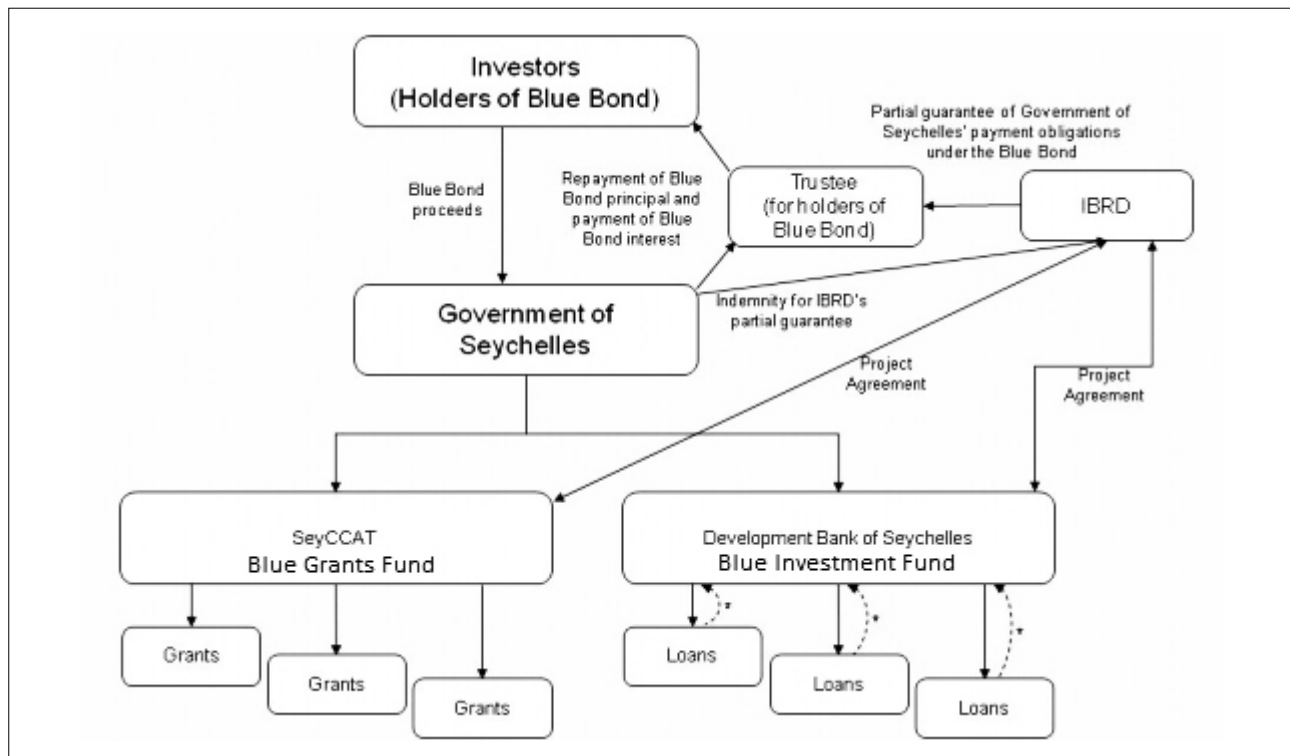
assist Seychelles in regulating its fishery and extending its value chains. It is a programme to improve governance and guide the State's fisheries policy. Since fish resources are central to Seychelles' economy, new fishing regulations are a part of conservation efforts and SWIOFish3 directs some blue bond capital towards achieving these ends.

What type of projects will the blue bond support?

Capital from the blue bond and the debt-for-nature swap will be distributed to projects that support marine conservation, sustainable development or ocean research. Therefore, US\$3 mn raised from the blue bonds was combined with US\$20.2 mn freed up from the debt swap and placed in a national trust fund called SeyCCAT (the Conservation and Climate Adaption Trust of Seychelles).

This trust fund channels money to the marine spatial planning initiative and gives grant funding to businesses and scientific research projects by application through the subsidiary 'Blue Grants Fund', while the remaining US\$12 mn in bond capital is dispersed via the Seychelles Development Bank

Figure 1. Blue Bond Proceeds – Flow of Funds



Source: World Bank. (2017). Project Appraisal Document (PAD2156)

as easy loans to businesses through the bank's 'Blue Investment Fund'. To receive these loans, business projects should comply with the World Bank's environmental and social safeguards.

With SWIOFish3 aiming to extend fisheries value chains, projects will mainly target fish-processing activities. Research and business projects in sectors such as aquaculture, fish processing, product development, and biotechnology to produce fish oils and protein extracts, for example, are eligible for such loans.

Indeed, there are many business opportunities in fish processing to increase the use of fish by-products that may otherwise have been wasted. By extending fisheries value chains, while at the same time restricting fisheries, the World Bank hopes that

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more value can be extracted from fisheries without increasing fishing pressure. Considering this, the Seychelles blue bond and SeyCATT are crucial for stimulating innovation and economic growth, but also for funding the implementation of stricter fishing regulations.

Why is the Seychelles' conservation initiative problematic?

Some Seychellois have reacted negatively to the new conservation initiative, particularly due to new fishing regulations and the government's ambitions to extract oil and gas from the country's exclusive economic zone (EEZ). To help include Seychelles' fishers in designing the new regulations, the blue bond also helps fund a marine spatial planning (MSP) initiative. The initiative is commendable for its iterative approach to planning and zoning Seychelles' EEZ with stakeholder inputs over a long period (2014 – 2020). However, early in the process, one environmentalist

criticized the purpose, feasibility and the lack of transparency in deciding to implement the MSP process. Summaries from several years of stakeholder workshops conducted within the MSP process portray dialogue among stakeholders vaguely. Discussions are reduced to one-line summaries that mask the inherent politics negotiated at such events (see www.seymsp.com/outputs/documents/).

