

India's First Blue Bond:

Instrument Design, Market Context, and Policy Implications

Published: June 2026

Author: Research and Policy Team, Sustainable Capital Research Foundation

Categories: Blue Finance, Sustainable Debt, Maritime Policy, Capital Markets, India

KEY FINDINGS

Sagarmala Finance Corporation (SMFCL), India's first maritime-focused Non-Banking Financial Company, is preparing to issue up to INR 10 billion (approximately USD 105 million) in blue bonds in FY2026-27, representing India's inaugural entry into this asset class. Cumulative global blue bond issuance reached USD 15.25 billion by mid-2025, more than doubling year-on-year. India's blue economy contributes approximately 4% of national GDP while facilitating 95% of the country's trade by volume. India's broader sustainable debt market has grown 186% since 2021, reaching USD 55.9 billion by end-2024. The SMFCL issuance carries an AA+ credit rating from CARE and India Ratings, with a confirmed 10-year tenor that addresses a structural asset-liability mismatch in maritime lending.

I. Introduction

On 29 May 2026, Managing Director L.V.S. Sudhakar Babu confirmed to Reuters that Sagarmala Finance Corporation would issue India's first blue bond, marking a significant structural development in the country's sustainable finance architecture. The instrument, planned for FY2026-27, targets up to INR 10 billion in primary issuance with a greenshoe option of INR 5 billion, for a total potential mobilisation of approximately USD 158 million at prevailing exchange rates.

The announcement is notable on two counts. First, it signals the formal entry of a state-owned, sector-specific financing institution into the labelled sustainable debt market. Second, it introduces a use-of-proceeds instrument with a distinctly maritime and coastal character into a domestic sustainable finance ecosystem previously anchored almost entirely by clean-energy and transport green bonds. The blue bond is not merely a financing event; it is a market-creating act that, if executed credibly, could establish pricing benchmarks, attract dedicated international capital, and open

the asset class to subsequent issuers across India's port and waterways infrastructure.

"A successful SMFCL blue bond could give other Indian issuers a template for blue finance and define the contours of an emerging domestic market."

II. The Instrument: Defining the Blue Bond

A blue bond is a use-of-proceeds debt security in which capital is directed exclusively toward ocean-linked and coastal projects that satisfy defined sustainability criteria. The instrument functions structurally like a conventional fixed-income security but carries additional disclosure, reporting, and verification obligations tied to its environmental purpose. Eligible project categories span sustainable fisheries and aquaculture, marine protected areas, pollution prevention in coastal zones, marine renewable energy, sustainable port and waterway infrastructure, and coastal climate resilience.

The governing framework draws on the Green Bond Principles established by the International Capital Market Association (ICMA), with proceeds designated toward UN Sustainable Development Goal 6 (Clean Water and Sanitation) and, more centrally, SDG 14 (Life Below Water). In 2023, a collaborative practitioner's guide developed by IFC, ICMA, UNEP-FI, UN Global Compact, and the Asian Development Bank codified market standards for blue bond issuance, providing issuers and investors with consistent criteria for project evaluation, impact monitoring, and reporting. Blue bonds must operate within these standards to maintain market credibility and avoid the reputational damage of greenwashing claims, which have already undermined investor confidence in adjacent sustainable debt categories.

Unlike green bonds, which finance a broad taxonomy of environmental projects, blue bonds impose a sharper thematic constraint. That specificity is both their competitive advantage and their principal structural challenge: the pipeline of credibly "blue" assets must be demonstrably large enough to justify the instrument and absorb investor demand at scale.

III. The Issuer: Sagarmala Finance Corporation

SMFCL was established in 2016 under India's Ministry of Ports, Shipping and Waterways as the financing arm of the Sagarmala Programme, the government's flagship maritime infrastructure initiative. The corporation received its Non-Banking

Financial Company licence from the Reserve Bank of India on 19 June 2025 and was formally inaugurated on 26 June 2025, giving it regulatory standing to raise market debt independently. It carries an AA+ credit rating from both CARE and India Ratings, placing it on par with the top tier of public-sector bond issuers in India.

