Task Force 6
Accelerating SDGs: Exploring New Pathways to the 2030 Agenda

GENERATING FINANCE FOR BLUE ECONOMY TRANSITION

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Abstract

The combined coastline of G20 territories is 45 percent of the world's. Harnessing the power of the Blue Economy, therefore, is vital given oceans' crucial role in sustainable development goals. However, there are various challenges, such as a large financing gaps and lack of global standards and consensus on what constitutes 'blue financing'. As investments are facing counteracting harmful subsidies and poor project bankability, there is little appetite for private, public, and philanthropic funding. The G20 can catalyse financing for Blue Economy transition by promoting targeted financial instruments such as debt-for-nature swaps, blue bonds and loans, conservation outcome-based financing, and parametric insurance. Key recommendations include adopting robust standards and frameworks; strengthening oversight; eliminating regressive subsidies; deploying innovative financial instruments; implementing cohesive policies and coordinated responses; increasing public investment; de-risking investments; incentivising private finance, and increasing partnerships.

The Challenge

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‘Blue Economy’ Defined

Blue Economy implies the sustainable use of ocean resources for economic growth as well as improved livelihoods and jobs, while preserving the health of the marine ecosystem. Blue Economy activities recognise the ocean as a critical space for sustainable development, balancing conservation with resource use and promoting regeneration. These activities decouple socio-economic development from environmental degradation, thereby contributing to marine ecosystem protection, encouraging sharing of benefits, promoting equity in access and inclusive growth, enhancing abundance, and leading to improved wellbeing.

Blue Economy in the G20 Countries and Current Threats

The G20 is made up of coastal nations, comprising 45 percent of the coastline and 21 percent of Exclusive Economic Zones (EEZ) globally. Maritime activities play a crucial role in the economic growth of the G20 countries through international shipping, tourism, providing natural resources, and fossil fuels. They contribute to food and energy security and supporting livelihoods through ship building, fishing, maritime services, and other ancillary industries. The global ocean produces over half of the world’s oxygen, acts as a heat sink, and mediates global weather. Marine and coastal ecosystems provide critical coastal protection, carbon storage, and sequestration. The ocean also provides non-material benefits such as a communal identity, recreation, aesthetic, and scientific benefits, and is part of humanity’s spiritual and cultural heritage.

Threats to coastal and marine ecosystems emerge from human pressures including marine pollution, climate change, overfishing, unsustainable coastal development, gaps in ocean governance, poor management, lack of enforcement capacity, and the primacy of economic growth over other goals. Among other deleterious effects, this leads to the degradation of natural capital and decreasing resilience. Further, there are several direct and indirect synergies between SDG 14 (‘Conserve and sustainably use the oceans, seas and marine resources for sustainable development’) and other SDGs. Considering the centrality of the

global ocean in delivering sustainable development, transitioning to the Blue Economy is vital for the G20 countries.

Large financing gaps

According to the WWF, the ocean's total asset base is at least US$24 trillion, with an annual contribution of US$2.5 trillion to the global economy.[1] Other studies estimate the annual contribution at US$1.5 trillion.[2] Indeed, life on earth is dependent on the oceans, and healthy marine and coastal ecosystems deliver higher economic and social benefits. While conventional maritime sectors continue to attract capital, investment in the Blue Economy is extremely inadequate, with estimates indicating that only US$13 billion were invested in the last 10 years.[3] The World Bank PROBLUE program—an Umbrella Multi-Donor Trust Fund to help countries develop their Blue Economy—has received US$200 million, which is a small percentage of the US$7-billion active ocean projects portfolio of the World Bank.[4] The financing gap for establishing and maintaining MPAs to reach 10 percent of the protected area (Target 14.5 of SDG 14) is USD$7.7 billion per year, and the required investment is 20-30 times that of its current value.[5] Extrapolating this to meet the Kunming-Montreal Global Biodiversity Framework's target of ensuring 30 percent protected areas (inland water, coastal, and marine areas) by 2030 suggests a USD$27.7-billion per year financing gap.

Absence of a Blue Economy financing framework and global standards

Financing for the Blue Economy suffers from a lack of frameworks, global standards, consistent methodology, and financial incentives towards guiding investors, thereby limiting effective decision-making.[6] A number of frameworks, including the Blue Economy Sustainability Framework, inform investment decisions across Blue Economy sectors in the European Union. Additional proposed frameworks include the Principles for Investment in Sustainable Wild-Caught Fisheries for investing in sustainable fishing practices, the Ocean Finance Framework (ADB), and a Blue Economy Development Framework (World Bank).

