



Global
Landscapes
Forum

Photo by Dante Muriyaso/CIFOR

White Paper

6 June 2016, Royal Society, London

Investing for impact and value in the marine environment

The Sustainable Ocean Fund



This White Paper was produced by
Althelia Ecosphere

What do participants need to know about the topic?

Coasts and oceans are among the most productive ecosystems on the planet. They encompass over 70 percent of the Earth's surface, providing an array of services that directly and indirectly support economic activity and growth. These support services include protection from weather and natural hazards; contributions to climate resilience; the provision of global fisheries and aquaculture; and offerings to the energy, trade and tourism sectors, among others. What is more, marine ecosystems and the species inhabiting them have evolved to their present state over hundreds of millions of years and possess intrinsic, priceless value. The ocean is also by far the largest carbon sink in the world: it absorbs 20 to 35 percent of carbon emissions and approximately 90 percent of the Earth's carbon dioxide is stored and cycled through the ocean.

From a monetary standpoint, the ocean's value is vast. According to the World Wide Fund for Nature (WWF), the services provided by marine bio-resources are valued conservatively at USD 2.5 trillion annually. The United Nations Environment Programme estimates that over 60 percent of the world's total Gross National Product comes from areas within 100 kilometers of our coastlines. Worldwide revenue from seafood amounts to more than USD 190 billion, while marine and coastal tourism generate approximately USD 161 billion annually. Fishing, aquaculture and tourism combined provide over 300 million jobs worldwide. In short, oceans help underpin global prosperity and food security and are fundamental to the long-term existence of society.

However, mounting development pressures mean that our coastal habitats and fisheries are under siege from over-exploitation and acute environmental change. Over the past fifty years there has been a dramatic decline in the world's fisheries. Ninety percent of global fish stocks are now over exploited or fully exploited.

Deforestation of mangroves exceeds the rate of loss of terrestrial tropical forests by three to five times and almost one third of all seagrasses have been lost. In parallel, 50 percent of the world's corals have disappeared and the WWF Marine Living Planet Index has declined by over 39 percent between 1970 and 2010. As our natural assets are degraded, the ocean is losing its capacity to feed and provide livelihoods for hundreds of millions of people, at the same time becoming a less reliable carbon sink for manmade greenhouse gas emissions.

The Sustainable Ocean Fund (SOF) is an impact investment vehicle that addresses these challenges by bringing meaningful scale and transformative investments to sustainable ocean and coastal projects globally. The SOF will generate returns by originating, structuring and providing transitional finance via targeted project lending in sustainable fisheries, aquaculture, seafood supply chains and related coastal development that support a transition to environmental and social sustainability and underpin the "Blue Economy".

The investment thesis is simple – better-managed fisheries and coastal habitats are more profitable in the longer-term than poorly managed ones. They can support higher levels of harvest, require lower levels of effort (are more operationally efficient) and can access premium and value-add markets. Indeed, many existing pilots demonstrate that sustainable seafood production systems can outperform and be more economically competitive than unsustainable 'business-as-usual' practices. Environmental Defense Fund research suggests most fisheries are tremendously undervalued assets and that annual fishing sector profits could increase by USD 37 billion within just 10 years under sustainable management.

Improvements in productivity in aquaculture can shift production away from fragile marine environments, allowing needs to be met and resources to be conserved. Further value can be built both on and off the water by improving fish handling, processing and routes to market to increase the value of landed catch and avoid environmental and economic waste. In addition, improved integrated management programs can work to turn marine waste and pollution – which can themselves have significant negative impacts on fish stocks, biodiversity and quality of life for coastal communities – into cost-neutral or profitable recycling and waste-to-energy systems.

As national governments look to maximize their 'Blue Economies' there is also a pressing need to invest in sustainable infrastructure that can accelerate economic development against a backdrop of increasing inequality. As the global migration to cities and coasts continues, there will need to be investment in coastal infrastructure and economic opportunities. People will require access to modern energy, clean water and services that allow them to live without polluting and destroying their immediate environments.

At the Global Landscapes Forum: The Investment Case in London on 6 June 2016, the expert session will largely focus on a fund approach to ocean investment, using the example of the Sustainable Ocean Fund to frame the discussion.

Table 1. Components of the Blue Ocean Economy and investment areas for the SOF.

