

PROGRESS ON THE DEVELOPMENT OF SUSTAINABLE FINANCING MECHANISM SUPPORTING SDS-SEA IMPLEMENTATION

1.0 Background

- 1.1 An update on the status of the development of a sustainable financing mechanism which supports the SDS-SEA implementation was reported to the 10th EAS Partnership Council. Referred to as the East Asian Ocean Investment Facility (EAOIF), the primary purpose of the mechanism is to identify, develop and promote projects that can attract capital for investments in environmental initiatives like green infrastructure, technologies, systems etc. in support of the SDS-SEA Implementation. It was concluded that the development of such investment facility is progressing and the clarification of the role and benefits provided were helpful. It was decided that the PRF continue with the implementation of the investment facility in line with the agreed work program.
- 1.2 The following is a report on the progress throughout 2018 and the proposed next steps for 2019.

2.0 Status Report

- 2.1 The 10th Partnership Council endorsed the SDS-SEA Implementation Plan 2018-2022 and together with the Iloilo Declaration provide the key imperatives that drive the process for scaling up investments in pursuing blue economy and sustainable investments in the coasts and ocean.
- 2.2 Throughout 2018 and the first quarter of 2019, the PRF's Investment Specialist worked on the approved targeted actions. These include:
 - A work program and schedule developed for enhancing PRF's capacity as a pre-investment service developed (see Annex A);
 - Good practices and initiatives on blue economy as well as investment projects in four sectors (wastewater, sustainable aquaculture/fisheries, sustainable tourism/MPAs and solid waste management/circular economy) presented at the EAS Congress 2018 (See Annex B);
 - Follow up actions for 2019 to pursue potentially viable investment cases, while taking into account the lessons learned in engaging in new investment projects for the network (see Annexes C and D);
 - Operating modality for a self- sustaining Pre-Investment Facility and business plan initiated. The PIF was renamed as East Ocean Investment Facility (EAOIF).

- 2.2 Whilst there has been some good progress in the execution of the above targeted actions, more work needs to be done, especially in marketing PEMSEA's investment services, generating investable projects and/or pursuing the pilot investment projects to its maturation, to either recover its investment or generate revenues for such projects. The execution of these tasks will depend on having an (inhouse) investment specialist to market the services and identify the opportunities as well as funding source(s) beyond 2019.
- 2.3 In addition, many of PEMSEA projects proposals seeking funding have investment related components in their design. One key project is the UNDP-GEF funded Integrated River Basin Management (IRBM), which once approved, provides a good potential to pursue public-private investment partnerships. Another potential opportunity is with the League of Municipalities in the Philippines who is requesting for PEMSEA's technical assistance to help towns develop solid waste management programs, same with the Cavite Economic Zone authority.
- 2.4 In light of the above and with a view to addressing PEMSEA's objective of self-sustainability, PRF is currently exploring options for operating modalities for its investment facility, apart from the EAIOF. There is no modality that fits all types of projects or initiatives. It will depend on the nature of the project, scope, parties involved, size of investment, etc., hence the need to explore other potential options.

3.0 Options for Operating Modality

- 3.1 Preliminary discussions within PRF indicate several possibilities that are not mutually exclusive. The options could include:
- Extending the in-house PRF investment services
 - 'Creating' a separate non-stock for profit company
 - Engaging in a direct partnership with a private sector/business entity (noting that some functions could be managed by the private sector and some could be maintained as PRF services)
- 3.2 The three options will need to be reviewed in terms of costs, potential revenues, sources of financing, risks, benefits and other expectations for each of these options. See draft analyses for reference. (Annex E).
- 3.3 The PRF further recommend an "incubation" period to further test and validate all or any of the preferred option.

4.0 Actions:

- 4.1 The Executive Committee are requested to:
- Provide recommendations and guidance on the investment work in general
 - Provide comments, recommendations and questions on the modality options matrix presented in Annex E.;

Annex A: Status and plans for development and promotion of an Ocean Investment Facility