The International Finance Corporation has combined the Sustainable Blue Economy Finance Principles (endorsed by 70 institutions) and the Sustainable Ocean Principles (endorsed by 150

companies) into the Guidelines for Financing the Blue Economy. Although these principles and guidelines offer familiarity advantages and are adaptable to various national and regional plans, they face challenges of divergent mechanisms, inadequate information, and poor awareness. To begin with, there is no consensus yet on what constitutes blue financing, nor the classification of activities and regulatory mechanisms,[7] and which metrics should be used to measure investment impact. This leads to a lack of consistency, transparency, and accountability, which undermine the credibility of investing.

Harmful subsidies undermining investments

The Blue Economy transition is also hindered by harmful subsidies for maritime sectors that undermine ocean health. While the full extent is not quantified, global annual fishing subsidies were estimated at US$35 billion in 2018, which contributed to significant overfishing and illegal fishing.[8] The International Monetary Fund estimated over US$5.9 trillion in fossil fuel subsidies for 2020, and these increased further in 2021-23, impacting ocean health.[9] This excludes the direct contributions of the plastic industry and fertiliser subsidies to marine pollution. Capacity-enhancing fishery subsidies damage fish stocks, risk species extinction, undermine economic viability for small-scale fisheries by promoting inequality, and threaten livelihoods and food security for fishing communities. Harmful subsidies counteract philanthropic and public investment in marine conservation, while a lack of incentives limits Blue Economy investments.

Low bankability of projects

Despite marginally increasing finance flows, there are few investment-grade projects aligned with Blue Economy principles, financing guidelines, and investor requirements. In contrast to terrestrial-based project funding, which have longer track records, most maritime projects generate poor financial returns, lack appropriate size, have high risk-return ratios, and fail to attract capital at a sufficient scale. Stakeholders often have limited Blue Economy awareness and understanding, and little capacity to identify suitable investable opportunities. Poor marine governance and the inherent nature of projects, which often deliver public goods, are some other factors that hinder

high financial returns, leading to low bankability of Blue Economy projects.

Lack of commercial interest and private finance

Commercial lenders cite the lack of adequate profits and incentives, insufficient investment-ready marketable projects, limited financial resources, and higher risks due to information gaps. This leads to a lower propensity for funding projects,[10] which is compounded by a lack of case studies of successful replicable projects. Analyses of voluntary Blue Economy investment commitments reveal that these were mostly from NGOs and governments, with very few coming from private institutions or public-private partnerships.[11] This is supported by a survey of Blue Economy investors, which noted that 75 percent of investors had not assessed their investment portfolios for impacts on ocean sustainability and 20 percent were unaware of ocean-related investment risks exposure.[12]

Poor data availability, technical constraints, and capacity limitations

Financing for transition to Blue Economy is further hindered by poor data availability, technical constraints, and capacity limitations, including the non-availability of accurate marine surveys, irregular threat assessment, limited technical training, lack of ocean technology, and poor political support to prioritise investments. Uncertainty around coastal/marine responsibilities, jurisdiction, and tenure, including private and/or communal property rights, also limits investors. Poor expertise about newer financing mechanisms, experience, financial and business literacy, and lack of entrepreneurship also creates barriers.