Type of activity	Ocean service	Established industries	Emerging industries	New industries	Drivers of future growth
Harvesting of living resources	Seafood	Fisheries	Sustainable fisheries		Food security
	Marine bio-technology		Aquaculture	Multispecies aquaculture	Demand for protein
			Pharmaceuticals, chemicals		R&D in healthcare and industry
Extraction of non-living resources, generation of new resources	Minerals	Seabed mining			Demand for minerals
			Deep seabed mining		
	Energy	Oil and gas		Renewables	Demand for alternative energy sources
	Fresh water		Desalination		Freshwater shortages
Commerce and trade in and around the ocean	Transport and trade	Shipping			Growth in seaborne trade
		Port infrastructure and services			International regulations
	Tourism and recreation	Tourism	Ecotourism		Growth of global tourism
		Coastal development	Sustainable infrastructure		Coastal urbanization
					Domestic regulations
Response to ocean health challenges	Ocean monitoring and surveillance		Technology and R&D		R&D in ocean technologies
	Carbon sequestration		Blue carbon (i.e. coastal vegetated habitats)		Growth in coastal protection and conservation activities
	Coastal protection		Habitat protection and restoration		
	Waste disposal		Marine waste collection and recycling	Assimilation of nutrients, solid waste	

Source: Adapted from the Economist Intelligence Unit Ocean Economy Report.

What are the current challenges in relation to the topic?

We will not achieve the goal of a sustainable 'Blue Economy' (better fishing, sustainable aquaculture, more responsible development) without attracting new sources of capital and realigning existing flows. However, to date the sector has been slow to attract investment owing to a number of interrelated challenges. Some of the challenges as listed below are shared with investments in sustainable landscapes and some are unique to oceans:

- lack of perception and understanding of the scale and urgency of the ocean challenge and opportunity
- limited investment-ready marine projects and a lack of knowledge regarding bankable opportunities, as well as few credible investment case studies to point to in the space
- several NGOs are doing credible work around policy and capacity-building, however few organizations are developing a pipeline of investment opportunities
- investment ticket sizes are typically smaller than larger institutional investors' minimum investment size but larger than many individual impact investors' desired allocation
- lack of understanding of the composition and nature of marine/ocean assets and how they can be organized to receive and repay investment
- ocean industries and in particular aquaculture are perceived as the 'Wild West' with little regulation and few formal and reputable market structures to provide investors with comfort
- projects can be perceived as difficult and risky with many operational and political challenges to overcome, and issues such as leakage and enforcement are particularly acute in developing country contexts
- few common legal frameworks and market structures across the 'Ocean Economy', particularly in the developing world where the need for investment in the transition to sustainability is the greatest
- individual projects can be quite different and require context-specific interventions and financing packages, for example, fishery and aquaculture species have widely varying biological growth and recovery rates.

Which concrete measures do you propose to overcome these challenges?

Building on our experience with what works on land, Althelia has developed the SOF's strategy and structure to meet these challenges and demonstrate a model for investment in a sustainable 'Blue Economy'.

SOF strategy

1. **A diversified project pipeline with multiple** revenue streams in the form of project cash flows, rights, quotas, certified commodities and products and ecosystem services, thereby achieving diversification of risks and improved returns
2. **Selecting mature and semi-mature projects** (where significant feasibility work is underway or has already been completed, relevant licensing and concession work is underway and local stakeholders are actively involved in project design) and looking to provide financing and project management capability to leverage and accelerate investment readiness and implementation
3. The use of **rigorous screening criteria, including:**
 - an environment that supports the implementation and maintenance of managed access and/or fishery property rights, and such an environment can be present through effective national or regional policy or can be implemented and created at the project design level
 - the presence of an effective counterparty to receive investment that is present or can be created as part of the project activity with the aptitude to change or implement practices and move to increased

sustainability and economic value. Creditable sponsors, local stakeholders and communities engaged as part of a project's design are brought into and aligned with the overall theory of change/project strategy being pursued to ensure long-term sustainability of investments

- the ability to obtain verifiable data, for example on the stock status of the fishery, before investment and over the life of the project and the ability of the project to enforce stock management and sustainable yield policies in the project sphere.

SOF financial structure

- **Impact-focused capital:** The SOF is looking for impact-focused investors who are seeking to demonstrate that strong financial returns can accompany and be a result of the transition to sustainability. The focus on flexible lending mechanisms with the use of coupon holiday and bullet repayments enables projects to make the transition to sustainability without the immediate burden of debt service. However, the use of loan contracts and sustainability covenants ensures compliance with environmental, social and governance (ESG) criteria.
- **First loss facility:** The SOF is discussing with a major multilateral the provision of a 50 percent principle protection or first loss facility covering the investment portfolio and extending to private side investors. Such guarantees can allow for a national or regional-scope

project and would reduce the SOF's exposure to market price and loan default risks for eligible projects. It is possible that not all projects in the portfolio would benefit from the availability of the guarantee facility, but it is envisaged that the majority of investments will be structured to fit under the available guarantee.

- **Debt financing:** There will be a focus on lending, purchase and benefit-sharing agreements rather than equity to reduce cash out, improve the risk profile of investments and avoid problematical exits, as well as the ESG and impact-related SOF mission.

