



Unsustainable Finance in the Blue Economy: Where Does the Money Come From?

Executive summary



EUROPEAN COMMISSION

Executive Agency for Small and Medium-sized Enterprises (EASME)
Unit A3 — European Maritime and Fisheries Fund

E-mail: EASME-EMFF@ec.europa.eu

*European Commission
B-1049 Brussels*

Unsustainable Finance in the Blue Economy: Where Does the Money Come From?

Executive summary

***Europe Direct is a service to help you find answers
to your questions about the European Union.***

Freephone number (*):

00 800 6 7 8 9 10 11

(*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

LEGAL NOTICE

This document has been prepared for the European Commission however it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

More information on the European Union is available on the Internet (<http://www.europa.eu>).

Luxembourg: Publications Office of the European Union, 2020

ISBN 978-92-9460-270-1

doi: 10.2826/035310

© European Union, 2020

Executive summary

BACKGROUND

The blue economy is essential to the future welfare and prosperity of humankind – especially now.

Currently, Europe and the world are entering the aftermath of the COVID-19 crisis. While it is still too early to assess its impact on the blue economy, the short-term impact on a wide range of traditional activities (notably shipping and tourism) is expected to be severe. Now is a time to reflect upon the recovery and transition that lies ahead of us. The blue economy can and should be part of this.

Hundreds of millions depend on the **oceans and seas as a key source of food, energy, minerals, health, leisure and transport**. The blue economy has the potential to outperform the global economy, both in terms of added value and employment growth. The Organisation for Economic Co-operation and Development (OECD) conservatively valued the blue economy's contribution alone to the global economy at €1.32 (\$1.5) trillion in terms of gross value added (GVA) in 2010, with an expected growth to €2.64 (\$3) trillion by 2030 (OECD, 2016). The blue economy is also an essential part of reaching the Sustainable Development Goals (SDGs) adopted as part of the Agenda 2030 – in particular, SGD 14 'Conserve and sustainably use the oceans, seas and marine resources', but also as part of other indirect goals, including responsible production and consumption (SDG 12), affordable green energy (SDG 7) and ending hunger (SDG 2).

It is essential to shape the future of the blue economy in a sustainable way.

Business as usual is simply not sustainable. If not well managed and supported, the blue economy may generate serious damage for global ecosystems and communities. Despite global commitments on sustainable development for the blue economy, **our research indicates that at the current trajectory, by 2030, one third of investments in the blue economy will still be unsustainable.** Change does not happen by itself. The European Commission's Directorate-General for Maritime Affairs and Fisheries is supporting a shift in finance away from unsustainable marine and maritime activities, towards investments in a sustainable blue economy and in support of the EU Green Deal and Recovery Plan for Europe. This study contributes to this initiative by increasing the awareness and transparency of unsustainable financing in the blue economy. It characterises unsustainable financial practices in the blue economy, explores the reasons for their persistence and puts forward recommendations to steer investments towards sustainability.

KEY FINDINGS

Unsustainable financing practices neglect longer-term economic, social and environmental impacts.

Unsustainable financing in the blue economy is the result of investments that do not properly consider their impact on local ecosystems, communities and economic value chains. Even in the presence of positive impacts in the short-term, unsustainable financing may result from a lack of assessment of the longer-term effects of the investments being made. Trade-offs made against the impacts of financing practices (intended and unintended) may tend to **favour direct financial returns to investors over broader environmental and societal benefits** (or damages), and such trade-offs might be the result of uninformed decisions (besides deliberate criminal activities) made as a result of limited information on local operations. This can prevent investors from financing activities with uncertain results and high financial risks involved.

Investments in renewable marine energy may not consider the management/deterioration of infrastructure over time, which can have substantial longer-term impacts on the ecosystem in which they operate. Similarly, aquaculture practices may provide positive short-term returns (e.g. jobs and local revenue), but if infrastructure investments are poorly designed, pollutants may begin to seep out over time, destroying nearby ecosystems and having a negative impact on the local environment, fisheries and communities.

Investments can give a boost to the ‘greening’ of the maritime economy – but only if used wisely.

Unsustainable financing neglects longer-term economic, social and environmental consequences. Beyond this, addressing the impacts of unsustainable financing in the blue economy requires a distinction between ‘bad practices’ and ‘missed opportunities’.