SMFCL's lending portfolio spans greenfield and brownfield port development, last-mile port connectivity, inland waterways, coastal road networks, and shipbuilding facilities. Its mandate also includes administration of the government's INR 25,000 crore Maritime Development Fund, which includes an INR 5,000 crore Interest Incentivisation Fund enabling SMFCL to provide concessional interest subsidies to qualifying borrowers. The corporation plans to raise up to INR 100 billion in FY2027 across instruments, of which the proposed blue bond is the first tranche.

A structural rationale underpins the choice of a long-tenure bond. SMFCL currently carries an asset-liability mismatch of considerable operational concern: its average loan disbursement tenure stands at approximately 12 years, while existing term borrowings average only 3.5 years. A 10-year blue bond, confirmed by the Managing Director, directly addresses this mismatch, aligning funding tenure with the capital-intensive, long-gestation nature of port and waterway infrastructure. The instrument's sustainability label is therefore not incidental to the financing strategy; it serves a functional purpose in attracting the patient, long-horizon capital pools that the corporation requires.

The transaction advisers appointed are Trust Investment Advisors, AK Capital Services, and Tipsons Consultancy Services. Issuance timing remains contingent on bond market conditions. India's benchmark 10-year government bond yield had risen approximately 35 basis points to 6.996% by late May 2026, reflecting geopolitical pressures; the corporation will price accordingly.

"The 10-year tenor is not merely a structural preference. It is a direct response to a 12-year average loan book facing a 3.5-year average borrowing duration."

IV. The Global Blue Bond Market: Scale, Composition, and Trajectory

The global blue bond market remains nascent relative to the broader sustainable debt universe, but its growth trajectory has accelerated sharply. Cumulative issuance reached USD 15.25 billion by mid-2025, more than doubling year-on-year and

recording the fastest growth rate across any sustainable bond category in that period, according to Observer Research Foundation analysis drawing on World Bank data. The market is nonetheless thin: at just 0.24% of the total sustainable bond market, it remains fragmented and episodic in character.

Three categories of issuer dominate the market. Sovereign governments, including Seychelles (the pioneering 2018 issuance of USD 15 million, structured with World Bank guarantees and GEF concessional support), and Fiji have anchored the development narrative but are constrained by fiscal capacity. Multilateral development banks, among them the Asian Development Bank, the Nordic Investment Bank, and the Export-Import Bank of Korea, have provided the bulk of volume through their strong balance sheets and diversified investor access. Corporate issuers, including Orsted and DP World (whose USD 100 million 2024 issuance was the first in the Middle East and North Africa region), have demonstrated the instrument's viability beyond the sovereign and multilateral space. Indonesia's outcome-linked coral bond represents a further innovation in the structuring of blue instruments toward measurable ecological outcomes.

The Asia-Pacific region has historically dominated issuance activity, reflecting the concentration of major maritime economies, large coastal populations, and institutional development bank presence. The Bank of China issued Asia's first corporate blue bond in 2020. Projected market size stands at USD 70 billion by 2030, according to reform-oriented analyses, though reaching that threshold will require resolving persistent supply-side constraints including the scarcity of bankable blue assets, high transaction costs for first-time issuers, and underdeveloped impact measurement infrastructure.

India has been conspicuously absent from this market until now. Its entry through a state-owned institution with an AA+ rating, an explicit maritime mandate, and a large identified project pipeline positions the country to become a structurally significant blue bond issuer over the medium term, contingent on the success of the initial transaction and subsequent regulatory and taxonomic development.

V. India's Blue Economy: Economic Weight and Structural Gaps

India's blue economy encompasses all commercial and productive activities linked to its maritime domain: fisheries and aquaculture, shipping and port logistics, offshore oil and gas, marine renewable energy, coastal tourism, and marine biotechnology. Official estimates, including those in India's Draft Blue Economy Policy Framework,

place its contribution at approximately 4.1% of national GDP, a figure that most analysts regard as conservative given the methodological challenges of disaggregating ocean-linked activity from broader sectoral accounts.

The maritime geography is formidable. India commands a coastline of 7,517 kilometres, an Exclusive Economic Zone extending across 2.2 million square kilometres, and nine major port clusters handling the bulk of the country's external trade. Some 95% of India's trade by volume moves through maritime routes. The fisheries sector alone supports approximately 3.5 million people directly and an estimated 30 million across allied value chains; India ranked as the third-largest fish producer globally as of 2023, contributing around 8% of global fish production.