SOF toolkit

Working in partnership with the Environmental Defense Fund and Conservation International, the SOF will develop a toolkit relevant to investors, project developers and policy makers that explains our investment process and provides experienced-based approaches to help develop the market.

The toolkit will include:

- ESG standards for making investments
- investment screening criteria
- transaction case studies
- risk mitigation tools.

What are your proposed milestones for implementation?

We aim to launch the Sustainable Ocean Fund in Q4 2016.

Who carries responsibility for/can support implementation?

Althelia Ecosphere

The SOF is a public-private partnership being led by general partner Althelia Ecosphere – a Luxembourg-based asset manager focused on aligning economy with ecology.

The management teams of Althelia Ecosphere and the SOF are experienced, multi-disciplinary professionals with expertise in conservation and natural capital, investment structuring and financing, sustainable business practices, environmental and social governance and risk management. Together with the Althelia platform, the SOF team has 50+ years of cumulative experience in environmental finance and sustainable development over which it has developed an extensive network in the marine space for the origination and execution of deals. The team has demonstrated capabilities in structuring, optimizing and monetizing transactions in Althelia Climate Fund 1.

Althelia is currently supported by two international NGOs that provide scientific and technical advice to the fund:

Conservation International

Conservation International (CI) is one of the largest non-profit conservation organizations and is headquartered in Arlington, Virginia. It seeks to ensure the health of humanity by protecting the Earth's ecosystems and biodiversity, and their activities are structured around six key initiatives that affect human well-being: climate, food security, freshwater security, health, cultural services and species contribution. The SOF and CI signed a framework agreement in 2016 whereby the SOF gets access to technical assistance funding, pipeline and technical capabilities.

Environmental Defense Fund

The Environmental Defense Fund (EDF) is a significant global non-profit environmental advocacy group. The group is known for its work on issues including global warming, ecosystem restoration, oceans and human health, and advocates using sound science, economics and law to find environmental solutions that work. EDF is currently one of the leading global advocates for fisheries reform and in particular the business case and approach to shifting fisheries to managed access. Althelia and EDF signed a framework agreement in 2016 for EDF to act as scientific and technical advisor to the SOF.

Questions for discussion

Participants at the Global Landscapes Forum in London can explore several questions related to this topic, including but not limited to:

- **How can meaningful deal flow in the 'Blue Economy' be stimulated?** What tools, mechanisms and institutions are required to stimulate the growth of both the 'demand' for capital (credible investible opportunities), as well as the 'supply' of that capital, i.e. a willing investor base. What role can intermediaries play in stimulating the market? What role should NGOs and public bodies play and how can the private sector accelerate activity? Is there a role for enabling finance?
- **What are the different requirements for public, institutional and private investors interested in this field?** How can they be brought together in a complimentary way that makes the most efficient use of precious philanthropic and grant capital and maximizes the mobilization of capital for impact? What mechanisms can be put in place to mitigate risks and build investor confidence in the sector?
- **How should oceans be handled in an international agenda dominated by climate, landscapes and energy?** Where does the sector fit and how can investors build meaningful capacity to understand, navigate and add value in this space?

Background documents

- Economist Intelligence Unit. 2015. *The blue economy: Growth, opportunity and a sustainable ocean economy*. London: The Economist. Available at: http://www.economistinsights.com/sites/default/files/Blue%20Economy_briefing%20paper_WOS2015.pdf
- [EDF] Environmental Defense Fund. 2015. *The Potential for Global Fish Recovery: How Effective Fisheries Management Can Increase Abundance, Yield and Value*. Washington, DC: EDF. Available at: <http://www.edf.org/sites/default/files/content/upside-model-report-summary.pdf>
- [EDF] Environmental Defense Fund and [ISU] The Prince of Wales's International Sustainability Unit. 2014. *Towards Investment in Sustainable Fisheries: A Framework for Financing the Transition*. New York: EDF and ISU. Available at: <http://www.pcfisu.org/wp-content/uploads/2014/07/Towards-Investment-in-Sustainable-Fisheries.pdf>
- Hoegh-Guldberg O, et al. 2015. *Reviving the Ocean Economy: the case for action – 2015*. Geneva: WWF International. Available at: <http://wwfintcampaigns.s3.amazonaws.com/ocean/media/RevivingOceanEconomy-REPORT-lowres.pdf>

Contact

David Barley

Investment Director
Althelia Ecosphere

david.barley@althelia.com / +44 203859 6981



Global Landscapes Forum | *London*

The Investment Case

6 June 2016, Royal Society, London

landscapes.org

Coordinating partners



Strategic partners



Funding partners



Author

