

Enabling Blue Economy Investment for Sustainable Development in the Seas of East Asia

Lessons on Engaging the Private Sector for Partnership and Investment

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With decades of scientific research and policy dialogue, the issues confronting the sustainable health of oceans are well understood. The Global Environment Facility (GEF) and many organizations, including the United Nations Development Programme (UNDP), are now moving into a time of action, in support of the UN Sustainable Development Goals (SDGs).

The Seas of East Asia are especially significant to achieving SDG 14, which addresses the conservation and sustainable use of the oceans, seas and marine resources for sustainable development. East Asia is recognized as the center of marine biodiversity globally and is a center of economic growth. But the health of the oceans continues to deteriorate, in East Asia as much as anywhere, with loss of coral reefs and mangrove forests, declining fish stocks, nutrient and ocean plastic pollution, ocean warming and acidity and sea level rise threatening coastal ecosystems and communities worldwide. SDG 14 is one of the SDGs identified as most likely to miss its 2030 targets. Bold new solutions are needed, and one important intervention that has accelerated over the past five years is the application of financing and investment to drive the long-term health and sustainability of oceans.

Partnerships in Environmental Management for the Seas of East Asia (PEMSEA), an international organization specializing in coastal and ocean governance, serves as a regional collaborative

mechanism for countries to implement a shared regional marine strategy, the Sustainable Development Strategy for the Seas of East Asia (SDS-SEA). The SDS-SEA harmonizes relevant international and regional conventions, action programs and agreements and provides a framework for sustainable development of coasts and oceans in East Asia. PEMSEA's integrated coastal management (ICM) approach has proven its effectiveness over 25 years and has been applied across an estimated 29% of the region's coastline.

PEMSEA's partner countries have called for identifying and developing opportunities for environmental investments and facilitating sustainable financing mechanisms. In November 2018, Ministers from eleven countries adopted the Iloilo Declaration, recognizing PEMSEA's role at the forefront of developing knowledge and capacity to enable ocean-based blue economies and re-affirming a shared commitment to identifying and developing blue economy investments at the national and local levels.

In collaboration with other regional and international organizations, PEMSEA has undertaken a significant body of work to advance both the understanding and practice around blue economy and investment in sustainable development of coasts and oceans. This report provides an update on the current state of blue economy investment in East Asia, with lessons learned and recommendations for international development organizations to help advance blue economy investment.

PEMSEA blue economy investment

The need to access private capital for sustainable development has been well understood, but the means to do so has been less clear. Based on the interactions and networking undertaken as part of PEMSEA's program of work over the past 4 to 5 years, there appears to be no shortage of private capital available, and investors are looking for new opportunities to diversify and find growth in new asset classes with the appropriate risk and returns. But investment in sustainable development of oceans is often perceived as untested and risky, particularly in a region like East Asia. Investors may have concerns about ease of doing business, rule of law, local management and enforcement capacity, available infrastructure, clear zoning rules and property rights, which can all have severe consequences for an investment. Risks can be reduced by providing streamlined policy frameworks and stable governance. The application of ICM validates improved governance and management of ocean and coastal areas, reducing risk and encouraging investment.

In 2015, stakeholders from 8 PEMSEA countries identified more than 300 items for potential investment across 10 governance and management categories for oceans and coasts, including: ICM Development and Implementation; Coastal Transport; Energy; Fisheries and Food Security; Pollution Reduction and Waste Management; Ecotourism / Sustainable Tourism; Enterprise and Livelihood Development; Habitat Protection, Restoration and Management; Natural and Manmade Hazard Prevention and Management; and Water Use and Supply Management. Research conducted by PEMSEA that same year revealed that, of the more than US\$10 billion in funding flows under these various categories over ten years, investments with expectations of financial returns greatly outpaced donor funding, dominated by loans from foreign

direct investments. The report also found that impact investing remained largely unrealized in the region.

But ocean investments can be more complex in nature than the typical land-based infrastructure investment, and therefore require special expertise to source, evaluate, develop and profitably exit an investment. Improved capacity is needed at the local level to identify potentially investable projects and move them through the necessary steps towards successful investment. PEMSEA recognized the need for value-added services to help project proponents develop and package bankable investments that provide a financial return to capital providers, along with positive social and environmental impact on coasts and ocean.

To gain a better appreciation of the scope of such services, PEMSEA began developing pilot investment cases to improve capacity in and understanding of investment services, partnering with project developers to create full investment cases in four sectors—sustainable seafood, marine protection and sustainable tourism, wastewater and ocean plastic pollution. In addition to generating positive social and environmental impacts, the investment cases were designed to generate risk-adjusted financial returns, covering: a sustainable grouper farming operation, including vertically integrated hatchery, nursery and grow-out operations aiming to produce live and fresh products for the Philippines and regional Asian markets; a co-management scheme for marine protected area management based on a public-private partnership (PPP) between local government and a newly-created private operator; a pre-feasibility investment case for wastewater and resource recovery in a special economic zone in the Philippines; and a partnership with an investment management firm to channel financing to companies and infrastructure that prevent ocean plastic pollution.