Despite these endowments, the blue economy's financial mobilisation has been structurally weak. Governance fragmentation across multiple ministries, the absence of a formal blue economy taxonomy for capital markets purposes, and the limited availability of long-tenor, concessional capital have collectively suppressed investment. The government's ambition is expressed in its Vision 2047 maritime strategy, which targets an increase in the maritime sector's share of national GDP from 4% to 12% and an improvement in India's global maritime rank from 16th to 5th. Realising that trajectory will require a sustained and diversified capital mobilisation strategy, of which the blue bond is an initial and important component.

In September 2025, the Union Cabinet approved an INR 69,725 crore package for the shipbuilding sector, structured around capacity expansion, long-term financing, shipyard development, and institutional strengthening, including extension of the Shipbuilding Financial Assistance Scheme to March 2036 and the establishment of a National Shipbuilding Mission. The policy commitment is clear; the financing architecture is now beginning to follow.

"With 95% of India's trade moving by sea and a maritime ambition targeting 12% of GDP by 2047, the gap between policy aspiration and capital mobilisation has been the defining constraint."

VI. India's Sustainable Debt Market: The Broader Trajectory

The SMFCL blue bond arrives within a sustainable debt market that has expanded with considerable velocity. By the end of 2024, cumulative aligned green, social, sustainability, and sustainability-linked debt issued by Indian entities had reached

USD 55.9 billion, a 186% increase from USD 21.4 billion in 2021, according to the Climate Bonds Initiative's India Sustainable Debt State of the Market 2024 report. India ranks as the fourth-largest emerging market source of aligned sustainable debt globally, behind China, South Korea, and Chile.

Sovereign green bonds have served as the institutional anchor of this market. Since January 2023, the Government of India has issued eight tranches of sovereign green bonds totalling INR 477 billion (approximately USD 5.7 billion), creating a domestic sustainable yield curve and providing the pricing reference that corporate and quasi-sovereign issuers required to calibrate their own issuances. The debut January 2023 tranche attracted oversubscription of more than four times and priced inside the conventional yield curve, securing a greenium of six basis points under conditions of rising rates and rupee depreciation. Green bonds account for 83% of total aligned issuance, with clean energy and transport as the primary use-of-proceeds categories.

The gap between this trajectory and the financing requirement is significant. India's estimated annual climate finance need through 2030 stands at USD 170 billion; actual deployment has averaged substantially below that level. The sustainable debt market, for all its growth, addresses only a fraction of the transition financing requirement. Diversification into sub-categories like blue bonds, alongside the development of social and nature finance instruments, is necessary rather than optional.

The blue bond is a meaningful addition to this architecture precisely because it opens a sector that sovereign green bonds and corporate climate instruments have not addressed: coastal and maritime infrastructure, which sits at the intersection of economic productivity, employment, trade efficiency, and climate resilience. No existing domestic instrument has been structured explicitly around this nexus.

VII. Structural Considerations and Market Risks

The transaction faces several risks that are characteristic of inaugural issuances in thin, developing sub-markets. Pricing risk is the most immediate: with India's 10-year benchmark yield elevated and the blue bond category lacking a domestic precedent from which to derive a pricing reference, investors and the issuer may face material uncertainty in rate-setting. A poorly priced inaugural bond would not merely raise borrowing costs for SMFCL; it would impair the prospects of subsequent blue bond issuers by creating an unfavourable template in investor memory.

Impact measurement and reporting obligations represent a second structural challenge. Blue bonds require issuers to monitor and disclose environmental outcomes against agreed metrics, a discipline that demands dedicated data infrastructure, independent verification, and annual reporting. For SMFCL, which administers a lending portfolio across port, waterway, and shipping assets, disaggregating blue-eligible from non-blue expenditure and reporting marine environmental outcomes will require institutional capacity-building beyond what conventional debt management entails.

Third, taxonomic ambiguity remains unresolved in the Indian regulatory context. SEBI's Green Bond framework, introduced in 2021 and updated since, does not yet include a dedicated blue taxonomy with defined eligibility criteria, impact metrics, and verification requirements for marine and coastal assets. The absence of a formal domestic taxonomy places the burden of credibility on the issuer's own framework and the quality of its third-party review, raising due diligence requirements for investors. Market credibility across the instrument's 10-year life will depend on the robustness of that framework from the outset.