The G20's Role

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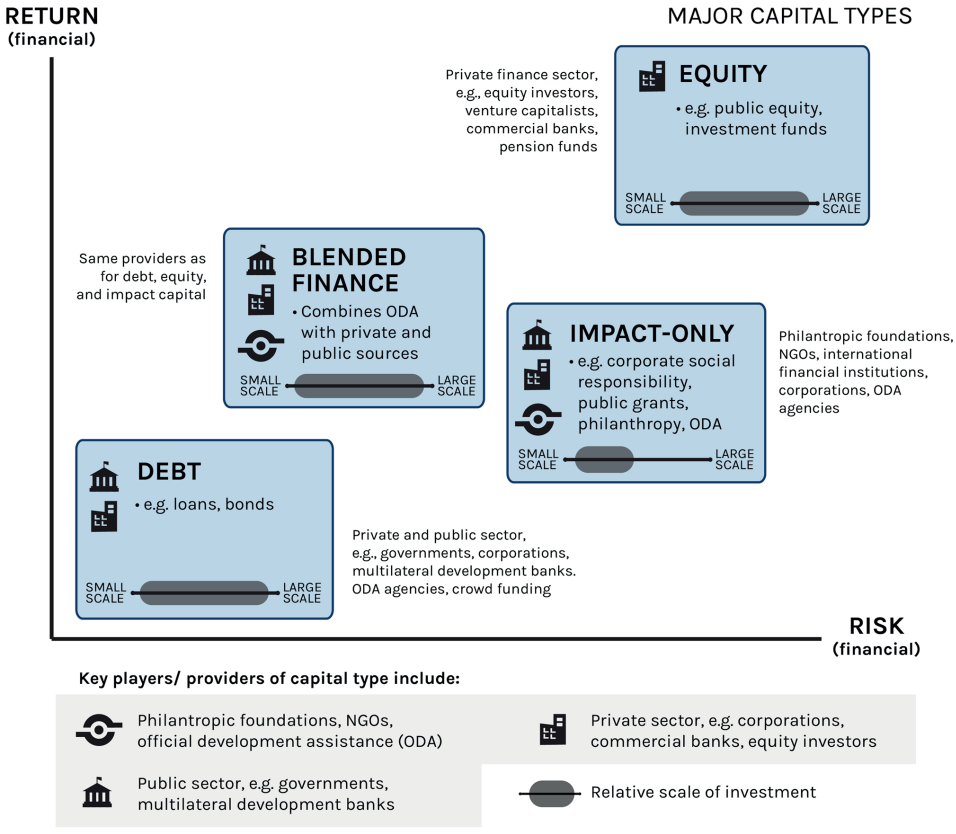
The G20 can catalyse transition finance for investing in sustainable fisheries, integrated coastal zone management, improved waste-management facilities on land, sustainable marine and coastal tourism, clean maritime transport, and offshore renewable energy projects.

Although there are several financing sources (see Figure 1), it is important to correctly match projects to the type of capital. Projects that have potential for generating competitive market returns should be fully funded by private debt and equity. Public goods projects unlikely to generate direct financial returns, such as enhanced ecosystem services, are best funded from public sources, development finance, and philanthropic funds. Blended finance approaches that integrate commercial funding from private investors and institutions are a better choice for projects that generate below-market returns and can be used to de-risk such investments by leveraging grants

Figure 1. Capital Types With Risk-Return Characterisation and Their Providers[13]



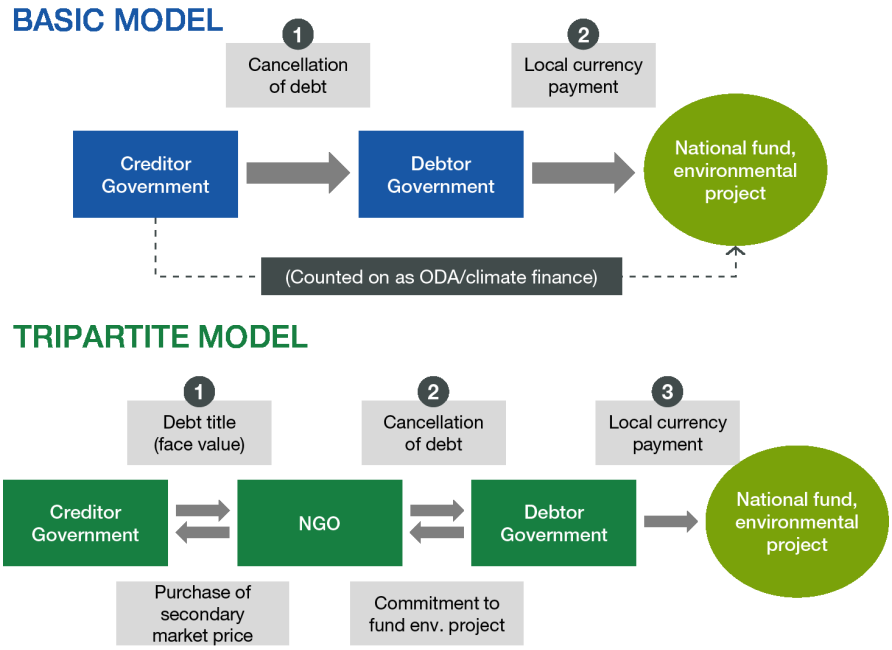
from public or philanthropic sources. This lowers overall funding cost, and project development can be covered through grant-funded technical assistance. Recent examples include the Global Fund for Coral Reefs and the Subnational Climate Finance Fund, both of which attracted the Green Climate Fund junior capital.

