



Ocean Finance: Definition and Actions

Dr. Melissa Walsh

Pacific Ocean Finance Program

June 2018

The purpose of this paper is to define “ocean finance” and summarise four actions that are necessary for effective ocean finance.

OCEAN FINANCE
IS HEREIN DEFINED AS
EFFECTIVE INVESTMENT OF
FINANCIAL CAPITAL
TO PRODUCE
SUSTAINED OCEAN GOVERNANCE.

Sustained ocean governance is intentionally holistic and includes inshore and offshore fisheries, coastal tourism and development, marine debris and plastic pollution, coastal agriculture, and any other activities and sectors that impact upon the oceans.

Ocean finance considers public, private, and cross-sector financial instruments.

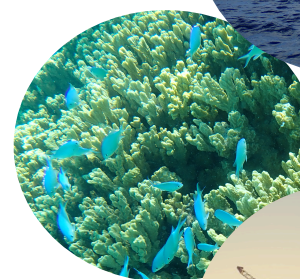
Ocean finance includes but is not limited to the “blue economy.”

Ocean finance is bounded by things that it is **not**:

- * limited to trust funds for the creation of no-take areas
- * endless search for more money for marine conservation
- * the whole of sustainable development in coastal zones
- * a new buzz word - rather it is an incremental but important evolution of old concepts

The goal of ocean finance is not just more money - this goal would likely create perverse incentives that undermine ocean health. The goal of ocean finance is ocean health and good ocean governance.

To break down the components of ocean finance, rather than defining static principles, this paper describes four “actions” to emphasise the ongoing and dynamic nature of the field. Publications in “sustainable funding” and “conservation finance” often focus on the goal of sustained revenue which is an elusive if not impossible goal. An evolution of this perspective is to focus on strategic and ongoing financial planning to support ocean governance goals (Bos et al 2015, Walsh 2017).

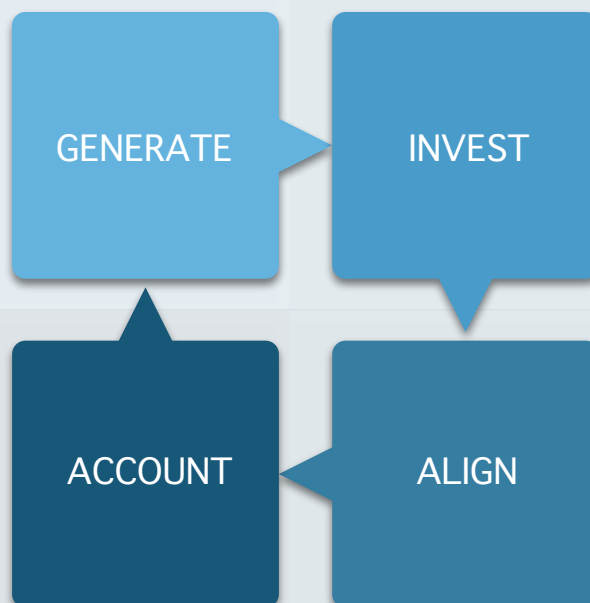


Furthermore, the actions below include the full cycle of generating, investing, aligning, and accounting for financial capital. Generating more money is not the endpoint of ocean finance. In isolation, the focus on generating more money can create perverse incentives and inefficient investments. The four actions summarised next allow for a more holistic approach to effective ocean finance.

4 Actions of Ocean Finance

Generate public and private financial capital through traditional and innovative finance mechanisms to create a diversified portfolio of revenue that supports ocean health.

Invest financial capital effectively, efficiently, and strategically to achieve measurable ocean outcomes and sustained ocean governance.