Activities	2018												2019	Output/Outcome
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
Secure funding for hiring Investment Specialist and development of an Ocean Investment Facility and Funds	COMPLETED													USD300K allocated from PEMSEA Trust Fund for development of an OIFF
Terms of reference, search and hiring of Investment Specialist	COMPLETED													Investment Specialist hired
Establish partnerships for development of pilot investment cases	COMPLETED													Partnerships with organizations for development of sector-focused pilot investments (targeting 4 sectors)
Development of full work program for launch of an Ocean Investment Facility and Funds	COMPLETED													Work program for launch of Ocean Investment Facility and Funds
Development of standardized processes, templates etc. for identifying and developing investment opportunities	COMPLETED													Standardized process and tools assisting local governments and others with identifying and developing investment opportunities
PEMSEA staff oriented on process and tools for identifying and developing investments	COMPLETED													PEMSEA staff able to engage and support its partners in identifying and developing investments with Investment Specialist
Progress report to Executive Committee on full work program for launch of an Ocean Investment Facility and Funds	COMPLETED													Feedback and endorsement of work program by Executive Committee
Development of pilot investment cases: MPA/tourism; wastewater; fisheries/aquaculture; solid waste/plastics	ONGOING													One investment case developed in each of 4 sectors by EAS Congress 2018
Preparation and conduct of session promoting the Ocean Investment Facility and Funds at the EAS Congress 2018	COMPLETED													Session promoting the OIFF at the EAS Congress 2018
Outreach for funding to support the Ocean Investment Facility	ONGOING													Submission of at least one concept note / proposal for establishment of an OIFF
Design Ocean Investment Facility and Funds	COMPLETED													Incorporate design for Ocean Investment Facility into work program for discussion at EAS Congress 2018
Opportunities for investment promoted to PEMSEA partners, especially local governments (calls for proposals, speaking at events, promotional campaigns, etc.)	COMPLETED													Identification of additional potential investment opportunities for validation and development in the pipeline
Promotion of investments to investors and funds	COMPLETED													Steps taken towards deal execution for at least 2 projects (e.g., letter of intent)
Local governments capacitated on tools and services for developing investments at ICM sites, including the Seas of East Asia Knowledge Bank	ONGOING													Local governments able to identify and submit potential investments to PEMSEA with required information
Design system to monitor and report on a portfolio of investments, including measures of environmental, social and financial return	COMPLETED													System to monitor and report on investments

Annex B The EAOIF developed pilot investment cases together with Investment Partners in the following:

Sector	Achievement / Progress	2019 Activities
Wastewater as a Resource	<ol style="list-style-type: none"> 1. Improved understanding of in-country wastewater opportunities and constraints for Indonesia, Philippines and Vietnam through publication of Landscape Assessment Reports. 2. Long list of potentially investable wastewater treatment sites in Indonesia, Philippines and Vietnam, which can be used as a basis for further investigation. 3. Pre-feasibility studies for Clark Water in Pampanga and Cavite Economic Zone Authority. CEZA is interested to work together on solid waste management. Clark Water has an investible case but will pursue the project on their own. 	<p>Meet with Cavite Economic Zone Authority in early May to discuss working together on solid waste management.</p>
Sustainable Aquaculture	<ol style="list-style-type: none"> 1. Complete business plan for first-of-its-kind, ASC-compliant sustainable grouper aquaculture operation in the Philippines. 2. Investment memo developed for total investment of USD4M, EBITDA: 35%, 10 Year IRR of 17.4%. 3. Investment teaser shared with potential investors, initial interest from Meloy Fund, CI Ventures, Aquaspark. 	<p>Identify local aquaculture partner for operations in the Philippines and match with investors. PRF can hopefully sell the investment concept</p>
Solid Waste Management and Ocean Plastic Pollution	<ol style="list-style-type: none"> 1. Participation in Phase I, including Steering Committee, linkages to large companies, developed relationship with Circulate Capital, added credibility as part of ocean plastics discussion. 2. Accelerated Phase II and III, USD100M raised for fund to invest in addressing solid waste management and ocean plastic pollution in S and SE Asia. 3. Investment Handbook published and circulated at The Economist World Ocean Summit in March 	<p>Exploring longer-term partnership with Circulate Capital, including advisory and committee roles for PEMSEA to help guide investments in SEA on Solid Waste Management, access to capital</p>

	2019. The handbook include profiles of potential 2-3 investment cases in Asia (Indonesia, India)	
Conservation of Marine Biodiversity and Enhancement of Local Livelihoods	<ol style="list-style-type: none"> 1. Identification of 3 sites through feasibility assessment, including 2 ICM sites. 2. Commitment of interest from local (and provincial) government and investment strategy designed for priority site in Oriental Mindoro. 3. Local consultations conducted, design of co-management agreement, work plan and business plan ongoing. 4. Investor interest from Althelia Sustainable Ocean Fund and Meloy Fund. 	Continue the development of projects started in Oriental Mindoro with LGU and MPA stakeholders

