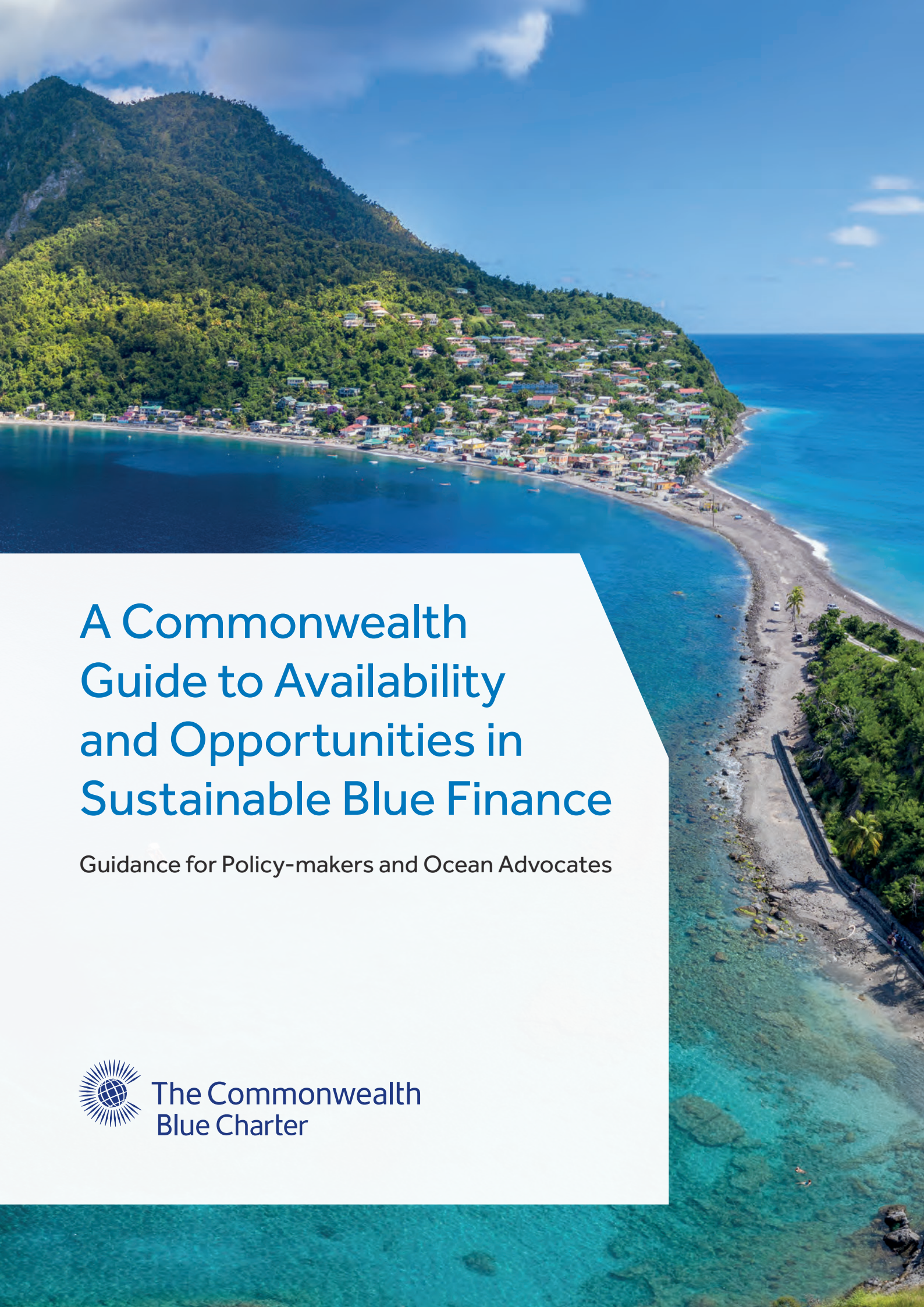

A Commonwealth Guide to Availability and Opportunities in Sustainable Blue Finance

Guidance for Policy-makers and Ocean Advocates

The Commonwealth Blue Charter

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The Commonwealth
Blue Charter

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A Commonwealth Guide to Ocean Climate Finance

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Foreword

Access to finance is crucial for fostering sustainability in our ocean sectors. This publication, *A Commonwealth Guide to Availability and Opportunities in Sustainable Blue Finance*, commissioned by the Commonwealth Blue Charter Programme, offers a roadmap for the Commonwealth to navigate the landscape of blue finance.

The ocean covers more than 70 per cent of our planet, and every person is dependent on it. It provides nourishment, livelihoods, and profound cultural and spiritual connections. Yet, in the era of climate change, overexploitation, pollution, and biodiversity loss, the health of our ocean is increasingly imperilled.

This guide delves into funding flows, opportunities and barriers. It equips readers with the knowledge and tools necessary to access funds aimed at fostering sustainability in our ocean work. By disentangling the relationship between funding mechanisms and types of funders, project leads are empowered to judge the most effective prospects and mechanisms.

Despite the immense potential of ocean-based projects, current funding falls short of addressing the scale of the challenges we face. Sustainable Development Goal 14 (Life below Water) remains the least funded of all the SDGs, which underlines the urgent need for increased investment in ocean protection and restoration.

It is vital that we explore new, innovative and collaborative financial solutions, such as blue bonds and impact investments, which offer avenues to scale up funding for blue economy initiatives.

As we strive for a thriving, inclusive, and equitable ocean future, let us embrace determination, collaboration, and inclusivity while navigating the complex landscape of blue finance, ensuring everyone has equal opportunities to contribute to and benefit from sustainable ocean opportunities.

The Rt Hon. Patricia Scotland KC
Secretary-General of the Commonwealth

Acronyms and abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BES	biodiversity and ecosystem services
CAGR	combined annual growth rate
CEO	chief executive officer
CFP	call for proposals
CO_2	carbon dioxide
CoP	community of practice
COP	Conference of the Parties
CSR	corporate social responsibility
DAC	Development Assistance Committee
DAF	donor-advised fund
ERPA	emission reductions payment agreement
ESG	environmental, social and governance
EU	European Union
FCDO	UK Foreign, Commonwealth & Development Office
FMO	Netherlands Development Finance Company
GCF	Green Climate Fund
GCPF	Global Climate Partnership Fund
GDP	gross domestic product
GEF	Global Environment Facility
GFCR	Global Fund for Coral Reefs
GHG	greenhouse gas
GIIN	Global Impact Investment Network
IADB	Inter-American Development Bank
ICMA	International Capital Markets Association
IEA	International Energy Agency
IFC	International Finance Corporation
IPO	initial public offering
IRR	internal rate of return

IUCN	International Union for Conservation of Nature
KfW	German Development Bank
KPI	key performance indicator
MDB	multilateral development bank
MPA	marine protected area
NbS	nature-based solutions
NGO	non-governmental organisation
Norad	Norwegian Agency for Development Corporation
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
ORRAA	Ocean Risk and Resilience Action Alliance
PE	private equity
PPP	public–private partnership
PR	public relations
R20	Regions of Climate Action
ROE	return on equity
ROI	return on investment
SCF	Subnational Climate Fund
SDG	Sustainable Development Goal
SeyCCAT	Seychelles' Conservation and Climate Adaptation Trust
SIDS	small island developing states
SMEs	small and medium enterprises
SOF	Althelia Sustainable Ocean Fund
SRI	Socially Responsible Investing
TNC	The Nature Conservancy
ToC	theory of change
UK	United Kingdom
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNICEF	United Nations Children's Fund

UNSDG	United Nations Sustainable Development Group
US	United States
USAID	United States Agency for International Development
WWF	Worldwide Fund for Nature

Glossary of terms

Where possible, these definitions have been aligned with *The Ocean Finance Handbook* (Friends of Ocean Action, 2020), *Toolkit to Enhance Access to Climate Finance* (Commonwealth Secretariat, 2022) and *A Commonwealth Guide to Ocean Climate Finance* (Thomas et al., 2022).

Term	Description
Adaptation	Adaptation is an adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects that moderates harm or exploits beneficial opportunities.
(Sustainable) blue economy	A blue economy is one in which ocean resources are developed sustainably for economic growth, improved livelihoods, jobs and ocean health. Typically, blue economy sectors include fisheries, aquaculture, renewable energy, shipping, waste management, tourism and marine protection. World Bank and UN (2017) define a blue economy as one that 'seeks to promote economic growth, social inclusion, and preservation or improvement of livelihoods while at the same time ensuring environmental sustainability' (p. vi).
B Corp	A B Corp is a for-profit company that is certified for its social impact, taking into account its social and environmental performance, transparency and accountability. B Corps are certified by B Lab, a global nonprofit organisation.
Blue finance	Blue finance is an emerging area of climate (or 'green') finance, which contributes to economic growth, improved livelihoods, health of marine ecosystems and clean water. It usually refers to debt and equity finance instruments, for example blue bonds and blue loans.
Bond	Bonds are a type of debt issued by organisations such as governments, companies and multilateral development banks (MDBs). These need to be repaid within a fixed term and include payments of variable or fixed interest. Bonds can also be 'themed', in which case the funds borrowed must be used for the thematic purpose (e.g., proceeds of 'green' bonds have to be used for projects or assets with an environmental benefit).
(Financial) capital	Financial capital means economic resource measured in terms of money. This is distinct from capital expenses, which is money spent to buy, improve or maintain physical assets such as buildings, vehicles, land or equipment.
Carbon credit	A carbon credit is a permit or certificate that allows the holder to emit carbon dioxide (CO_2) or other greenhouse gases (GHGs) into the atmosphere. Carbon credits may be traded on international financial markets, where purchasers pay for the right to emit a greater level of CO_2. As part of this purchase, both parties sign an emission reductions payment agreement (ERPA) document.
Concessional financing	Concessional finance is below market rate finance provided to developing countries to help achieve global development goals through high-impact projects. The finance can come in a range of types or products, including loans, grants, guarantees and sometimes equity. It may be provided by development banks, other multilateral funds and institutions, and government official development assistance (ODA) bodies.
Corporate social responsibility	CSR is the inclusion of social and environmental aims into a company's business activities. In practice, this can involve amending business practices to have a more positive – or less negative – social or environmental impact. It can also involve charitable donations from the company or an associated corporate foundation.

Term	Description
Credit and risk guarantee	Similar to insurance, credit and risk guarantees can provide security to subsequent third-party lenders if the borrower should default. This is a funding model provided as ODA by development banks and other multilateral bodies to lessen the risk for third parties (often the private sector) in investing in international development projects.
Crowdfunding	Crowdfunding is a newer form of equity investment whereby individuals contribute (usually) small amounts (typically under US$1,000) towards a project. Investors may or may not expect a return, reward (usually the product under development) or an ownership share in the project, depending on the crowdfunding model. Investors who participate in crowdfunding for an equity stake may find their legal enforcement of their rights difficult, unlike in traditional shares ownership. Crowdfunding can also be a model used to fund charitable projects through a series of smaller donations via platforms.
Debt financing	Also referred to as debt funding or debt lending, debt financing is a means for a company to raise capital or funding through borrowing or by selling debt instruments like bonds to investors. The funds borrowed will have to be repaid later, usually through regular payments with interest. The investors borrowing from the company or investing as creditors may be individuals or institutions. Small companies especially rely on debt financing to raise the money required to grow. Another way to raise capital is equity financing, which means selling shares in the company.
Debt-for-nature swaps	In debt-for-nature swaps, a state's foreign debt is restructured (reduced) in exchange for the country's pledge to invest in protecting its environment. The money saved from not having to pay the lender to service the debt (i.e., to make payments on the loans) can remain in the country's economy and be put towards projects that benefit the marine or terrestrial environment.
Emission reductions payment agreement	ERPAs are legal contracts signed between purchasers and sellers of carbon credits. They can be used to provide payments to governments, communities or individuals for activities that have achieve verified GHG reductions. ERPAs can help countries produce a track record of generating and selling carbon credits or apply them to their own emission reductions targets.
Externality	In economics, an externality or external cost is a positive or negative consequence of an industrial or commercial activity that affects an uninvolved third party without this being reflected in market prices. As a consequence of negative externalities, private costs of production tend to be lower than its 'social' or environmental cost.
Equity	Equity is an ownership stake in a project or company. For a company, this is usually described as a 'share' but it can also include contributions to a partnership. The value of equity is the assets of the project minus its debts and liabilities.
Environmental, social and governance investing	ESG investing involves using a set of standards or negative screens for company behaviour to select potential investments. It is called a negative screen because it creates a framework for ruling out potential investments based on undesirable behaviour by companies. This is in contrast to positive models for selecting socially conscious investments or impact investments, which are based on desirable characteristics, business models or behaviours.
Gifts-in-kind	A gift-in-kind is a non-cash and non-stock charitable donation that has a monetary value. The value of the donation can often be counted as part of an individual's, company's or foundation's giving in official reporting, and therefore often carries tax benefits. Gifts-in-kind can be services, such as providing office space or volunteer hours to build a building. They can also be goods, such as vehicles, food, medicines or building materials.

Term	Description
Greenwashing	Greenwashing means misrepresenting a product, project or investment to make it seem more environmentally sound or beneficial than it is. This can be done through conveying misleading information or by emphasising certain environmentally beneficial aspects to draw attention from other environmentally damaging elements of a product, project or investment. Bluewashing is greenwashing that applies to the ocean or blue economy
Impact investor	Impact investors invest in companies or projects with the intention of achieving a positive and measurable social and environmental impact in addition to a financial return. They may invest in debt or equity, and sometimes this is paired with impact-only funding to become blended finance. Impact investments are often made guided by ESG standards. They typically expect to make a financial return, but at or below market rate.
Impact-only funding	Impact-only funding is financial support for a project or organisation without any expectation of financial return; instead, impact-only funding comes with the expectation of measurable progress towards a particular public good.
Insurance	Insurance is a contract in which a policy-holder agrees to pay money to an insurer, called a premium, in exchange for financial reimbursement if their asset or property is lost or damaged. Insurance policies enable people and companies to offset the risk of financial losses that may result from damage to people or property. Insurance policies are commonly taken out for financial protection of property (like a car or house), life or health.
Internal rate of return	The IRR is the minimum annual rate of return that a project can earn to be profitable. A higher IRR is generally more attractive to investors.
Match funding	Match funding is a co-funding model where a sum of money, usually a grant, is paid towards a project on the condition that a matching amount is contributed by either the implementing organisation or another funder. The matching grants are often the same or comparable amounts of money, which add up to the total cost of the project. The match funding is a model frequently used in grant fundraising as it allows funders to feel that the responsibility for maintaining or continuing the project is shared between multiple funders, thus making the project more financially sustainable.
Mitigation	In the context of climate change, mitigation refers to interventions that aim to reduce the emission of GHGs and/or enhance carbon sinks.
Mosaic funding	Mosaic funding is a co-funding model where a project is funded by grants from multiple donors. It expands on the principle of match funding, where different donors and perhaps the implementing organisation share the cost of a project. In mosaic funding, a funder may provide a small percentage (e.g., 10%) of the overall project cost along with several other donors. The funds are not given with the condition of match funding but the project would usually not begin until the full funding is secured.
Multilateral development bank	MDBs are institutions created by a group of countries that provide financing and professional advice for development purposes. MDBs finance projects in the form of long-term loans at market and concessional rates and through grants. Examples include the Asian Development Bank, the European Investment Bank and the World Bank.
Nature-based solutions	NbS are activities carried out to protect, sustainably manage and restore ecosystems, such as investment in ocean conservation, reforestation, sustainable agriculture and restoring degraded land. NbS benefits biodiversity and climate along with helping address societal challenges and support human well-being. NbS provide direct and sizable environmental and social impact.

Term	Description
Official development assistance	ODA is public funding provided to promote the economic welfare of developing countries that meet criteria set by the Development Assistance Committee of the Organisation for Economic Co-operation and Development. It may either be contributed directly to the developing country or by way of multilateral organisations such as UN agencies or development banks.
Parametric insurance (or index insurance)	These are insurance policies with a pre-agreed payment, guaranteed upon the occurrence of a triggering event (e.g., a hurricane of a certain category of strength).
Principal	In lending, the principal is the amount of money a borrower borrows and agrees to pay back. An interest rate is then applied to the principal to calculate the total cost of borrowing the money. The total amount the borrower must pay back will be the principal plus the interest.
Philanthropy	Philanthropy is the practice of individuals or families giving money or sometimes gift-in-kind support to charitable causes. People who give grants or donations are called philanthropists. Philanthropists expect to create a measurable impact through their funding but they do not usually carry an expectation of financial return. Money may be given directly from an individual or via a philanthropic foundation or fund, which is usually registered as a charity or non-profit organisation. Philanthropic foundations are sometimes called philanthropies. Philanthropies manage the money that the person/ family has placed in the fund, usually with tax benefits. The family, individual or fund disburses grants, donations and sometimes impact investment towards organisations or projects that meet their social and/ or environmental objectives.
Public–private partnership	PPPs are partnerships between public organisations (such as governments or intergovernmental bodies) and private companies. They also sometimes include non-governmental organisations. Many governments use PPPs to construct and maintain civil infrastructure but they can also be used in development and humanitarian projects.
Return on investment (and return on equity)	In finance, return is the money made on an investment, described as a percentage value of the initial investment. For example, a 6% ROI for a project receiving an initial investment of US$500,000 will net the investor (0.06 x 500,000) = $30,000. An ROE can be calculated similarly.
Seed funding (also called pump priming)	Seed funding is used across impact-only and for-profit investing to mean the earliest investments in a project or company. Seed funding can be a grant, in which case it may be the first of several in a mosaic funding model. It can also be funding to enable a pilot project to begin, which may later expand. For-profit investors may put seed funding into a start-up company in exchange for an equity stake in the company. Seed funding investments are often made before the company is ready for investments via bank loans or public listing.
Theory of change	'A ToC is a method that explains how a given intervention, or set of interventions, is expected to lead to specific change, drawing on a causal analysis based on available evidence' (UNSDG, 2017, p. 4).

Executive summary

This document has been commissioned by the Commonwealth Blue Charter to provide Commonwealth members, and other interested readers, with a snapshot of what kinds of blue finance exist and are likely to be available in the near future, as well as some tools to support accessing these funds. Likely paths of future funding are presented through examining past funding flows, opportunities and barriers influencing past and future flows; funders' motivations, criteria and likely value exchanges; practical and legal considerations; and publicised opportunities. This document also provides readers with some of the tools they will need to access some of those funds. The relationship between mechanisms of funding and types of funders is disentangled to provide project leads with information to help them select the most appropriate funder prospects and funding types.

The importance of the world's ocean for human societies and environmental health can hardly be overstated. Approximately 3 billion people across the world rely on a healthy ocean for their food security and livelihoods (Barber et al., 2021). The goods and services coastal and oceanic environments provide are conservatively worth US$3 trillion to the global economy per year, equivalent to the fifth-largest economy by gross domestic product in 2015 (UNCTAD, 2015). However, the health of the ocean is under significant threat, facing simultaneous, serious and growing threats from climate change, over-exploitation, pollution and biodiversity loss.

Yet funding thus far has been insufficient. Despite the critical need to protect the ocean and the many mutually beneficial reasons for greater action on ocean issues, Sustainable Development Goal (SDG) 14, Life under water, is the least funded of all the SDGs by a significant margin. The magnitude of blue finance flows (i.e., finance directed towards sustainable ocean-related activities) is currently too small to meet the scale of the problem. The amount needed to protect and restore the ocean has been valued at US$175 billion per year (Barber et al., 2021). However, approximately $25 billion per year is currently being invested in ocean protection and restoration, leaving an annual funding gap of $150 billion (ibid.). Ambitious and well-focused finance flows are needed to ensure the ocean's resources are protected and restored for present and future generations.

However, ocean-based projects present extraordinary opportunity. Marine and coastal projects have enormous potential for high-value impact and financial incomes (both generating income and saving money). In addition, the existence of multiple nature-negative ocean externalities has spurred the creation or adoption of innovative financial products and policy tools like parametric insurance and blue carbon credits, which present opportunities for financing blue projects. Increased recognition of the untapped potential of the blue economy and of the scale of underfunding is leading to an increase in blue funding flows, with substantial growing private sector interest in particular.

As well as this enormous potential, ocean-based projects present unique challenges, creating barriers to investment that must be addressed if we are to generate sufficient funds. First, tenure and control of project areas present unique challenges in ocean and coastal environments, where there is usually no single authority responsible for the ocean. Second, there is limited scientific understanding of the ocean and all its different ecosystems. Investing at scale requires data about the status quo and potential impacts and income, which is not currently available for many areas of the blue economy (Sumaila et al., 2021). Third, ocean-based projects, and the value of ocean resources and services, are often not well understood by investors, the private sector or, in many cases, governments. Because of these challenges and new, untested business models, ocean environments present unique and considerable investment risk. Finally, blue finance flows are distorted by harmful subsidies and nature-negative investments that actively encourage harmful economic activities by disregarding negative environmental externalities.

Based on these opportunities and barriers, there are several trends in blue finance from 2010 to 2020 that are likely to continue:

The past decade has seen significant growth in funding towards the blue economy, overwhelmingly from the impact-only sources of philanthropy

and the public sector in the form of overseas development assistance (ODA), comparable in size. ODA will continue to be a good funding opportunity for governments to access larger-scale funding for sophisticated projects but government funding cuts post-COVID are likely to impede the growth of grant-making. At present there are two different rates of growth for two sectors and the funding from these two sectors will be well below what is needed to protect and restore the ocean and will remain very competitive.

More innovative blue finance models are being launched. Increasing numbers of non-grant funders are entering the space, and existing funders are providing new funding models, including for-profit models like blended finance and blue bonds as well as market-based models like blue carbon credits and insurance. Blue bonds in particular hold significant potential for funding governments and companies. The environmental sector in general has seen the appearance of more funders from more sectors, including impact investors and cross-sector funds. In addition, there has been an acceleration of commitment of funds and agreements for ocean funding from 2020 to 2030, reflecting a growing consensus on the urgency of the situation, which will mean more funding available.

Impact investments are set to grow exponentially. Thus far, the private sector has contributed only a tiny percentage of the funds necessary to protect and restore the ocean but there are encouraging signs. Building on the successes of green bonds in particular, the impact investment sector presents the best opportunity for new funding to make up the blue funding gap over the next decade. Research led by the CityUK and BNP Paribas reveals that green finance has grown by more than 100 times over the past decade, from US$5.2 billion in 2012 to $540 billion in 2021, over 93 per cent of it from green bonds (TheCityUK, 2022). Blue finance, especially blue bonds, is expected to follow the same exponential trajectory as green finance (Bosmans and de Mariz, 2023). Since blue bonds first emerged in 2018, 26 have been issued, totalling $5 billion, at a combined annual growth rate of 92 per cent in those years. If it follows the same rate of growth as green bonds, the blue bond market could be worth $500 billion in a decade.

There is increasing cross-sector collaboration across ocean funders, and they are seeking collaborative projects. Recognising that ocean degradation is complex and multi-faceted, new collaborative cross-sector alliances are being created, bringing diverse perspectives and strengths, and distributing funds through blended finance and other innovative methods.

Finally, nature-negative (i.e., harmful) subsidies may continue to undermine positive funding flows to ocean protection and restoration. Unless more is done to reduce or redirect nature-negative policies and subsidies, any progress made to increase blue finance flows will be fighting against the current. This is a unique role that governments can play to increase the positive flows and decrease the negative flows of blue finance.

