Corporate Interest in the Asia-Pacific Blue Economy

ADB-PEA BLUE ECONOMY KNOWLEDGE HUB:
SECTION 4 - PART II

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Preface: Understanding Corporates

Corporate direct investment is the focus of this Part II, Section 4, of the Blue Knowledge Hub. Unlike purely financial investors analyzed in Part I, corporates take an active role in managing the projects, with a range of equity interest from 10 - 100%

Type	**Summary**	Direct Investment **Advantages**	Direct Investment **Disadvantages**
Publicly-listed (“Public”)	Invest on behalf of public shareholders	Higher visibility = Higher ESG accountability. Easier to engage for sustainability. *For all types:* Provide growth, jobs, technology with varying levels of host nation equity participation.	Pressure to meet quarterly/annual earnings goals = Sustainability may be sacrificed for short-term gain. *For all types:* May repatriate all profits rather than re-invest and hire locally
Privately-held (“Private”)	Invest on behalf of limited partners and debt financiers	Longer investment horizon = May pursue sustainability, free of short-term shareholder pressures	Less public visibility = Less responsive to sustainability and engagement campaigns
State-owned (“State”)	Invest sovereign capital to achieve national goals	National goals and values may be compatible with host-investee state. Reliable partner if true.	National goals may not be compatible. Military-strategic goals may be top priority.
Single Industry	Activity in only one industry	Deep expertise to share with companies in host state	May seek to dominate with vertical (value chain) and horizontal (regional) acquisitions
Conglomerates	Activity in multiple industries	Multiple sector investments/servicing under one primary counterparty - may be easier to manage	Influence/control of multiple sectors may risk loss of economic sovereignty by host state
Utilities	Infrastructure services	Provide essential services/expertise without large capital investment by host nation	Risk loss of economic sovereignty in strategic areas
Non-Profits	Mission driven organisations	Provide technical expertise aligned with host goals	Goals/values not aligned. Lack of tech transfer

Linking PEA & Corporate Objectives

PEA Objectives	*Matching Game*	Corporate Objectives

PEA Objectives

1. **Alleviate Poverty** with opportunities for the poorest in DMC communities
2. **Promote Gender Equality** as the missing piece in both sustainable development and climate action
3. **Protect the Environment** with nature-based development solutions and marine conservation
4. **Leverage PEA Objectives** across both industry and government frameworks, to speed the transition to sustainability in the Blue Economy

Corporate Objectives

1. **Improve reputation & community support** by employing poorer workers in seafood processing, aquaculture, tourism, ecosystem management, energy and waste management utilities.
2. **Increase sales** by designing products & servicing to meet the needs/budgets of women in DMCs, who make the majority of purchase decisions for home-based needs, from seafood to energy.
3. **Reduce costs, regulatory, climate & community risks** by developing nature-based solutions to production, climate resilience and community needs.

Strategic Ventures

Overview

- ***Definition:*** Companies invest in VC funds or direct partnerships with innovators. Gain access to new technologies in their domain at a lower cost.
- ***Examples:*** Katapult Ocean Fund was seeded by a group of corporations and institutional investors to finance ocean startups globally. Circulate Capital has worked with many consumer staples majors to seed to investments in recycling companies in South-East Asia. Wartsila Digital Ventures partners with new innovators in maritime digital technology, giving many resources except capital.
- ***Opportunity:*** Corporates sponsor innovative collaborations with SMEs for Blue Economy growth.
- ***Hurdle:*** Corporates may have unfair advantage, acquiring IP of vulnerable startups without investing capital or talent.

ADB & UNEP Tools

- **Be dealmakers** connecting investors, corporations and regional initiatives on a neutral Blue Economy hub
- **Default Guarantees** on priority blue investments, taking the loss of a venture for a small or zero premium. (Example: Swiss government low-carbon fund)
- **Get corporate sponsorship** of UNEP-UNDP initiatives on blue natural capital, engaging local SMEs as well.
- **Sustainable infrastructure finance** sets enabling conditions for long-term collaborations between corporates and innovators, beyond short-term focus.
- **Catalytic finance** for blue sectors (eg, seafood, shipping, energy) brings SME innovators on to a level-playing field with established corporates.

