Establishing a Sustainable Ocean Investment Ecosystem in East Asia

Coasts and oceans are among the most productive ecosystems on the planet, providing a rich array of services that directly and indirectly contribute to human survival and quality of life, supporting local coastal communities and larger national economies.

Oceans play a key role in global supply chains, with 90 percent of trade moving by marine transportation. Worldwide revenue from seafood amounts to more than US$190 billion, while marine and coastal tourism generate US$161 billion annually.

Valued conservatively at US$2.5 trillion annually, coastal and oceanic environments might well prove to be the next sustainable investment frontier

In the future, it could rival energy efficiency and renewable energy investment, both now multibillion dollar asset classes. At present, it represents a yet untapped opportunity.

Over the last 20+ years, the Global Environment Facility (GEF) and other donors have contributed billions of dollars to (1) support regional scientific assessments, (2) develop regional Strategic Action Programmes (SAPs) and (3) establish regional institutional mechanisms to address transboundary issues and promote sustainable development of coasts and oceans shared by multiple countries.

These SAPs are inter-governmental—in some cases, legally binding—agreements, supported by clear institutional mechanisms facilitating joint implementation. They include identification of investments needed to protect, use and sustain coastal and ocean ecosystems.

The SAPs provide a government-sanctioned, scientifically-based planning and action framework for investing in coasts and oceans, which has the potential to reduce investment risks

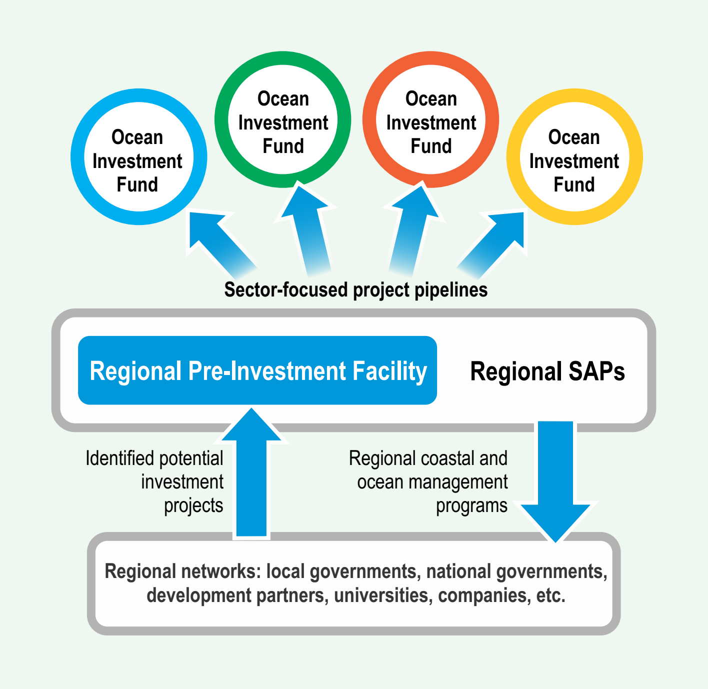
In most cases, the problems are recognized; the technological/industrial blue economy solutions are known; and the capital is available and is, in fact, seeking sustainable investments. What is needed now are pipelines of bankable investment projects that contribute to the implementation of the SAPs and thereby to sustainable regional economic development and growth.

Investment project proponents need to be supported, at scale, to develop and package bankable investments that provide an attractive financial return along with positive social and environmental impact. The design of this regional investment mechanism must therefore simultaneously address both commercial and development objectives:

1) Providing capital for a range of potential investments
2) Helping project proponents to develop a pipeline of high-quality, bankable projects; and
3) Supporting institutional coordination of regional SAP programmes, which play a critical role in developing projects and providing political backdrop for effective functioning of investments.

In collaboration with regional and international partners, Partnerships in Environmental Management for the Seas of East Asia (PEMSEA) is developing a regional Ocean Investment Ecosystem comprised of two main components:

1) A pre-investment facility to identify, assess and develop a bankable pipeline of blue economy investments.
2) Actively managed ocean investment funds with a mandate to identify and direct targeted investment capital to investments generating positive social and environmental impact and attractive capital returns to investors.



Potential blue economy investment:

- **Sustainable ports, shipping and marine transport**
- **Ecotourism / sustainable tourism**
- **Marine renewable energy**
- **Fisheries & aquaculture**
- **Pollution reduction and waste management infrastructure and technology**
- **Water use and water supply management infrastructure and technology**
- **Low carbon / climate smart coastal development**
- **Ocean-based, technology products and services, such as biotechnology and data analytics**

This ecosystem will utilize the expertise of government, development finance institutions and investment bankers, alongside scientific, engineering, operations, environment and development experts. Sub-classes of ocean assets will be separated, with each portfolio dedicated to a single, focused investment strategy, e.g., smaller scale, community-based and/or impact-oriented investment; VC / early stage capital; mature growth capital; or large infrastructure / project finance. Each must have the necessary expertise to source, evaluate, develop and profitably exit its investments.

Funds could invest across a variety of traditional capital structures including equity, quasi equity, mezzanine and hybrid investments and will require different timeframes for successful exit. Returns must be commensurate with the risks of a new alternative asset class in an emerging market region. Once established, funds could solicit capital from limited partners such as government pension plans, multi-lateral institutions, sovereign wealth funds and other institutional investors including family offices.

Building on the establishment of single funds dedicated to specific ocean asset sub-classes, an ecosystem of funds can emerge leveraging the investment pipeline generated by the pre-investment facility. Regional organizations implementing SAPs serve as a sourcing platform, leveraging their networks of local governments, regional coastal management sites, universities and research centers and other development partners to identify market gaps that might be addressed through sustainable, commercial solutions in line with government approved SAPs.

PEMSEA, for instance, has initiated several partnerships for establishing pilot approaches for pre-investment activities in East Asia, including: Blue Finance, for protected areas and sustainable marine tourism; ARCOWA SA, for water and wastewater investment; R20 Regions of Climate Action, for low-carbon and waste management investments; and other partners for sustainable fisheries and aquaculture.

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