To maximise funding, it will be important for government actors and other project leads to select the most appropriate funding model and funding type. The type of funder that is best suited for a project will be determined by a mix of eligibility largely based on legal requirements and of the motivations that drive the funder to give or invest. The primary considerations when choosing a funder are the legal eligibility of the recipient organisation and its ability to meet the typical motivations of that funder type. In contrast, the form, the size of the value being sought (e.g., expertise vs cash), as well as the project's capacity for generating a return are the primary considerations for choosing a type of funding mechanism. The funding mechanism and funder role define the way the investor funds and interacts with projects.

When applying to prospective funders for ocean-based projects, it is essential to understand their objectives, perspectives and expectations to ensure the application is aligned and has the best chance of success. Funder or investor motivations can include one or more of the following.

- **Financial return:** This describes the level of profit the investor is looking to gain.
- **Impact:** This is the level of positive change a funder will expect from projects.
- **Good feelings or validation:** This describes the good feelings people get from investing in a cause.
- **Network access or belonging:** Some funders invest because it gives them access to a network, which may afford them business or personal benefits.
- **Internal stakeholder management:** Where funders have multiple stakeholders, being able to navigate the internal politics of the funder being approached can be an important factor in funding decisions.

- **Public relations (PR) or peer comparison:** A funder may expect positive PR, either on a public stage or within their social circle, through being involved in a cause or project.

There is not a one-to-one correlation between funder type and funding mechanism. Depending on an individual or organisation's funder role, they may offer one funding model or a combination of different funding mechanisms.

The mechanisms of funding can be divided into impact-only, for-profit and other models. Impact-only models include philanthropic, corporate social responsibility (CSR) and ODA grants; contracts; and gifts-in-kind. For-profit models include commercial equity and debt, as well as impact investments, which seek both profit and impact. Impact investment can come in the form of credit models like crowdfunding; debt models like blue bonds and debt-for-nature swaps; and hybrid or blended finance models, which have elements of multiple models, such as debt and equity, or loans and grants. Concessional loans from multilateral development banks also seek profit as well as impact, and sometimes count as ODA. Other blue financing models include tradeable (market-based) permits and offsets like blue carbon credits, parametric or index insurance, and environmental taxes and fees.

As well as selecting the most appropriate funder type and mechanism of funding, governments and other project leaders should approach accessing ocean finance opportunities with the following best practice considerations in mind:

- **Pursue ambitious and programmatic thinking and planning,** building a theory of change framework upon which project and proposal are built.
- **Adopt a pluralistic approach to financing ocean conservation and the blue economy,** making use of different models of funding for different purposes, such as increasing external funding avenues (e.g., grants) and positive internal (i.e., government) incentives, while reducing mechanisms like nature-negative incentives and subsidies.
- **Reduce some of the barriers to blue investment by building up a data pool** to make projects investment-ready.
- **Proactively build cross-sector collaborations and partnerships** to create the most powerful vehicles for change.
- **Consider the eligibility criteria and motivations** of funders to determine which is most appropriate for the implementing organisation, and what kinds of value the project can realistically provide.
- **Make use of available resources and preparation facilities.** Recognising that not all countries and organisations are experienced in project development and management, many funders have built support facilities into their funds.

1. Context and background

1.1. Context and background

The importance of the ocean for human societies and environmental health globally can hardly be overstated. Approximately 3 billion people across the world rely on a healthy ocean for their food security and livelihoods (Barber et al., 2021). The goods and services coastal and oceanic environments provide are conservatively worth US$3 trillion to the global economy per year, equivalent to the fifth-largest economy by gross domestic product (GDP) in 2015 (UNCTAD, 2015).[1] Ocean sectors such as fisheries, marine transport and coastal tourism are particularly important to coastal communities, especially in developing countries. The ocean economy is expected to grow faster than the global economy over the next decade (Sumaila et al., 2021), presenting opportunities for all coastal countries, especially small island developing states (SIDS), to grow their economies and improve the livelihoods of their people.

In addition to its economic benefits, the ocean plays a central role in regulating the global climate, driving weather and creating the conditions necessary for life. The ocean is one of the world's largest carbon sinks, sequestering 30 per cent of annual carbon emissions, with mangrove and saltmarsh marine ecosystems particularly efficient at trapping carbon (Barber et al., 2021). Furthermore, mangroves and coral reefs protect coastlines from the impact of erosion and extreme weather while creating critical habitats and nursery areas for biodiversity.

However, the health of the ocean is under significant threat, facing simultaneous, serious and growing threats from climate change, over-exploitation, plastic and wastewater pollution, and biodiversity loss. Climate change, together with damage to coastal ecosystems, is predicted to lead to a reduction in the biomass of marine animal communities, lower fisheries catch potential and a change in species composition (Sumaila et al., 2021). The marine impacts of climate change alone could cost an additional US$322 billion a year by 2050 (ibid.). These unprecedented changes will undoubtedly affect communities reliant on ocean ecosystems and marine animal populations for their food and livelihoods, particularly in the tropics.

1.2. Purpose of this document and how to use it

Despite the various and mutually beneficial reasons for greater action on ocean issues, the magnitude of 'blue finance' flows (i.e., finance directed towards sustainable ocean-related activities) is currently too small to meet the scale of the problems. This document provides members of the Commonwealth Blue Charter, and other interested readers, with a snapshot of what kinds of blue finance exist and are likely to be available in the near future. Likely paths of future funding are presented through examining past funding flows, opportunities and barriers influencing past and future flows, some of the motivations and practical and legal considerations, and publicised opportunities.

Section 2 starts out by defining what blue finance is, compared with ocean finance or climate/green finance, and explaining how this document uses these terms (Section 2.1). Section 2.2 then looks into what makes blue finance different, describing some of the key barriers and opportunities facing funders and investors in blue finance. By highlighting these barriers and opportunities, we intend to cast light on the reasons for the extant types, origins and recipients of blue finance, as well as the likelihood of changes in emerging flows. Section 2.3 examines global trends in the movement of financial flows towards ocean/blue finance and where they are – and are not – coming from. This section also considers the types of funding that are likely to become more plentiful in the coming years.

Section 3 describes the different motivations that drive the various funder types to give or invest. The section also covers the kinds of value that each funder type is generally seeking from the projects it funds, as well as legal and practical barriers that guide recipient eligibility. Table 3.1 describes the relationship between mechanisms and funders and Table 3.2 lays out the eligibility of implementing organisations for different models of investment.

1 To put this amount in perspective, global GDP in 2015 was US$75.22 trillion, according to the World Bank.

A comprehensive list of multilateral development banks (MDBs) and government agencies can be found in Appendix 2.

Section 4 provides a summary of different funding models or mechanisms of funding that are available for ocean projects, divided into impact-only, for-profit and other mechanisms. It also provides information on how the funding works, who generally provides the funding, the application or selection process and what is expected of the funding recipient. Table 4.1 presents the basic categories of funding types, organised by whether the funder is generally public, private or either, and whether they are interested in return on investment, impact or both. The type of funding that is best for a given project will be determined by both the mechanism of funding and the type of funder (and their motivations), covered in Section 2. Table A1.1 in Appendix 1, called 'Finding your match,' provides further guidance to assist project leads to find the most appropriate funder prospects for their type of project and organisation. A list of impact investment standards can be found in Appendix 3. Appendix 4 presents further case studies of the models in this section.

Section 5 provides information on the kinds of practices that donors and investors will expect and prefer, including advice on building useful multi-sector partnerships and creating a theory of change (ToC).

A glossary of terms and a list of acronyms and abbreviations can be found at the beginning of the document. The appendices contain additional information and resources to help project leaders make successful approaches to funders and investors. Appendix 1, 'Practical tools for making an application', offers details on how to choose an appropriate type of funding and funder, along with a checklist to aid you in making applications. Appendix 5 contains a list of useful supplementary resources.

2. Blue finance: yesterday, today and tomorrow

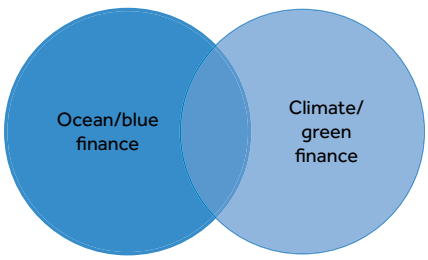
Key takeaways:

- Blue finance, ocean finance and green (or climate) finance are terms that are often used interchangeably, given the large degree of overlap between them. However, these terms are not exact synonyms, and are used differently by different audiences.
- This section explores the subset of blue finance and ocean finance more generally that addresses ocean protection and conservation and promotes sustainable blue economies.

2.1. What is blue finance?

Blue finance, ocean finance and green (or climate) finance are terms that are often used interchangeably, given the large degree of overlap between them. However, these terms are not exact synonyms. Ocean finance encompasses funding towards activities that take place on or in the ocean, including deep-sea mining, mangrove conservation, shipping, exploration and fisheries, as well as activities that feed into the ocean, such as ocean pollution solutions that begin on land. Ocean finance may or may not include sustainable or pro-climate activities. Climate or green finance is defined by the International Capital Markets Association (ICMA) Green Bond Principles as investment into 'environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment' (ICMA, 2021, p. 2). This can include projects on land or at sea, but in practice it includes mostly terrestrial projects, given the challenges highlighted in Section 2.2, 'What makes blue finance different?'

Figure 2.1. The overlap of blue, ocean and climate finance.



Broadly speaking, blue finance can be described as sustainability-linked financial flows into projects or programmes that have positive impacts for the ocean, consistent with Sustainable Development Goal (SDG) 14. In the sustainable finance sector, blue finance also includes freshwater and clean water protection, as outlined in SDG 6.[2] Additionally, projects that have benefits in terms of clean freshwater and sanitation often have secondary benefits for the ocean, for example regarding wastewater and plastic pollution. However, there is no consensus among experts and bodies issuing blue finance standards about whether it should include freshwater projects, such as those that help achieve SDG 6: Clean water and sanitation (Bosmans and de Mariz (2023).

In the finance sector, blue finance is described as a subset of green finance, as in the International Finance Corporation (IFC) Blue Finance Guidelines (IFC, 2022), which situate blue bonds and blue loans within green bonds and green loans, respectively. When well allocated, blue finance also contributes to (or at least doesn't impinge on progress on) other SDGs, such as Zero hunger and Affordable and clean energy.

For the purposes of funding for Commonwealth Blue Charter Action Group activities, this document explores the subset of blue finance and ocean finance more generally that addresses ocean protection and conservation and promotes sustainable blue economies. This also includes climate projects that aim to achieve both marine conservation and climate goals.

2 As in the case of the blue bond frameworks highlighted in Section 4.2.3 and Appendix 3.

It should also be noted that 'finance' tends to refer to profit-seeking funding mechanisms, such as blue bonds and blue loans. However, as this report seeks to identify the full range of opportunities available for funding ocean-based and blue projects, 'blue finance' and 'blue funding' are used interchangeably to describe the full spectrum of impact- versus profit-seeking investments, from grants and contracts to impact investments and high-risk venture capital.

2.2. What makes blue finance different?

Key takeaways:

- Marine and coastal projects have enormous potential for high-value impact and financial incomes, which are set to grow over the coming decade, thanks to the following characteristics:
  - Economic, environmental and health benefits of sustainable ocean projects may be five times the cost.
  - Nature-negative externalities have inspired the creation of innovative financial products and policy tools, such as blue carbon credits, parametric insurance and tradeable permits and offsets.
  - Growing recognition of the untapped potential of the blue economy and of the scale of underfunding is leading to an increase in blue funding flows.
- However, the pipeline of investable projects is too small to meet what investors are seeking, owing to barriers related to:
  - Project area ownership and control;
  - Limited data and understanding about ocean environments across scientists, investors, the private sector and governments;
  - High investment risk as a result of uncertainties;
  - Persistence of harmful subsidies and nature-negative investments.

Blue finance has both significant opportunities and barriers that have shaped the amounts, types and sources of funding flows thus far.

Opportunities: Ocean-based projects, particularly nature-based solutions (NbS), present significant opportunities for generating both financial return and impact.

Marine and coastal projects can provide high-value impact and financial outcomes, both generating income and saving money. One estimate puts the economic, environmental and health benefits of sustainable ocean investments at five times the costs (Barber et al., 2021). For example, restoring and conserving coral reefs are powerful means of reducing the impact of storms and sea level rise, which can save millions of dollars. Ocean-based renewable energy can be cost-effective and offer substantial financial returns. Building human capacity in sustainable fishing and fish-processing methods can provide excellent economic and social outcomes for local communities, as well as helping promote sustainable fisheries management.

Ocean-based projects provide multiple externalities or co-benefits that are not always captured in pricing and payment mechanisms but offer genuine and important economic and environmental benefits and opportunities. In economics, an externality is a positive or negative consequence of an economic activity that affects an uninvolved third party without this being reflected in market prices. The existence of nature-negative externalities has spurred the creation of several innovative financial products and policy tools, like parametric insurance, blue carbon credits, and tradeable permits and offsets. For instance, the sale of carbon credits for an agreed level of carbon sequestration enables restoration of a mangrove forest or tidal wetland. These ecosystems then also provide non-monetary benefits to other people, property and ecosystems, including habitat for commercially important fisheries species, protection of coastal people and property from extreme events and ecotourism opportunities for local communities.

Growing recognition of the untapped potential of the blue economy and of the scale of underfunding is leading to an increase in blue funding flows, in terms of both amount and number of funders

and funding mechanisms. Official development assistance (ODA) and philanthropic support for blue projects is growing, with governments, MDBs, foundations and other sources making substantial commitments to increase funding for the sustainable blue economy by 2030. Even more significantly, there is substantial growing private sector interest in ocean-based investments, with suggestions that the blue investment market could grow as fast if not faster than green investments have over the past decade (Bosmans and de Mariz, 2023). While the constraints described below may still create barriers to investment, there is enormous funding opportunity for those who can overcome these obstacles.

Barriers: Currently, the pipeline of what are seen to be investable projects is too small to meet the deal size and return on risk that investors are seeking (Sumaila et al., 2021). The reasons vary, and can include:

Tenure and control of project areas present unique challenges in ocean and coastal environments, where there is usually no single authority responsible for the ocean; instead, control of this immense natural resource lies across fragmented national and international laws, jurisdictions and loopholes, presenting unique challenges for investment. For example, ownership and control of a particular ocean or coastal area are not always clear, and rights and responsibilities often overlap across the private and public sectors and/or between different government departments or ministries. In some cases, as with mangrove forests, responsibility may be shared between a forestry ministry and another responsible for blue carbon (as mangroves are efficient at storing carbon). Meanwhile, a local community may simultaneously hold traditional and legal resource rights to the area. These unclear and overlapping jurisdictions can make project implementation and funding complicated.

The open and connected nature of the ocean as a single fluctuating system creates limits to return on investment (ROI), risk management and governance (Barber et al., 2021). For example, many marine natural resources (e.g., fish) and environmental conditions (e.g., toxins) are not restricted to owned regions of the ocean, as they migrate by nature. It is also notoriously difficult to manage access to specific ocean jurisdictions thousands of kilometres wide, which makes natural resource management and conservation more challenging on a national and international government level. Furthermore, the high seas, which account for about 61 per cent of the world's ocean, do not fall under the jurisdiction of any country, company or person.

There is limited scientific understanding of the ocean and all its different ecosystems. There is a significant challenge in obtaining robust scientific data, particularly in the unforgiving open ocean, that makes creating investable ocean projects and markets difficult (Barber et al., 2021). According to Dente et al. (2020), ocean science makes up between 0.04 per cent and 4 per cent of global research and development spending. As a result, 80 per cent of the ocean is unmapped, unexplored and unobserved (ibid.). Investing at scale requires data about the status quo and potential impacts and income, which is not currently available for many areas of the blue economy (Sumaila et al., 2021). This lack of data increases investors' sense of financial risk in investing in ocean projects and makes it difficult to determine actionable steps that are backed by scientific knowledge.

Further to this point, ocean-based projects are not often well understood by investors, the private sector or, in many cases, governments. The ocean's contributions to the economy are not fully reflected in GDP or market prices, such as those linked to cultural benefits, carbon sequestration, natural hazard protection and pollution buffering (Sumaila et al., 2021). These significant knowledge gaps make it challenging to plan, invest in and measure the impact of ocean-based projects. Lack of private sector knowledge about local context, risk evaluation and approval processes limits the involvement of corporate actors. For example, in a survey of financial professionals by the United Nations Environment Programme Finance Initiative (UNEP FI), only 23 per cent of respondents said that the sustainable blue economy was fully integrated in their institution's sustainability considerations or that they understood the term and were working to apply it within their institution (Usher, 2022). Whether this is a result or a cause of these knowledge gaps, the frameworks and taxonomies that currently exist to guide investments in a sustainable blue economy are inadequate and not universal. In addition, they do not communicate with one another, and therefore do not guide investment decisions robustly (Sumaila et al., 2021).

Ocean environments present unique and considerable investment risk as a result of several factors, including lack of data and operational uncertainties, which can result in variable and unpredictable returns on investment. When ownership/tenure is unclear and scientific data are limited, as discussed above, investment in ocean-based projects or businesses – particularly from the private sector – can be seen to bring additional risks and challenges. Low-income countries are often among those most at risk of ocean-based issues like natural disasters and can therefore benefit the most from blue investment projects. However, developing countries often have lower credit ratings and are therefore seen as high risk and less attractive to investors. Furthermore, business models in the sustainable ocean economy often have new, unreliable or untested, revenue streams (Gupta, 2021). This risk is exacerbated by environmental complexity and unpredictability in marine environments (Sumaila et al., 2021).

Blue finance flows are distorted by harmful subsidies and nature-negative investments that actively encourage harmful economic activities by disregarding negative environmental externalities. Maritime countries can generate large economic outputs from the ocean but the full cost is usually not borne by those exploiting it – producers and consumers – but rather disproportionately by those who benefit less (i.e., marginalised communities, low-income countries, coastal ecosystems). A United Nations Environment Programme (UNEP) report puts the scale of nature-negative subsidies at between US$500 and $1,100 billion per year, which is three to seven times larger than current investment across marine and terrestrial NbS (UNEP, 2022). Furthermore, about $22 billion of the $35 billion in global marine fisheries subsidies each year is allocated towards harmful subsidies (Sumaila et al., 2021). These harmful subsidies prop up and encourage harmful activities that would otherwise be unprofitable. Meanwhile, nature-negative financial flows have costs: unsustainable fisheries practices are resulting in ecosystem and biodiversity decline, which affects the livelihoods and subsistence of the people and animals that rely on the fisheries. These costs undermine positive funding flows.

2.3. Trends in blue finance[3]

Key takeaways:

There are several trends in blue finance from 2010 to 2020 that are likely to continue.

- **More funders from more sectors:** The vast majority of funding thus far has been from ODA and philanthropy, comparable in size but with differing priorities. The environmental sector in general has seen an increase in the number of funders entering the space, including impact investors and cross-sector funds.
- **Blue finance to date has been insufficient:** SDG 14 is the least funded SDG by major funders. Unless there is a step-change across all donor and investor types (public, private, philanthropic, policy and market-based), the funding available will not meet the scale of funding needed, US$175 billion per year by some estimates.
- **More funding available:** There has been an acceleration of commitment of funds and agreements for ocean funding from 2020 to 2030, reflecting a growing consensus on the urgency of the situation.
- **More collaboration:** Recognising that ocean degradation is complex and multi-faceted, new collaborative cross-sector alliances are being created, bringing diverse perspectives and strengths.
- **More innovative funding models:** More non-grant funders are entering the space, and more existing funders are providing new funding models, including blended finance, blue bonds and insurance. Blue bonds in particular hold significant potential for funding governments and companies.

3 The data and insights for this section come from Lewis et al., '*Funding Trends 2023: Tracking the State of Global Ocean Funding*' unless otherwise stated.

- **More impact investments:** Building on the successes of green finance and bonds in particular, blue bonds provide the best opportunity for closing the blue funding gap through impact-led finance.
- **Continued nature-negative subsidies:** Unless more is done to redirect nature-negative policies and subsidies, harmful subsidies may continue to undermine positive funding flows to ocean protection and restoration. Governments can play a unique role in decreasing negative blue finance flow.
- **Pluralistic fundraising approach required:** Any effective ocean, climate and biodiversity financing strategy must consider increasing external funding opportunities (such as grants and bond financing) and positive internal (i.e., government) incentives while also decreasing harmful internal policies and regulations.

2.3.1. A long way to go

At the 15th Conference of Parties (COP15) in Copenhagen in 2009, wealthier countries agreed to mobilise US$100 billion per year by 2020, in order to meet the climate action goals set out in the Paris Agreement. The total amount of climate finance (including private finance and other funding not counted towards the Paris Agreement goal) reached $83.3 billion in 2020 (Barber et al., 2021). However, a report from Oxfam suggests this figure may be overestimated (Oxfam, 2020); actual funds mobilised ($68.3 billion to 2020) may have missed the $100 billion target by a considerable amount[4] (OECD, 2022).

Thankfully, there is growing international recognition that the amount of climate finance mobilised is insufficient. At COP26 in 2021, a Taskforce on Access to Climate Finance was announced to address barriers in accessing climate finance and to align investment with the plans and priorities of developing countries. Developed countries also recommitted to the aim of mobilising US$100 billion per year by 2025, with an increased proportion to be directed to adaptation. And yet, despite the ocean's enormous capacity for climate mitigation and adaptation services, climate finance is still largely terrestrial in focus. For example, about 2 per cent of funding from the Green Climate Fund (GCF) up to 2020 went to ocean-related projects, according to research by the Commonwealth Secretariat (internal, November 2021).

Blue finance has fared even less well than climate funding. Despite the importance of the ocean's carbon sink potential, as well as its biodiversity and economic benefits, blue finance has been generally neglected. SDG 14 is the least funded SDG by major funders, representing a tiny 0.06 per cent of all SDG funding across all finance sources up to 2019.[5]

One estimate from 2020 suggests that ocean conservation financing needs to be US$175 billion per year, over half of which is estimated should go towards reducing marine pollution (Barber et al., 2021). The same study estimated the current levels of ocean conservation funding at approximately $25 billion (Ibid.). The report summarises the situation nicely: 'Several studies have attempted to analyse the ocean conservation financing gap, and while no agreed-upon estimate is available, there is consensus among experts that ocean conservation is underfunded everywhere' (ibid., p. 7).

2.3.2. The role of official development assistance and philanthropic grant-making

Our Shared Seas, the ocean conservation data, research and insights resource, published an insightful report, 'Funding Trends 2023: Tracking the State of Global Ocean Funding', which reviews the landscape of ocean funding from 2010 to 2022. The report analysed ocean funding across philanthropy, development aid, and non-governmental organisation (NGO) discretionary or non-foundation funding).[6]

4 The level of finance needed to meet the challenges of climate change is likely to be far higher, estimated by the Climate Policy Initiative in 2021 to be at least US$4.5 trillion per year (OECD, 2022). UNEP predicts that a further $8.1 trillion will be needed for NbS ($536 billion per year) to meet the planet's biodiversity, land degradation and climate change targets, on top of emissions targets (Barber et al., 2021).

5 SDG Financing Lab.

6 The previous iteration of this report (Our Shared Seas, 2021) also examined private finance flows.

Only US$13 billion was invested in ocean sustainability between 2010 and 2020 (Our Shared Seas, 2021). The vast majority of this came from philanthropy and ODA, with very little from the private sector. Between 2010 and 2022, ODA, philanthropic funding and NGO non-foundation funding was comparable ($1.46 billion[7], $1 billion, and $840 million, respectively in 2022, the most recent year for which full data was available). Private finance, by contrast, was just $212 million in 2019 (Our Shared Seas, 2021). To put this scale of underfunding in context, global ocean assets are valued at $24 trillion according to the Worldwide Fund for Nature (WWF) (Sack and Cunliffe, 2022). Furthermore, the impacts of climate change on the ocean could cost an additional $322 billion per year by 2050 if sufficient mitigation efforts are not made (Gupta, 2021).