Corporate Social Responsibility (CSR) Investments

Overview

- ***Definition:*** Companies invest in environmental or social projects to increase their reputational capital and goodwill to society. Investments often made along the company's supply chain.
- ***Examples:*** Mars has been investing in coral reefs restoration projects to harbor Tuna sanctuaries for its pet-food segment. Wallenius and Willelmsen, sea and land transport giant, invests in green shipping to offer carbon neutral delivery. Blue Carbon Initiative supports new offset markets.
- ***Opportunity:*** Address sustainability demands of institutional investors and anticipate CSR events that impact communities. See Rio Tinto's case: Management forced out after destruction of site.
- ***Hurdle:*** This type of investment alone may not be enough to move the needle in ocean challenges.

ADB & UNEP Tools

- **Educate companies** on the benefits of Natural-Based Solutions and Payment-to-Eco Systems services.
- **Encourage offset markets**, like blue carbon, to develop with funding from CSR investments.
- **Work with COBSEA** and other regional frameworks to promote and fund blue carbon markets.
- **UNEP-UNDP influence** helps industry align with new government/regulatory blue frameworks.
- **Attract corporate sponsors** for ADB initiatives that benefit marine ecosystems & communities.
- **Seek corporate partnerships** as a cost-effective alternative to direct financing.

Environmental Offsets

Overview

- ***Definition:*** Companies invest in positive impacts projects to compensate for their externalities. This helps them increase their reputational capital. The most popular way is through licensed carbon offsetting contracts.
- ***Example:*** The Blue Carbon Initiative is the main initiative to offer carbon offset to companies through restoration projects of original mangroves forest, tidal marshes and seagrasses.
- ***Opportunity:*** These ocean-linked wetlands are a major source of carbon sink, water filtration and natural coastal protection. They can therefore provide further ”eco-benefits” beyond carbon reduction to companies: such as water filtration for wastewater plans or flood protections to industrial facilities.
- ***Hurdle:*** Carbon licensing and trading follow regional, national international standards and regulations, implying high administrative costs.

ADB & UNEP Tools

- **License and issue** Blue Carbon Certificates
- **Quantify their benefits** for Carbon sequestration and coastal protection.
- **Help DMCs design** carbon markets.
- **Engage** with corporates for voluntary offsets in priority Blue Economy areas like seafood, shipping, ports, energy.
- **Payments for Ecosystem Services (PES)** is a new asset class requiring Blue pilot projects
- **Partner with resorts** to restore protective assets like mangroves and reefs. See Cancun model, including insurance features.

Expenditures I: Efficiency

Overview

- ***Definition:*** Companies invest in Blue Economy projects to increase supply chain efficiency.
- ***Examples:*** Improved fishing gear reduces by-catch; Logistics software & sails on cargo ships reduces emissions; Adding offshore wind & floating solar to grid reduces cost; Circular Economy investments reduces waste in all industries.
- ***Opportunity:*** Introducing efficiency measures to production delivers cost/sustainability gains at lower-capital expense than full transformation to zero emissions and zero-waste production.
- ***Hurdle:*** Any capital expense that cannot show same-year payback often requires some level of public, catalytic or customer financing.

ADB & UNEP Tools

- **Sustainability-linked loans** to private companies contingent on efficiency improvements across supply chains.
- **Infrastructure investments** that improve efficiency of port/maritime energy systems, waste management utilities, tourism facilities and seafood processing.
- **Engage with COBSEA** and other regional frameworks to enforce impact metrics for all Blue Economy financings
- **Support UNEP-UNDP guidance for marine regulations,** with penalties for corporate waste and pollution.

Expenditures II: Expansion

Overview

- ***Definition:*** Companies invest in Blue Economy projects to expand production and distribution.
- ***Examples:*** Vietnamese seafood giant Min Phu has made a $145mn investment to expand aquaculture production to 200,000t by 2025. Asian energy companies are investing in offshore wind, making the region the fastest growing in the world for this key sector. Both examples create jobs and achieve poverty-gender goals at scale. Port expansion along the Maritime Silk Road is a major infra theme as well.
- ***Opportunities:*** Corporate expansion may strengthen local suppliers and benefit local communities. Infrastructure expansion builds capacity for multiple sectors of the Blue Economy.
- ***Hurdles:*** DMCs and corporates need blended finance to attract institutional capital, compensating for weaker credit ratings and blue project risk factors. Environmental and social risks also need attention.