Bad practices may range from particularly **harmful investments** to potentially **unintended and less harmful, but still negative investments**. For example, some practices explicitly infringe on human rights and destroy local communities and ecosystems, while others result in negative effects due to a lack of full analysis or from pure mismanagement.

Missed opportunities instead refer to **neglected future investment needs** – for example, the need to:

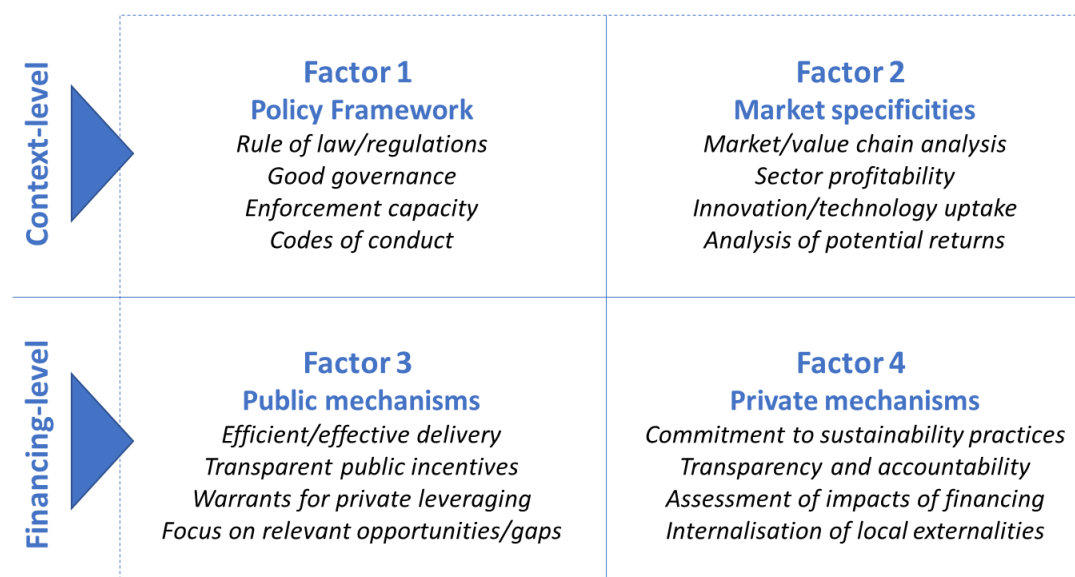
- diversify existing products or services in order to appeal to an ever-changing global demand;
- adopt smart technologies (infrastructure) to reduce environmental impacts and address climate change;
- foster the adoption of innovative, circular blue economy practices towards zero-waste;
- support talent and provide organisational approaches that encourage constant innovation and learning;
- preserve local ecosystems while also accessing valuable ecosystem services.

Factors that keep finance in the blue economy unsustainable

Why does money continue to flow into damaging activities? The study found many reasons...

Bad practices and missed opportunities in sustainable financing in the blue economy are driven by the absence of four (main) types of factors, which shape the context and mechanisms of financing activities. Importantly, while unsustainable finance practices in the blue economy can be the result of any individual factor, it is more often the result of the interplay of a number of factors, which are dependent on the specific context.

Figure 1 – Contextual and financial factors that are essential for sustainable investments



Source: Elaborated specifically for this study

In terms of **context**, sustainable investments can be hindered by:

- **below standard policy frameworks, regulations and codes of conduct** for specific activities/markets;
- **blue economy-specific market challenges** (including a lack of clear market analysis, fragmentation of local operators and of emerging activities and technologies, etc.).

In the blue economy, unsustainable finance may be supported by a lack of effective maritime spatial planning and coastal zone management, for example. These could preserve ecosystem assets and allow for the proper use of coastal and maritime spaces, and thus the sustainable development of the sector. Blue economy-specific data is generally lacking at a disaggregated, local level. This makes it harder to compare and scrutinise the potential returns of sustainable local investments. The limited expertise and poor track record of business cases in investing

in emerging blue economy niches poses high risks for pilots and experimentation initiatives. Even in regions where the sector is more developed and visible (e.g. the EU), the persisting limited capacity of the local business sector to engage with investors prevents proper dialogue and effective results.

In terms of **financing**, unsustainable practices are the result of:

- **public financing mechanisms** (lack of clear focus, limited incentives for leveraging private involvement, etc.);
- **private financing mechanisms** (limited transparency, difficulties assessing impacts, etc.).

