**EC/20/DOC/04**

**20th Executive Committee Meeting**

**Agenda Item: 4.0**

**PROGRESS ON DEVELOPMENT OF A SUSTAINABLE OCEAN INVESTMENT FACILITY SUPPORTING SDS-SEA IMPLEMENTATION**

**1.0 Background / Context**

1.1 The Intergovernmental Session of the 9th EAS Partnership Council supported the proposal by the PRF to establish a new and innovative financing mechanism to support and accelerate SDS-SEA implementation. Referred to as an Ocean Investment Facility and Funds or OIFF, the primary purpose of the mechanism would be to develop and promote projects that can attract capital (particularly private capital) for investment in infrastructure, technologies, systems, etc. in support of SDS-SEA implementation. At the same time, the Intergovernmental Session emphasized that the mechanism should be designed to generate revenue, which will partially support PRF operations.

1.2 The design and development of an OIFF is a significant undertaking requiring additional human and financial resources beyond the normal operations of the PRF. To support the development of the OIFF, the Intergovernmental Session decided to allocate USD300K from the PEMSEA Trust Fund as seed funding for:

* hiring an Investment Specialist to plan, coordinate and implement the design and development of the OIFF;
* initiating the preparation of a pipeline of blue economy investment projects; and
* preparing a proposal to seek full funding support for the development and implementation of the OIFF.

1.3 The EAS Partnership Council also decided that the development of the OIFF will be overseen by the Executive Committee and that a progress report will be presented to the next meeting of the EAS Partnership Council in 2018.

**2.0 Hiring an Investment Specialist**

2.1 Based on the directive of Council, interviews have been conducted and an investment specialist has been contracted. He will commence work in December 2017. The individual joining the PRF brings a unique blend of experience working in investment, including private equity in New York City, with on-the-ground experience working on sustainable development and investment projects in Asia and Africa.

2.2 The Investment Specialist will provide the expertise and dedicated focus over the next 12 months covering:

* developing a work program and schedule for preparation and launch of an OIFF;
* overseeing the design and development of the OIFF, including financial sustainability;
* building a standardized process for development of an investment project pipeline;
* capacitating local governments on use of tools and services for developing investments at ICM sites;
* promoting investments to interested investors and funds; and
* coordinating the development of major donor proposals for funding the OIFF.

2.3 The work program and schedule will be presented for consideration of the 21st Executive Committee meeting (1st quarter 2018), and an update on the OIFF design and development, including mobilization of funds, will be presented to the 10th EAS Partnership Council meeting.

**3.0 Partnerships for Building an Ocean Investment Ecosystem**

3.1 The PRF has established or is exploring strategic partnerships with several organizations to help develop a pipeline of project investments and pilot investments with potential investors across six sectors. Each of these partnerships provide an opportunity to “jumpstart” the process of establishing investments and provide valuable learning for PEMSEA as it continues to build its capacity. The interest by these groups in partnering with PEMSEA affirms of the value that PEMSEA provides as a project developer for sourcing investments for SDS-SEA implementation. From PEMSEA’s perspective, the partnerships provide the organization with the advantage of leveraging external support funding to help build a pipeline of investment projects and an OIFF for the region (Table 1). The current activities, as planned, are summarized in Figure 1 (Gannt Chart).

1. **Water and wastewater recovery**

The PRF has signed an agreement with **ARCOWA SA**, a firm based in Switzerland that focuses on sustainable and entrepreneurial water and ocean management. Launched by the former Executive Director of the International Water Association, ARCOWA targets development of challenges in water and ocean management into attractive opportunities and investments. ARCOWA plans to launch a USD100M Clean Ocean Fund for investing in water and wastewater recovery projects. <https://arcowa.com>

Primary output of the agreement is the development of one full proposal for private investment in wastewater infrastructure in one PEMSEA country providing attractive risk-adjusted financial returns, for sharing at the EAS Congress 2018.

1. **Protected areas and sustainable marine tourism**

The PRF has signed an agreement with **Blue finance**, an NGO based in Paris and the Caribbean that works to ensure sustainable management of marine protected areas through strengthened collaboration with the private sector. Blue finance has developed investment models in the Eastern Caribbean partnering with governments, communities, NGOs, entrepreneurs and private funds to design and implement joint partnerships for sustainable management of Marine Protected/Management Areas. Blue finance works in close collaboration with UN Environment (UNEP), through its Global Coral Reef Partnership. <http://blue-finance.org>.

Primary output of the agreement is the design of one special purpose vehicle (SPV) / instrument for private investment in marine protection in one PEMSEA country for sharing at the EAS Congress 2018.

1. **Solid waste, recycling and ocean plastics**

A series of exploratory discussions have been held with **Closed Loop Partners**, a private investment fund based in New York City that invests in sustainable consumer goods, advanced recycling technologies and circular economy. Closed Loop Partners runs a USD100M social impact fund, the Closed Loop Fund, to increase the recycling of products and packaging in North America. In partnership with the Ocean Conservancy and the Trash Free Seas Alliance, they are looking to set up a similar fund in East Asia. <http://www.closedlooppartners.com/>

Upon signature of a formal partnership agreement, Phase 1 of the Closed Loop Partners proposal entails identification of markets and understanding the landscape for pilot/replication investment projects in selected countries in the region. Closed Loop Partners expects to identify 5-10 potential investments by end of 2018, a subset of which can be presented during the EAS Congress 2018.