The G20 can help promote Blue Economy investment with select financing mechanisms.

Debt-for-nature swaps for marine protection

Debt instruments for Blue Economy financing are particularly attractive for countries with limited access to overseas development assistance. However, growing debt limits the ability of many countries to invest in the Blue Economy. Debt-for-nature swaps, a financial mechanism whereby a country's external debt is restructured on more favourable terms in return for a commitment to invest in marine protection, such as through the establishment of MPAs, is gaining traction. Figure 2 shows a basic model wherein a creditor government cancels the sovereign debt of another country and the debtor government uses money in the local currency to fund environmental projects. In the tripartite model, an NGO is an intermediary to execute projects. As seen in Figure 1, this variation of debt-funding can be used for conservation projects which have low financial risk and return.

Figure 2. Bilateral and Tripartite Models of Debt-for-Nature Swap[14]



Blue Bonds

Blue bonds are debt instruments where issuing authorities (e.g., government, banks) raise capital to finance Blue Economy projects with the objective of generating project earnings, while seeking to make an impact using the proceeds.[15] Blue bonds are a subset of green bonds where proceeds should exclusively be used for marine-protection projects. These instruments are being increasingly used by multilateral financial institutions such as the Nordic Investment Bank, the World Bank, the Asian Development Bank, and the Bank of China as effective instruments for funding a pool of projects, such as addressing marine plastic waste and upgrading wastewater treatment plants.

Blue Loans

A blue loan enables borrowers to raise funds to support Blue Economy activities. Such a loan is aligned to 'green loan principles', and proceeds are exclusively dedicated to finance or refinance activities towards ocean protection and/or improved water management.[16] Blue loans for investing in projects such as diverting plastic waste from the ocean, improving wastewater management, and increasing access to capital for small and medium enterprises (SMEs) are emerging as a source of Blue Economy financing.

Conservation Outcome-Based Financing

Outcome-based financing instruments such as sustainability-linked loans and bonds can be alternative mechanisms to transfer the risk of funding conservation from donors to impact investors by linking predetermined conservation targets to financial returns. The Wildlife Conservation Bond for the protection of rhinos in South Africa can be considered to achieve outcomes such as the protection of a specific marine species, conservation of small-scale fisheries, or prevention of marine biodiversity loss.

Parametric Insurance Products

Traditional insurance covers the risk of maritime infrastructure loss such as ports and transport. Parametric insurance triggered by an event is also emerging. One example is the Mesoamerican Reef Insurance Programme, which covers hurricane risk and provides support for reef restoration and local economic recovery of coastal communities. Other solutions include weather index

based parametric insurance for small-scale fisheries[17] and ocean carbon sink insurance policies,[18] which provide compensation when specific marine environment damage to local species such as kelp, shellfish, or algae lead to the weakening of blue carbon sinks.

Lessons from Successful Examples

Successful use examples of Blue Economy financing instruments include the Seychelles' debt-for-nature swap, where the country's US$21.6 million external debt was restructured for a protection commitment of 30 percent of Seychelles EEZ by channelling funds for marine conservation and climate adaptation. Subsequently, the Seychelles issued a US$15-million sovereign blue bond, and proceeds are being used to support the transition to sustainable fisheries. These deals have led to increased government fiscal space, ability to disburse US$700,000 annually in grants to support ocean conservation and climate action, and a US$12 million revolving fund to provide private-sector blue loans. Debt-for-nature swap and blue bond models were replicated in Belize with a US$363 million 'super blue bond' in 2021 and in Barbados with a US$50-million debt-for-nature swap.

In investigating novel financing instruments, it is important to consider whether they are addressing a gap in Blue Economy financing with well-defined indicators of success. To call a bond 'blue', at least 90 percent of the funds need to be allocated towards promoting Blue Economy projects. Unfortunately, regulations do not exist yet to hold bond issuers legally accountable for using proceeds in an arbitrary manner. Thus, there is a real risk of 'blue-washing'.[19] Lack of transparency, participatory approaches to obtain prior and informed consent of citizens, questions on mechanisms used to disburse funds, and powerful NGOs with annual budgets surpassing government departments and other civil society organisations are some thorny issues that need to be adequately recognised and addressed.[20]

Till date, there is no gainsaying that blended finance has not delivered at the required scale for funding Blue Economy innovations, and public funds will continue to play a key role. Therefore, these successful examples cannot be viewed as a silver bullet, but countries require a mosaic of financing mechanisms while addressing simultaneous challenges.