In the blue economy, for example, ineffective subsidies often persist globally in politically relevant sectors such as fisheries, transport or oil and gas. Moreover, while increasing international public or semi-public lending in the blue economy should be considered as a positive step for the sustainability of the blue economy, public subsidies may also be part of the problem – not only as they are not efficiently used to drive further private resources into sustainable activities, but also as they may still directly fund unsustainable ones. Public funding/financing mechanisms might not always ensure that the money is spent where and how it was initially planned, and this lack of clear vision and commitment in the use of public money hinders additional private investment in areas with high environmental, social or economic potential for local communities and ecosystems.

Sustainable private financing is also limited by **a lack of awareness of the blue economy as a whole**. This is due to its novelty, the presence of confusion around related terminology (blue, ocean, etc.) and/or the range of sectors discussed under the 'blue economy' umbrella globally (EU, FAO, etc.). The blue economy needs to be better understood in order to be perceived by the private financing sector as a sector with high potential returns. Currently, many sectors of the blue economy do not attract large amounts of debt or private funding – this is either because they are largely SME-based (e.g. tourism), or are still at an early stage of development (e.g. blue biotechnology, offshore wind), which can suggest to investors that there may be limited potential returns on investments. This is still the case in more advanced economies, but a **substantial lack of access to finance emerges in developing or transition regions** – i.e. where the banking offer is insufficient and local markets are not sufficiently transparent and dynamic to persuade foreign private investors to commit to investment in the blue economy, in contexts that are still perceived too risky.

Diverse global financial actors and mechanisms

When addressing unsustainable finance practices, it is important to acknowledge the **diversity of global financial actors and mechanisms**, including those targeted at sustainable projects or products and the blue economy. Each type of financial actor has a number of financial products that can potentially serve a range of activities, projects and businesses in the blue economy, and it should be emphasised that it is challenging to differentiate between the type of mechanisms specifically targeting the blue economy and those with a broader scope (which may or may not include the blue economy).

Financial actors in the private sector (commercial banks, insurance, export credit agencies, etc.) play an important role in supporting investments in certain markets. For the blue economy, **investments may come from a range of relevant sources**. Public funding also plays a pivotal role (governments, multilateral development banks, etc.) – particularly for large infrastructure investments, intangible support provided at the early stages of research and innovation, or even support with skills, capacity and knowledge transfer. Private investors and direct government subsidies account for a larger part of global financing flows. As such, they are extremely relevant in supporting the current and future growth of the blue economy.

The **current trend**, however, is to **cut on investment costs and risks to allow for greater returns on investments, which in turn may prevent areas where sustainable activities could have a greater impact from being addressed – including the blue economy**. Additionally, **insurance companies** – essential actors in addressing the issues of financial risks and strengthening the overall sustainability of private investments – are **often still neglecting the blue economy**. This is a critical aspect that, if not further addressed, poses severe limits to the appeal of the sector.

Limited interest in implementing strategies to support sustainable financing

The majority of global financial actors have (at least to some extent) adopted strategies to integrate sustainability standards and to ensure sustainable practices. Positive trends include increased efforts to develop sound lending practices in the blue economy. However, the **relevance of current sustainability standards in addressing investments in the blue economy remains uncertain**, as their adoption is often made on a voluntary basis and their scope is very broad, **lacking the focus and visibility needed for the blue economy**. Furthermore, the substantial lack of publicly available data – in particular with respect to private investments directed at specific sectors of the blue economy – makes it **difficult to monitor the actors and flows involved in financing the blue economy globally over time**. This is a major challenge, as it prevents a clear understanding of the size and pattern of financial flows that result in unsustainable blue economy activities.

Globally, investors remain broadly uninterested in assessing sustainability criteria, allowing for continued access to unsustainable finance. **Over 70% of global investments are estimated to be made without assessing any sustainability criteria**, and as a result **two thirds of global investments remain potentially unsustainable**. Although the size of this problem for the blue economy is uncertain, it is not thought to be significantly different to the global picture.

(Multilateral) development banks can provide leverage – but more must be done

Development banks play an essential role in providing financial support to critical initiatives in the blue economy, particularly in areas with strong societal and ecosystem returns but limited private interest (and also potentially high financial risks e.g. emerging technologies, critical sectors, etc.). In fact, evidence suggests that multilateral development banks support large investments in sustainable blue economy activities worldwide – this is particularly the case for the World Bank, the European Investment Bank (EIB) and the Asian Development Bank. This trend could potentially have strong effects in leveraging private lenders' behaviour towards sustainable financing.