Funding for marine conservation from ODA and philanthropy have been roughly comparable[8] over the past decade, as Figure 2.2 shows, with philanthropy funding doubling over the period from US$430 million to $1.0 billion in 2022. Despite philanthropy and NGO non-foundation funding making up a large percentage of ocean conservation funding, less than 0.34 per cent of all global philanthropic funding was actually directed towards the ocean. Another source estimates that less than 1 per cent of all philanthropic funding since 2009 has gone towards ocean conservation (Barber et al., 2021). Likewise, ocean-related projects make up a tiny proportion of overall ODA, which amounted to $240 billion in 2022 (OECD, 2023).

The growth in philanthropic funding has been driven partly by the creation of new foundations and the expanded commitments of others. Our Shared Seas (2023) notes that the number of marine funders giving at scale (US$5 million per year or above) more than tripled, from 11 funders in 2010 to 38 funders in 2022. Notably, Bezos Earth Fund, Bloomberg Philanthropies, Builders Initiative, the Simons Foundation and Dalio Philanthropies all made the list of the decade's top 20 marine philanthropic funders, despite being relatively new to ocean funding. Growth has also been driven by the top 20 marine philanthropic funders, responsible for approximately 64 per cent of marine funding from 2010 to 2020. The top four funders – the David and Lucile Packard Foundation, the Gordon and Betty Moore Foundation the Walton Family Foundation, and Eric and Wendy Schmidt – each gave over US$400 million over the period.[9]

The leading six donors of all types of marine ODA funding (fisheries, conservation and science, and excluding infrastructure) include the International Development Association, France, Japan, the International Bank for Reconstruction and Development, Germany and EU Institutions, all of which distributed over US$500 million from 2010 to 2019 (Our Shared Seas, 2021). When this list is limited to grant funding, the Global Environment Facility (GEF) and Norway also make the top six, having given over $400 million in grants over the same period (ibid.).

Funded topics

The priorities of ODA and philanthropic funders differed slightly over the period 2010 to 2022. The top areas for philanthropic ocean grant-making were science (US$2.24 billion, or 26 per cent), fisheries and aquaculture ($1.80 billion or 21 per cent), and protected areas and habitat protection ($1.70 billion, or 20 per cent), pollution and industrial stressors ($1.34 billion, or 16 per cent). While still a relatively small proportion of total ocean financing, philanthropic funding for ocean-climate topics increased from around $8 million in 2010 to $153 million in 2022, including funding towards shipping, ocean carbon dioxide removal, offshore wind, blue carbon, and offshore oil and gas. Despite this sharp increase in funding, the ocean-climate nexus is probably still underfunded compared with the ocean's role as carbon sink 'and its potential as a source of critical solutions for mitigation, adaptation, sequestration, and resilience' (Lewis et al. 2023).

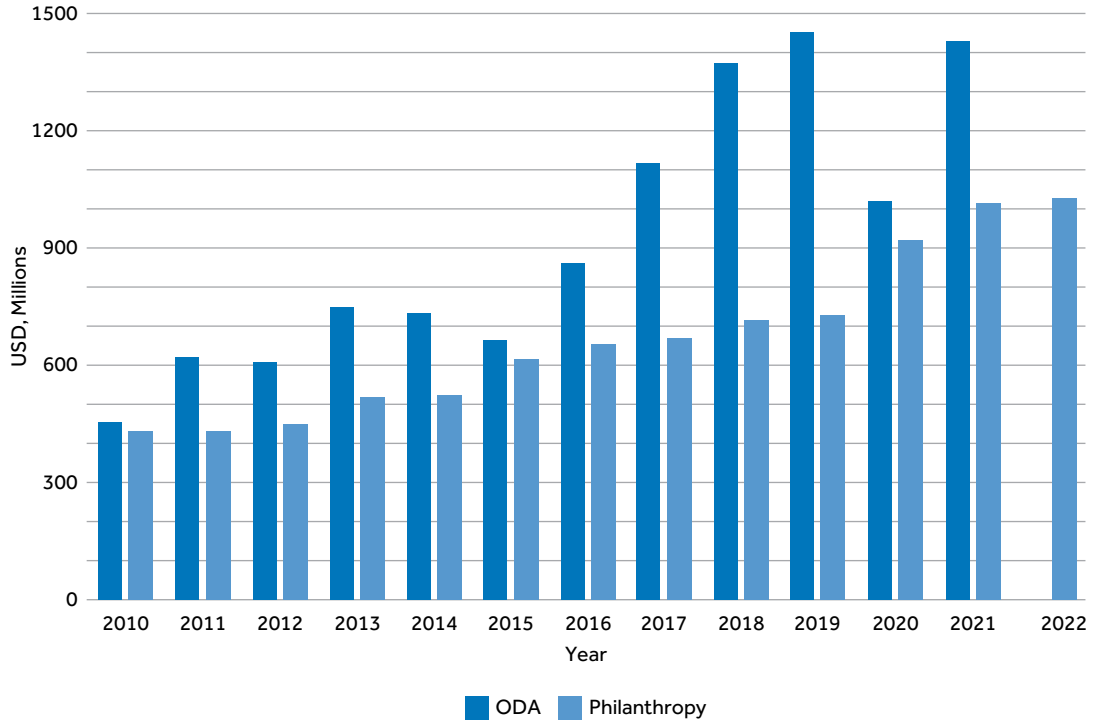
In contrast, marine ODA funding over the decade 2010 to 2020 can be divided into four categories: fisheries (US$2.674 billion, or 37 per cent),

7 2021 is the most recent year for which data is available on funding flows from ODA.

8 ODA being roughly 1 to 1.4 times that of philanthropic funding levels (Lewis , F. et al, 2023)

9 Funding the Ocean was a website (no longer available) tracking the funding going to ocean conservation efforts, by geography, project area, type of funding and funder and recipient. This site reflects a greater trend in philanthropy, particularly in the US and increasingly in the UK (with 360 Giving), to promote greater transparency about philanthropic funding flows. See also the International Aid Transparency Initiative, a global initiative that seeks to make development and humanitarian funding flows and impact more transparent.

Figure 2.2. Annual ocean funding from ODA and philanthropic sources, 2010–2022 (USD).



Note: 2021 is the most recent year for which data is available on funding flows from official development assistance (ODA).
Source: OECD, 2023. 'Data Platform on Development Finance for the Sustainable Ocean Economy'. https://oecd-main.shinyapps.io/ocean.

infrastructure projects ($1.899 billion, or 26 per cent), science ($1.506 billion, or 21 per cent) and conservation ($1.208 billion, or 17 per cent) (Our Shared Seas, 2021). Water transport projects, such as ports, harbours and waterway improvements, made up about 90 per cent of water infrastructure funding. ODA funding is distributed in the form of grants and loans, and sometimes other financial instruments like export credits (Ibid.).

Funded geographies

As overall ocean grant-making increased, funding to nearly all geographies of the world went up. Geographically, philanthropic funding from 2010 to 2022 was most often allocated to global initiatives (47.8 per cent) followed by North America (21.7 per cent)). The share of funding was low in Africa, Antarctica, the Arctic and Oceania but these saw 63, 373 per cent, 80 per cent and 53 per cent annual growth, respectively (Our Shared Seas, 2021). In contrast, North America saw annual growth of 8 per cent and Europe 6 per cent, indicating that financial flows are moving away from marine projects in developed countries.

ODA grant-making, by contrast, had a greater geographical weighting towards Africa (27.4 per cent of the total), Asia (20.2 per cent) and Oceania (13.0 per cent) where ODA dwarfed comparatively small philanthropic spending on ocean action.

At its current rate of growth, philanthropy will continue to play a role as a funder to pilot and launch scalable projects, particularly those that do not easily generate a direct profit or savings. It will also likely continue to act as convener for the sector, helping build cross-sector partnerships to improve project efficacy. However, philanthropic funding to governments remains constrained by eligibility rules. Similarly, public funding (including ODA) will likely continue to grow and present good opportunities for states, NGOs and companies to obtain project funding. However, ODA will likely continue to be limited by government spending cuts in a post-COVID inflationary recession. Even assuming ambitious rates of growth over the coming decade, ODA and philanthropy alone are unlikely to be able to make up the blue funding gap.

Table 2.1. Ocean funding from philanthropies and ODA sources, by geography.

Region	Philanthropic funding (US$ million)	Share of philanthropic funding (%)	ODA funding (US$ million)	Share of ODA funding (%)
Global	4116	47.8	0	0
North America	1865	21.7	198	1.8
Unspecified	645	7.5	2334	21.1
Europe	516	6.0	263	2.4
Asia	432	5.0	2225	20.2
Africa	223	2.6	3024	27.4
South America	203	2.4	338	3.1
Caribbean & Central America	194	2.2	971	8.8
Oceania	168	1.9	1435	13.0
Antarctic & Arctic	161	1.9	0	0
High Seas	79	0.9	0	0
Middle East	5	0.1	250	2.3

2.3.3. The role of the private sector and market-based instruments

It is estimated that every US$1 invested in marine conservation generates around $10 in.economic return (Barber et al., 2021). Despite these promising figures, until recently the private sector did not have much financial stake in ocean conservation. Of the voluntary commitments to act on SDG 14 at the UN's Ocean Conference, only 8 per cent came from the private sector (ibid.). In most emerging sectors of the blue economy requiring new investment capital, ODA and philanthropy provide the vast majority of funding (ibid.). There are currently few ocean investments at scale (above $100 million) and only 2 per cent of blended finance transactions address SDG 14 – the second-least of all SDGs (Bosmans and de Mariz, 2023).

This situation is changing, however. There is increased recognition in the financial sector of the growth potential of ocean economy projects, and more funding calls and attempts to engage in ocean financing and efforts to resolve some of the challenges of blue finance, such as lack of data. A survey of asset managers by Credit Suisse found that 72 per cent of asset managers and asset owners believed that the sustainable blue economy was an investable theme (Bosmans and de Mariz, 2023). Furthermore, 65 per cent of asset managers believed blue economy investments would have positive effects on financial performance (ibid.).

However, asset managers also acknowledged a lack of definition of blue economy and blue finance, lack of investment-grade projects/firms at scale and lack of internal expertise as barriers to blue investing (Bosman and de Mariz, 2023). Accordingly, to overcome the knowledge barriers highlighted in Section 1, the global financial sector increasingly seeks to quantify the financial value of natural resources, marking them as assets that can generate capital through financial mechanisms. This approach may seem to strip nature of its ecological, cultural and aesthetic meaning. However, putting a financial value on the value of ecological assets and associated economies (like the blue economy) puts the challenges of environmental degradation in a language the financial sector readily understands and enables them to be part of the conversation along with states, NGOs, small and medium enterprises (SMEs) and research institutions. For example, a 2020 Swiss Re blog discusses the emerging role of insurance in financing environmental protection through innovative products, such as parametric insurance (Brahin, 2020).[10]

Green and blue bonds

Since the first green bond was issued in 2007, there has been growing awareness of the potential

10 See Section 4.3.1 for more information on parametric insurance.

of green and sustainable finance to inject vast sums into environmental projects, including ocean conservation and ocean climate projects.

Despite taking a drop during the pandemic, the global sustainable finance market, including green bonds and social bonds, was valued at US$3,650 billion in 2021 and is predicted to grow 20.1 per cent annually, to $22,485.6 billion by 2031 (Allied Market Research, 2022). According to a study by TheCityUK and BNP Paribas, the green finance sector grew by 100 times in a decade, from US$5.2 billion in 2012 to $540 billion in 2021; over 93 per cent of this was from green bonds (Dogra and Murugaboopathy, 2022; TheCityUK, 2022). The growth of green finance has largely been driven by demand from investors (Bosmans and de Mariz, 2023). The expectation from multiple sources is that the growth of the green finance sector provides a promising blueprint for the growth of blue finance over the next 10 years (ibid.).

In March 2023, the *Journal of Risk and Financial Management* published the first overview and analysis of the blue bond market (Bosmans and de Mariz, 2023). It reported that, between 2018 and 2022, 26 blue bond transactions took place, amounting to US$5 billion, with a combined annual growth rate (CAGR) of 92 per cent between those years (ibid.). As the majority of impact investment growth has been in the bond market thus far, blue bonds have the greatest potential within impact investment but also across all investment to generate billions of dollars in blue investment. Blue bonds also present the biggest funding opportunity for governments because of the traditional role of governments as bond issuers, their low interest rates, their impact-led criteria and their ability to be paired with debt-for-nature swaps.[11] If blue bonds follow the same trajectory as green bonds over the coming decade, they could potentially generate more than $500 billion in blue finance by 2030, exceeding the estimated $175 billion needed to conserve and restore the world's ocean (Barber et al., 2021).

Blended finance

Another factor contributing to this shift to more blue financial flows from the private sector is increasing momentum in the market towards using blended finance to support ocean-economy projects, meaning a combination of debt, equity and philanthropy (Gupta, 2021). Mirova's US$132 million Althelia Sustainable Ocean Fund (SOF) completed its final close in 2020. Circulate Capital Ocean Fund, launched in 2020, has invested $106 million to incubate and finance start-up companies, SMEs and infrastructure that prevent ocean plastic and advance the circular economy in South and Southeast Asia. The international organisation Climate Bonds Initiative is working to mobilise global capital for climate action to reach the target of $5 trillion per year by 2025. Its Five by Five Manifesto lays out five steps to reach this target.[12]

The for-profit blue finance sector, especially the blue bond market and blended finance mechanisms, has the capacity to inject funds into ocean conservation projects that far exceed the amounts coming from philanthropies, governments or MDBs. The growth of blue finance particularly presents opportunity for developing countries. The emergence of green and blue finance standards heralds the mainstreaming of impact investment in financial markets as a whole. As these sectors develop, it will be imperative that they grow in alignment with impact standards to prevent the greenwashing and bluewashing of investments, meaning environmental impacts are overstated.[13]

2.3.4. The role of policy instruments

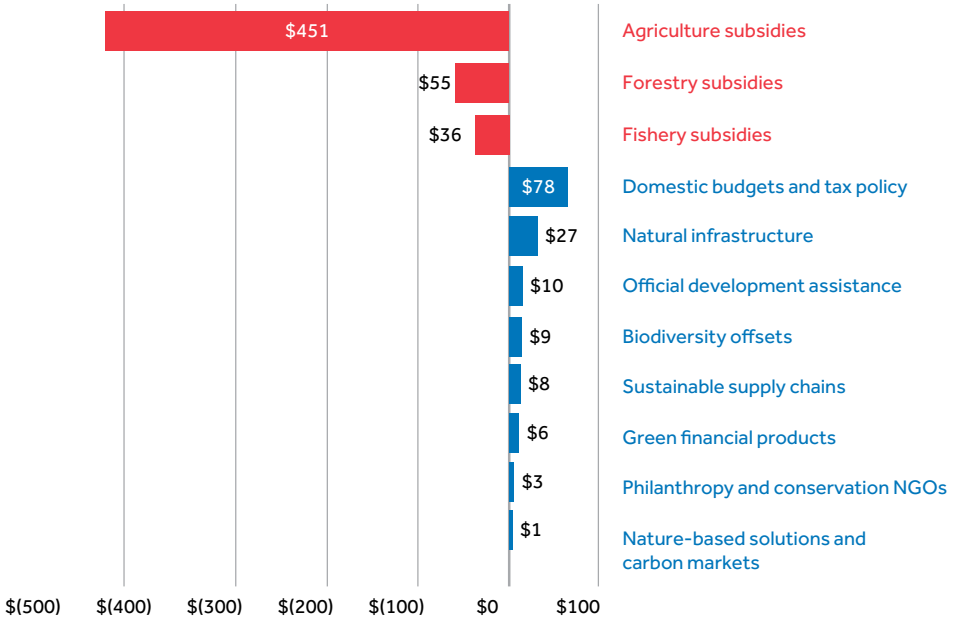
The Financing Nature Report produced by the Paulson Institute, The Nature Conservancy (TNC) and Cornell Atkinson Center for Sustainability highlights that redirecting harmful subsidies is perhaps the most neglected funding option at the disposal of policy-makers (Deutz et al., 2020). The report, which focuses on the global biodiversity funding gap, both on land and at sea, estimates the total funding gap to protect nature is between US$598 billion and $824 billion per year. It cautions against looking purely for external funding to fill this gap and instead suggests that closing the gap relies heavily on government actions, and that over half of this gap could be closed without any new investment. Instead, it calls on government to better deploy existing funds, primarily through reforming harmful agricultural subsidies and

11 See Section 4.2.1 for more information on debt-for-nature swaps.

12 Both SOF and Circulate Capital Ocean Fund are covered in greater detail in Appendix 4.

13 Further information about the development of green and blue finance standards can be found in Section 4.2.3.

Figure 2.3. Harmful subsidies and global financial flows towards biodiversity conservation (upper estimates, 2019 US$ billion per year).



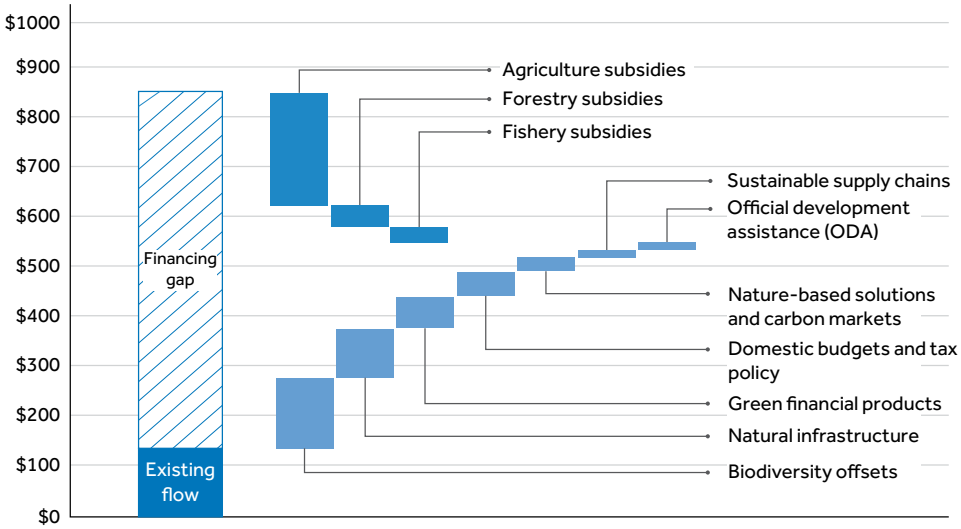
Note: The estimates of agricultural, forestry, and fisheries harmful subsidies correspond to OECD's "potential biodiversity harmful" category of production subsidies. This graph excludes the estimated additional US$ 395–478 billion in fossil fuel production subsidies.
Source: Deutz et al. (2020).

creating 'the right regulatory environment, smart incentives and market structures to catalyze financial flows from the private sector into biodiversity conservation' (ibid., p. 9).

Similarly, UNEP's State of Finance for Nature Report calls such damaging subsidies 'nature-negative financial flows', noting the likely enormous impact of such flows in undermining efforts to increase finance flows to NbS (UNEP, 2022).

Figure 2.3 shows that the estimated spending on subsidies that often degrade nature is greater than the sum of positive funding from philanthropy,

Figure 2.4. Estimate of growth in financing resulting from scaling up proposed mechanisms by 2030 (2019 US$ billion per year).



Source: Deutz et al. (2020).

ODA and impact investment combined – not including fossil fuel subsidies, which are substantial.[14] The UNEP report puts the scale of subsidies even higher, ranging from US$500 billion to 1,100 billion per year, which is three to seven times larger than current investment across marine and terrestrial NbS (UNEP, 2022). Figure 2.4 considers the balance of nature-positive and nature-negative flows even with the proposed increase of climate flows to $100 billion. Therefore, any national strategy to increase financing for conservation by looking purely externally while neglecting to examine policies and regulations that encourage environmental degradation is consigned to nibbling at the margins of the problem.

In summary, the positive funding trends in philanthropy, ODA, blue bonds and blended finance highlighted above will likely accelerate as we see wider recognition of the urgency to act on ocean conservation and evidence of the impact and financial returns from some of the newer private sector funds. While blue finance is growing and private investors are increasingly seeking to invest in projects with environmental and social impact, these changes are happening too slowly to address the scale of the need. A step-change is required across all funding models to meet the scale of the challenge. Policy-makers should also look to decrease nature-negative financial flows, which counteract any funding progress that is made.

14 In one estimate, fossil fuel subsidies exceeded US$1 trillion in 2022 (IEA, nd).

3. Sources of funding and their motivations

Key takeaways:

- Project leaders seeking funder prospects should consider funder motivations and eligibility criteria as well as their programme interests, impact and/or financial return.
- Primary considerations for choosing a funder organisation are the legal eligibility of the recipient organisation and its ability to meet the typical voluntary motivations of that funder type.
- The type, form and size of the value being sought (e.g., expertise vs cash) as well as the project's capacity for generating a return are the primary considerations for choosing a funding mechanism.
- The funding models for which governments will be most eligible include debt, gifts-in-kind, hybrid and market-based models.
- Some tools to circumvent eligibility restrictions are fiscal sponsorship, cross-sector partnerships, gifts-in-kind and programme-related investment.

This section describes the different categories of people and organisations that can fund ocean-based projects. While reading this section and Section 4 on funding mechanisms, it is advisable to keep in mind that an individual or entity can have multiple funder roles. For example, an individual can be a private philanthropist and a private (for-profit) investor, sit on the trustee board of a philanthropic foundation and work as a CEO of a company. Companies can make grants from the company or a separate corporate foundation, they can issue contracts and they can invest via grants or loans. Governments issue contracts and grants and invest via for-profit loans and equity, all of which may or may not count as ODA. NGOs can be grant recipients and issuers and also deliver contracts. Because entities or individuals can have many roles, they can provide funding through a range of models or mechanisms. The funding mechanism and funder role define the way the investor funds and interacts with projects. Unhelpfully, there isn't a one-to-one correlation between the funder and funding type, but Table 3.1 provides a breakdown of how they relate to one another.

The type of funder that is best suited for a project will be determined by a mix of eligibility largely based on legal requirements and the motivations that drive the funder to give or invest. When applying to prospective funders for ocean-based projects, it is essential to understand their objectives, perspectives and expectations to ensure the application is aligned and has the best chance of success. It is also useful to understand the limitations, benefits and requirements of the potential partnership for both recipient and funder. Each type of funder has its own expectations of the types of value it seeks to create, in addition to impact and/or profit. They also have different systems of organisation and a range of application process, which we have sought to disentangle in this section and Section 4.

3.1. The types of funder motivations and value exchange

Two types of value that funders look for in a project are impact and financial return. They can also give value to projects in several ways, including through financial contribution and expertise, which we go on to explain in Section 4. However, the value exchange between funder and project or organisation can also extend to a full range of motivations that drive donors and investors to become involved with blue economy and ocean conservation projects. Being able to build long-term successful partnerships with funders is largely determined by the capacity of projects to meet funders' motivations or needs in addition to providing impact and/or ROI.

The list of different funder motivations below is based on the widely used theory of different types of major donors[15] based on their motivations, and has been adapted by the author for for-profit investment models and statutory funders. For example, in addition to impact or profit motivating corporate social responsibility (CSR) decisions, public relations (PR) and network access also influence companies to invest in projects, against the backdrop of increasing calls for corporate activism and sustainability.