Recommendations to the G20

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A Policy Brief published in 2021 under Italy's G20 Presidency[21] focused on common approaches for integrating nature into ocean accounting and facilitating increased financial flows. In 2022, another Policy Brief, published by T7 Germany[22] proposed redesigning and scaling-up blue finance by increasing early-stage funding and integrating ocean criteria into sustainability finance frameworks. In the same year, a Policy Brief under Indonesia's G20 tenure[23] recommended mainstreaming finance by integrating Blue Economy criteria into financial processes and proactively financing activities with concerted government action, regulators, the private sector, and development agencies. Building on these earlier proposals, this Policy Brief recommends the following to enable Blue Economy transition finance:

a. Adopt standards, framework, and guidelines. Adopt transparent and robust standards, frameworks, taxonomy, and metrics for the integration of Blue Economy principles and approaches into emerging governance, policies, and decision-making processes to ensure that financing adheres to promulgated guidelines from the beginning.

b. Strengthen oversight. Strengthen ESG criteria, integrity, and compliance for Blue Economy financing projects while streamlining impact assessment processes. All ocean biomes should be included in disclosure frameworks such as the Task Force on Climate Related Financial Disclosures (TFCD) and the Task Force on Nature-related Financial Disclosures (TFND), and ocean considerations should be fully integrated for reporting under International Sustainability Standards Board (ISSB) disclosures.

c. Eliminate harmful subsidies. Eliminate regressive subsidies promoting fossil fuels, single-use plastics, overfishing, and marine pollution. Align taxes and enhanced producer liability frameworks with ocean health ambitions.

d. Mobilise capital by deploying innovative financial instruments. Identify and develop a pipeline of bankable projects for scalable or replicable market-ready

opportunities using targeted financial instruments. This could include the deployment of appropriate capital market instruments, such as dedicated blue bonds, as well as the strengthening of domestic capital market instruments.

e. Implement cohesive policies and coordinated responses. Implement coordinated responses via public funding while focusing on marine ecosystem restoration/ area protection and the resilience of coastal communities. The coordination of multilateral development finance institutions and national finance bodies needs to be strengthened. The global commitment to protect 30 percent area by 2030 should be leveraged to deliver targeted Blue Economy finance.

f. De-risk investments. De-risk public and private investments by defining and adopting project selection criteria, use of funds, equitable sharing of benefits, effectiveness reporting, and mandating external review of projects. Guarantee structures and de-risking formats, whether through insurance mechanisms or through blended finance support, such as by the Green Climate Fund.

g. Incentivise private finance. Effectively enable policy, legislation, and regulatory mechanisms to incentivise private-sector financing for the protection of natural capital while generating financial returns. This includes stopping the insurance of non-compliant activities and sustainability-linked covenants for bank lending. New insurance products for marine ecosystems and increased effectiveness of the parametric approach can also incentivise private finance.

h. Increase partnerships to build capacity. Collaborate with relevant actors and stakeholders for sharing data and best practices, capacity building through training for improving knowledge-base, technical cooperation, and technology innovation to help bridge information gaps and strengthen partnerships among the G20 countries. The Ocean Risk and Resilience Action Alliance (ORRAA)

is one example of how governments, project operators, NGOs, and large financial institutions can cooperate to deliver solutions.

The G20 must continue to work on issues raised in earlier years, as none of that work is fully implemented yet. However, the above recommendations go beyond attempts of just mainstreaming Blue Economy transition finance. Proactively engaging with all economic actors, including those that negatively affect ocean health, and focusing on areas most in need of adaptation, provides the opportunity to overcome hurdles and jointly deliver rapid transition pathways for Blue Economy financing. Such public-private partnerships need to be supported by G20 governments as well as international financial mechanisms, drawing on recent experiences in innovation. A strong commitment to such integrated approaches to deliver Blue Economy transition finance will be key to scaling up ocean-climate solutions and will be of immense relevance ahead of the UNFCCC COP28.

Attribution: Kapil Narula et al., "Generating Finance for Blue Economy Transition," *T20 Policy Brief*, May 2023.

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