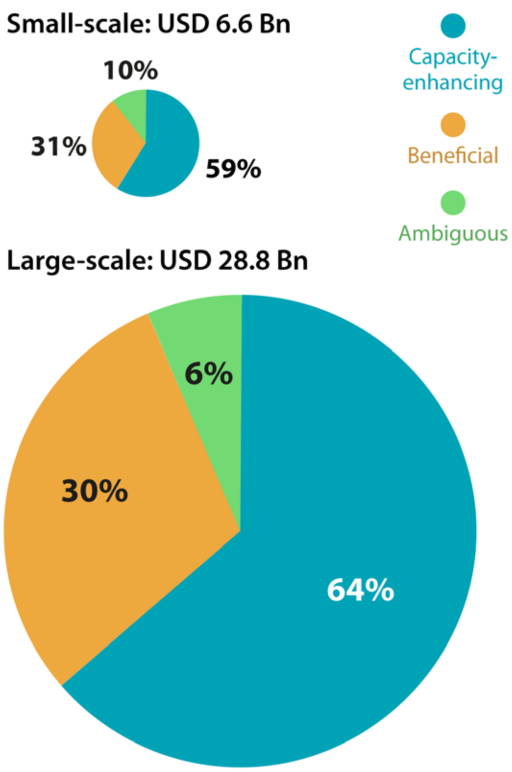
Ocean Finance

Financial investments – public or private – are increasingly recognized as important leverage points for achieving sustainability. In the context of the ocean economy, sustainable finance is arguably two dimensional:

1. **Financiers as "enablers"**. There is a need to unlock capital and increase finance where it is lacking. In the last 10 years, less than 1% of the total value of the ocean has been invested in sustainable projects through philanthropy and official development assistance,[1] and Sustainable Development Goal 14 ('Life Below Water') remains one of the least financed goals.[2] It is therefore critical to close the sustainable ocean finance gap by creating the right enabling environment and enhancing investor confidence. This is where impact investment, development finance and blended financial mechanisms can help fund innovations and overcome the short-term costs of implementing sustainability measures.
2. **Financiers as "gatekeepers"**. In this role, they can ensure investments are directed towards more sustainable practices and decent working conditions. Financial institutions, such as banks, insurers, stock exchanges and private equity firms, can leverage their power and influence sustainability by deciding what to finance and under which conditions. This requires the mainstreaming of non-financial sustainability factors within the financial risk system and the continued analysis of how social-ecological risks translate into financial risks. Likewise, subsidies must be redirected away from activities that have negative social and environmental externalities.[3]

How is it relevant for the seafood industry?

- World Trade Organization (WTO) members are currently negotiating rules to eliminate subsidies for illegal, unreported and unregulated (IUU) fishing and to prohibit certain forms of fisheries subsidies that contribute to overcapacity and overfishing.
- Past issuances of social and sustainable bonds within the blue sphere have been widely over-subscribed and momentum is rising in the seafood sector. In January 2020, Mowi issued the first ever blue bond (€200 million) for a seafood company.[3]
- There is growing awareness of the potential of financial institutions to incentivize better practices by incorporating sustainability criteria into:
  - Loan covenants (unlike blue bonds, sustainability-linked loans do not have to be earmarked for specific projects and can be used for general corporate purposes).[4]



Of the USD 35.4 billion of global fisheries subsidies provided in 2018, 19% went to small-scale fishing, including artisanal, and subsistence fisheries, while more than 80% went to large-scale (industrial) fishing. The majority are in the form of harmful capacity-enhancing subsidies. Adapted from Schuhbauer et al. 2020.

- Stock exchange listing rules (the world's largest publicly-listed seafood companies are listed on a handful of stock exchanges).[4]
- Insurance contracts (e.g., prohibiting access to essential services relied upon by fishing vessels in the context of IUU fishing).[5]
- Commodity contracts (e.g. redefining salmon derivatives by taking into account specific sustainability factors or introducing parallel "sustainable" versions).[6]

- The upcoming European Union (EU) Taxonomy – which includes a blue component – is a new and evolving regime that requires financial market participants and financial advisors to provide information on the sustainability profile and performance of their investments. The taxonomy builds on earlier ESG (environmental, social and governance) screening undertaken by investors to provide a benchmark for how sustainability is defined. It is anticipated that all investors will become more demanding in these areas as this policy domain changes.
- Companies are increasingly being urged to articulate and disclose the financial dimensions of climate-related risk to investors. This has been led by the Task-Force on Climate-Related Financial Disclosures (TCFD) and the ambition is now to replicate this approach more broadly for Nature-Related matters.