Lessons Learned

The pilot investment cases offer a number of valuable lessons.

Establish good governance

Policy, regulation and enforcement play a critical role in setting the scene for investment, particularly for foreign investors. Lack of sound policy or enforcement represents a significant risk. For example, illegal waste collection and disposal practices and unscrupulous operators distort markets and generate far too much risk for investors' appetite. Government action is required to set the ground rules for markets.

PEMSEA's ICM Code and Certification System provide an internationally recognized standard to guide coastal management and validate performance excellence. Through certification, governments are able to validate that their system of governance and management, inclusive of institutional mechanisms, policies, regulations and enforcement capabilities, conforms to international standards for governance and management of coastal areas, thereby reducing risk and encouraging partnerships and investments with the private sector and other interested parties.

Invest in building capacity of local entrepreneurs

Don't underestimate the need for capacity building at the local level. Overall, the blue economy investment pipeline in East Asia does not appear to be especially robust. A common characteristic identified with smaller, early stage companies is a need for technical assistance to develop their management skills, build networks and access technologies. Entrepreneurs are needed with experience creating and running businesses. Incubators and accelerators can help to build the needed management skills, networks and access to technologies.

While there is genuine desire by local governments to explore private investment, some may lack the skills

and expertise to engage with the private sector and therefore a gap remains between the desire and the ability to develop bankable projects. In several cases, it has been challenging to gather even the rudimentary data needed to make an initial assessment of a project to determine whether further pre-feasibility analysis is warranted. Providing basic capacity building on entrepreneurship, especially at the local level, is a necessity to help build a network of support even with the basic identification of potential 'investable' projects. Running one training workshop is not likely to build the capacity needed—and capacity development cannot happen overnight.

Open doors with value-added partnerships

Localization is a critical element for executing investments. As investors move into what may be new geographies or asset classes, they need local partners they can trust that can help to de-risk their investments. Partners with the local knowledge and relationships are needed to navigate deals and build capacity on the ground, particularly in a region as diverse as East Asia. At the same time, organizations with a regional view, beyond a specific locale, can help to reach further across a region to open doors of opportunity for investors and project developers.

Do not underestimate the time and resources needed to make meaningful progress

Development organizations should start with a realistic view of what it may take to develop projects able to attract private capital. It's important to recognize the runway of time and resources required and to build in the necessary funding and schedules up front. Even a small- to medium-scale investment may take a year or more to develop, prior to engaging in discussion with investors. The cost can be, at a minimum, 10% of the investment ticket size (i.e., a US\$2 million investment could cost at least US\$200K in fees for the right project development and financing expertise to develop a case). This can put a strain on resources available

for project development, particularly when the outcome of developing a case cannot be guaranteed. Creative partnership arrangements may be useful to mitigate development costs, e.g., a development partner taking an equity role in an investment.

Impact measurement for investment in coastal sustainable development needs to advance

One of the most common challenges cited by all parties is the ability to monitor and evaluate the impact of an investment—a challenge that is not new to the development community. It's also not unique to oceans—the impact investment community has wrestled with it for years, and a lot of good work has been done to develop approaches for impact measurement. Greater effort is required by development organizations working on oceans to apply available performance metrics to measure and manage social, environmental and financial performance and evaluate deals (e.g., IRIS+, developed by The Global Impact Investment Network).

Work remains to address the perceived risks around ocean investment

In general, investors still have a long way to go to be comfortable with oceans as a new asset class given its complexity and their lack of familiarity with it. Investors are certainly paying more attention, but they know very little about this space in general. There are a number of ways to help mitigate risks. Packaging investments together may create a stronger risk-return profile by diversifying risk. Introducing an anchor investor, particularly one requiring initial diligence, can give other investors more confidence. Finally, and most importantly, proper policy and regulatory frameworks are key at the local and national levels. There is a need to ensure that investors engage with the relevant government agency for the right purpose. Certainly, for conservation projects the local environment office and national Ministry are appropriate, but also

be aware of the mandate of the local Planning or Investment Office and relevant national Ministry.

Market investment projects proactively

Over the past several years, the international development community has shown interest in creating online clearinghouses for sharing information and matching groups with each other, including matching projects with funders and investors. While these clearinghouses can be useful as repositories at the very least, significant effort is required to gain the visibility and critical mass needed for use of the platform to become self-sustaining. An “if you build it, they will come” strategy is generally not enough. The content in a clearinghouse must be of sufficient quality and volume to interest users, and then it must be supported by offline promotional activities and events to drive users to the platform. Projects need to build in the resources and time to account for these online and offline supporting activities.

Involving investment expertise early has tremendous advantages

Bringing in investment expertise early to provide ground-truthing of investment cases as they are developed is extremely helpful. Certain elements can be eliminated and clarifications gained early in the process rather than making it to the final case, only to bring up questions by investors at that point. Rather than a business case, the target for an output should be an investor memo, written in a format and language familiar to investors. The active participation by an investment expert can also provide links to investment funds for initial feedback by investors and to line up interested financiers early on.