- **Financial return:** This describes the level of profit the investor is looking to gain. Impact-only projects won't have a profit return, and the return expected by different types of for-profit investors will vary, depending on the funding model (e.g., debt, credit). However, there may be a tax benefit for some types of impact-only funders (i.e., philanthropists and companies), which could be a financial return. The level of tax benefit will depend on a number of factors, not least being the country of registration.
- **Impact:** This is the level of positive change a funder will expect from projects. It may partially reflect the level of expectation of a particular funder and their depth of knowledge of the issue. For example, philanthropic foundations tend to employ people who are very knowledgeable about the topics they fund and therefore have a greater understanding and expectation of impact than people giving comparable grants as individuals. It also partially reflects the degrees of impact that can be achieved by the level of funding that the investor commits. For example, ODA grants tend to be much larger than grants from philanthropic foundations, so the level of impact expected will be proportionately higher. The level of impact expected also corresponds to the depth and frequency of reporting expected. That means the reporting requirements of impact-only government or ODA funders will be more frequent and in-depth than those of a CSR funder, which will likely prefer something more concise and top-line.
- **Good feelings or validation:** One of the reasons people invest in causes or projects is because it makes them feel they have done a good thing or are a good person. This is an element of most funder motivations where the project has a positive impact but it is differentiated from the impact motivator because it is the act of giving itself that creates the positive feeling, not the impact of the project.
- **Network access or belonging:** Some people or organisations invest because it gives them access to groups of investors or donors linked to a project or cause. Investing enables them to be part of an exclusive club of funders, which may then afford them personal or business benefits.
- **Internal stakeholder management:** Larger funders will have several stakeholders, only some of which will make the decisions about which organisations receive funding. Grant-makers in professionalised foundations or government funding bodies typically are not the strategic leaders of their organisations, making the calls on which organisations receive funding. Instead, they are employed because of their expertise in assessing grant opportunities accurately and processing grants efficiently. The opposite often pertains to organisations closely controlled by an individual philanthropist, where the donor's say may overrule any consideration about the strategic suitability of a project recommended by the grant-making staff. In this sense, the quality of an idea may be less important to one's chances of success with some funders than the ability to navigate the internal politics of the funder being approached. A smart strategy when seeking grants is to find the individuals within an organisation who are responsible for spending, and then work with them to understand the key performance indicators (KPIs) they are tasked to hit with their grant-making. Shaping a project to help them hit the KPIs and manage the internal stakeholders that ultimately oversee their work (while remaining true to your strategic direction) is a powerful lever to increase one's chances of securing funding.

15 This theory, articulated in *The Seven Faces of Philanthropy* (Prince and File, 1994), has been adapted and revised by many fundraising practitioners and researchers, and adapted/combined into seven, eight, six and four groups.

- **PR or peer comparison:** This shows the level of investor motivation tied to expectations of positive PR, either on a public stage or within the investor's social circle. This may be a particularly strong motivator for companies that give very publicly and expect a level of brand promotion through the cause or project they fund.[16] It is also a motivator for individuals or family foundations that have built up a reputation for philanthropy, sometimes but not always in answer to some negative PR (e.g., Bezos Earth Fund).The average individual philanthropist may be more likely to seek positive PR through their grant-giving but it is also important to note that this is highly variable and some donors may feel very strongly about giving anonymously (perhaps linked to their motivations to 'do good'). With all impact-only donors, it is important to ask the funder's preferences and permission about PR before making assumptions.

Before and throughout the drafting of a concept note or proposal, it is helpful for project leads to consider what motivations drive their prospective funders, based on what is known about them from personal relationships and information in the public domain. It is also fine to directly ask funders what they are looking for from the relationship. Project leaders should be realistic about the kinds of value they can reasonably deliver through the project and remember that they are cultivating a relationship that, ideally, will last several years.

It is also worth considering what types of additional value funders and partners might be able to offer the project – such as new relationships and networks, local knowledge, and expertise and capacity – that can help meet funders' needs and motivations while also adding value to the project. For instance, while a funder contributing new relationships from their network benefits the project by bringing in potential additional funds and/or expertise, it may also help bring the funder good feelings/ validation, allow them to speak proudly about the project to their peers and/ or achieve even greater project impact.

16 See CSR case studies in Section 4.1.2 and Appendix 4.

3.2. Types of funders and funding mechanisms

Yes	Y	Sometimes/ less common	S	No	N

Table 3.1. Types of funding provided by category of investor/funder.

		Impact-only models			Debt models	Equity models	Hybrid/blended models and other			
Sector	Investor/funder	Grant or donation	Contract/ fee for service	Gift-in-kind/ technical support	Loan or bond (e.g., sovereign or conservation impact bonds)	Shares (e.g., impact investment, seed funding)	Insurance/ credit and risk guarantee	Carbon credit scheme	Concessional financing	Debt swap
Private sector	Venture capitalists	N	N	N	N	Y	N	N	N	N
	Commercial banks	N	N	N	Y	Y	N	N	N	N
	Pension funds	N	N	N	Y	Y	N	N	N	N
	Private finance	N	N	N	Y	Y	N	Y	N	N
	Crowdfunding	Y	N	N	N	Y	N	N	N	N
	Companies	Y	Y	Y	Y	Y	Y	Y	N	N
Philanthropy/ third sector	Individual giving/philanthropy	Y	N	S	S	N	N	N	N	N
	Corporate/philanthropic foundations	Y	Y	S	S	S	N	N	N	N
	NGOs	S	S	S	N	N	N	N	N	N
International and multilateral bodies	MDBs (e.g., ADB, AFDB)	Y	Y	Y	Y	S	Y	N	Y	Y
	International institutions (e.g., UNEP, UNDP)	Y	Y	Y	Y	N	N	N	N	N
Public sector	Statutory funders, ODA agencies (e.g., USAID, FCDO)	Y	Y	N	Y	N	N	N	N	Y
	Governments (e.g., sovereign wealth funds, domestic governments)	N	S	N	Y	N	S	Y	N	S

Note: This list is not exhaustive and includes only those most relevant to large ocean actors. Models such as microfinance have been omitted for space as it is most relevant to individuals and small companies/ social enterprises.

3.3. Eligibility

Along with considering the motivations of funders, it is necessary also to take account of their eligibility requirements, as eligibility helps determine what kinds of funding are truly available. This is usually dictated by legal restrictions placed on the funder's registered organisation type and the country of registration. Eligibility requirements are published along with other information about a funder's interests. These are usually non-negotiable as a result of situations outside the funder's control, so it is not in a project lead's interest to submit an application anyway, 'just in case'; time is better spent on finding a funder to which the project is eligible to apply. Table 3.2 shows the types of implementing organisations that are generally eligible to receive different types of funding.

For example, philanthropic and corporate foundations are technically charities or non-profits in most countries, which makes them exempt from many taxes. In order to maintain this beneficial status, they are usually restricted to providing grants to non-profit organisations or charities and prevented from providing grants to companies or government actors. This is in part to ensure that charitable entities aren't used as a means to further a company's or individual's business or personal interests at a tax discount. There are also ideological barriers that keep non-profits and philanthropies from donating to governments. Many people believe that governments should fund their activities from state coffers, rather than being supplemented by domestic or international companies, individuals or philanthropies. In part, this stems from ideas that philanthropy should be used only for traditionally 'charitable' aims by non-profits and individuals rather than states. It may also relate to concerns about corruption in some government institutions.

Likewise, companies making CSR donations from the company will usually make the donation only to non-profits, which gives them the benefit of a corporate tax break. It is for these reasons that most of the grants to which government entities are eligible to apply are themselves at the government level or represent unions of governments, such as development banks and multilateral funders.

For some financial mechanisms that are generated by law, policy or governmental financing, such as carbon credit schemes, debt swaps and incentives, these activities are limited to national and sub-national governments as entities that can make the necessary laws and policy. As so many funding mechanisms are off-limits or difficult to access for governments, it would be remiss of government actors to overlook these options as part of their overall funding strategy.

3.4. Exceptions and other recourses

There are several routes around the limitations of eligibility criteria. Most importantly, the eligibility of a grantee organisation will be dictated by the country in which the grantor is registered. In some smaller countries, some local companies and foundations may be willing to make grants to government agencies and bodies, perhaps either because of a more permissive legal structure or because the small community makes providing proof of charitable activities less onerous.

Fiscal sponsors are registered non-profits that can receive grants on behalf of the entity delivering the project, for a management fee. They can be useful for receiving money in a country where you are not registered or where your registered organisation type is a barrier to receiving grants or donations.

In the US, foundations have comparative freedom as to how and where they make grant and investment decisions. The US tax/legal system allows foundations and charities to invest loans or equity through Programme-Related Investment in NGOs, social enterprises and even companies, provided the programme activities are charitable. It is perhaps for this reason that US philanthropic foundations have pioneered blended giving mechanisms that include impact investment. However, the burden of proof is on the foundation to show the investment is for charitable aims and that, particularly where the recipient is another country, there is no hint of corruption involved. In fact, one of the functions of regular project reports is to provide funders with the documentation to show their investment is for charitable purposes.

Some government entities, such as research institutions or departments, establish a charity or company to manage the institution's interests. This independent status allows them to accept grants and investments that can be kept financially isolated from other government budgets. Before taking this route, advice should be sought from suitable legal and accounting professionals.

Table 3.2. Eligibility of implementing organisation or entity for different models of investment.

Yes	Y	Sometimes/ less common	S	No	N

		Implementing organisation / recipient of funding					
Type of funding model	Funding model	NGO/ non-profit	Social enterprise	Company	Sub-national government	National government	Government agency
Impact-only models	Grant/donation	Y	S	S	S	S	S
	Contract/fee for service	Y	Y	Y	S	S	S
	Gift-in-kind/technical support	Y	Y	Y	Y	Y	Y
Debt models	Bond (including green and blue bonds)	N	N	Y	Y	Y	Y
	Loan (including impact investment)	S	Y	Y	N	Y	Y
Equity models	Seed financing	S	Y	Y	N	N	Y
	Shares (including impact investment)	S	N	Y	N	N	N
Hybrid models, market-based and other	Insurance/credit and risk guarantees	N	N	Y	Y	Y	Y
	Carbon credit schemes	S	S	S	Y	Y	S
	Concessional financing	N	N	N	Y	Y	N
	Debt swaps	N	N	N	Y	Y	N

Note: This list is not exhaustive and includes only those most relevant to large ocean actors. Models such as microfinance have been omitted for space as it is most relevant to individuals and small companies/social enterprises.

Partnering with an NGO or social enterprise to deliver a project can be a very effective way to meet eligibility rules. Most funders are now looking for projects to be delivered in conjunction with partners from different sectors because it is believed this is the best way to achieve large-scale lasting change. There is further detail on public–private partnerships (PPPs) and collaborations as best practice in Section 4.1.3.

Gift-in-kind donations of capital (like office space or vehicles) or technical expertise can be less controversial donations from philanthropic foundations to governments as the value is less easily transferrable. There are several examples of philanthropic foundations that specialise in providing technical expertise and other gifts-in-kind to governments to help solve ocean and other environmental issues, as highlighted in Section 4.1.5.

4. Investment and funding models

Key takeaways:

The mechanisms of funding can be divided into impact-only, for-profit and other models.

- **Impact-only models:**
  - Philanthropic grants
  - ODA grants
  - CSR
  - Contracts
  - Gifts-in-kind (e.g., expertise)
- **For-profit models:**
  - Commercial equity
  - Commercial debt
  - Impact investing, including:
    - Equity (e.g., crowdfunding)
    - Debt (e.g., blue bonds)
    - Hybrid or blended finance models (e.g., debt + equity, or loan + grant)
- **Other blue financing models:**
  - Insurance, especially parametric or index insurance
  - Market-based or tradeable permits and offsets (e.g., blue carbon credits)
  - Environmental taxes and fees

This section provides a summary of different funding models or mechanisms of distributing or receiving funding that are available for ocean projects, and their limitations, benefits and requirements. It also aims to provide information on how the funding works, and who provides it. Further details on these models are available in the *Ocean Finance Handbook* (Friends of Ocean Action, 2020) and the *Toolkit to Enhance Access to Climate Finance* (Commonwealth Secretariat, 2022). Section 3, 'Sources of funding and their motivations,' supplements this section by covering the motivations that drive different funder types to invest and the kinds of value they seek from the projects in which they invest.

The funding mechanism and funder role define the way the investor funds and interacts with projects. The type of funding that is best suited for a particular project will depend on whether the project achieves measurable impact, the risks involved, the amount of funding needed and what value (including income) the project can generate for funders and investors.

Funding or investment models can be grouped together under a range of overlapping categories. These categories are useful to understand as they say something about the motivations, criteria and interests of each type of funding. However, the overlapping distinctions and relationships between funding model and funder type can be confusing, so we have presented a range of tables to help break down these groupings and make them easier to understand. Table 4.1 gives a few examples of the distinctions between funding types based on whether they can be public or private and whether they seek profit, impact or both.[17]

4.1. Impact-only funding

Impact-only funding is financial support for a project or organisation without any expectation of financial return; instead, impact-only funding (which includes grants) comes with the expectation of measurable progress towards a particular public

17 Please also see Figure 5.1 and Tables 3.3 and 4.1 for more explanation of these distinctions.

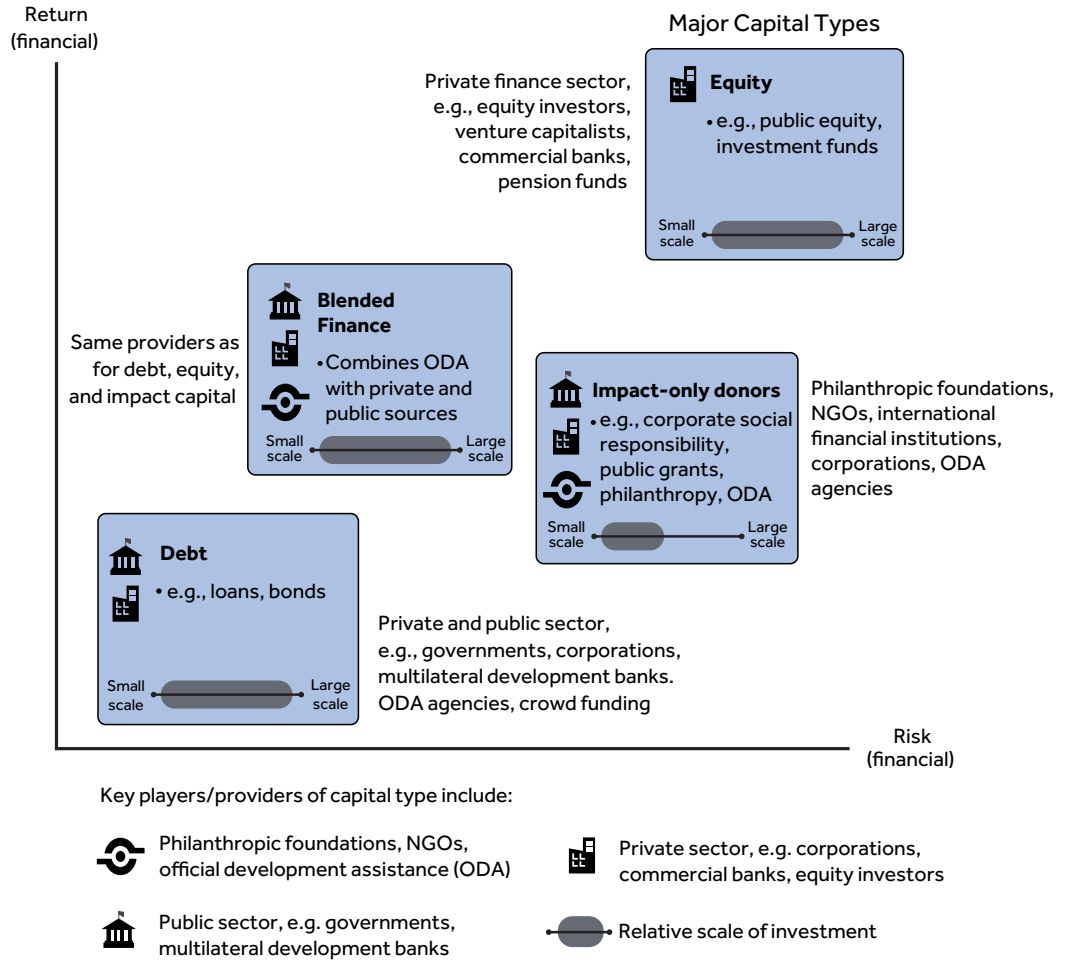
Yes	Y	Sometimes/ less common	S	No	N

Table 4.1. Categories of funding types.

Type of funding model	Funder sector		Project value sought	
	Public	Private	Profit (investment)	Impact
Philanthropy	N	Y	N (usually)	Y
Contracts	Y	Y	N	Y
ODA grant	Y	N	N	Y
ODA loan	Y	N	Y	Y
CSR	N	Y	N	Y
Debt	Y	Y	Y	S (= impact investment)
Equity	Y	Y	Y	S (= impact investment)
Market-based	Y	Y	S	Y

Note: Y = Yes; N = No; S = Sometimes.

Figure 4.1. Summary of major capital types, level of risk vs return and key providers.



Note: This diagram shows impact-only as having some financial return but it should be noted that this is usually not the case. Impact-only donors do gain other kinds of value, though, as explained more fully in Section 3 of this report.
Source: Sumaila et al. (2021).

good. It usually comes with an expectation or stipulation that the grantee will provide periodic impact reporting demonstrating progress towards the agreed outcomes. Funders usually also want assurance that the grant has been spent in a cost-effective and responsible way. Impact-only funding can be relatively small in scale (e.g., under US$50,000), especially early on in the relationship between grantor and grantee, but across years can extend to tens of millions of dollars.

Impact-only funders can include the public sector (through ODA or public grants), the private sector (usually through CSR) or philanthropy (via philanthropic grants and donations). NGOs also sometimes re-grant impact-only funding (usually to other non-profits).

4.1.1. Philanthropic grants

Philanthropy[18] is the practice of individuals or families giving money or sometimes gift-in-kind support to charitable causes. Support may be given directly from an individual or via a philanthropic foundation or fund, which is usually registered as a charity or non-profit organisation. A philanthropic fund or foundation manages the money the family or individual has placed in the fund, usually with a tax benefit. The family, individual or foundation disburses grants, donations and sometimes other types of impact investment to projects and activities that meet its objectives (typically a collection of social and/or environmental objectives). Philanthropists do not usually carry an expectation of financial return but they do expect to create a measurable impact.

Philanthropy case study: Jeff Bezos and Bezos Earth Fund

The Bezos Earth Fund is the result of a US$10 billion commitment from Jeff Bezos in 2020 to address climate change and nature challenges within the current decade. It is the world's largest philanthropic commitment to fight climate change and protect nature. Jeff Bezos is the founder of multinational technology company Amazon, whose net worth of $128 billion as of February 2023 makes him the third-wealthiest person in the world (Bloomberg UK, nd). The Earth Fund is a grant-making foundation, with its first grants made in November 2020. So far, it has made over 100 grants across seven programmes, totalling $1.63 billion.

Bezos has received some bad press for his comparative lack of philanthropy given his level of wealth. *Business Insider* magazine reported in 2018 that Bezos was the only one of the world's top five billionaires who had not signed the Giving Pledge, a commitment by the world's wealthiest individuals and families to dedicate the majority of their wealth to charitable causes.

The Earth Fund is working to monitor key transitions that are required to address climate, biodiversity and human development on a systems level. It does not publish a route to making applications, so it can be assumed that it is taking a proactive approach to selecting partners. Grant recipients include:

- Ceres, the Investor Network on Climate Risk and Sustainability: US$3 million for a project to harness the power of investors, banks and insurers to accelerate climate mitigation
- Enduring Earth, Government of Gabon with other potential partners to be selected: US$30 million for Innovative Finance for Conservation in Gabon
- 24+ partners in over seven countries including Alaska Fisheries Development Foundation, Oceanium Ltd, Global Seaweed Coalition, Ocean Rainforest, WWF and Woods Hole Oceanographic Institute

Other philanthropic organisation types

In recent years, new catalytic approaches to funding and fundraising have arisen in response to calls for increased aid effectiveness, declining public grant spending and growing consciousness of disappointing progress on some global issues.

18 The term 'philanthropy' comes from two Greek words meaning love of humankind. This is indeed often part of what drives many philanthropists to give.

In answer to the challenge of resource constraints on selecting grant partners in the environmental funding space, philanthropic individuals and organisations are increasingly building coalitions across sectors to target their financial support towards specific topics through cause-related collaborative funding platforms and companies. These platforms mediate between funders and grant-seekers, matching philanthropic finance and projects through robust application and assessment processes and streamlined engagement and communications. In theory, this collaborative approach is operationally lean, allowing a greater percentage of donations to go towards causes instead of administration.

Collaborative funding platforms also combine different types of funding (from the public sector, multilateral organisations and private finance) on specific initiatives and funds to not only increase the amount of funds available but also combine different types of funding for maximum effect.

One example of this type of platform is the Blue Nature Alliance, which is a global partnership that aims to conserve the ocean by supporting the creation of marine protected areas (MPAs). They were founded by several foundations and non-profits, including the GEF, Conservation International and The Pew Charitable Trusts.[19]

Similarly, donor-advised funds (DAFs) mediate between funders and grant-seekers by offering a tax-efficient and operationally lean alternative to establishing a philanthropic foundation. DAFs are accounts at a non-profit or charitable organisation that allow individual philanthropists to make charitable donations to a cause of their choice that provide an immediate tax advantage, without the operational costs of setting up a foundation. Depending on the organisation, DAFs may offer some degree of matchmaking between philanthropists and causes. Assets in a DAF can also be invested to support a donor's philanthropy, including stocks, bonds and various forms of impact investments.

4.1.2. Corporate grants and corporate social responsibility

CSR is the concept that companies have a responsibility to the environment and society in addition to being beholden to their shareholders to make a profit. It is a movement that has been growing for decades, with considerable acceleration in recent years against the backdrop of urgent warnings about climate change, social movements such as Black Lives Matter and increasing environmental policy mandates placed on the private sector. Private sector firms are increasingly engaging in sustainability-focused activities and partnerships. They are also increasingly incorporating social and environmental aims into their business activities as part of their corporate strategy – in part because CSR can help them attract new growing forms of finance based on their environmental, social and governance (ESG) track record.[20] CSR can involve amending business practices to have a more positive – or less negative – social or environmental impact. It can also involve charitable donations from the company or associated corporate foundation.

CSR is optional for a firm; however, there is an increasing expectation among shareholders and clients that they will meaningfully participate in CSR. This also means that the types of CSR activities in which companies are willing to engage are highly dependent on their stakeholders' perceptions and interests. Being aware of these interests will help project leaders tailor their funding applications to best effect. Through their CSR strategy, for example, companies often seek to solve or downplay problems that are related to their business – often counteracting some of the negative effects of their product.[21]

Corporate giving can also help achieve goals of the business, such as buying carbon credits to help them achieve net zero carbon emissions.[22] Corporate philanthropy may or may not come directly from the business. Sometimes it is given as a part of marketing and PR budgets and is very much a business decision. Other times, grants are given from a legally separate corporate foundation, through processes that may look more like a philanthropic foundation. In examples such as the Salesforce case study below, the lines between private philanthropy, corporate giving and corporate foundations can become blurred.