Annex C

	Activities of the EAOIF
Investment Origination	<ol style="list-style-type: none"> 1. Non-income generating activities focused on Consultation, Education, Marketing 2. Activities are conducted to market the services of the EAOIF and enhance the understanding of investors and local PEMSEA partners with regard to investment opportunities, what is available and what to expect
Investment Services	<p>Income generating activities offering services to facilitate the interaction between project proponents and investors and development of projects.</p> <ol style="list-style-type: none"> 1. Matching matchmakes projects that have at least completed feasibility to funding sources 2. Project Development (PD) service focuses on identifying and developing the business and investment model of a potential investment utilizing the Consultancy Platform (CP) to outsource work 3. Project Impact Monitoring and Evaluation (ME) service assists in monitoring and measuring the impact of investment projects and helps to promote and market the positive outcomes

Annex D

<p>Proposed workplan for 2019</p> <ul style="list-style-type: none"> • Identifying low hanging fruit at ICM sites, promoting investment services (call for proposals, meetings, missions) and capacitating LGUs and applying standardized process and templates • Looking for investment projects in other sectors (e.g., habitat restoration, marine renewable energy, ocean-based technology) • Building up database of partners, both investors and technical partners / project developers • Defining application of the ICM approach in investment projects and role of Country

Managers and Investment Specialist

- Pending support from a new Business / Project Development person, seek additional funding for the facility (e.g., follow up with CI Ventures, ADB).
- Assessing the need and effort required to spin off a separate entity as identified in PEMSEA Post 2020 through an options paper.

Annex E.

<p style="text-align: center;">Operating Modality Options</p> <p>Considerations</p>	<p style="text-align: center;">PRF In-house Investment Service</p>	<p style="text-align: center;">Private Sector Investment Service (investment service external to PRF)</p>	<p style="text-align: center;">PRF-Private Partnership Investment Service (shared responsibilities between PRF and a private sector partner)</p>
<p>1. Organizational arrangements</p>	<ul style="list-style-type: none"> • PRF professional staff contracted/trained to manage both the pre-investment facility (PIF) (i.e., development, planning and implementation of investment projects) and the EAOIF (i.e., identifying and promoting investment and networking with investors and funding organizations) • External consultants/specialists contracted by the PRF on a project specific basis to develop pre-investment projects 	<ul style="list-style-type: none"> • Pre-investment facility and OIF set up externally as an independent non stock for profit company operating as a private business • Agreement developed between PRF and the privatized PIF/OIF service provider identifies the scope and content of intelligence reports to be prepared and submitted by the PRF • Process for determining “Finder’s Fee” for successful investment projects negotiated and included in Agreement (<i>check out IFC’s success fee</i>) 	<ul style="list-style-type: none"> • Investment Agreement developed between the PRF and a selected and willing private sector/ business • PRF identifies and promotes investment opportunities through existing and planned SDS-SEA projects, as well as networking with potential investors and funding organizations looking for investible projects in the region • PPP partner provides a service to PRF in pre-investment development, planning, consensus building and approval of investment projects
<p>2. Legal arrangements</p>	<ul style="list-style-type: none"> • All staffing and contracting by PRF are in accordance with approved PEMSEA procurement procedures • Legal liability for PRF staff/consultants’ actions is the responsibility of the PRF as the contracting authority • Immunities and privileges of PEMSEA as an international organization remain intact 	<ul style="list-style-type: none"> • Agreement developed and signed between the PRF and private sector delineates the nature of information to be developed/provided by the PRF, the 	<ul style="list-style-type: none"> • Agreement to be developed between the PRF and the private sector partner delineates the roles and responsibilities of the two partners in the planning, development and implementation of pre-investment projects in

	<p><i>provided the inhouse investment service does not accept equity or profit</i></p>	<p>processes to be implemented by the business sector, the support required by PEMSEA to introduce and facilitate the interaction between the concerned national and local governments, and the means of determining and recovering a finder's fee.</p> <ul style="list-style-type: none"> • No legal liability for the PRF or its staff; no PRF involvement in the investment project • Immunities and privileges of PEMSEA as an international organization remain intact 	<p>accordance with PEMSEA objectives, principles and mandate</p> <ul style="list-style-type: none"> • Legal liabilities and limitations of the two partners are identified and acknowledged in Agreement • <i>Need to clarify if PEMSEA's immunities and privileges will be negated, once it enters into an agreement with a private sector partner.</i> • • PPP Agreement covers a specified "incubation" schedule and timeframe, with an option for the parties to review, renegotiate or terminate the Agreement during the incubation period.
<p>3. PRF Human Resource Requirements</p>	<ul style="list-style-type: none"> • PRF staff/contracting requirements: <ul style="list-style-type: none"> ○ Project development/planning and management specialist (PIF) ○ Investment/financing/business development specialist (PIF/OIF) ○ Consultancy contracts covering ocean related investments (PIF) ○ Training/upgrading of ICM project managers on investment project identification and development (PIF) ○ Communications, marketing and networking specialist w/investment focus (OIF) ○ Knowledge management and capacity development specialist w/investment focus (OIF) 	<ul style="list-style-type: none"> • Project development/planning and management specialist in accordance with requirements of the Agreement • Training/upgrading of ICM project managers on investment project identification and development in accordance with the requirements of the Agreement 	<ul style="list-style-type: none"> • Project development/planning and management specialist • Training/upgrading of ICM project managers on investment project identification and development • Communications/marketing and networking specialist w/investment focus • Knowledge management/knowledge sharing specialist