There is, however, still some way to go, as the **financial flows directly mobilised and leveraged through development banks remain limited**. To ensure their impact, it is vital to strengthen the engagement of global financial players (commercial banks, private equity funds, pension schemes, impact investors, etc.). The current value at risk from unsustainable financing practices affecting our oceans is enormous, and consequences for the health of mankind are potentially disastrous (e.g. contamination of marine waters and seafood).

Further global actions must be taken – and fast!

RECOMMENDATIONS

'Do's and don'ts' for steering finance towards sustainable investment in the blue economy

How can investments worldwide be shifted towards activities that help build a strong and healthy blue economy? One that preserves the ocean environment, while also providing welfare and prosperity in the long-term?

Based on the research carried out, the study present an overview below of the most important 'do's and don'ts' to provide inspiration for policy makers and investors active in the blue economy to steer finance towards sustainable investment.

Table 1– Do's and don'ts for steering finance towards sustainable investment in the blue economy

DO's	DON'Ts
Factor 1: Policy Framework	
Promote a coherent definition and overall policy framework to support a sustainable blue economy across global oceans and ensure coherent action of financial actors.	Allow for the rapid increase in frameworks and definitions of the blue economy in place, which prevent a sound understanding of the concept for all actors.

Strengthen transparent requirements for assessment of the impact of financing practices before any investment approval. Strengthen regulatory frameworks and enforce existing ones at all levels (national, regional, local), especially in (maritime) spatial planning.	Persist in vague assessment of financial impacts prior to providing formal approval of financial investments in the sector.
Factor 2: Market specificities	
Raise the profile of a sustainable blue economy as a sector with high potential returns on private investments. Support the capacity of local blue economy operators to be able to engage with public and private financial actors that are potentially interested in investing in their activities. Promote a better data-based analysis and understanding of blue economy activities and value chains, as well as the potential and risks to be addressed in order to ensure effective investments.	Persist with the limited visibility of the blue economy sector for private impact investors. Leave the task of proactively assessing and engaging with local businesses in the blue economy entirely to private investors. Assume that sustainable finance can be ensured without a clear understanding of blue economy markets, their potential and the risks that should be addressed.
Factor 3: Public mechanisms	
Increase the use of public finance to leverage private investments in areas with high investment risk, but potentially strong societal and ecosystem returns.	Persist in granting subsidies based on political priorities without assessing their risks and the potential for alternative investments.
Factor 4: Private mechanisms	
Foster a better understanding of the return potentials for transparent and sustainable investments by private actors. Increase the uptake of sustainability screenings and impact assessments by private investors (e.g. in blending finance). Collect and disseminate information on investment flows in the blue economy.	Persist with the current poor understanding of the potential financial risks to which unsustainable investors are exposed. Lead assessments of impact on a voluntary basis and with no framework to reflect the specificities of the blue economy. Operate in the context of a fragmented collection and analysis of investment data.

General recommendations for regulators and investors (and joint actions)

Building on the analysis developed, the study provides some overall recommendations.

- **For regulators:** include policy, strategic planning and legal measures that can provide a more effective and transparent framework for sustainable finance in the blue economy, punish and prevent malpractices, and provide effective incentives to redirect existing financial flows to support the sustainable development of the blue economy (either directly through efficient public funds/subsidies, or indirectly by ensuring incentives that could leverage additional sustainable private finance).
- **For investors:** encourage recognition of the profitability of investing in sustainable blue economy activities, acknowledge the commercial risk of investing in activities which are unsustainable (i.e. with negative social, environmental and economic local impacts), raise the profile and volume of financing mechanisms specifically targeting a sustainable blue economy and support the broader development of Corporate Social Responsibility policies that increase investment in the sustainable blue economy.
- **For joint actions:** encourage further steps towards the better measurement of the impacts of financing practices.

Specific recommendations ('game changers') for global investors and regulators

Additionally, the study provides a number of specific recommendations ('game changers') – below – for both global investors and regulators. They all aim to contribute to shifting global streams of financing towards a sustainable blue economy. To be effective, such 'game changers' should be promoted by both investors and regulators.

1. **Build a global forum for discussing and addressing barriers to sustainable investments.** A space where entrepreneurs, private sector actors, scientists and financiers can discuss and pitch new sustainable technologies, products, and energy prototypes in need of funding for development. This initiative should build and further expand upon the current Sustainable Blue Economy Finance Initiative by involving global actors. These could be complemented by The Economist's World Ocean Summit, Friends of the Ocean Action, etc.,

and involve major investors, other multilateral banks, investment networks and relevant international organisations.