Finally, demand-side concentration risk merits attention. The current buyer base for blue bonds globally consists disproportionately of development finance institutions and specialist sustainability-mandate funds. Broadening demand to include domestic institutional investors, insurance companies, and pension funds will require investor education, secondary market liquidity support, and, over time, the construction of a yield curve through repeated issuance. A single inaugural transaction cannot accomplish this alone, but it must not undermine the conditions necessary for sequels.

VIII. Policy Implications

The SMFCL blue bond raises several questions of immediate policy relevance for India's sustainable finance architecture. The most pressing is taxonomic: a credible blue finance market in India requires a formal domestic eligibility framework that specifies project categories, environmental thresholds, impact indicators, and verification requirements specific to maritime and coastal assets. SEBI's broader green bond taxonomy should be extended to include a dedicated blue track, coordinated with the Ministry of Ports, Shipping and Waterways and informed by existing international standards from ICMA and IFC. Without this, each issuer will construct its own framework, producing inconsistency and investor confusion at scale.

Second, concessional support mechanisms warrant consideration for the early phase of market development. The Seychelles' pioneering 2018 blue bond was achievable only because a USD 5 million World Bank partial guarantee and a USD 5 million GEF concessional loan compressed the borrowing cost from 6.5% to 2.8%. SMFCL, with its AA+ rating and sovereign backing, does not require this level of scaffolding; but smaller port authorities, municipal coastal infrastructure entities, and private maritime companies that might follow as issuers almost certainly will. A domestic guarantee mechanism, potentially administered through the National Bank for Financing Infrastructure and Development (NaBFID), could materially accelerate market depth.

Third, the SMFCL issuance presents an opportunity to internationalise India's position in the global blue finance discourse. The country's vast maritime domain, large coastal population, and structural financing needs make it a natural anchor for regional blue capital market development, particularly in the context of the Indo-Pacific Economic Framework and India's G20-era sustainable finance leadership. A credible inaugural issuance, followed by a transparent impact report, would sharpen India's credibility as a blue economy financing destination for international institutional investors.

Finally, the connection between blue bonds and natural capital accounting deserves explicit policy attention. India's marine ecosystems, including mangroves, seagrass meadows, and coral reefs, provide economic services that are systematically excluded from national accounts. Developing a natural capital accounting framework for the blue economy, as called for in India's Draft Blue Economy Policy Framework's proposed National Accounting Framework for the Blue Economy and Ocean Governance, would provide the evidentiary foundation for biodiversity-linked blue instruments and strengthen the policy case for continued investment in marine ecosystem protection as a component of the broader sustainable finance agenda.

IX. Conclusion

India's first blue bond is not a marginal event in its sustainable finance landscape. It is the opening of a financing channel that, if institutionalised credibly, could mobilise patient capital at scale for one of the country's most economically significant and financially underserved sectors. The instrument's success will be judged not by the size of the inaugural transaction alone, but by whether it establishes pricing precedent, demonstrates impact reporting discipline, and creates the conditions for a subsequent issuance pipeline.

The structural logic is compelling. A maritime economy contributing 4% of GDP, targeting 12% by 2047, handling 95% of national trade by volume, and employing tens of millions in coastal livelihoods cannot be financed at the required scale through conventional debt alone. Blue bonds, positioned at the intersection of trade infrastructure, climate resilience, and ocean stewardship, are a natural fit. The question for policymakers and market practitioners is not whether this instrument belongs in India's sustainable finance architecture, but how rapidly and rigorously the conditions for its scale can be constructed.

The cumulative global blue bond market stands at USD 15.25 billion after seven years of development. India's entry, through a state-backed entity with a large project pipeline, an investment-grade rating, and a sovereign policy mandate, has the potential to materially alter that trajectory over the coming decade.

ABOUT SCRF

The Sustainable Capital Research Foundation (SCRF) is an independent research, policy advisory, and think tank institution headquartered in New Delhi. SCRF works at the intersection of sustainable finance, capital markets, and climate policy, with a particular focus on emerging markets and the Global South. This commentary is produced for informational and policy reference purposes. It does not constitute financial, legal, or investment advice.

*www.sustainablecapital.in | office@sustainablecapital.in | +91 98715 42063
211 Okhla Phase III, Okhla Industrial Estate, New Delhi 110020*