19 See Section 4.2.4 on blended finance for more detail and examples of this.

20 See Section 4.2.3 on impact investing and investment standards for more detail on ESG standards and how shareholder pressure has driven impact investing.

21 For example, consider the donors to the Circulate Capital Ocean Fund (see Appendix 4), which funds ocean plastics projects.

22 See Apple case study in Appendix 4.

One of the goals that companies may seek to achieve through their giving is employee engagement, which has been shown to help with retention and job satisfaction. Companies may seek opportunities for their staff to volunteer their skills and experience to help a cause. This is one example of a gift-in-kind, further described in Section 4.1.5. The volunteer hours of skilled employees have a monetary value, which the company can donate through offering staff paid time off for volunteering, without having to part with actual cash. This exchange is a very desirable part of corporate–charity partnerships for many businesses, usually alongside a grant donation. This model could also present opportunities for entities such as government bodies seeking to fundraise from companies that might otherwise face eligibility issues.

Rising public demand for corporations to address larger social and environmental issues as well as shareholder pressure to manage cash reserves productively has led to more companies deploying their cash reserves in impact investments (Hand et al., 2022).[23] One of the reasons companies typically hold cash reserves is to weather market reserves. The amount non-financial US companies held in cash reserves increased during the pandemic to US$5.8 trillion in 2022 (ibid.). The Global Impact Investing Network (GIIN) also recognised that the corporate sector's need to manage its cash reserves and balance sheet while also responding to increased calls for it to push for change has led to increased corporate impact investing (ibid.).

CSR and corporate foundation case studies: Salesforce and Marc and Lynne Benioff

Salesforce, its co-founder, chair and CEO, Marc Benioff, and his wife, Lynne, are an example of CSR, corporate philanthropy, impact investing and private philanthropy. Salesforce is a client relationship management software company worth US$160+ billion that has been working to become a more sustainable company for over a decade. It is a Net Zero company across its value chain, meaning on balance it removes as much greenhouse gas (GHG) from the atmosphere as it creates (Salesforce, 2021a).

It works towards its environmental goals by acting on the six sustainability priorities in its comprehensive Climate Action Plan (Salesforce, 2021b).

Climate and community resilience is one of the priorities of Salesforce's corporate foundation strategy (Salesforce, nd). Salesforce, together with Marc and Lynne Benioff, announced a joint $300 million funding commitment in 2021, which aims to accelerate ecosystem restoration and climate justice (Salesforce, 2021c). The company will give US$100 million funding in grants over the next 10 years, donate technology and enable 2.5 million volunteers to support NGOs working in ecosystem restoration and climate justice. Salesforce and the Benioffs are also joint founders of 1t.org, a movement that aims to conserve, restore and grow 1 trillion trees by 2030.

The Benioffs are also philanthropists and investors personally committed to environmental causes, having given US$68 million in climate-related grants since 2016 (Salesforce, 2021c). They have invested $200 million in climate investments towards indigenous and community-based reforestation and restoration efforts. The Benioffs have also donated $20 million, founding the University of California Santa Barbara Benioff Ocean Initiative, and formed the Pacific Islands Research and Conservation programme in 2017 (Salesforce, 2021c)

Decision-making and application process at philanthropic and corporate foundations

Each philanthropic or corporate foundation is run by a board of trustees, who are volunteers, usually with a high level of relevant experience outside the foundation. In smaller foundations or family foundations, the board of trustees makes the funding decisions at periodic board meetings. Trustees may not have technical knowledge and experience relevant to your project, so it is advisable to write for a lay audience when applying to smaller foundations and family foundations.

At larger, more professionalised foundations, such as the Ford Foundation or the Oak Foundation, there is still a board of trustees that is ultimately

23 See Section 4.2.3 for more information on impact investments.

responsible for the whole foundation; however, grant programmes and funding decisions are managed by paid staff, who tend to have significantly more technical knowledge about programme areas. Even when writing to large professional foundations, it is best practice to use simple language as much as possible and spell out acronyms and terms.[24]

Many foundations publish their programmes, their preferred areas of funding, funding criteria and application forms. Some have open application processes, and others publish specific calls for proposals (CFPs) and then consider all applications submitted. However, to help them manage the increasing number of funding applications and the subsequent strain on their operational costs, growing numbers of philanthropic foundations are opting out of having calls for proposals or open granting programmes. Instead, they operate on an invitation-only basis, in which they conduct their own research into potential partner organisations and invite them to submit an application.

4.1.3. Official development assistance and public/government funding

Official development assistance

ODA is government aid or public funding that promotes and specifically targets the economic development of developing countries; it is the main source of financing for development aid (OECD, nd). ODA may either be transferred to a recipient developing country or organisation directly from a developed country or come via multilateral organisations such as UN agencies or development banks. ODA can come in the form of grants, loans to sovereign entities, debt relief, concessional financing (grants and loans below market rate) and contributions to multilateral institutions (which may then distribute the money itself). In order to qualify as ODA, the funding must be provided on a concessional basis, meaning at least a portion (if not all) of the funding is provided as a grant. The Organisation for Economic Co-operation and Development (OECD) website has a list of countries that qualify as ODA recipients, based on per capita income.

Impact-only ODA comes in the form of grants from government agencies or departments, MDBs, other multilateral institutions and topic-specific funds within any of these. ODA grants are usually reserved for countries with lower gross national income per capita and those lacking credit worthiness making them ineligible for loans and other types of financing. The Asian Development Bank (ADB), for example, publishes its policy and approach to allocating limited resources.

The UN has a longstanding target for developed countries to commit 0.7% of their national income to ODA and some countries have enshrined this duty in law (OECD, nd). The actual amount of ODA given by each country is collected, verified and published annually. Lists of ODA-distributing MDBs, government agencies and institutions, and multilateral funders can be found in Appendix 2.

Although many philanthropic foundations have moved away from issuing CFPs, many public ODA entities still publish CFPs on specific topics to encourage projects in their priority areas. A few examples are provided in the box below.

Grants from national aid bodies, such as the United States Agency for International Development (USAID) or the UK's Foreign, Commonwealth & Development Office (FCDO) are usually given out to non-profits or NGOs. Grants to countries are usually only made by MDBs, as ODA. However, this restriction does not prevent government applicants from partnering with NGOs, social enterprises or companies to deliver ocean projects. Further detail on such collaborations can be found in the 'Funding Acquisitions Best Practice' section in Section 5.

Multilateral development banks

MDBs are international financial institutions that have been founded by two or more countries to support economic or social development in low-income countries. They manage trillions of dollars in assets and operate across the world. MDBs usually provide either grants or concessional (discounted) loans to developing countries. The projects they fund can include energy, infrastructure, education and environmental projects.

MDBs often aim to use their funding instruments to address key project risks to leverage private philanthropic or for-profit funding for the project. They also sometimes underwrite bonds, as in the case of the blue bonds described on p. 32.

24 See Appendix 1 for more practical tools for making an application.

Call for proposals case study: Norwegian Agency for Development Corporation call for proposals

NORAD regularly publishes its CFPs as well as invitation-only opportunities. A 2021 call invited civil society organisations to submit proposals for projects supporting the sustainable and inclusive ocean economy in Colombia, Ghana, Kenya, Indonesia, Mozambique and Tanzania (NORAD, 2021). It aimed to fund projects that met the following objectives:

- Promote more sustainable management of ocean resources and better protection of marine ecosystems;
- Promote climate change adaptation, prevention and fighting hunger; and
- Increase disaster risk reduction and combat poverty (NORAD, 2021).

The organisations invited to apply all appeared to be NGOs or civil society organisations and included local and global organisations. The call provided up to NOK 270 million from 2021/22 through 2024, across eight to 10 projects (NORAD, 2021). The grants from this call would count as ODA.

Public–private partnerships

Public finance can be competitive owing to the high demand for this type of funding, so governments often seek to leverage additional private funding through PPPs. These are agreements between government (national or local) or intergovernmental bodies, and NGOs or companies. PPPs may be formal or informal, depending on the project's complexity and risks and the level of co-ordination required, for example. PPPs are increasingly being used on development and environmental projects and examples can be found throughout this document. They are often used in projects to enable advocacy on an issue, sharing of resources and expertise, or development of sustainable markets.

PPPs are particularly common in blended finance models, with a development bank or other public funder working with a private company or foundation to provide a mix of both public and private funds, as well as both development and commercial expertise.

Example of a PPP: Global Climate Partnership Fund

GCPF was established as a PPP by the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety and the German Development Bank in 2009. It aims to address the problem of limited appropriate financing for low-carbon projects in developing economies. Its focus is energy efficiency and renewable energy projects for SMEs and private households in developing countries, directly and in co-operation with local financial institutions. GCPF aims to fund areas that are not sufficiently financed through private capital and do not require subsidies.

4.1.4. Contracts or payment-by-results

Contracts are one mechanism for distributing and receiving funding that funders use to achieve their development goals. They publish requests for tenders, just like CFPs, and organisations or companies compete with one another to win the contract in the same way they would a grant. There are a few key differences, however. The amount won with the contract can be higher than one would earn for a grant and higher overhead costs can be included in the fee than what might otherwise be possible in a grant budget.

Significantly, payment of a contract is usually made upon completion of the deliverables, in contrast with the upfront and periodic instalments of most grants. This can have ramifications for how the project can be carried out and by which organisations because it requires the implementing organisation to have upfront capital to fund project implementation. There is also a risk that the payment won't be made if the contracted organisation is seen to have failed in delivering the promised impacts for whatever reason. This can mean that the implementing organisation bears the financial burden of such a project in the end.

In recent years, a growing amount of government ODA funding has come in the form of contracts, with the aim of ensuring contractors achieve projected impacts. However, this arrangement can create problems for the implementing organisation if it does not have the available finances to fund the project throughout its lifespan and/or if it has not been possible to reach the agreed impacts under

the life of the project. Contracts also do not count as charitable income and therefore are subject to tax. However, they also allow different types of entities, including companies, to apply for funding which otherwise wouldn't be eligible to receive grant funding.

4.1.5. Gifts-in-kind/technical co-operation activities

A gift-in-kind is a non-cash and non-stock charitable donation that has a monetary value. The value of the donation can often be counted as part of an individual's, company's or foundation's giving in official reporting, and therefore often carries tax benefits. Gifts-in-kind can be services, such as providing office space or volunteer hours. They can also be goods, such as vehicles, food, medicines or building materials. Technical support is frequently donated as a gift-in-kind of dedicated time from technical experts. By directly delivering activity, gifts-in-kind from philanthropic foundations can blur the lines between the NGO and the foundation.

The volunteer hours of skilled employees have a monetary value, which a company can donate through offering staff paid time off for volunteering, without having to part with actual cash. This exchange is a very desirable part of corporate–charity partnerships for many businesses, often alongside a grant donation. This model could also present opportunities for entities such as government bodies seeking to fundraise from companies that might otherwise face eligibility issues.

As discussed in Section 3.3 on 'Eligibility', gifts-in-kind can be a useful route for government departments and agencies or other non-charitable entities to accept support from foundations or companies when ineligible to accept cash support. The box below gives examples of foundations that provide support for ocean conservation work through gifts-in-kind of technical expertise.

Technical expertise/gift-in-kind case studies: the Waitt Foundation and the Blue Prosperity Coalition

The Waitt Foundation is a philanthropic organisation founded by entrepreneur Ted Waitt. In addition to supporting marine conservation through grant funding for ocean conservation and research (US$70 million so far), the Waitt Foundation and its sister organisation, the Waitt Institute, partner with governments, research institutions and NGOs by providing technical support. Working with government and community stakeholders, they create and implement sustainable ocean plans, facilitate policy-making and build local capacity. This can include funding but also technical expertise in scientific research, marine spatial planning, blue economy planning, legal analysis and drafting, communications strategy, enforcement planning, monitoring, and education and outreach. They have completed 36 scientific expeditions across 78 countries and publish their data.

The Blue Prosperity Coalition is a 'coalition of NGOs, academic institutions, foundations, and other organisations working together to assist committed governments in developing and implementing sustainable marine spatial plans to protect the environment and improve the economy at the same time'. The Coalition partners with governments to develop and implement MPAs and establish Blue Prosperity Plans through marine spatial planning, sharing sustainable fisheries tools and blue economy development. It is supported by a group of experts across multiple disciplines, including policy-makers, scientists, economists, communications professionals and fisheries experts.

4.2. For-profit financing

For-profit investors are usually private companies or individuals, although they may include philanthropic organisations or ODA investors like MDBs. As the name indicates, for-profit investors will expect to earn a profit and will usually want a figure for the estimated ROI before they will invest equity or debt. Many companies will have a targeted internal rate of return (IRR) in mind, or a minimum annual rate of return that a project can earn to be profitable, although they will usually prefer a higher IRR. Investors will also balance the expected rate of return with other considerations, such as managing long-term risk (e.g., regulatory, social or environmental risks in the supply chain) or public perception of the brand in which they are investing.

4.2.1. Debt financing

A debt is usually a lending or borrowing of funds that is expected to be repaid. Debt instruments may be called loans, bonds or notes, among other things. These can range from microfinance or small loans (typically up to US$50,000) to large-scale corporate loans ($100 million or more).

Debt is a relatively low-risk investment for the lender, limited to the borrower failing to make payments on the principal (the original amount borrowed) and interest on the loan (the cost of the loan). In line with its low risk, debt often has a low return to the lender. Private sector lenders usually set interest rates based on market conditions, while some public organisations (such as foreign governments or MDBs) provide loans at reduced (or concessional) interest rates.[25] Lenders usually have little involvement in the investment other than setting the terms of repayment at the start of the contract. Impact loan and bond terms, however, may include agreements to deliver certain impacts and adhere to impact frameworks.[26]

Debt-for-nature swaps

In debt-for-nature swaps, a state's foreign debt is restructured (reduced) in exchange for the country's pledge to invest in protecting its environment. The money saved from not having to pay the lender to service the debt (i.e., make payments on the loans) can remain in the country's economy and be put towards projects that benefit the marine or terrestrial environment. Projects can be delivered directly by the government or in partnership with third-party organisations/NGOs, which can also add to the amounts available. Such swaps can be negotiated in tandem with issuing blue bonds to generate further funds for environmental activities, as can be seen in the Belize example below.

Certain conditions are typically in place for a debt-for-nature swap:

- The country is paying relatively high interest rates as it has a high risk of defaulting on its payment.
- The country may already be missing payments/defaulting.
- The debt-holder may seek to sell the debt for a reduced rate in order to recover some of its losses.
- The country has natural capital (e.g., marine resources) in need of protection or restoration, which it may not otherwise have the resources to properly protect.
- There are third parties willing to step in and restructure/refinance the debt for positive environmental outcomes.

Debt-for-nature swaps may be agreements either directly between the country and its debtor(s) (bilateral) or between the country, its debtors and an NGO that purchases the debt (tri-party). NGOs that have been involved in such swaps include Conservation International, TNC and WWF. Typically, the restructuring of debt results in an improved credit rating for the resultant green/blue bonds,[27] thereby attracting a broader range of investors. The credit rating of the government itself, however, may not improve, especially if there is a significant amount of sovereign debt remaining that has not been restructured.

Debt-for-nature swap case studies: Seychelles and Belize

In 2016, **Seychelles** agreed the world's first blue economy debt-for-nature swap with TNC, which has purchased the country's $21.6 million debt (TNC, 2016). The cash flows from this converted debt are being used to set up a marine spatial plan for the entire Seychelles territory and establish a network of MPAs covering over 30 per cent of its marine waters.

Belize agreed a debt-for-nature swap with TNC in 2021, which reduced the country's external debt by 10 per cent of GDP (Owen, 2022). Belize bought back a US$553 million 'superbond' at a discounted rate to cover the government's entire external commercial debt (ibid.). The country financed the deal by issuing a $364 million blue bond underwritten by Credit Suisse (Credit Suisse, 2021). In addition to refinancing Belize's existing debt, the blue bond involves several conservation commitments,

25 See Sections 4.1.3 and 4.1.3 on ODA.
26 See Section 4.2.3 on 'Impact investing' for more information.
27 See Section 4.2.3 on blue bonds.

including increasing Biodiversity Protection Zones, designating mangrove reserves and implementing governance and regulatory frameworks (TNC, 2021). Through the debt-for-nature swap, Belize agreed to spend about $4 million per year on marine conservation until 2041 and to double its MPAs by 2026 (Owen, 2021). Since its launch in November 2021, the bond has won the 'Innovation – bond structure' and 'Sustainability bond of the year – sovereign' awards from Environmental Finance (Environmental Finance, nd).

4.2.2. Equity

In an equity arrangement, the project owner seeks funding in exchange for providing the investor with an ownership share or a stake in the project, which the investor can sell on at a future date. In addition, equity-holders can usually expect to receive a regular payment (i.e., dividend) from the profits of the project or company.

Equity investors look to invest in opportunities with growth potential, so they have an expectation of higher returns than through debt funding. This also comes with higher risk for the investor, including the risk of totally losing their investment. Like loans, equity investments can vary in size from small-scale funding through to large corporate transactions.

Crowdfunding

Made popular by platforms such as Kickstarter, crowdfunding is a newer form of equity investment whereby individuals contribute usually small amounts (typically under US$1,000) towards a project. Investors may or may not expect a return, reward (usually the product under development) or an ownership share in the project, depending on the crowdfunding model. Investors who participate in crowdfunding for an equity stake may find their legal enforcement of their rights difficult, unlike in traditional shares ownership.

Crowdfunding can also be a model used to fund charitable projects through a series of smaller donations via platforms such as Global Giving.[28] However, some of the typical fundraising challenges also apply to smaller-scale philanthropy crowdfunding, including organisation eligibility and the need to raise the full cost of the project before work can commence. In addition, most online fundraising platforms charge a processing fee, which may be a percentage of the funds raised. Chuffed, another fundraising platform, shared details of some of its top successful environmental fundraising campaigns. All examples were for under US$100,000 and most of were organised by the Environmental Defender's Office, a registered charity in Australia (Chuffed.org, nd).

The success of a project's crowdfunding efforts, whether equity or philanthropy, will usually depend on the strength of the communications and marketing campaign behind the project, which costs time and effort that is not usually covered under the project income. Furthermore, many relevant topic areas and support to government-led ocean projects are not attractive to the general public.

4.2.3. Impact investment

Impact investment can be seen as bridging the gap between commercial investment and impact-only funding. Unlike impact-only funding, which does not seek a financial return, impact investment has dual objectives of seeking positive social or environmental impacts alongside a financial return, which can vary from repaying the principal up to commercial rates of financial return. GIIN, a global organisation that champions impact investing, defines impact investment by four key elements (GIIN, nd):

1. Intentionality of creating a positive social or environmental impact;
2. Financial returns that range from below market to market rate, distinguishing it from philanthropy;
3. Range of asset classes that can be made as impact investment;
4. Commitment to measurement of social and environmental impact performance.

Impact investment, sometimes known as sustainable investment, is a relatively new sector, but it is growing exponentially to meet a strong public appetite to fund companies that aim to 'do good'. GIIN estimated that more than 3,349 organisations had US$1.164 trillion of impact investments under management worldwide as of December 2021 (Hand et al., 2022). According

28 Crowdfunded donations through platforms like Global Giving would be considered philanthropy and not a form of equity.

to Big Society Capital (2023), seven out of 10 UK adults with at least one investment outside their pension would be more likely to invest in a fund or organisation if they knew it was having a positive social or environmental impact. Impact investments can increase capital flows in a range of industries and locations, including healthcare, environment, education, energy (especially renewable and clean energy) and agriculture/aquaculture, in either emerging markets or developed economies.

Until recent years, impact investments have been specialised products provided mainly by development banks and boutique investment firms. However, the sector has grown dramatically in recent years, perhaps influenced by growing public awareness of environmental and social issues and resulting pressure on corporations to take a more active role in providing solutions. As a result, the bulk of impact investing is now done by institutional investors, including hedge funds, banks, pension funds and other fund managers.

Impact investment can come in different types of capital and investment vehicles, providing both the investor and the investee with a range of options. This includes a range of products, including debt, equity, concessional finance, or blended or hybrid mechanisms that include grants to provide a range of impact investment products.

Impact investors can be banks and investment companies (e.g., Schroders), MDBs or companies. Increasingly, philanthropic foundations are offering impact investments alongside grants, often through blended finance (e.g., the Bill & Melinda Gates Foundation Strategic Investment Fund, the Ford Foundation's Social Bond or the Soros Economic Development Fund). Some of the newer impact investment funds in the conservation sector[29] are multi-sector collaborations, where financing for the fund comes from a range of sources including private finance, philanthropic foundations, corporations, governments and development banks.

Concessional non-grant ODA financing

This is below-market rate finance provided by governments and MDBs to developing countries by financial institutions, such as development banks, to achieve development goals.[30] Most ODA grant-giving entities will also offer other forms of concessional financing, including loans, technical assistance, first loss guarantees and sometimes equity, which would also be counted as ODA. The provider's main consideration in offering concessional finance is achieving impact while remaining accessible and flexible to the unique needs of the country and the development challenges.

Impact investment case studies: Pegasus Capital Advisors and Meloy Fund

See Section 4.2.4 on blended finance for examples of impact investment funds managed by these companies.

Pegasus Capital Advisors is a global private markets impact investment manager that has invested over US$2 billion across five private equity funds focusing on sustainability and health (Pegasus Capital Advisors, 2022). One of the first firms to integrate social and environmental factors into investing, it was the first private equity fund manager accredited by the GCF. Pegasus invests across alternative asset classes, private equity and sustainable infrastructure to support sustainable growth of companies and economies. In particular, it seeks mid-sized, scalable projects in the fields of sustainable ocean production, ecotourism and sustainable infrastructure.

The Meloy Fund for Sustainable Community Fisheries invests in coastal fisheries in Indonesia and the Philippines and provides additional technical assistance to support the long-term financial sustainability of its investments. The fund aims to improve the management of 120,000 hectares of coastal habitats, thereby benefiting 100,000 fishers and household members. The Meloy Fund is funded by a mix of public funding through GEF, USAID and the Netherlands Development Finance Company (FMO), plus private investment from JP Morgan Chase & Co.

29 Such as those featured below and in Appendix 4.

30 For more information about concessional finance, read this interview with Mafalda Duarte, Head of Climate Investment Funds (CIF), explaining the role of concessional finance (M. Duarte)

Green investing

This is a form of impact investing that includes purchasing green bonds and holding shares in environmentally friendly companies (i.e., equity). It focuses on companies and projects that are committed to environmentally sustainable practices.

Since being introduced in 2007, green bonds have become widespread among public and private institutions, growing at a rate of 43 per cent each year (Hand et al., 2022).[31] The success of green bonds has led to the development of sustainable investment instruments, such as blue, transition, sustainable and social bonds. Altogether, the size of the sustainability-focused bond market was over US$1 trillion in 2021 (ibid.).

Blue bonds

Blue bonds are a type of impact investment and are seen as a sub-category of green bonds in the financial sector. Like a green bond, a blue bond is a type of debt where the issuer can use the bond proceeds only to fund ocean-based – or 'blue' – projects. Companies or countries may issue bonds to increase cash flow, refinance debt (e.g., debt-for-nature swaps), invest in projects or obtain additional funding (Bosmans and de Mariz, 2023). However, blue bonds issued as part of debt restructuring[32] are different from stand-alone bonds in that most of the bond is paying off sovereign debt, with a nominal amount earmarked for blue projects. Because of their low interest rate, bonds are less expensive to borrow than loans. They also offer a more predictable rate of return for investors.