<p>4. PRF Direct Costs</p>	<ul style="list-style-type: none"> • Salaries and benefits of PRF staff <ul style="list-style-type: none"> ○ Project development specialist (\$60K) ○ Financial specialist (\$60K) ○ ICM managers (4 @ \$25K each) ○ Communications/marketing (\$25K) ○ Knowledge management/sharing (\$25K) ○ Capacity development/training (\$25K) • PIF/OIF operating costs (\$100K) • Consultancy contracts to deliver feasibility studies and business plans (\$50 to \$100K per consultant as needed, up to \$250K per investment project; to be sourced from development projects) 	<ul style="list-style-type: none"> • Salaries and benefits of PRF staff <ul style="list-style-type: none"> ○ Project development specialist (\$60K) ○ Financial specialist (\$60K) ○ ICM managers (4 @ \$25K ea) • PRF operating costs (\$50K) 	<ul style="list-style-type: none"> • Salaries and benefits of PRF staff <ul style="list-style-type: none"> ○ Project development specialist (\$60K) ○ ICM managers (4 @ \$25K ea) ○ PRF operating costs (\$50K) • PRF operating costs (\$50K) • Contract developed between PRF and private sector partner to deliver the investment component of approved development projects, including government buy-in, feasibility studies, business plans, financial plans, partnership development, consensus building, and securing government/non-government financial commitments for the full investment project (<i>good governance dictates going through a bidding process to get the best experts</i>) • Follow-on contract developed between the private sector partner and financing partners (government and non-government) for implementation of the full investment project, including procurement process, partnership agreements, financial closure, construction, commissioning and management and operation of the facility (<i>subject to country procurement rules, what is PEMSEA's role at this stage?</i>) • Training, communication, knowledge
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			management/knowledge sharing, M&E reporting, replication and upscaling of the investment project are built into and funded by the full investment projects
5. Financial benefits to/ Sustainability of PEMSEA	<ul style="list-style-type: none"> • Upfront PRF staff and operating costs for the development of the initial pipeline of 4 investment projects (\$300K committed from PEMSEA Trust account; 80%-90% expended) • Recovery of capital investment for the initial 4 investment projects pending, but provide a possible source of funding in the future • Direct costs to the PRF for future investment projects are covered by future development project grants (e.g., IRBM project) • Administrative/management fees for development projects range from 5% to 7% of direct costs 	<ul style="list-style-type: none"> • Finder's fee needs to be negotiated on a project by project basis • Finder's fees can range from 0.5% to 2% of the investment depending on investment size, risk and forecast return. 	<ul style="list-style-type: none"> • Direct costs for the private sector services in pre- investment projects to be covered by development project grants (<i>indirect cost to PRF?</i>) and co-financing commitments of government/ non-government partners (e.g., IRBM project) • Direct costs for implementation of the investment project are covered by the financing partners (no direct cost to the PRF) • Margins on revenues earned for pre-investment projects and investment project preparations range from 15% to 20%, depending on the size and location of the investment (<i>clarify how revenue will be earned? And how PRF will earn</i>) • <i>Capital raised through revenue margins can be used to:</i> <ul style="list-style-type: none"> ○ <i>Purchase shares in operating companies that are established through the investment projects</i> ○ <i>Set up a project development fund for developing/upscaling new investment projects</i> ○ <i>Provide an annual "voluntary contribution" to PEMSEA to support SDS-</i>