Potential actors: *the OECD, the World Bank PROBLUE Programme, DG DEVCO/DG NEAR, the EIB, the European Bank for Reconstruction and Development (EBRD) and regional Development Banks*

2. **Support globally coordinated capacity building programmes to strengthen the creation of knowledge, market intelligence and best practices** – particularly for local authorities in transition economies – so that they can set up effective blue economy policies and perform transparent socio-economic analysis. In this respect, the capacity for the adoption of a common and shared (long) list of key indicators (see study on ‘Sustainability criteria for the Blue Economy¹’) should be promoted for consistent global monitoring of the sector’s performance.
3. **Promote a stable cooperation platform** between investment promotion agencies (IPAs), development banks, international institutions and specialised law enforcement agencies (Europol, Interpol, etc.) **to ensure consistent global cooperation in monitoring irregular/unsustainable investment practices**, and seek to develop enforcement solutions globally. The platform should allow for the uptake of a common ‘sustainability scorecard for the blue economy investment’ (e.g. building on indicators defined in the study on ‘Sustainability criteria for the Blue Economy’), which would provide an overview of a potential investee’s social and environmental performance by visually highlighting the strengths and weaknesses of an investment project and generating a social investment score.

Potential actors: *the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Industrial Development Organization (UNIDO), World Bank, EIB, EBRD, law enforcement agencies, regional development banks, regional IPA's networks and multilateral agencies in charge of support programmes and/or funds for global IPAs*

4. Further **support existing innovative practices** in the financing sector to boost sustainable investments in the blue economy. Foster a commercial premium for sustainable investments in business-to-business (B2B) transactions in the blue economy – for example, by developing a measurement approach for the offsetting mechanism in the blue economy (including payment for ecosystem service schemes), or allowing for reduced interest rates for lending to sustainable blue economy investments (e.g. by National Credit Agencies, as in the example of Credit Agricole).

Potential actors: *the UNEP FI, OECD, global stock exchanges, rating agencies, (regional) investment networks and pioneering private banks that apply sustainable principles in their lending practices*

5. **Launch regional investment platforms to accumulate and accelerate access to finance** in the most critical areas for sustainable blue growth across different oceans. The platforms should align several streams of investment and manage large-, medium- and even micro-streams of financing based on the real needs of regions. Ideally, investment in digital-tech infrastructure for private investments (e.g. crowdfunding) may also provide individuals and entrepreneurs/businesses with services to help them invest in sustainable blue economy projects that support their local area or community.

Potential actors: *the World Bank, (regional) development banks, (regional) investment networks, regional clusters/accelerators and relevant regional (blue) financing projects/initiatives*

6. **Start a global media campaign targeted at financial institutions** to raise the visibility of a sustainable blue economy and its return potential for private investors, thus increasing their interest in investing. The targets/messages should be carefully identified to **address the main barriers to the involvement of private investment in the blue economy**. The campaign should be differentiated across geographic, cultural and financial contexts, so as to maximise the appeal of various investment actors and models. This is an action that could build on the current Sustainable Blue Economy Finance Initiative.

¹ Ecorys et al., 2020

Potential actors: *the OECD, UNEP FI, global stock exchanges, rating agencies, (regional) investment networks, financing intermediators and specialised media (including The Economist)*

HOW TO OBTAIN EU PUBLICATIONS

Free publications:

- one copy:
via EU Bookshop (<http://bookshop.europa.eu>);
- more than one copy or posters/maps:
from the European Union's representations (http://ec.europa.eu/represent_en.htm);
from the delegations in non- EU countries
(http://eeas.europa.eu/delegations/index_en.htm);
by contacting the Europe Direct service (http://europa.eu/eurodirect/index_en.htm)
or calling 00 800 6 7 8 9 10 11 (freephone number from anywhere in the EU) (*).

(*) The information given is free, as are most calls (though some operators, phone boxes or hotels may charge you).

Priced publications:

- via EU Bookshop (<http://bookshop.europa.eu>).

Priced subscriptions:

- via one of the sales agents of the Publications Office of the European Union
(http://publications.europa.eu/others/agents/index_en.htm).



Publications Office
of the European Union

doi: 10.2826/035310