Green and blue bonds (and related thematic bonds such as SDG bonds) are very attractive to investors and are usually oversubscribed. The blue bond market has grown at a CAGR 92 per cent since 2018, and it has potential to expand even more rapidly over the next decade. Investments will fall in line with a set of blue bond standards, which apply conditions on how the funds are managed in the meantime. However, these standards are still being defined and there is as yet no agreed definition of 'blue' in the financial sector, which may include freshwater, ocean, and water quality and supply projects.[33]

Issuers (whether governments or other entities) can set their own restrictions on how the generated funds are used. However, it is important to frame the purposes of the bonds in such a way as to attract investors, ensure the debt can be repaid and generate confidence among investors that the debt can be repaid. As such, the money generated from blue bonds can be used for profit-generating activities, such as funding small businesses that promote a blue economy. They can also be used to fund activities that generate savings, such as restoring ecosystems that protect people and property from storm damage. The bond can then be repaid from the funds generated from these activities, or indeed from other related sources.

Blue bond case studies: Seychelles, Fiji and The Bahamas

Supported by the World Bank and the GEF, **Seychelles** launched a US$15 million blue bond in 2018 (SeyCCAT, nd). Through this bond, the Seychelles sought to achieve three objectives:

- Expanding sustainable use MPAs;
- Improving governance of priority fisheries;
- Investing in the sustainable development of the blue economy.

The Seychelles' Conservation and Climate Adaptation Trust (SeyCCAT) is managing US$3 million of the bond proceeds, making the funds available through grants, which have funded 17 projects to date. The Development Bank of Seychelles is also issuing loans from the proceeds of the blue bond.

Having already issued a green bond in 2017 (with a focus on renewable energy projects and CO_2 emission reduction), **Fiji** launched a Sustainable Bond Framework at COP27 in. November 2022 (UNDP, 2022). The Framework will enable the country to issue its first-ever Sovereign Blue Bond, expected in 2023 (Vula, 2021). Fiji is the first SIDS to develop a framework to communicate its sustainable development finance priorities for bilateral, multilateral, private and philanthropic investors. Fiji's Blue Bond, set up with support from ADB's Blue Bond Incubator (ADB, 2022), the United Nations Capital Development Fund (UNCDF) and the UK's Blue Planet Fund (UK Parliament, 2023), aims to raise up to US$50 million to

31 See Section 2.3.3 for more information on the growth of the green impact investment market.
32 See debt-for-nature swaps in Section 4.2.1.
33 See below on investment standards for more information.

support Fiji's goals of bringing 100 per cent of its ocean under sustainable management and decarbonising its shipping sector (UNCDF, 2021).

The Bahamas issued a US$385 million blue bond in 2022, using the funds to support local marine-focused micro, small and medium-sized businesses that could provide returns to investors. The bond was backed by a $200 million policy-based partial guarantee approved by the Inter-American Development Bank (IADB), which lent the deal a triple-A rating (IADB, 2022). This backing is expected to leverage further resources in international capital markets (ibid.). It is expected that the bond will also fund several other activities to promote a sustainable blue economy in The Bahamas, including reforms aimed at promoting digitalisation, strengthening resilience through improved climate risk management in coastal and offshore areas, promoting better management of marine resources and reducing marine pollution (ibid.).

Impact investment standards

Impact investment has evolved and become more established over the past 30–40 years, with shareholders and investors increasingly demanding higher and more streamlined standards.

One of the oldest and simplest forms of impact investment involves evaluating a company's ESG record as part of selecting an investment. ESG has been mainstreamed into corporate operational strategy and investments and is now a budgeted line item for many companies. Although it is largely still voluntary, a huge 96 per cent of the top 250 companies now report on sustainability of ESG matters regularly, according to a 2022 KPMG survey of sustainability reporting.

Socially Responsible Investing (SRI) screening goes further by eliminating investments according to basic ethical, religious or political guidelines, with investors choosing companies that subscribe to their views on environmental protection and human rights, for example. SRI takes a 'do no harm' approach and does not otherwise allow for selecting investments for their potential positive impact. However, this method of selecting investments has been critiqued as encouraging greenwashing.

ESG and SRI have therefore given way to investing focused actively on 'doing good' alongside earning financial returns. Growing investor demand for impact investments has resulted in the development of more sophisticated ways of quantifying and reporting on impacts in order to protect against greenwashing or bluewashing (i.e., greenwashing, but applied to the blue economy). For example, in the first review and analysis of blue bonds published in 2023, Bosmans and de Mariz highlight that the lack of a definition and an 'enforceable rulebook' on the use of blue bond proceeds, for example, creates barriers to investors and issuers entering the blue bond market because blue bonds are seen as less legitimate and there is no guarantee that the funds will be spent as planned.

These changes have led to the development of more sophisticated standards to ensure impact can be measured and reported to investors just as financial returns would be. However, development of standards has been hindered by disagreement between experts about definitions, such as what falls under the heading of 'blue economy' and what should constitute a green or blue bond (Bosmans and de Mariz, 2023). With the absence of any one global authority on impact investing standards, many states, regions and regional bodies have either introduced or are developing green taxonomies, which aim to provide a comprehensive list of what assets and investments should be considered green. These include Bangladesh, China, Malaysia, South Africa, the UK, the Association of Southeast Asian Nations (ASEAN) and the EU (Natixis, 2021). However, the sector is rapidly evolving, so, rather than having a single standard for each area of impact investment (e.g., environment, social), various organisations have established a collection of standards and networks to increase knowledge of and raise standards in impact investing in the investment sector. Governments can register their endorsement of existing standards, which becomes publicly available acknowledgment that the country commits to recognise and implement the standards or principles.

New blue finance standards are being introduced, showing that the blue finance market is becoming established and in demand.[34] Some of the most broadly referenced standards issuers are IFC, ICMA and UNEP FI. UNEP FI's Sustainable Blue Economy Finance Principles were first launched in 2018, the same year as the first blue bond was issued. IFC issued its Guidelines for Blue Finance in January 2022 and ICMA's guidance on Blue Bonds was launched in September 2023 (Bosmans and de Mariz, 2023).

4.2.4. Hybrid or blended finance

Hybrid funding models have elements of multiple models. In commercial settings, this involves both debt and equity, meaning the investor receives both a fixed return (like the interest returned on a loan) and a variable element (similar to the dividend received from holding shares).

In international development settings, hybrid funding models may instead have elements of both loans and grants. Philanthropic organisations, MDBs and collaborative funding platforms are increasingly using blended finance to maximise the impact of finance by generating a return that can be reinvested in suitable projects.

According to Convergence Finance, the global network for blended finance, hybrid or blended finance is 'the use of catalytic capital from public or philanthropic sources to increase private-sector investment towards the Sustainable Development Goals (SDGs)' (Gupta, 2021). In other words, it uses development finance to mobilise and attract commercial finance towards sustainable development, thereby enlarging the total amount of capital available to developing countries. Blended finance is therefore increasingly being used as seed funding or pump priming investments to attract further funding to ocean projects that can demonstrably achieve impacts.

The Organisation for Economic Co-operation and Development's (OECD's) Development Assistance Committee (DAC) is an international forum of many of the world's largest ODA providers. The OECD DAC has published Blended Finance Principles based on best practice gathered from the private sector, civil society and governments to help unlock commercial finance for the SDGs.

Blended finance fund case study: the Global Fund for Coral Reefs

The GFCR is a 10-year US$625 million blended finance vehicle that launched in 2020. It funds initiatives that enhance the resilience of coral reefs and the communities that depend on them in 17 countries across Africa, the Asia-Pacific, Latin America and the Caribbean. The GFCR's investment fund, managed by Pegasus Capital Advisors,[35] is the first commercial-scale private equity impact investment fund and the largest blended finance initiative dedicated to SDG 14 and ocean conservation (Pegasus Capital Advisors, 2022). The GCFR has provided anchor investment of $125 million, a commitment intended to de-risk investments for private investors at the fund level. Other partners involved in GFCR include the United Nations Development Programme (UNDP), UNCDF and UNEP; philanthropic organisations such as the Paul G. Allen Family Foundation, the Prince Albert II of Monaco Foundation and private investors; and the governments of the UK, Germany, Canada and France.

The GFCR's grant fund incubates projects by providing technical assistance, capacity development, and monitoring and evaluation. As well as providing grants, the GFCR provides concessional loans, guarantees and technical investment. The investment fund generates de-risked investment capital to maximise the impact of projects incubated by the grant fund.

4.3. Other financing instruments

4.3.1. Insurance and credit and risk guarantees

Insurance

Insurance is a contract in which a policy-holder agrees to pay money to an insurer, called a premium, in exchange for financial reimbursement if their asset or property should be lost or damaged. Insurance policies enable people and companies to offset the risk of financial losses that may result from damage to people or property. Insurance policies are commonly taken out for financial protection of property (like a car or house), life or health.

34 A list of hyperlinked standards can be found in Appendix 3.

35 See Section 4.2.3 case study.

Understanding, managing and carrying risk is central to the business of the global insurance industry. A warming climate has resulted in an increase in the frequency and severity of weather-related disasters, ultimately resulting in more insurance claims. Naturally, the insurance industry has taken a keen interest in understanding climate change and its associated risks – namely, how these can be identified, assessed, prevented or reduced.[36]

It is also being recognised that sustainable insurance in developing countries is both a market with huge potential and an unmet need within the context of unconstrained climate change (UNEP FI, 2014). The World Bank's Disaster Risk Financing and Insurance programme was created in 2010 to improve the financial resilience of governments, businesses and households against natural disasters. Launched in 2012, the UNEP FI's Principles for Sustainable Insurance are a framework for the insurance industry to address ESG risks and opportunities.

One type of insurance that holds particular potential for ocean financing is parametric or index insurance, which, while not new, is a fast-growing insurance sector since its applicability to climate-related disasters has become apparent. Conventional indemnity insurance pays out a claim after a quantifiable loss, based on the extent and value of the loss suffered. Applying this model to climate change risk has been challenging because it does not usually allow for quick claim payments and also relies on disasters to have occurred and caused significant damage before finance is released, which means it helps only with climate change mitigation and not with adaptation or prevention (Swiss Re, 2022).

In contrast, payments of parametric insurance policies are made based on the probability of a predefined event happening rather than the loss suffered. 'Fundamentally, parametric (or index-based) solutions are a type of insurance that covers the probability of a predefined event happening instead of indemnifying actual loss incurred' (Swiss Re, 2022) For example, an event could be a natural disaster like a flood, tropical cyclone or rising sea temperatures. The parametric or index would be the level of precipitation, wind speed or temperature, respectively. Triggers can also be unrelated to natural catastrophes but these are the most prominent. The parameter or index that is used as the basis of parametric insurance is therefore dependent on the availability of reliable, transparent, independently verifiable external data that enables targeted risk modelling. A parametric insurance payment can then be used for conservation and restoration efforts in geographically defined areas.

In 2020, Swiss Re Institute launched a new tool called the Biodiversity and Ecosystems Services (BES) Index, which assesses the economic sectors most reliant on biodiversity and measures each country's level of exposure to BES decline (Schelske et al., 2020). It also provides a holistic view of the state of BES globally and allows comparison across countries. The BES Index forms part of CatNet, Swiss Re's online natural hazard information and mapping system. This kind of assessment and analysis of biodiversity loss risk provides information in a format that financial professionals can use to mobilise action and funding. Swiss Re intends for the BES Index to 'inform decision-making for governments' efforts to improve ecosystem restoration and preservation, for corporate and investor protection against environmental shocks, or for the provision of insurance services that support the Sustainable Development Goals' (ibid.).

Credit and risk guarantees

Similar to insurance, credit and risk guarantees can provide security to subsequent third-party lenders if the borrower should default. This is a funding model provided as ODA by development banks and other multilateral bodies to lessen the risk for third parties (often private sector) in investing in international development projects.

Insurance case study: Mesoamerican Reef Insurance[37]

The goods and services provided by the Mesoamerican reef amount to US$2.6 billion per year. The government of Mexican territory Quintana Roo partnered with TNC and Swiss Re in 2018 to investigate the potential of insuring the Mesoamerican reef, the largest barrier reef in the Western Hemisphere (Swiss Re, 2022).

36 This describes an area of research and programmatic action called disaster risk reduction.

37 Case study from Brook (2021) and Brahin (2020).

The government then took out a parametric insurance policy with Swiss Re in 2019 to provide payment in the case of wind speeds reaching 100 knots or more in a 160 km^2 area across the reef.

Only a year later, in October 2020, Hurricane Delta reached the coast of Quintana Roo with wind speeds of 100 knots, causing considerable damage to the reef. The event triggered a quick insurance pay-out of $800,000, enabling Mexico's National Commission of Natural Protected Areas to respond to the disaster by repairing the reef. Within 11 days of the hurricane, volunteers in the Puerto Morelos Reef National Park had returned 1,200 large corals upright and collected and transplanted almost 9,000 broken coral fragments and stalks to create new coral colonies, with subsequent work continuing through December. This was the first time that funding from an insurance policy had been used to aid reef recovery actions. The conservation work done on the reef will not only provide for underwater ecosystems to flourish but also help reduce future onshore damage to infrastructure and the tourism industry.[38]

TNC is now investigating the possibility of replicating this parametric insurance model in Hawai'i and Florida in the US, as well as the Caribbean, Asia Pacific and Australia (TNC, 2022). Parametric insurance has also been taken up by Nagaland State Disaster Management Authority in India against heavy rains that can lead to flooding, and by Puerto Rico Electric Power Authority against earthquakes and tropical cyclones (Swiss Re, 2022).

4.3.2. Market-based instruments

Market-based instruments are policy tools usually implemented by governments (including national and sub-national governments). These instruments, including taxes, tradeable permit systems and targeted subsidies, use markets, prices and other economic variables to reduce market failures or externalities. They can help improve the environment by providing incentives to companies and consumers to choose greener products and production methods (European Commission, nd).

Some market-based instruments are income-generating but the focus is more likely to be on achieving a particular policy outcome (e.g., reducing pollution or improving the sustainability of a resource) that reduces externalities. Income generated may be spent on conservation or otherwise pro-environment activities, which can then result in savings for the government, private individuals or companies.

PwC publishes a Green Taxes and Incentives Tracker with an interactive map of different market-based incentives from 22 countries around the world. Although targeted towards business and heavily weighted towards high-income countries, this resource can be a useful tool for generating ideas for additional market-based instruments that can help drive ocean-friendly private investment.

Ocean-positive market-based instruments are a hugely underused tool to support conservation objectives, as most are used instead to promote environmentally damaging practices, like fossil fuel reliance and unsustainable agricultural methods. Market-based instruments should be considered as part of every ocean funding strategy, alongside seeking external funding like grants and for-profit investment.

Subsidies

Environmental subsidies are incentives that encourage environmentally positive behaviour, and therefore have the opposite effect to fees and taxes. The incentive may involve a monetary reward for certain actions (e.g., using recycled materials) or a reduction of the cost of a green product to encourage its use (e.g., an electric vehicle).

However, subsidies should be designed so they do not unintentionally encourage behaviour that conflicts with the policy outcomes being targeted. For example, vessel fuel subsidies to support ocean-based businesses are one of the most common types of subsidies. However, these can be particularly harmful because they perpetuate the use of fuel-inefficient technology and behaviours, thereby encouraging additional pollution and climate impacts (Schuhbauer et al., 2020).

38 The Mesoamerican reef helped reduce damage from 2007's Hurricane Dean by 43 per cent and also supports Quintana Roo's annual US$10 billion tourism economy (Brook, 2021).

Environmental taxes, permits and fees

Governments can raise valuable revenues through environmental taxes, permits and fees, which impose a cost on the actors of an environmentally harmful activity to disincentivise this activity. These mechanisms should be designed to provide a revenue stream that completely covers the costs of mitigating any harm done, with money left over for other activities. Revenue can be raised through the following imposed costs.

- Fines to discourage particular illegal behaviours;
- Fees, such as a usage charge for an asset or site, to recover the costs of managing the asset or site;
- Fee for every unit of pollution produced or each polluting item purchased (such as a plastic bag levy).

Governments may also introduce a levy on businesses that indirectly benefit from its management of a nearby site, such as tourism businesses that use or benefit from a state-managed MPA.

Environmental tax case study: francisation tax

France has implemented a tax on leisure boats longer than 7 metres. The revenue from this yearly tax goes towards the protection of coastlands and marine coastal environments. The tax brings in €37.5 million per year, accounting for 72 per cent of the budget for France's coastal authority in 2020 (Barber et al., 2022).

Tradeable permits and offsets

Environmental markets help address environmental challenges by encouraging environmentally positive behaviours through financial incentives. Tradeable permits and offsets are a type of environmental market that uses the 'polluter pays' principle to help achieve an environmental goal. Governments issue permits to allow companies to pollute up to a specified amount while also generating income for the government. These tradeable permits and their associated allowance can be exchanged between permit-holders to other companies that might need the extra allowance to offset their emissions.

Pollution permits allow companies that generate less pollution to sell their excess permits to other, more polluting, companies. Permits help reduce the environmental externalities of operation, attaching some of the cost to the polluter while rewarding the 'cleaner' company. A company that creates more pollution must either purchase additional permits or reduce its pollution. A government can reduce the overall amount of pollution produced in an industry by reducing the number of available permits. This decreased supply drives up the price of the permits on the market, making the transition to cleaner operations cheaper by comparison.

Although the terms are often used interchangeably, permits and offsets are different. Offsets are similar to permits except that they are generated by a reduction in pollution through a voluntary project designed for this set purpose, such as planting or preserving trees, rather than through normal business operations. Both permits and offsets can represent the same amount of avoided pollution but purchasing a permit takes away the producer's right to pollute while an offset supports past reduction in pollution. However, offset projects can take place anywhere in the world so they can be more flexible and cost-effective than permits for reducing the same amount of pollution. One example of an offset, shown in Appendix 4, is Apple offsetting its carbon emissions through planting mangrove trees in order to meet its Net Zero goals.

Tradeable permits and offsets have been applied to GHG emissions and biodiversity but could be applied to any type of pollution or environmental damage that a government seeks to reduce, such as agricultural water pollution, as long as it is able to be measured and verified.

Blue carbon credits

Like carbon credits, blue carbon credits are a type of permit or offset that aims to reduce carbon emissions and thereby support climate change mitigation. They are tradeable certificates that a company can purchase to either voluntarily offset its emissions or meet statutory limits. They can be generated through ocean-related activities that either avoid carbon emissions or sequester carbon. These activities can include generating renewable energy in marine environments[39] or coastal/marine

39 Such as through offshore wind, tidal, wave, floating solar, salinity gradient and ocean thermal energy.

ecosystem restoration,[40] among others. Mangrove restoration is a key source of carbon credits in the blue economy (see example below).

Emission reductions payment agreements

ERPAs are legal contracts signed between purchasers and sellers of carbon credits. The World Bank, for instance, uses ERPAs to provide payments to governments, communities or individuals for activities that have achieved verified GHG reductions (World Bank, 2021a). The World Bank has made about US$2 billion in emission reduction payments to 65 countries across 200 ERPAs, usually lasting from five to 10 years each.[41] This is financed by environment trust funds to which donor countries and the private sector contribute. As ERPAs are technically a contract, payment is made in intervals upon completion of agreed activities and verification of the GHG reduction, which can be an obstacle for some countries. However, ERPAs can help countries produce a track record of generating and selling carbon credits or apply them to their own emission reduction targets. The financial commitment represented by the ERPA can also boost investor confidence and private sector engagement, leveraging further investment.

A central issue for carbon credit markets is measuring the credits and verifying that they have resulted from genuine carbon reductions that would not have happened anyway. A criticism of carbon markets is that, as long as it is cheaper to purchase carbon credits than reduce emissions directly, carbon credits do not necessarily lead to companies reducing their own emissions. However, when blue carbon projects are well designed and produce verifiable credits, they can generate funding to finance ecosystem restoration and other activities, as well as deliver other social and environmental co-benefits such as livelihoods opportunities and improved ecosystems.

Biodiversity offsets and credits

According to the OECD, biodiversity offsets are economic instruments that 'result from actions designed to compensate for significant, residual biodiversity loss from development projects' (OECD, 2016, p. 3). They are measurable outcomes of actions taken to compensate for biodiversity loss as a result of development by protecting, enhancing or establishing habitat elsewhere (ibid.). Commonly, the goal of biodiversity offsets is to deliver 'No Net Loss' of habitat, species, ecological status, etc.

Similarly, biodiversity credits are economic finance instruments used to encourage a net gain in biodiversity (Gray and Khatri, 2022). Compared with carbon or biodiversity offsets, which are purchased to compensate for negative impacts, biodiversity credits allow companies to support longer-term nature-positive activities (ibid.).

However, the 'equivalence' of biodiversity offsets is its Achilles heel. Exchanging one type of harm with another kind of credit can be difficult to quantify or justify; for example, how many restored shallow water corals equate to organisms destroyed by mining in deeper waters? The answers are not obvious and can lead to un-remediable damage (Niner et al., 2018).

Market-based instrument case study: Ocean Risk and Resilience Action Alliance Blue Carbon Resilience Credits

ORRAA partnered with TNC, a global conservation NGO, and AXA XL, a global insurance company, to create carbon resilience credits in the Bahamas (ORRAA, nd). This innovative financial mechanism aims to transform coastal wetland management in the Caribbean, starting in The Bahamas. The blue carbon resilience credits create both a carbon and a resilience value for mangrove ecosystems. Corporations can then buy the credits to offset their carbon footprint, with the proceeds supporting resilient island communities by restoring coastal wetlands such as mangroves, seagrasses and salt marshes (ibid.).

TNC and other partners are in the early stages of developing the market but have made promising steps. The project has completed a pre-feasibility study across two sites covering 10,000 hectares of mangroves, with the potential to prevent US$140 million annually in property damages from flooding (ORRAA, nd). TNC is now working with local stakeholders to establish a baseline for the project, including creating updated mangrove site maps. It is hoping to scale additional blue carbon resilience credit projects across the Caribbean and beyond.

40 Such as mangroves, saltmarshes or seagrasses, all of which are more efficient at sequestering carbon than terrestrial forests.

41 Examples of ERPAs agreed with the World Bank are for largely land-based activities but could include blue carbon projects in the future (World Bank, 2021a).

5. Funding acquisition best practices

Key takeaways:

To have the best chance at securing project funding, project leads should:

- Build cross-sector partnerships and collaborations with other organisations working in the field;
- Create a ToC and design the programme/project and proposal on that basis;
- Use the available facilities and resources to help design the programme/project.

Being able to successfully fund a project depends on ensuring that funding proposals are presented in a way that speaks to the prospective funder's priorities. This section describes several methods for ensuring a project aligns with the elements that every donor is seeking most, including collaboration, building project relationships and ensuring the proposal captures the project's ToC to link its activities to its overall objectives and the need for the project.

5.1. Collaboration and partnership

Collaboration and partnership are vital for preparing, funding and delivering any project, for a host of reasons. First, blue carbon and sustainable development projects are complex and involve many sectors of society. Impact-only funders are more likely to fund projects that are designed and delivered through partnerships and coalitions across and within sectors, including the private sector, civil society (NGOs), local communities, other government departments and ministries, and regional and international public agencies. This owes in part to the limited amount of the funding available but it is also because projects delivered through a long-term culture of consultation and input from different levels and sectors of society tend to be the most successful in the long term. Most public funding bodies, like MDBs, as well as impact-only funders that will not directly fund government or government agencies will still be looking to ensure projects are delivered with co-operation and buy-in from government stakeholders. For this and many other reasons mentioned in this document, it is worth pursuing partnerships with NGOs and companies seeking to deliver ocean projects locally. Furthermore, most impact-only funders consider country ownership of a project to be important for its longer-term viability, so it is important to demonstrate how the project aligns with national priorities and policies, as well as the SDGs and the funder's priorities.