ADB & UNEP Tools

- **Blended Finance** is an overall strategy to fund expansion when impact metrics are used to identify and measure projects.
- **Project Finance** protects the corporate and government entities from risk by using the project assets as collateral, which may be stronger than the borrower's credit rating.
- **Debt-for-Nature Swaps**, likewise, enable DMCs to fund natural capital protection and reduce debt payments.
- **Blue (**and other Green) Bonds are instruments to fund a portfolio of sovereign or major corporate expansions
- **Convening** corporates with regional groups like COBSEA illustrates how ADB can play a matchmaker role to achieve blue goals for both ADB and UNEP.

Collective Initiatives

Overview

- ***Definition:*** Companies participate in sustainable coalitions, led by industry or NGOs, to implement better practices and improve reputational capital.
- ***Examples:*** World Ports Sustainability Coalition brings port operators together to advance common goals, including PEA. Getting to Zero Coalition brings shipowners and financiers together for progress on zero-emission power. Ellen MacArthur Foundation leads a global coalition to promote circular economy practices. Some metrics - like MSC for fisheries - are also collective initiatives that improve industry sustainability and transparency.
- ***Opportunity:*** Accelerate progress on sustainability by collective efforts - once underway, it becomes imperative to join or risk damage to the brand.
- ***Hurdle:*** Old, “turf-defending” mentalities resist collaboration with competitors and change in general.

ADB & UNEP Tools

- **Endorsement and participation** in such initiatives - as ADB has recently done with UNEP-FI’s Sustainable Blue Economy Finance Principles.
- **Sustainability loans** linked to metrics promoted by collective initiatives. This strengths corporate accountability to industry peers and customers.
- **Build private sector portfolios** around key maritime collectives, making such memberships a requirement in the loan terms. Peer accountability reinforces regulatory and credit compliance.
- **Regional governance** frameworks are, essentially, collective initiatives. Create roles for corporates to participate with applied work in blue economy sectors, DMCs and nature-based projects.
- **Join online platforms** for Blue Economy investors and industry leaders, for funding and networking.

Concessionary Capital

Profile

- ***Definition:*** Governments, Development Banks and Philanthropists provide capital at below-market rates or take more risk in order to attract private capital or simply fund high-impact investments to achieve social and environmental goals. Corporations may benefit directly or indirectly from concessionary capital.
- ***Example:*** ADB blended finance loans to private borrowers for impact projects. Conservation Trust Funds (CTFs) that protect natural land and wildlife. World Bank's role in Seychelles Blue Bond and Debt-for-Nature swap.
- ***Opportunity:*** Attract private investment by absorbing early-stage risk or funding of projects without sufficient track record (eg, natural capital) that offer high impact returns.
- ***Hurdle:*** Allocating just enough capital for Blue Economy projects, without unfairly crowding-out private lenders, since concessionary capital is scarce - covering only 10% of SDG needs.

ADB & UNEP Tools

- **ADB** uses concessionary capital when necessary to achieve impacts and catalyse - without crowding out - private investment.
- **UNEP-FI** promotes concessionary capital as a realistic tool to fund conservation and nature-based solutions. UNEP-FI members can show case studies of blended finance.
- **PEA goals** are high priorities for impact funds but often need concessionary finance. UNEP - UNDP and groups like COBSEA can promote this tool in the Blue Economy context.
- **ADB can issue CTFs** as complements to other tools recommended for our Blue Economy goals.
- **Insurance solutions** also need concessionary finance or early-stage risk taking by insurers. UNEP's Insurance members should lead on this.

Expanding vs Contracting Blue Industries

Covid19 has forced contraction in most Blue sectors. But some were already in a contracting phase of industry life cycle, whereas others are emerging and will rebound strongly. **Corporate investment anticipates favorable trends.**

Expansion: Favorable Outlook

Seafood: Overall favorable growth trends, especially for Aquaculture, Algaculture & Processing.
Marine Energy: Offshore wind expansion in Asia leads the way, with floating solar, tidal, geothermal wave and salinity gradient technologies following.
Ecosystems & Blue Infrastructure is small but growing, with economic and resilience applications.
Pollution Control is growing from both economic opportunity and regulatory pressures.
Ports, especially those along the Maritime Silk Road, are forecast for steady growth and green investment.
Digital technologies will drive many Blue sectors.

Contracting: Unfavorable Outlook

Fishing/Fisheries are under twin pressures of overfishing and climate change
Tourism may never fully recover from Covid19. Structural deficiencies, as one investor described the sector to us, portend contraction and losses.
Shipping has been consolidating around the largest players for the past decade. The top 10 carriers now control 70% of cargo volume, up from 35% in 2010. However, bullish forecasts are on for investments in clean fuels and wind power - by those with capital.