			<i>SEA implementation and PEMSEA's sustainability</i>
6. Risks/Challenges	<ul style="list-style-type: none"> • In-house expertise and access to support financing are the major challenges in the start-up and operation of an in-house PIF/OIF: <ul style="list-style-type: none"> ○ In-house capacity needs to be developed and new staffing is required for the identification and development of pre-investment projects; ○ External consultants (financial, legal, technical, business) will be contracted on a project-by-project basis by the PRF to conduct feasibility studies and development business plans covering a range of sectors; these consultants need to be managed. Existing in-house capacity to manage a team of consultants/ specialists to plan and develop feasibility studies and business plans that meet the requirements of local governments and investors, is limited. New staffing and/or training and development of existing PRF staff is required. ○ Access to and use of different sources of financing (e.g., venture capital; impact investors; foundations; governments; banks) and financing mechanisms (e.g., ICM bond; blue carbon) require expertise and experience; new staffing is required to manage/oversee this aspect of investment project development • The implementation of investment projects will be handed over to a third-party investor, meaning the PRF will have limited access to information or to monitor and evaluate the benefits and impacts of the investments, which could be used for 	<ul style="list-style-type: none"> • Capital is required to develop and operationalize a private business/company to serve as a privatized PIF and OIF (estimated upfront costs are \$3-\$8 million); no source of financing has been identified to date • Capital would be required to establish a regional ocean investment fund to serve as seed funding for investible projects (estimated to be \$100 million); development of such a fund would be a targeted output of the initial \$3 - \$8 million capital investment • Only investible projects would be considered by the privatized PIF/OIF; other “non-investible” projects would not eligible under the regional ocean investment fund • PRF service would be in support of a private sector enterprise; PRF would have no control 	<ul style="list-style-type: none"> • The approach is innovative and unproven in the context of regional ocean governance. Developmental risks are evident, including the willingness of national and local governments to engage the PRF and the PPP partner in pre-investment projects. Willingness of governments to engage in pre-investment projects, including co-financing commitments, would need to be confirmed prior to project start-up (e.g., Cavite Province experience). • Development projects prepared by the PRF would include an investment component, which is approved by the development agency/donor and participating countries (e.g., the GEF/UNDP/ASEAN IRBM project developed by PRF has identified pilot investment projects in 7 river basins; each river basin has been allocated \$200K investment project development). • Development projects normally take 1.5 to 2 years from concept stage to final approval. This suggests that other sources of financing for scaling up and replicating successful investment projects (e.g., a project development fund) are essential to the targets and objectives of the SDS-SEA and to the

	<p>knowledge sharing, scaling-up and replicating purposes</p> <ul style="list-style-type: none"> • Time and experience are required to develop investible projects and secure financing for such projects; all projects may not be investible and other solutions will be required 	<p>over how the private sector deals with local governments and other PEMSEA clients, the benefits and impacts derived, or the replication and scaling up of investments</p> <ul style="list-style-type: none"> • PEMSEA's reputation is at risk if the privatized PIF/OIF fails to meet the expectations of national and local governments 	<p>sustainable financing of the PRF.</p> <ul style="list-style-type: none"> • Selection of a competent and reliable private sector partner with track record of successful investment projects and experience in integrated management approach, blue economy technologies, processes and investments, various sources of financing and sustainable financing mechanisms is essential • To avoid reputational risks by either partner, principles, objectives, procedures, legal obligations and due diligence requirements need to be spelled out in detail in the Agreement, and approved by the EAS Partnership Council. A monitoring and evaluation procedure and approach to resolving unforeseen challenges/conflicts is also required. • PRF's capacity in investment project development is limited and will need to be developed in-house and/or new staffing undertaken to fulfil PRF responsibilities under the Agreement
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<p>7. Benefits to Country Partners/local governments</p>	<ul style="list-style-type: none"> • PRF continues to interact directly with the national and local governments as the overall manager of the development project and the provider of pre-investment services. • Knowledge and experience gained in the development of pre-investment projects can be packaged and disseminated to encourage national and local governments to upscale and replicate good practices in pre-investment project development. 	<ul style="list-style-type: none"> • The privatized PIF/OIF would eventually include a regional ocean investment fund that could serve as seed funding for an investment project and used as a leverage to encourage other investors to participate in the project. 	<ul style="list-style-type: none"> • PRF continues to interact directly with the national and local governments as the overall manager of the development project, continually gathering feedback on the expectations and satisfaction of the primary clients, namely national and local governments. • The private sector partner is not limited to the pre-investment stage of a project, but can offer services such as oversight of procurement and contracting processes, financial closure, as well as management, operating and shareholding arrangements, as requested by national and local governments and interested investors. • The private sector partner can take a shareholding position in the operating company to ensure that the blue economy/sustainable development objectives of the investment are maintained as agreed to by the respective national and local government clients. This also provides a potential source of revenue for the PRF and the PPP partner and provides both parties with access to information that can be used for knowledge-sharing, capacity development and upscaling and replicating of investment projects. <i>(Is this possible if concrete source of funds proposed is from grants?)</i>
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