Second, impact-only environment and development funding markets are extremely competitive, in a context of limited funding and overwhelming need. Consequently, the funding landscape for blue economy projects is extremely collaborative and relationships-based. Many impact-only funders will accept applications on an invitation-only basis, so forming relationships with funders outside of the application processes is vital. Connecting with donors can be achieved by tapping into existing networks, coalitions and relationships and asking for introductions from common acquaintances. Once contact is made, relationships can be built with funders through informal meetings with the funder representatives, having open and authentic conversations about the project's needs and unique offerings, and maintaining contact throughout the application process.

Third, collaboration platforms, such as communities of practice (CoPs), provide structures for cross-organisational and cross-sector dialogue to share information, resources and experiences to improve project and programme implementation on specific topics. Through these platforms, people bring their experiences, skills and knowledge to bridge the gap between organisations and sectors, creating a more functional and aligned movement. CoP can also provide opportunities to build networks of potential partners and funders.

5.2. Where to get support with grant applications

Recognising that not all countries and organisations are experienced in project development and management, many funders, such as MDBs and multilateral institutions, have built support facilities

into their funds to support incubation of ideas and fully develop them into project proposals.

- The GCF's Project Preparation Facility;
- The GEF's Country Support Program;
- ADB's Asia Pacific Project Preparation Facility and general project preparatory technical assistance;
- General project preparation support from the African Development Bank and the data
- Climate Analytics' guide to applying for GCF grants;
- The Subnational Climate Fund (SCF) Technical Assistance Facility. This is managed by the International Union for Conservation of Nature (IUCN) in collaboration with Regions of Climate Action (R20) and Gold Standard, and is funded by the GCF (US$18.5 million) and other donors ($9.5 million). The technical assistance offered combines pipeline development and capacity-building in the pre-investment phases, aimed at preparing projects and project environments for finance. Unlike many funds, SCF has a published route for submitting projects for technical assistance of equity investment.

5.3. Theory of change

A ToC is a useful tool for any organisation or department that seeks to create change in the world. According to the UN, a ToC 'is a method that explains how a given intervention, or set of interventions, is expected to lead to specific development change, drawing on a causal analysis based on available evidence' (UNSDG, 2017). In other words, a ToC is literally a theory about how a project, department or organisation will create a desired change (i.e., goal and outcomes) through proposed interventions.

The ToC model is now the gold standard method for international development organisations (and increasingly organisations in other sectors) to communicate their work. It will be an expectation from any significant foundation or government donor, and increasingly other types of donors too, for projects to have an articulated ToC. Through developing this model, project leaders can articulate the interventions or activities that will lead to the change and why. A ToC can be used to help project leaders strategically plan out project activities and monitor and measure success. It can also help provide a framework to communicate the outcomes you have achieved to various stakeholders, including funders.

At the core, each ToC has the following steps or categories shown in Figure 5.1.

A crucial early step involves identifying the problem and its root causes that the interventions seek to address. This may or may not be communicated externally but is always part of the thinking in developing the ToC.

A ToC methodology is an iterative process and may need to be amended over time. As the project develops, it is a wise idea to document, review and revisit each stage of the structure, updating it if, for example, new information comes to light, the context changes, assumptions change or implementation has identified issues with the approach. Ideally, if the initial process has been thorough, a good ToC shouldn't change drastically over the years unless something radical changes in your operating context.

In order to develop a ToC for a project, project leads will need to answer the questions in the worksheet in Table 5.1. It is recommended to follow the order laid out below as it helps map the project backwards from the change the project intends to make.

Figure 5.2 shows a model of a completed ToC, and the kinds of topics covered at each level. It starts with outlining the major change the project seeks to achieve and works down from there to identify the individual activities that the project will undertake to address the identified problems and barriers.

Figure 5.1. Elements of a theory of change.

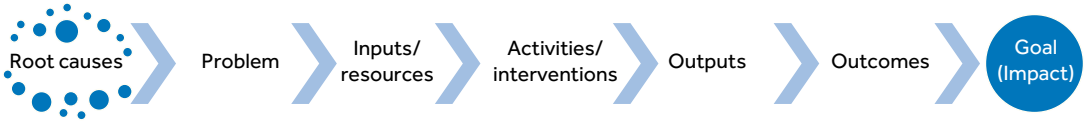
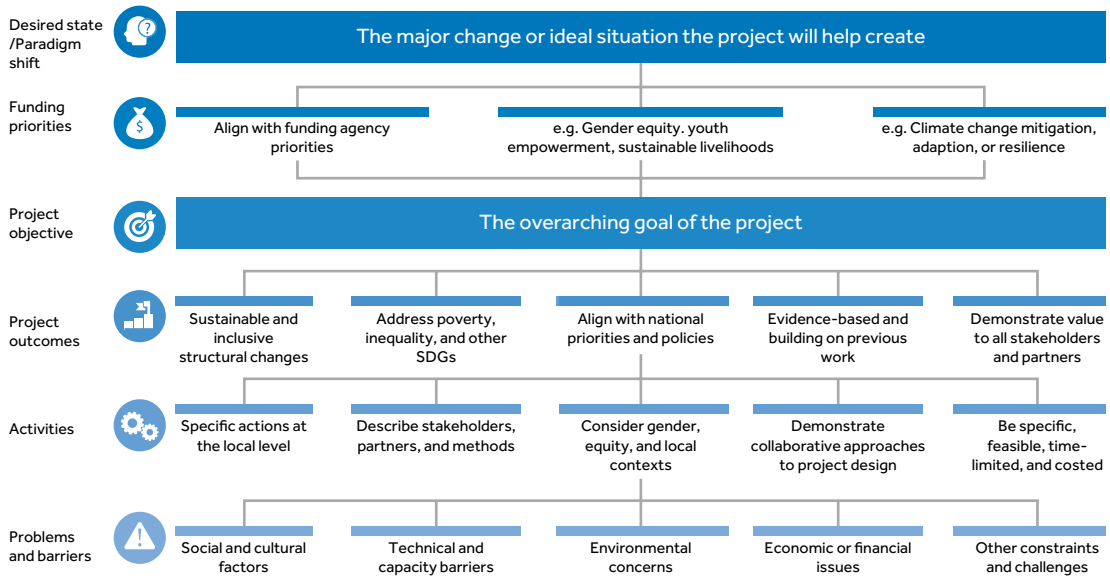


Table 5.1. Theory of change worksheet.

1	**NEED**: What problem or need is the project intending to solve? This should be a problem that exists in the wider world, not an administrative need (e.g., you need data for a department to be more effective).	
2	**ROOT CAUSES:** What are the root causes of the problem that this project seeks to solve? What barriers need to be removed in order to solve the problem you outlined? There will likely be many but your project can only address a few of these at most.	
3	**GOAL:** What ultimate impact will you aim to create through your project? This is the ultimate goal of your project and should be a positive change, mirroring the problem outlined.	
4	**OUTCOMES:** What impacts or outcomes will you achieve through your project to help you create the ultimate goal outlined earlier? As with the goal, this should be a positive change, mirroring the root causes you outlined. (Three to five outcomes is a good achievable target for one project.)	
5	**OUTPUTS:** What outputs (e.g., training events, objects, publications, marketing campaigns, etc.) will need to be created to achieve your stated outcomes?	
6	**ACTIVITIES:** What activities or interventions will need to take place to create the stated outputs, and therefore the outcomes and goal outlined? Clearly articulate how these interventions will contribute to achieving the desired outcomes.	
7	**ASSUMPTIONS:** In explaining how your planned activities will achieve the desired outcomes, what assumptions have you made about the context and stakeholders of the project? Assumptions are a normal part of the project but they need to be explicitly stated. (These assumptions then become the basis for a project risk matrix, which is always recommended to help keep the project on track.)	
8	**INPUTS:** What resources or inputs are needed to achieve the activities or interventions? Consider, for example, people's time, travel, specialist expertise, stationery and printing, spaces for events and business activities, and project management. This list then forms the basis for producing a project budget. It also allows you to identify your key partners and stakeholders and consider what resources you might be able to more efficiently outsource to potential partner organisations or consultants with more experience or a stronger track record than your team.	
9	**STAKEHOLDERS:** Are there key audiences or groups of stakeholders that need to work together on this project? Consider people who could benefit from the project, stakeholders who have rights or responsibilities in the space and people who could provide input and expertise on the project (feeding back to #8).	

Source: Adapted from templates produced by Tools4Dev.org and Global Giving.

Figure 5.2. Theory of change model.



More theory of change guidance and resources

- Theory of Change: UNDAF Companion Guidance was published by the United Nations Sustainable Development Group (UNSDG) in 2017 and is available in English and French. This document was designed to provide guidance on developing a ToC as part of the United Nations Development Assistance Framework (UNDAF), but its lessons can be useful in a range of contexts.
- UNEP discusses using theories of change in its evaluation approach.
- New Philanthropy Capital, a think-tank and consultancy for the social sector, has written a great 10 step guide to creating a ToC. It also has a blog specifically about applying ToC to environmental causes.
- The ToC guide from Australia's NSW Council of Social Services also investigates building a logframe that can be used for monitoring and evaluation.
- Sopact, a company that sells impact management software, has produced a ToC guide.
- Nesta, a UK foundation, has prepared a ToC guide that asks key questions in a slightly different way.
- A learning report commissioned by Comic Relief, a huge UK funder, looks into ToCs in general, how effective they are, different approaches to them, etc.
- The Center for Theory of Change has published Understanding Theory of Change in International Development, in partnership with the Justice and Security Research Programme and The Asia Foundation.

How to present a theory of change

There is a great deal of variety in how organisations present their ToC, with some showing a lot more detail than others or slicing the information in a different way. Some rely on text to explain; others lean heavily on infographics. A ToC can be built around a specific project, subject area (e.g., health), or domain or level of change (e.g., individual, national, private organisation). A thorough ToC also includes assumptions, enablers and core approaches or ways of working, at least for internal thinking.

Many organisations have a more complicated, thorough version that informs strategy and programmatic direction. They will then create simpler external documents that are designed to convey key messages concisely to their main stakeholders. Many externally facing documents may achieve this by combining some categories for simplicity or by cutting out the problem and root causes, as this knowledge can usually be assumed.

The Ford Foundation has produced a helpful blog looking deeper at different theories for social movements and how to articulate a ToC.

Theory of change examples presented in a range of formats

- The International Institute for Environment and Development's ToC is here.
- Climate Outreach (a climate change NGO) presents its ToC via a video and diagram, with a more detailed version also available.
- Leonard Cheshire, a global NGO, has ToCs that span international and UK work, separated by sphere of influence (individual, globally and nationally, and organisations and the public).
- Vision Aid Overseas (an international development NGO) has a concise and clear ToC.
- Ford Foundation has briefly summarised its ToC in words.
- SeeAbility, an NGO, has conveyed its ToC briefly in words.
- World Vision East Africa Child Protection's ToC is a technical (internal) document that goes into a lot of detail on each element but has a couple of pages of diagrams that could be pulled out on a separate external document.
- The Global Fund for Children's ToC is here.
- Reall, an international affordable housing organisation, has a simplified ToC.
- Fairtrade has a ToC that is quite detailed but designed for an external audience. Despite its detail, it still boils down to the same structure as highlighted above.
- The United Nations Children's Fund (UNICEF) Strategic Plan is a much more detailed ToC as it is an expansive organisation.

6. Conclusion and recommendations

The ocean plays a crucial role in the global climate and economy, along with providing biodiversity and food services to sustain and enhance life at sea and on land. Many countries rely on the resources the ocean provides for the growth of their blue economies and the livelihoods of their people. And yet the ocean is in crisis, facing overlapping serious threats from climate change, pollution, unsustainable development and biodiversity loss that are already having impacts on the health of many ocean ecosystems.

Funding to address the growing threats to the ocean is growing but at nowhere near the scale required to meet the challenges. Most blue funding over the past decade has come from ODA and philanthropic grants. While this is likely to continue to increase, these funding streams alone will not be sufficient to meet the scale of financing needed to protect and restore the ocean and foster sustainable blue economies. Instead, considerable funding growth in the next 10 years is likely to come from for-profit blue investments, including blue bonds and blended finance. A step-change in the scale of blue finance provided by all funding streams will be needed to stop and reverse the destruction of the ocean and enable the creation of a sustainable global blue economy. Although blue finance is currently limited, there is growing recognition of the ocean, biodiversity and climate finance gap, as evidenced by numerous reports on these topics.

Government policy-makers can play a critical role in facilitating a sustainable blue economy and attracting finance for ocean sustainability initiatives. As the scale of blue finance continues to grow over the next decade, there will be more opportunities for government agencies and officials to access these finance flows. We recommend that governments and other seekers of blue finance approach accessing ocean finance opportunities with the following considerations in mind:

The scale and depth of the challenges mean **ambitious and programmatic thinking and planning** are required. Project leads should pursue long-term planning of conservation or development goals, starting from the question of need and building out logically from there rather from being unduly influenced by the agendas of funders. Project proponents should organise project planning around the long-term strategic objectives for a specific topic or region rather than aiming to fundraise for bespoke projects to fit niche donor preferences and ad hoc calls for proposals. Use comprehensive tools like a ToC framework to help articulate the desired outcomes, how they will be achieved and what support is needed. The wider strategic context of projects is key in today's funding market and – more importantly – is crucial to overcoming the multi-faceted challenges faced in striving to secure sustainable blue economies and a healthy ocean.

Addressing the blue financing challenge will also require a multi-faceted approach to funding and new ways of approaching funding. We recommend that project leads **adopt a pluralistic approach to financing ocean conservation and the blue economy**, considering how to make use of different models of funding for different purposes. For example, government agencies and officials should explore not only increasing approaches to external funding avenues that require seeking funding from other entities (like grants) but also reducing mechanisms like nature-negative incentives and subsidies that set back conservation goals. Government agencies and officials should also consider funding avenues that are not as easily accessible to other types of entity and can make a significant difference, such as using policy instruments to incentivise desired behaviour and launching blue finance instruments like blue bonds.

Building up a data pool to make projects investment-ready can help reduce some of the barriers to blue investment. Quantify environmental assets and the potential value of economic sectors that could enhance the country's ecological goals (e.g., recycling, fisheries). Having data on hand will enable projects to speak the language of potential investors and thereby encourage investments,

whether they are for-profit, impact-only or blended finance. Governments can also help reduce barriers to blue impact investment by endorsing the impact standards that are being developed for blue investments.

Proactively build cross-sector partnerships to create the most powerful vehicles for change. Consider the implementing organisation's role in the bigger picture that the project aims to create. Identify suitable partner organisations that can complement the implementing organisation, such as NGOs and the private sector. Perhaps catalysed by the incredibly crowded ocean funding market, the ocean conservation sector is particularly driven by coalitions and partnership working. Building effective partnerships between important players in the sector can often lead to attracting funding, rather than the other way around. Also, the larger amounts of funding are won through coalitions of partners, not through solo actors (especially governments working alone). Reach out to funders from funding coalitions to build potential partnership relationships.

Consider the eligibility criteria and motivations of funders to determine which is most appropriate for the type of implementing organisation, and what kinds of value the organisation can willingly and realistically provide for the funder. Building partnerships with different types of organisations can also help governments better reach different funder and funding types where eligibility criteria might otherwise preclude them from accessing funding.

Finally, **make use of available resources and support facilities.** Many large funders now have support facilities to help project leads develop and incubate project ideas until they are ready for the competitive fundraising landscape. There are also many written resources available to help project leads sharpen their fundraising and bid-writing skills and thereby increase their chances of successfully securing funding.

Following these recommendations will help governments and other project implementers improve the quality of applications and partnerships, increasing the likelihood that they can tap into growing funding opportunities. We hope the recommendations in this document provide the tools and information required to access funding for protecting and restoring ocean ecosystems and building a sustainable blue economy to sustain life and health of humans and the ecosystems we rely upon.

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Appendix 1: Practical tools for making an application

Key questions to ask to determine suitable type of funding

Table A1.1 includes key questions project leaders can ask about a project and its funding needs to help determine what kinds of funding and funders to pursue. Questions should be considered together as the answer to one question may indicate one type of funding is suitable but the way you answer another question may rule it out.

Table A1.1. Finding your match. Which types of funders are most compatible with your funding needs?

Question	Yes	No
A. Does the project make revenue or income?	If short-term revenue: explore debt or equity investment partnerships If long-term revenue potential: consider blended finance	Consider impact-only funding
B. Can you measure and report on the project's impact?	Consider Impact-only funding, impact investment or hybrid funding	Consider commercial investments
C. Is this project rooted in a defined longer-term strategy and ToC?	Consider commercial loans and equity	Consider developing a ToC so you can potentially apply for ODA, philanthropic or CSR funding and/or impact investment
D. Is your project eligible for ODA	Consider ODA loans or grants from multilateral or government bodies	Consider philanthropic or corporate grants, CSR funding, private impact investment or commercial investment
E. Is the project being delivered by an NGO or non-profit?	Consider philanthropic or corporate grants	Consider partnering with an NGO or non-profit to widen your potential funding pool
F. Does the project align with a company's CSR values and strategies	If you are an NGO or partner with an NGO: consider CSR or corporate foundation funding. If you are not an NGO or NGO partner: consider partnering with an NGO or non-profit to widen your potential funding pool	
G. Do you need funding of less than US$ 635,000?	Consider philanthropic and corporate grants/CSR	Consider commercial investments, ODA grants, loans or market-based instruments
H. Are there existing government subsidies or incentives that have negative impacts on the issue you are trying to address?	Consider lobbying for removing such subsidies/incentives and replacing them with incentives for ocean-positive behaviours	
I. Are project leaders or stakeholders involved in policy	Exploit influence to lobby for subsidies	Explore existing subsidies

Application checklist and other helpful tips and tricks for applications

Once you have found a type of funder and mode of funding that is suitable for your project, you can refer to the following checklist and other helpful tips. Most of these tips are relevant for all funders, but always refer to their stated requirements and application process and criteria. You may or may not need certain elements depending on the requirements and motivations of the funder.

Table A1.2. Application checklist.

Collaboration and partnership	
	Build relationships with staff at the funding body before (and during) the application process.
	Show how the project is delivered in partnership with, or at least with the support of, the private sector, philanthropy sector, NGOs and government. Seek testimonials from other stakeholders in support of the application.
	Partner with other types of organisations to lead elements of the project where you are not an expert. Involve them early in the design process (e.g., academics can help calculate financial data like expected ROI; NGOs can lead on community engagement).
	Borrow training content. If your project includes training for which you will need materials, think about the experts in this area. What training already exists? Who would be willing to let you use their materials or borrow from them? It doesn't hurt to ask, and you could end up with materials that follow best practice and are cheaper and faster than by hiring someone to write them.
	If visibility and marketing makes sense for the funder and project, show how you can offer this via the project.
	In-kind support. Think about the donor's business or expertise and whether they could provide in-kind support through technical expertise. If it is a company, would its products benefit the people you are supporting and the goal of the project (e.g., asking a bank to offer micro-grants to help start up people's small businesses)? This may also help the donor's bottom line, which donors like.
Formatting and style	
	Length of proposal. Make your proposal no longer than it needs to be; **shorter is usually better.** Assume your reader has a short attention span and little time. It's always useful to think about who is going to be reading the proposal, what they expect, how much time they have and how much they already know. Donors often have different expectations of length depending on how professionalised they are. A multilateral funder or large foundation will usually want more detail, whereas corporate or small foundation donors will want less. If the funder has no application template, aim for two to three pages for a concept note and five to seven for a full proposal.
	Think about who will be reading your proposal. What might they know/not know already? How much time do they have to review your proposal? What might they be specifically looking for a project to do given their interests, concerns and background?
	Keep spacing at 1 or 1.15. This helps make the proposal concise while also readable. Font size should be minimum 11 pt but 12 pt is usually appreciated.
	Keep sentences short and simple to get your message across, especially for a lay audience. You may need to simplify scientific concepts but this will enable you to better reach your audience.
	Avoid lingo and acronyms where possible. If you must use acronyms, spell them out the first time you use them – don't assume the reader knows all about the topic.
	Use active words for your project activities and link them wherever possible to the objectives.
	Submit a clean Word file or pdf, if the application is not via online form. If you have to submit online, **copy the questions into a Word file** to develop your answers before you add them online. This will also give you a copy to keep. This is much easier to edit and allows others to feed into the text, and you will be able to save a copy for your records or to take to another funder.

(*Continued*)

Table A1.2. Application checklist.

	Think about your personal strengths and weaknesses in writing the proposal. Partner with someone with different strengths and weaknesses and read others' proposals. You can also ask someone who knows nothing about your project to read the proposal and check they understand it.
	Executive summary. This is perhaps the most useful and important part of your proposal. The front of every proposal should have an executive summary covering the basics of the project, including who you are applying to, for what activities, how much and over what length of time. Write this after the other sections are finalised. The reader should be able to grasp in half a page what you are asking for, why, how much and the project timeline. Also highlight how this project will help communities and ecosystems. This means that, if donors read nothing else, they will know what you are asking them. An executive summary also usually whets the appetite to go on read the need and activity sections. The title alone is usually not enough to convey the project goal, so make sure this is crystal clear from the outset of the proposal. Most application forms will want you to summarise your project in under 500 words, so it's good to have a version on hand that you are happy with.
	About us. This section gives you an opportunity to build credibility and many forms will ask for this. Include a few short paragraphs about your department or organisation so the funders know who will be delivering the project. Reference previous projects or ventures to demonstrate your mission and a track record of success. You can also include any partners who will help deliver the project.
Designing people-focused and participatory projects, especially if working in communities	
	Emphasise the human impacts of your project, even if the project is purely scientific and doesn't directly relate to humans (e.g., scientific fisheries studies). Make sure you explicitly mention the people and communities that will benefit and refer to them in humanising language (e.g., people in coastal communities, fishing communities, people who make crafts from seashells, scientists). This taps into funders' humanness by connecting them to the people they can help and is often much more immediately emotive than broad intellectual challenges.
	Use a few photos where possible to bring your project to life and the need for it. Photos that include faces – human or animal – will best grab people's attention.
	Identifying and selecting participants can be a whole project activity in itself, so make sure you budget/plan for this. Identify and give examples of the kinds of selection criteria you might use.
	Participatory projects are usually more successful and sustainable, so **involve participants in project design and delivery** wherever possible. How could you involve participants more? What simple tools (including mobile phones, WhatsApp) could help foster participation, even beyond the project? Articulate how you know this is a service that people need and want – perhaps through talking with people in the communities or focus groups.
	Think about **what other training or support would be beneficial for the participants** to achieve your intended outcomes. How do you know? How likely is it that they have the basic literacy and numeracy and the relevant basic skills required for the project?
	Aim for a 50–50 gender balance in your project as best practice, and specifically plan what you will do to make sure you reach women. Women often benefit the most from development projects but you often have to work harder for their involvement, so make sure you plan for that. Also think about non-binary people – it may not be appropriate to every context to specifically mention them but make sure that is a conscious choice and not an oversight.
	Think about and plan how you will **make any training disability-inclusive.** People with disabilities are much more likely to be marginalised and living in poverty so making your project disability-inclusive can generate tremendous impact for individuals and their families.
	Plan for how you will **ensure people show up to the training or activities**, especially if they have to miss work or chores at home. This will be more likely among more marginalised people (i.e., the people you most want to reach through your project), so make sure you plan for it.