1. **Low-carbon and sustainable energy**

The PRF has signed an MOU with **R20 Regions of Climate Action**, a non-profit based in Switzerland with a mission to support subnational governments in the creation and successful financing of renewable energy and sustainable infrastructure projects designed to produce measurable environmental, social and economic benefits, as well as attractive financial returns for investors. <https://regions20.org/>

In the MOU, PEMSEA and R20 agree to collaborate in the following areas:

* identifying quality green infrastructure projects
* enhancing local capacity to develop bankable, low-carbon, blue economy projects, including the required technical, regulatory and financial aspects
* preparing and submitting bankable and sustainable investment projects to financial institutions/investors
* planning and development of a regional pre-investment facility focused on low-carbon, blue economy investments

Discussions are ongoing regarding the launch of an R20 campaign in East Asia in Q1 2018 for sourcing a pipeline of low-carbon investment projects.

1. **Sustainable Fisheries and Aquaculture**

The PRF has held discussions with **Impact Blue** concerning a new platform being launched to offer fisheries project development services to NGOs with stranded and/or early stage projects, to funders with particular fishery interests, to seafood companies looking to improve sustainability and to government initiatives focused on fisheries management reforms. The platform is a collaboration between fisheries improvement and sustainable seafood experts Blueyou Consulting (<http://www.blueyou.com>) and fisheries finance experts Catch Invest (<https://catchinvest.com>).

If suitable scope and financial terms can be agreed to, Impact Blue will conduct a landscape assessment, prioritize potential sites and develop an investment case for presentation at the EAS Congress 2018. However, a major challenge will be development costs. Based on analysis from Impact Blue on costs that would justify potential returns from targeted USD3-5M investment, full development costs would be in the range of USD350-400K over 2 years. Scaled down to less than one year and discounted for PEMSEA, this would still be around USD150-180K.

1. **Natural capital and habitats**

**IUCN** is launching a “Blue Natural Capital Facility and Fund” (<http://www.bluenaturalcapital.org>), which seeks to:

* prepare a pipeline of investable projects, providing financial support to project developers for initial set-up requirements of projects with a proven/attractive business model
* help design the financing structure and overall contractual scheme of projects
* advise project clients in blending public climate finance with private cash, accessing debt, equity and donor funding

IUCN has expressed interest in partnering with PEMSEA and has included PEMSEA in a workshop informing development of the facility.

3.2 Benchmarking on emerging ocean investment funds, average deal sizes are in the USD2-5M range, while large infrastructure investments could range into the tens of millions. Transaction fees for large investments can be in the range of 1-2% of deal size, but can vary depending on the deal. At present, it is too early to ascertain the financial return to PEMSEA on investment projects in the aforementioned six sectors. As we move through the investment process, and as PEMSEA strengthens its capacity and efficiency in building an investment pipeline, project development costs are expected to go down, boosting its return on investment. The PRF will have a better assessment of the situation for the next EAS Partnership Council in 2018.

**4.0 Actions requested of the Executive Committee**

4.1 The Executive Committee is requested to consider the approach, work plan, schedule and budget allocations identified by the PRF in the design, development and implementation of the OIFF. The Executive Committee is further invited to provide comments and advice on achieving a sustainable financing mechanism for SDS-SEA implementation, which partially supports the PRF operations, for follow-ons actions by the PRF.

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**Table 1:**  **Partnerships and capacity for building a pipeline of investment projects**

| **Sector** | **Partner Organization** | **Expected Outputs** | **Project Cost** | **PEMSEA financial commitment (Source of funds)** |
| --- | --- | --- | --- | --- |
| PEMSEA Investment Specialist | PEMSEA | See Figure 1 | USD60,000 | USD60,000 (PEMSEA Trust Fund) |
| Water and wastewater recovery | ARCOWA SA | * Analysis of wastewater treatment and resource recovery for three SE Asian Countries (Indonesia, Philippines, Vietnam) * List of potential wastewater treatment and resource recovery projects in at least 3 SE Asian countries (Indonesia, Philippines, Vietnam); * Investment proposal for a wastewater and resource recovery project prepared in close cooperation with local partners, by EAS Congress 2018 | USD496,500 (pre-feasibility) | USD15,625 (PEMSEA Trust Fund)  USD46,875 (GEF Project) |
| Protected areas and sustainable marine tourism | Blue finance | * Summary report describing evaluated sites with feasibility criteria * Strategy documents and work plan for investment instrument * Proposal document for public institutions and selected local stakeholders * PPP / co-management agreement defining financial terms, regulatory bodies, activities, obligations and assets ownership, by Congress 2018 * Presentations to asset managers and investors; Letter(s) of Intent | USD200,000 | USD40,000 (GEF Project) |
| Solid waste, recycling and ocean plastics | Closed Loop Partners | * Identification of markets and understanding landscape for pilot/replication in selected countries * Identify 5-10 potential investments by EAS Congress 2018 | USD750,000 | TBD (up to USD80,000); (Potential funding sources PEMSEA Trust Fund and GEF Project) |
| Low-carbon and sustainable energy | R20 Regions of Climate Action | * At least one bankable, low-carbon, blue economy project prepared for submitting to financial institutions/investors by EAS Congress 2018 * Enhanced local capacity to develop bankable projects * Planning and development of a regional pre-investment facility focused on low-carbon, blue economy investments | TBD | TBD |
| Sustainable Fisheries and aquaculture | Impact Blue | * Landscape assessment of sites for potentially investible sustainable fisheries projects * Prioritization of potential projects * One investment case developed by EAS Congress 2018 for sustainable fisheries or aquaculture | TBD | TBD |
| Natural capital and habitats | Blue Natural Capital Facility and Fund (IUNC) | * One blue natural capital investment case developed by EAS Congress 2018 | TBD | TBD |

**Figure 1: Planned activities for launching an Ocean Investment Facility and Funds**