Further reading

Updated estimates and analysis of global fisheries subsidies (2019). *Marine Policy*
https://www.sciencedirect.com/science/article/pii/S0308597X19303677#bib9

Leverage points in the financial sector for seafood sustainability (2019). *Science Advances*
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Ocean Finance: Financing the transition to a sustainable ocean economy (2020). *Blue Paper of the High Level Panel for a Sustainable Ocean Economy*
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Turning the Tide: How to finance a sustainable ocean recovery (2021). *UNEP FI report*
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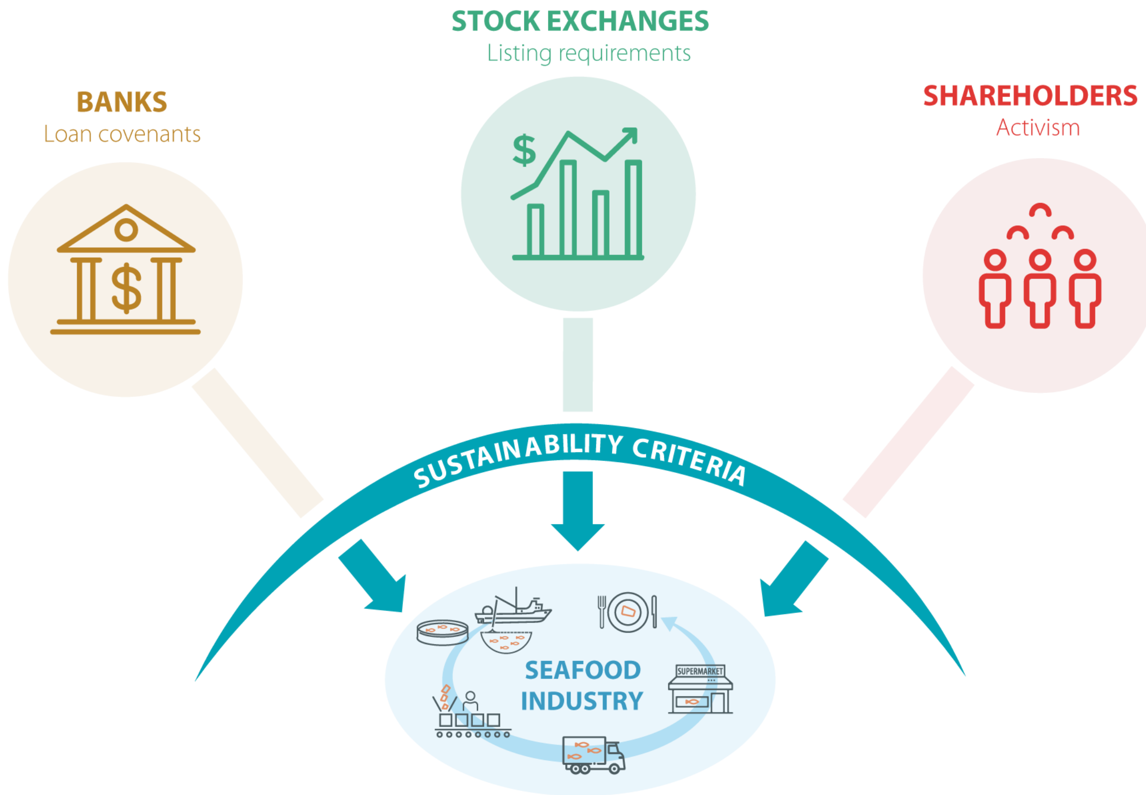

Examples of leverage points in the financial sector for seafood sustainability. Leverage points refer to mechanisms in the financial system where a relatively small shift in practices has the capacity to lead to fundamental changes in the system as a whole, and its effect on the social-ecological environment. Adapted from Jouffray et al. 2019.

References

1. Sumaila, R. et al. Ocean Finance: Financing the transition to a sustainable ocean economy (2020).
2. OECD. The SDG Financing Lab. https://sdg-financing-lab.oecd.org/ (Accessed April 2021).
3. UN Global Compact. Practical Guidance to Issue a Blue Bond (2020).
4. Jouffray, J.-B., et al. Leverage points in the financial sector for seafood sustainability. *Science Advances* (2019).
5. Miller, D. D., et al. Cutting a lifeline to maritime crime: marine insurance and IUU fishing. *Frontiers in Ecology and the Environment* (2016).
6. UN Global Compact. Accelerating Sustainable Seafood (2021).

Authors: Jean-Baptiste Jouffray[1] and Jan Bebbington[2]

Affiliations: [1]Stockholm Resilience Centre, Stockholm University; [2]Pentland Centre for Sustainability in Business, Lancaster University

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