Catching the wave of blue finance

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Time is running out to find sustainable ways to fund investments needed to protect the oceans that have given so much to humanity.

Our oceans have been generous to us. They generate oxygen, help protect us from the sun's heat, provide food and livelihoods to millions of people, and serve humanity in myriad other ways.

In return, we are destroying these nurseries for marine life by overharvesting fish and polluting the waters with untreated sewage and plastics.

Marine ecosystems are now threatened by extinction. Over the past 50 years, the world has lost nearly half of its coral reefs and mangrove forests, while marine populations have halved and global fish stocks depleted by a third.

Ocean dead zones – enormous areas where fish can no longer survive and breed –will expand dramatically as nitrogen fertilizer flows unabated at a rate of about 11 million metric tons per year. If trends in illegal, unregulated, and under-reported fishing continue, there may be no stock left in our region for commercial fishing by 2048.

Clearly, investments in recovering and maintaining a functioning marine ecosystem are long overdue. If they arrive, they can form the foundation of a sustainable "blue economy". With the ocean economy accounting for sizeable parts of gross domestic product in many developing economies of Asia and the Pacific, we need to work together on ways to find these investments and change the way we treat the oceans.

Fortunately, there is no shortage of investment opportunities which can place the current ocean economy on a sustainable footing and reduce the harmful impact of human activities. So far, however, investments have fallen short. Currently less then 1% of the total value of ocean economy is invested in sustainable projects.

Only about US$25.5 billion was committed in 2017 at the UN Ocean Conference, about one-sixth of what is required for achieving the Sustainable Development Goal 14, 'Life Below Water', by 2030.

We have a good chance to obtain these investments if we successfully rise to three challenges. First, we need to agree on a standardized approach to valuing natural assets. Second, we assist governments to effectively govern ocean resources, and finally we inspire and attract private sector initiative and capital to invest in a 'blue future'.

Measuring ocean sustainability by accounting for natural resources

The worsening state of ocean health, coupled with the devastating economic impact of COVID-19, highlights the importance of redirecting investments towards our oceans. This starts with properly accounting for the value of the 'natural capital' embodied in our seas.

For example, natural assets like mangrove forests or coral reefs both protect coastal communities from storm surges and floods, but also need protection themselves. If damaged during a storm or natural disaster, these assets need to be restored so they can protect us from the next calamity.

Accounting for natural assets on public sector balance sheets will enhance transparency, value improvements to blue assets, and reinforce the need to protect these invaluable resources for future generations.

Committed governments to build ecosystem for investments

Underlining a commitment to protect our oceans is addressing fragmented responsibilities for the ocean economy. This can be done by creating a central body to develop regulatory and policy frameworks and remove well-intended but unsustainable business incentives such as subsidies or tax rebates.

Encouraging progress has been made. To date, 57 countries have introduced ocean-related laws, policies or regulations. The governments of Indonesia and Bangladesh have already centralized the coordination of ocean-related issues and initiatives.

The conducive blue economy ecosystem that will emerge from these efforts can help channel private and public investments, as well as official development assistance, towards the sustainable development and protection of our oceans.

This means, we need to formulate 'transfer mechanisms' to fund support for essential ocean investments that lack revenue streams. These could take the shape of allocating income from fishing licenses, redirection of harmful subsidies, tourist charges or plastic taxes.

A wave of private sector finance

Obtaining private sector and financial market support is comparatively easy when returns are aligned with intrinsic risks and there is a long-term government commitment to development of the sector. With commercial viability of the sustainable blue sector 10-15 years behind that of onshore renewable energy, we need to leapfrog based on the lessons learnt from green investments.

Commercially viable blue sectors are already attracting existing players. Oil majors such as Total and Shell are actively expanding and restoring mangroves funded by blue carbon credits. Some insurance companies are carving a healthy niche business by charging premiums linked to the quality of natural storm and water surge barriers, thereby giving these assets a monetary value. A good start but more is needed.

The less bankable projects need special assistance. Blended or leveraged finance can play a catalytic role in lowering risk and enhancing profitability to attract private sector participation and capital for these initiatives. Other ways to create bankable project structures includes risk allocation to the most appropriate party, either public or private, or use of subordinated instruments.

Regional or sovereign funds are not only a good source of blended finance, they are also efficient vehicles for aggregating contributions from several types of investors for a specific use and term. Contributions from donors, development banks, local stakeholders, national wealth funds, and private philanthropies can be pooled in the trust fund to provide an extensive range of blended finance instruments.

More proven financial instruments can be deployed, as well. These include first loss tranches, concessional capital, credit guarantees, blue credits, and purchases of blue carbon credits generated by a project. Technical assistance for innovation and certification can be funded through grants.

Financial markets are fully embracing the green agenda, but they are still behind the curve when it concerns blue finance.

Increased transparency makes markets more efficient. Inclusion of climate change, environmental, social, and governance factors in risk assessments is now becoming the norm. Investors, asset managers, insurers, and banks are honing their capacity to assess, value, and price these risks. Policy departments are adjusting investment guidelines to channel funds towards sustainable investments and avoid harmful ones. Encouraging progress is under way for land-based assets.

Time has come to expand our scope beyond our terrestrial habitats and include the impact that economic activity is having on our marine ecosystems. This should be echoed by financial regulators and credit rating agencies.

Globally, work is under way to define the blue universe and sustainability criteria. A detailed approach is required, since blue financing lacks the simplicity of a single metric such as carbon equivalency or a "net zero emissions" target.

One step in this direction will be taken this quarter, when the Asian Development Bank launches its ocean finance framework. This will underpin our foray into blue finance, and hopefully catalyze further investments to deliver on the healthy oceans needed for a lasting recovery from the current turmoil.