(*Continued*)

Table A1.2. Application checklist.

Articulating, measuring and sustaining impact	
	Show how your **project fits within your government's long-term strategy**, policies and international agreements/conventions.
	Clearly **articulate the expected project impact and outcomes**, including the problem or need it addresses, any relevant project outputs and how your outcomes will be sustainable (ongoing).
	Ensure that **capacity-building or awareness-raising activities serve the overall project outcomes.**
	Sustainability. Include activities in the project (perhaps later in the timeline) to help embed the changes/impacts longer term. If it would be helpful to do follow-up a year later; you can include this in the plan. Budget these into your costs and timeline.
	Monitoring and evaluation. Plan for how you will measure project success. Will you test/survey trainees before and after the course? Will you be able to test the water quality before and after the project? Will you follow up with participants to see if they have implemented the business plans? Include ways to measure your proposed impact in the project activities and budget.
	Need section. Include a section to articulate the problem your project will solve and the root causes of that problem. Frame the context and rationale for the project all around the need that exists in the world. This will help you focus on why your project is the best next step and also make it more concise. Everything you include in the need section should be in service to the overall goal of the project. Here, you can also tie your project into the SDGs, unless the funders specify a separate section. Resist starting to explain in this section how you intend to solve the need.
	Articulate the wider impact of research. One of the concerns donors have about funding research is what happens with the results once the project is completed: they have seen the results of many funded projects yield little afterwards. Think about including the next step in your project design, even if the content of what that might look like won't be clear until the research is complete. For example, if your project could lead to improvement in prawn-handling practices, improved prawn products and formalisation of the prawn industry, you could include one or more of these elements in the project's final year. You may not be able to complete all those elements under this project. However, you could factor in some key activities that lead to outcomes/outputs that you can point to as results at the end of the project (e.g., training for the community, a policy recommendations paper or suggestions for how an extensive system of culture might be developed, etc.).
Budget	
	If your project is multi-year, make sure your **budget is separated by year.**
	The internal version of your budget should be detailed, linked to activities where possible to help you manage costs; however, you can combine categories to send a simplified version to the funder.
	Break down the bigger costs so it's clear what the main cost drivers are. Don't be afraid of being transparent. Donors understand how it works and that the budget will have to be a bit flexible.
	Put a **conclusion and respectful ask at the end of the proposal**, either just above or just below the budget. This should mirror what is in the executive summary.
	Include any in-kind contributions from your organisation or your partner organisation. This can include some of your office costs and/or a portion of the salaries of people who will be working on the project, which would otherwise covered by their organisation, for example. You can present this as match funding, which can be helpful in securing funding.
	Mosaic funding means using lots of smaller grants to co-fund a larger project. If you can't find one funder to fund a whole project, this approach allows you to compose proposals that fit within funder parameters, while helping funders feel their grant is having a larger impact. For example, you get one funder to cover 30 per cent and also have 40 per cent through in-kind costs. Then you're only asking the next donor to cover 30 per cent of the project. This match funding approach allows funders to achieve greater impacts than their money would achieve with a smaller project that costs the equivalent of that 30 per cent grant. You will probably need to wait to start the project until all the funding is secured, though.

Appendix 2: Government and MDB and multilateral agency funders

Government agencies/institutions giving ODA grants

- Agence française de développement (AFD) (French Development Agency)
- Fonds français pour l'environnement mondial (FFEM) (French Global Environmental Facility)
- Bundeministerium für Wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry of Economic Cooperation and Development) (BMZ)
- Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German Technical Cooperation) (GIZ)
- Internationale Klimaschutzinitiative (German International Climate Initiative) (IKI)
- Kreditanstalt für Wiederaufbau (German Development Bank) (KfW)
- Canadian International Development Agency (CIDA)
- UK Foreign, Commonwealth & Development Office (FCDO)
- UK Department for Business, Energy and Industrial Strategy (BEIS)
- UK Department for Environment, Food and Rural Affairs (DEFRA)
- Australia's Department of Foreign Affairs and Trade (DFAT)
- US Agency for International Development (USAID)
- Norwegian Agency for Development Cooperation (Norad)
- Swedish International Development Cooperation Agency (Sida)
- Danish International Development Agency (Danida)

Multilateral development banks

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- Asian Infrastructure Investment Bank (AIIB)
- Caribbean Development Bank (CDB)
- Development Bank of Southern Africa (DBSA)
- Inter-American Development Bank (IDB)
- Islamic Development Bank (IsDB)
- International Monetary Fund (IMF)
- German Development Bank (KfW)
- New Development Bank (NDB) (formerly the BRICS Development Bank)
- World Bank Group, including International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and International Development Association (IDA)

Key multilateral agencies and funds

The following agencies and funds are key funders relevant blue finance:

- The Global Environment Facility (GEF) provides grants to support the sustainable use of natural capital and improved management of natural resources. With US$20 billion in strategic investments in 170 countries, the GEF is the largest single financier of conservation.
- The Green Climate Fund (GCF) is a dedicated fund to help developing countries shift to low-emission and climate-resilient development pathways.
- The Adaptation Fund finances concrete adaptation projects and programmes in developing countries that are particularly vulnerable to the adverse effects of climate

change. It has committed US$998 million to projects.

- Climate Investment Funds (CIF) is one of the world's largest multilateral funds helping low- and middle-income countries adapt to and mitigate climate change. It has channelled funds from government donors and the private sector to support more than 370 projects in 72 countries.
- The Global Ecosystem-based Adaptation (EbA) Fund is a mechanism for catalytic and innovative projects that enable the implementation of EbA to climate change. It prioritises filling planning, knowledge and resourcing gaps, and encourages creative solutions and partnerships.
- The Nationally Appropriate Mitigation Action (NAMA) Facility was established as a joint initiative by the UK, Germany, Denmark and the European CommissionIt is a grant-based multi-donor fund that supports the implementation of ambitious NAMAs in developing countries and emerging economies.
- The United Nations Environment Programme (UNEP).
- The United Nations Development Programme (UNDP).
- The Global Biodiversity Framework Fund (GBFF): The Kunming–Montreal Global Biodiversity Framework (GBF) agreed at COP15 UN Biodiversity Conference in 2022 asked that the GEF establish a special trust fund, to financially support the implementation of the agreement. The GBF also includes ambitious finance targets for biodiversity by 2030, including at least US$2 billion per year from public and private sources, phasing out subsidies that harm biodiversity by at least $500 billion per year and raising international financial flows from developed to developing countries to at least $30 billion per year. The GBF Fund was launched at the Seventh GEF Assembly in Canada in August 2023.[42]

42 At the time of writing, the routes to applying to the GBFF have not yet been announced.

Appendix 3: Impact investment standards

- UNEP FI launched the Global Sustainable Blue Economy Finance Principles in 2018 as the world's first global guiding framework for banks, insurers and investors to finance a sustainable blue economy. UNEP FI also hosts the Sustainable Blue Economy Finance Initiative.
- ADB publishes Guidance on Issuing Green Bonds in Developing Countries as well as the following impact frameworks:
  - The ADB Green Bond Framework.
  - The ADB Ocean Finance Framework.
- The Operating Principles for Impact Management were launched in 2019.
- The Green Finance Platform (GFP) is a global network of organisations and experts in sustainable finance.
- The UN Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors, and to support its network of investors to incorporate the factors into their investments.
- Ceres Investor Network on Climate Risk and Sustainability works with investors on sustainable investment practices, engages corporate leaders and advocates for policy and regulatory solutions.
- The Impact Management Project (IMP) is a global collaborative effort between investment practitioners to develop a shared language for talking about, measuring and managing impact.
- GFCR (see Section 4.2.4) General Investment Principles (2022) provide guidance on identifying and supporting coral reef-positive businesses and initiatives.
- IFC's Guidelines for Blue Finance provide guidance for financing the blue economy, building on the Green Bond Principles and the Green Loan Principles.
- IFI issued the Guidelines for Blue Finance in 2022.
- IFC issued the Green Bond Handbook: A Step-By-Step Guide to Issuing a Green Bond in 2022.
- ICMA issued the Green Bond Principles in 2021.
- ICMA's Sustainability Bond Guidelines are for projects with both green and social impacts.
- ICMA's Guidance on Blue Bonds to Finance the Sustainable Blue Economy was launched in 2023 .

Appendix 4: Further case studies

CSR: Apple

Apple is a multinational technology and computing company worth US$2.3+ trillion. For Earth Day 2018, Apple partnered with Conservation International on a project to conserve 11,000 hectares of mangroves in Colombia (Apple, 2019). The project was delivered with a coalition of regional partners, including the Ministry of Environment of Colombia, INVEMAR Research Institute, CARSUCRE (Corporación Autónoma Regional de Sucre) and Omacha Foundation. Apple has also partnered with Applied Environmental Research Foundation to conserve mangroves in India and it has supported WWF's Climate Crowd programme to build community climate resilience and promote sustainable livelihoods (Apple, 2022a).

Apple's 2022 ESG Report and 2022 Environmental Progress Report explain that these charitable grants towards carbon sequestration are part of a larger strategy to invest in nature-based carbon removal projects to address the emissions it can't yet avoid from their supply chains, helping Apple achieve carbon neutrality across its entire carbon footprint (Apple, 2022b, 2022c). In 2021, Apple announced the creation of its US$200 million Restore Fund, in partnership with Goldman Sachs and Conservation International, which aims to remove at least 1 million metric tons of CO_2 per year (Apple, 2021).

Apple's 2022 ESG Report also shows its commitment to reducing emissions and switching to renewable energy throughout its operation. Apple has also issued US$4.7 billion in green bonds in hopes of modelling how businesses can drive investments to reduce global emissions. Apple's approach is an example of CSR, corporate philanthropy and carbon offsets.

CSR: Circulate Capital Ocean Fund

CCOF, launched in 2018, is an example of a CSR and impact investment partnership (Circulate Capital, 2020). It is the first investment fund dedicated to developing waste management and recycling solutions that prevent ocean plastics and advance the circular economy in South and Southeast Asia, where 60 per cent of ocean plastics originate. It is also the biggest investment capital committed toward Asia's ocean plastic crisis as well as one of the 10 largest ASEAN-based Venture Capital Funds in the market. Its founding investors include several of the world's leading consumer packaged goods and chemical companies, including PepsiCo, Proctor & Gamble, Danone, Unilever and Chevron Phillips Chemical Company LLC (Circulate Capital, 2019).

ODA: The Blue Planet Fund

The UK's £500 million Blue Planet Fund was set up to contribute toward various blue economy areas, including climate change, marine pollution, biodiversity, sustainable fisheries and aquaculture. It contributes to a range of programmes and initiatives, including the ORRAA, the GFCR and the Friends of Ocean Action coalition.

Public sector call for proposal: EU diversification of fisheries call

The EU regularly publishes CFPs and tender opportunities on sustainable development and environmental topics. Projects can be for delivery within the EU or internationally. These will usually have published criteria, lists of requirements, available budget and set deadlines, often combined in one call document.

The EU published a call for proposals on diversification of fisheries activities in the Atlantic area, as part of the European Maritime, Fisheries and Aquaculture Fund (EMFAF). This is one of six flagship project calls published together. The main objective of the call is to fund projects that 'support the diversification of the income sources for fisheries communities in the Atlantic area by promoting activities related to the sustainable blue economy' in EU sea basins (EMFAF, 2022). It seeks proposals that focus on integrating fishers into tourism offers, examining the interest and feasibility of setting up new regenerative ocean farms or restoring coastal marine ecosystems, and promoting job creation in sustainable blue economies. Project budgets are expected to range between €400,000 and €1 million per project (ibid.). The grants from this call would not count as ODA.

Debt-for-nature swap: Cape Verde and Portugal debt swap

Portugal and Cape Verde have signed a debt-swapping agreement, exchanging Cape Verde's debt for investment in an environmental and climate fund (Reuters and Lo, 2023). Cape Verde is an archipelago nation on the west coast of Africa and a former colony of Portugal that is facing rising sea levels and biodiversity loss as a result of increasing ocean acidity. It owes around €140 million to the Portuguese state and over €400 million to Portuguese banks and other entities (ibid.)

Through this agreement, an initial €12 million of debt repayments scheduled to go to the Portuguese state until 2025 will be put in the new environmental fund, with the rest of the debt repayments ending up there eventually. The fund will then be used to support energy transition and solutions to help Cape Verde respond to climate change. It is not yet clear if the debt to private Portuguese companies will also be part of the swap (Reuters and Lo, 2023).

Debt-for-nature swap: US Tropical Forest and Coral Reef Conservation Act

The 1998 US TFCCA offers eligible developing countries the opportunity to receive debt relief on certain official debt owed to the US government while generating funds for conservation activities on forests and coral reefs (USAID, nd). TFCCA also strengthens local civil society by creating foundations to support small grants to NGOs and local communities and building grassroots capacity. In total, TFCCA programmes will generate more than US$339 million for conservation grants and projects in 14 countries, with funding contributed by TNC, Conservation International, WWF and an Indonesian foundation called KEHATI (ibid.)

Impact investment: Circulate Capital

Circulate Capital is the leading circular economy investment management firm in high-growth markets. It launched in 2018 to invest in high-potential companies that help solve the ocean plastic crisis in South and Southeast Asia. It has since expanded its focus to build circular supply chains that help address the global waste crisis, while also delivering competitive returns to investors. From 2020 to 2022, it invested more than US$80 million in 14 companies and unlocked an additional $80 million in its strategic areas. This resulted in preventing an additional 101,200 tonnes of plastic leakage. See the case study above on Circulate Capital's Ocean Fund for an example of how Circulate Capital has involved large global companies in its approach to solve the global ocean plastic problem.

Impact investment: Mirova

Mirova is a sustainable finance company based in France that aims to offer clients investment opportunities that combine financial performance with environmental and social impact. It is a 'mission-led company' and registered BCorp[43]. It has several listed equity and bond funds centred on environmental sustainability, energy transition and natural capital as well as social impact issues such as women's leadership.

Blue bond: Asian Development Bank

ADB issued its first blue bonds in Australian and New Zealand dollars in 2021, under its Green and Blue Bond Framework. The 15-year bond, worth A$208 million (around US$151 million), was purchased by the Dai-chi Life insurance Company and the 10-year bond, worth NZ$217 million (around US$151), by Meiji Yasuda Life Insurance Company. The bonds enable ADB to finance ocean-related projects in Asia and the Pacific, such as a waste management project in Maldives and a river conservation project in China (ADB, 2021).

Blended finance: Subnational Climate Fund

Pegasus Capital Advisers (see Section 4.2.3) manages the Subnational Climate Fund (SCF), a blended finance initiative that invests in mid-sized (US$5–75 million) infrastructure projects, including sustainable energy, waste and sanitation, regenerative agriculture and nature-based climate solutions. It partners primarily with sub-national

43 A B Corp is a for-profit company that is certified for its social impact, taking into account its social and environmental performance, transparency and accountability. B Corps are certified by B Lab, a global nonprofit organisation.

authorities to identify and implement these projects. Projects are usually financed with a blend of concessional and conventional capital, as well as technical assistance grants ($28 million SCF Technical Assistance facility) to help mitigate risk. The GCF has committed $150 million as an anchor investor, which is intended to mitigate risk at the Fund level and thereby enable more private investment.

Blended finance: Althelia Sustainable Ocean Fund

Mirova (see page 59) is the investment advisor to the Althelia Sustainable Ocean Fund (SOF), which was established in partnership with Conservation International and the Environmental Defence Fund. SOF provides loans, equity and quasi-equity to emerging businesses and projects in three key areas: sustainable seafood, the circular economy and ocean conservation. It completed its final close in May 2020 worth over US$132 million.

Half of the Fund's private equity investors are development finance institutions and half are institutional investors. They include the European Investment Bank, FMO, Axa Investment Managers and IADB. The Fund is backed by USAID, which partially guarantees SOF's loans, helping engender investor confidence (Green Finance Institute, nd). Marine impact investment was new when the Fund was being marketed in late 2017 and 2018 but the Fund helped pioneer impact investments and the term 'blue economy' to promote ocean sustainability that would also achieve a commercial return.

SOF made eight investments across three focus areas in Latin America, the Caribbean, Africa and Asia. These include Plastic for Change, a FairTrade plastic recycling company based in India that enables brands to source recycled plastic from informal litter collectors. It also includes nextProtein in Tunisia, which uses agricultural and food processing waste to grow insect-based products for aquaculture, animal feed and petfood.

Blended finance: Convergence Finance

Convergence Finance directs catalytic capital from both public and philanthropic sources to attract and increase private sector investment in sustainable development. For example, RS Group, a Hong Kong-based foundation, directs funds through Convergence Finance to catalyse investment in sustainability initiatives, including restoring and rehabilitating degraded terrestrial, coastal and aquatic ecosystems. Convergence Finance supports proposals for blended finance instruments that focus on natural capital.

Insurance: micro-insurance for small-scale fishers against climate change

The United Nations Pacific Financial Inclusion Programme (PFIP) has helped over 1.78 million low-income Pacific Islanders to gain access to financial services and financial education. Operating from the UNDP Pacific Office in Fiji, it works across the Pacific. One of its key successes has been to test and scale micro-insurance for Pacific Islanders against crises such as climate-induced disasters. PFIP has successfully launching a bundled micro-insurance product for sugarcane and dairy farmers in Fiji , bundling term life, funeral expenses, property and personal accident cover (de Groot and Payne, 2022). PFIP is now partnering with the Pacific Community's fisheries and marine ecosystems to research the potential for a micro-insurance programme for coastal fishing communities (Jain et al., 2022; Blended Finance Taskforce, nd).

Market-based: Livelihoods Carbon Fund

The Livelihoods Carbon Fund project in Senegal worked with 200,000 people from 450 local villages to replant almost 10,500 hectares of mangroves. The project was delivered by the Livelihoods Funds coalition and Tour du Valat, a research institute for the conservation of Mediterranean wetlands, with funding from several companies that received carbon credits in return (including Danone, SAP, Hermès, Michelin and Schneider Electric, among others). The project has already led to increased food security and income for the villages (Livelihoods Funds, 2020).

Market-based: Mikoko Pamoja

Mikoko Pamoja is a small-scale carbon offset project that generates carbon credits from mangrove restoration in Indonesia and the Philippines. The project engages the community to participate in restoration and protection, and so far

has restored about 8,000 mangroves across 117 hectares. Revenue from the carbon credit (about US$24,000 per year) has been used to support local water and sanitation, education and health projects, creating both environmental and social benefits for the community in addition to the climate impacts.

Market-based: Eco-Markets Australia Reef Credits

The Reef Credit Scheme is a market-based solution that uses market incentives to improve the quality of water entering the Great Barrier Reef. Most pollutants entering the ocean originate on land, agricultural runoff being one of the primary causes. With 58 per cent of Australia's land dedicated to agriculture, farming practices have a significant impact on the water quality flowing to the Great Barrier Reef. Reef credits support farmers by recognising and paying them for land management behaviours that have environmental benefits. Land managers undertaking projects that improve water quality generate a tradeable reef credit, representing a quantifiable volume of nutrient, pesticide or sediment that they have prevented from entering the Great Barrier Reef. The relative volumes for these pollutants are set using the targets in the Reef 2050 Water Quality Improvement Plan (2018) and are periodically amended to reflect changes to the targets (ibid.). Reef credits can then be sold to governments, philanthropists and private sector actors seeking to invest in water quality improvements.

Environmental taxes, permits and fees: Norwegian Retailers' Environment Fund

The Norwegian Retailers Environment Fund is Norway's largest private environmental fund. It aims to ensure plastics circularity, increase plastics recycling and reduce plastic pollution by supporting national and international projects that reduce plastic pollution, increase plastic recycling and reduce plastic bag consumption.

The Fund is an example of the convergence of policy and corporate sector action for environmental funding. A 2015 EU directive required countries to either introduce a national reduction target for plastic bags or ensure consumers were charged for bags; Norway chose the latter option. Industrial and retail federations jointly established the Norwegian Retailers' Fund to collect the proceeds of these sales (NOK1 per plastic bag sold) and earmark them to reduce environmental issues caused by plastics). The Fund comes from the contributions of any Norwegian retailer or wholesalers who buy or sell plastic bags.

The Fund distributes its funding through grants following a call for proposals. It looks to fund projects primarily in developing countries to reduce plastic consumption and pollution through preventative action. The 2022 call distributed NOK19.5 million (approximately US$1.9 million) between 13 projects from across the world (Norwegian Retailers' Environment Fund, 2022).

Appendix 5: Useful resources

There are many useful documents and websites linked throughout this document. However, the following resources are especially helpful to learn more about the availability of ocean finance more generally.

The *Ocean Finance Handbook* is a useful resource for understanding the general funding possibilities for ocean finance and how it can be raised. It can also offer insights into opportunities and considerations regarding sustainable ocean investment (Friends of Ocean Action, 2020).

Building on the Ocean Climate Dialogue contains information about ocean climate processes, finance mechanisms and negotiations under the United Nations Framework Convention on Climate Change (IUCN and Conservation International, 2021).

The Commonwealth Secretariat's *Toolkit to Enhance Access to Climate Finance* describes the requirements and application processes for several funding bodies, including the GEF, GCF, Adaptation Fund and Climate Investment Funds (Commonwealth Secretariat, 2022).

The High Level Panel for a Sustainable Ocean Economy has commissioned and published a number of research and policy papers from a global panel of experts. These include assessments of ocean science and knowledge that are relevant to policy development and inform action agendas to create a sustainable ocean economy. These are usually available as a full report, high-level summary for decision-makers and slide deck. One such report, *Ocean Solutions that Benefit People, Nature and the Economy*, offers science-based models for ocean management that can inform programme and project development (Stuchtey et al., 2020). The journal article entitled *Financing the Transition to a Sustainable Ocean Economy* also contains many relevant insights relevant to the purpose of this document. The paper discusses barriers to financing a sustainable ocean economy and opportunities for action (Sumaila et al., 2021).

A Drop in the Ocean: Closing the Gap in Ocean Climate Finance is a report produced by Deloitte, the Whale and Dolphin Conservation and the Marine Conservation Society. It aims to place formal financial values on ocean resources and highlight the problems in our current approach to blue finance in order to help generate a sustainable blue economy. It lays out the current status of blue financing, particularly as it relates to using the ocean's potential for climate change mitigation (Barber et al., 2022).

The State of Finance for Nature is a comprehensive report from UNEP on the extent to which finance flows are aligned with global targets to limit global warming, halt biodiversity loss and limit ecosystem degradation. It also provides recommendations on increasing finance flows to NbS on land and at sea (UNEP, 2022).

The Economist Group, which publishes *The Economist* magazine, has launched a World Ocean Initiative as part of its Economist Impact area of work. The World Ocean Initiative aims to support a sustainable blue economy by addressing the greatest ocean challenges – namely, climate change, biodiversity loss and pollution. It does this in part by publishing articles on these topics by thought leaders and organisations actively contributing to addressing these challenges.

Global think-tank the Paulson Institute, along with TNC and Cornell Atkinson Center for Sustainability, have produced *Financing Nature: Closing the Global Biodiversity Financing Gap*, a report on the global biodiversity funding gap. In addition to many insights about the scale of the financing gap and feasible paths to address it, it makes nine practical financial and policy recommendations that could substantially contribute to closing the global biodiversity financing gap by 2030 (Deutz et al., 2020).

The Commonwealth Blue Charter's Ocean Funders Database, has information on more than £126 million in funds available for ocean-related projects from 115 funders around the world. The database can be filtered by Ocean Action Area, geography, amount and type of funding, project activities, and recipient organisation.

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