The MSP process has come in for criticism in other contexts, too. In the US, MSP was considered instrumental in defining how plans will operate, rather than informing the overarching goals of the project. In Europe, researchers described how the authorities' strong will to implement strategic economic development objectives over-ruled stakeholder priorities.

In Seychelles, fishers have voiced concerns in the media over stricter fishing regulations. As of this year, boat owners and fishers must purchase licences. In return, the government has pledged to build more infrastructure such as ice facilities and docking areas. Still, one article in *Euromoney*, a finance magazine, quoted a fisher as saying "things are only getting harder for us", referring to bycatch law changes and new rules that make it more difficult for them to access fuel subsidies.

"There are so many of these small things that all add up and impact our lives for the worse. Why would we believe that the final plans for the MSP will work in our favour?" asked the fisher. A recent BBC article also suggests that some fishers feel the new rules are inequitable, with one fisher saying: "I think having a protected area is good, but what has happened now is simply to me a publicity stunt. We have [...] to make sacrifices - but sacrifices should not come only from the fishermen". Additionally, some environmentalists disagree with Seychelles' goal to establish an oil and gas industry within its EEZ.

Through the MSP process, The Nature Conservancy and Seychelles are incorporating input from the state-owned oil and gas company, PetroSeychelles. While oil and gas are currently in the exploratory phase

in Seychelles, it seems the country anticipates a commercially feasible oil strike. For example, a tax regime for oil extracting companies was enacted in 2008, and then reformed in 2013. The World Bank also donated funds to support Seychelles in implementing an initiative to ensure transparency in their oil and gas industry.

This contradicts Seychelles' reputedly 'green' image. However, since the country's economy is largely dependent on importing petroleum for energy, the Seychelles government believes that establishing its own oil and gas supply can reduce the effect of international price fluctuations, providing new jobs and economic growth. A map provided by PetroSeychelles shows that exploration blocks, currently leased by an Australian company known as Sub-Saharan Resources Ltd., lie about 25 km from the outer islands of the main archipelago. On the other hand, exploration wells lie much further afield, about 100 km west of the main islands.


According to Seychelles MSP documents, it is still unclear how oil and gas will be regulated in new 'sustainable use zones' and talks regarding a 'decision-matrix for vulnerable habitats and petroleum' are ongoing. Nevertheless, if The Nature Conservancy plans to replicate the 'blue bond for conservation' model, support for oil and gas extraction should not be a corollary in other countries.

A few independent academic articles have assessed Seychelles' conservation funding. A 2018 article analysed project documents from the Seychelles MSP and its funding system, warning against mirroring the Seychelles model in other places. It argues that the US\$21.6 mn resulting from the debt swap to capitalize a trust fund does not reflect the value of the ecosystem services within Seychelles' EEZ. However, the funding was earmarked to help protect and sustainably use Seychelles' ecosystem services, not to value and commodify them. It also points to a lack of transparency in the blue bond, questioning how it will translate to increased biodiversity and ecosystem

service protection. Yet, it does not analyse the SWIOFish3 project's role in reducing pressure on fisheries in Seychelles. Other reports have since clarified transparency issues to some degree.

What do we learn?

Seychelles' new conservation funding scheme is complex. Conservation there is intrinsically tied to economic development and profiting from ocean resources. This applies to most people living in Seychelles, but also to blue bond investors abroad. However, measuring the impact of projects funded by the blue bond on the environment is somewhat distorted by Seychelles' parallel effort to exploit oil and gas resources within their conservation area. Nevertheless, in a country dependent on importing energy across the sea, producing their own oil and gas might be a more environmentally friendly approach.

Even so, the Seychelles initiative has been dramatized as a victory for conservation due to the massive area now protected and because of its 'innovative' funding scheme. This is often portrayed with the imagery of iconic tropical marine habitats and fishers hauling in their catch. However, the lack of social scientific analysis on the effects of different facets of planning, participation and fishing regulations that have resulted from the debt swap and blue bond funding creates a research gap. It needs to be filled. If The Nature Conservancy plans to scale up this form of conservation financing, especially in countries that are less democratic and wealthy than Seychelles, they must ensure that those who lose out from conservation have an adequate safety net. Furthermore, The Nature Conservancy should work more actively to detach their conservation initiatives from non-renewable energy sources to avoid contradicting the aims of their projects. 

For more

<http://www.fao.org/blogs/blue-growth-blog/innovative-ocean-financing-seychelles-blue-bonds/en/>

Innovative Ocean financing: Seychelles Blue Bonds

<https://www.worldbank.org/en/news/feature/2018/10/29/sovereign-blue-bond-issuance-frequently-asked-questions>

Sovereign Blue Bond Issuance: Frequently Asked Questions

<http://www.seychellesnewsagency.com/articles/3127/Should+Seychelles+keep+it+in+the+ground+Finance+minister+responds+to+oil+exploration+concerns>

Should Seychelles keep it in the ground? Finance minister responds to oil exploration concerns

<http://glispa.org/commitments/11-commitments/208-seychelles-blue-economy>

Seychelles' Blue Economy Strategic Policy Framework and Roadmap: Charting the Future (2018-2030)