Next Steps

Building on the gains of the past four years and the current growing interest around oceans and

private sector solutions from the global community, PEMSEA is working to strengthen its pre-investment services to develop investible projects that are financially sustainable and that generate measurable social, economic and environmental benefits in support of the objectives and priorities of its regional strategy, the SDS-SEA.

PEMSEA's journey with blue economy investment has generated a robust set of lessons learned. But it has also raised as many new questions that beg further investigation. Given the exploratory nature of this work, chief among these questions, and one that has understandably been asked by PEMSEA's partners is "What role does PEMSEA want to play?" At this stage of learning, six key roles are being considered by PEMSEA for advancing blue economy investment. (see Table on page 6).

The roles are overlapping and mutually reinforcing in certain areas. For instance, having strong technical capacity lends itself to serving as a Pipeline Developer. Given its unique profile and accumulated experience, along with the lessons from its recent blue economy investment efforts, PEMSEA is well positioned to operate as an Ecosystem Builder, Investment Enabler and Technical Advisor first, and secondarily as a Finance Catalyzer and Pipeline Developer.

As a Capital Provider PEMSEA would continue to plan and prepare development projects in support of SDS-SEA objectives and targets in collaboration with its Country Partners, development organizations and donors. However, an added value of such projects would be the inclusion of an investment component in the work program, which is designed to formulate, promote and realize "investments" in on-the-ground facilities and services that result in positive social, economic and environmental impacts.

To effectively provide an investment service, PEMSEA needs to address the following: a) the legal structure allowing for disbursement of grants that result in investments; b) access to investment and finance expertise to develop investible projects, either through its own in-house staff, by engaging the private sector on a case-by-case basis, or by forging a partnership with a private corporation that focuses on impact investments/blue economy growth in the East Asian region; and c) the willingness of PEMSEA Country Partners to move into an incubating stage of a new PEMSEA service.

These are indeed challenging issues for PEMSEA, but directly in line with its objectives and targets as a partnership organization for sustainable development of coasts and oceans and blue economy growth in the East Asia region.

Potential Roles for Development Organizations to Advance Blue Economy Investment.

Role	Objective	Typical Activities	Best for organizations with...
Capital Provider	Provide the organization's own capital to a project or enterprise as either a grant or an investment to help achieve development outcomes	<ul style="list-style-type: none"> • Provide grants with no expectation of repayment • Make investments with an expectation of financial return, at a minimum, preservation of invested capital 	<ul style="list-style-type: none"> • Legal structure allowing for disbursement of grants and investments • Sufficient on-staff finance expertise • Access to sufficient capital and willingness to risk it
Finance Catalyzer	Utilize blended finance to de-risk investments or fund project development and investment readiness	<ul style="list-style-type: none"> • Cultivate relationships and execute projects for donors (e.g., multilaterals, foundations) • Develop project concepts and proposals blending public, donor and private capital 	<ul style="list-style-type: none"> • Relationships with international funders • Ability to access specific donor funding (e.g., as a GEF Implementing Agency) or close relationship with such partners • Track record of developing project proposals and accessing grant capital • Sufficient on-staff finance expertise
Pipeline Developer	Leverage local knowledge and relationships to identify and develop potentially investable projects and enterprises	<ul style="list-style-type: none"> • Identify potential pipeline investment opportunities • Provide accelerator, incubator or TA services to build investment-readiness of projects and enterprises 	<ul style="list-style-type: none"> • Local relationships and understanding of local context • Track record of local capacity-building • Sufficient on-staff or outsourced business / finance expertise • Access to interested investors
Technical Advisor	Deliver technical expertise on conservation, sustainable development and impact investment aspects of projects and enterprises	<ul style="list-style-type: none"> • Provide technical expertise to development projects and/or investors supporting environmental and social impact and investment-readiness • Provide independent measurement and evaluation of impacts 	<ul style="list-style-type: none"> • Technical expertise and experience delivering services • Understanding of local context • Ability to collect data and track record of measuring and evaluating development outcomes
Ecosystem Builder	Coordinate and promote relationships and knowledge to advance blue economy investment	<ul style="list-style-type: none"> • Develop partnerships and establish linkages between organizations along the blue economy investment value chain • Produce knowledge products • Conduct local, national and regional convenings and dialogues to further knowledge sharing and relationship building 	<ul style="list-style-type: none"> • Research expertise and track record of knowledge management • Experience designing and delivering successful workshops and conferences • Relationships and ability to convene government, NGO, private sector, multilaterals, etc.
Investment Enabler	Serve as a policy-oriented advocacy and capacity-building platform for creating the right conditions for private investment	<ul style="list-style-type: none"> • Advocate for policy reforms and public investment with local and national government • Facilitate proper governance, including regulatory and enforcement regimes needed for investment • Provide capacity-building, primarily of local stakeholders, on requirements for private investment 	<ul style="list-style-type: none"> • Relationships and experience engaging local and national government and multilaterals on policy issues • Track record of local capacity-building • Sufficient on-staff or outsourced business / finance expertise