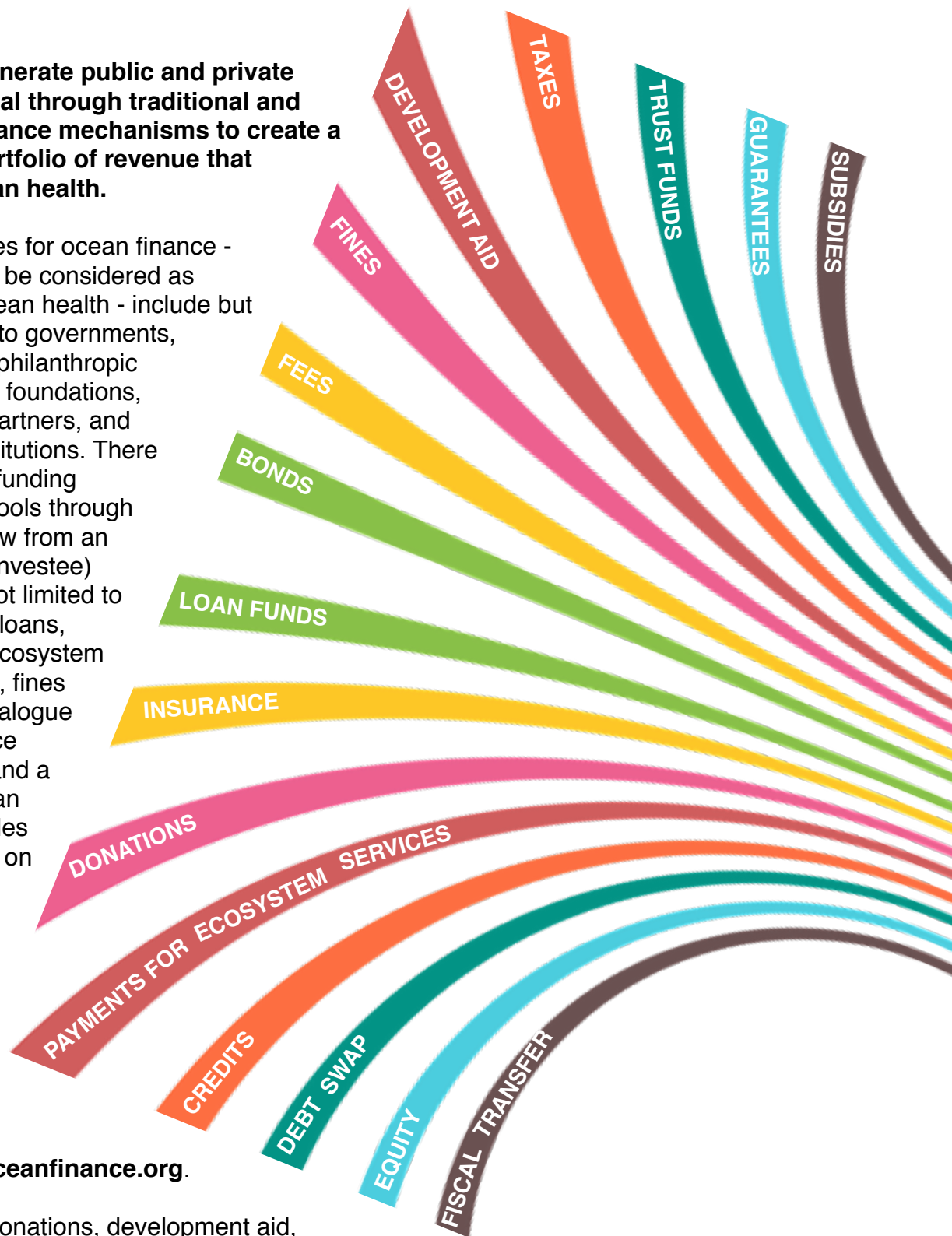
Account for how financial capital is deployed against performance benchmarks, and account for values of marine ecosystem services through time.

Align public and private economic incentives with long-term ocean health.

GENERATE

ACTION 1: Generate public and private financial capital through traditional and innovative finance mechanisms to create a diversified portfolio of revenue that supports ocean health.

Funding sources for ocean finance - which can also be considered as investors in ocean health - include but are not limited to governments, private sector, philanthropic individuals and foundations, development partners, and multilateral institutions. There are numerous funding mechanisms (tools through which funds flow from an investor to an investee) including but not limited to grants, bonds, loans, payments for ecosystem services, taxes, fines and fees. A catalogue of ocean finance mechanisms, and a register of ocean finance examples are highlighted on



www.pacificoceanfinance.org.

Philanthropic donations, development aid, and fishing access fees are the most common finance mechanisms for ocean governance and conservation. Over-reliance on a few mechanisms creates risks that there will be insufficient and/or unsustainable funds for critical programs, and therefore a diversified portfolio of revenue streams is needed to support ocean governance (Bos et al 2015).

INVEST

ACTION 2. Invest financial capital effectively, efficiently, and strategically to achieve measurable ocean outcomes and sustained ocean governance.

Effective and strategic investment is equally important to generating new monies for ocean governance. Monies should be invested strategically towards priority actions that are identified in government strategic plans, sector plans, and/or private sector strategies. Cross-sector partnerships and public private partnerships are often effective pathways towards effective investments.

Ocean finance should take a holistic view of how monies can be invested for ocean health; investments could be made in any sector or geography as long as there are measurable performance indicators in the ocean environment including cleaner water, more fish, healthier habitats, improved cultural connections to the ocean, and economic opportunities tied to ocean health (see “Account”). There is a nexus between investments in climate change mitigation and adaptation, and investments in ocean governance, that requires further exploration.



ALIGN

ACTION 3. Align public and private economic incentives with long-term ocean health.

There are two sides to the sustainable development and conservation funding gap. One side is the inadequate financial resources, which are addressed in the actions “generate” and “invest.” The other side of the gap is about the ongoing cost of environmental degradation. Generating and investing monies alone will never close the gap because the gap is continually widening. This action - align - targets the other side of the gap and aims to create long-term enabling conditions to close the gap.

Economic incentives motivate individual and collective behaviour. Examples of economic incentives include but are not limited to:

- * Government taxes, fees, market incentives, subsidies, and other fiscal policies
- * Private sector economic drivers

Economic incentives can have a positive impact on ocean health (e.g., taxes for access to protected areas), a negative impact on ocean health (e.g., tax credits for the oil and gas sector), or a mixed impact (e.g., fisheries subsidies).

Sometimes finance mechanisms that generate revenue for ocean governance can have unintended long term economic incentives that undermine ocean health, for example offshore fisheries license fees that generate more than half of Pacific Island country national budgets.

Aligning economic incentives with ocean health includes

- * Assessing public fiscal policies to understand what economic drivers exist
- * Reforming public fiscal policies if necessary
- * diversifying and balancing revenue portfolios to ensure that long-term ocean health is economically viable
- * Enabling the development of industries and sectors that have a net positive impact on ocean health



ACCOUNT

ACTION 4. Account for how financial capital is deployed against performance benchmarks, and account for values of marine ecosystem services through time.



To ensure that the generation, investment, and alignment of financial capital does in fact lead to improvements in ocean health and governance, accounting is a crucial component of ocean finance. There are two key areas of accounting.

Performance indicators should be developed and measured for every ocean investment. While there is not one globally-accepted system of performance indicators for ocean health, there are several systems that could be adapted to the context. Numerous governments and multinational companies are moving towards measuring against the Sustainable Development Goals, including Sustainable Development Goal 14: Life Under Water. Monitoring performance of investments improves accountability and traceability, reduces corruption and inefficiencies, and enables learning about which investments are most efficient and effective at improving ocean health and governance.

Economic values of marine natural assets and marine ecosystem services must also be accounted. As above, there is not one globally-accepted methodology for valuing marine systems, but there are numerous methods and examples of valuations that can be adapted. Some marine systems have existing baseline data about the economic values of marine ecosystem services, but most marine systems require better resolution of data and monitoring of economic values through time.

PACIFIC OCEAN FINANCE PROGRAM

This paper was developed as part of the Pacific Ocean Finance Program.

The aim of the Pacific Ocean Finance Program is to increase the amount and efficacy of financial investments into Pacific ocean governance.

The three objectives of the program are (1) identify and develop three novel ocean finance mechanisms in the Pacific Islands region, (2) develop ocean finance profiles for ten Pacific Island countries, and (3) advance regional capacity in ocean finance and governance.

The Pacific Ocean Finance Program is implemented through the Pacific Islands Forum Fisheries Agency and the Office of the Pacific Ocean Commissioner. The program is funded by the World Bank and the Global Environment Facility.

1

MECHANISMS

Identify and develop novel ocean finance mechanisms

2

PROFILES

Create ocean finance profiles for Pacific countries

3

CAPACITY

Advance regional capacity in ocean governance & finance

Contact

Dr. Melissa Walsh

Ocean Finance Manager, Pacific Ocean Finance Program

Melissa.Walsh@FFA.int

www.pacificoceanfinance.org