Blue Impact Fund

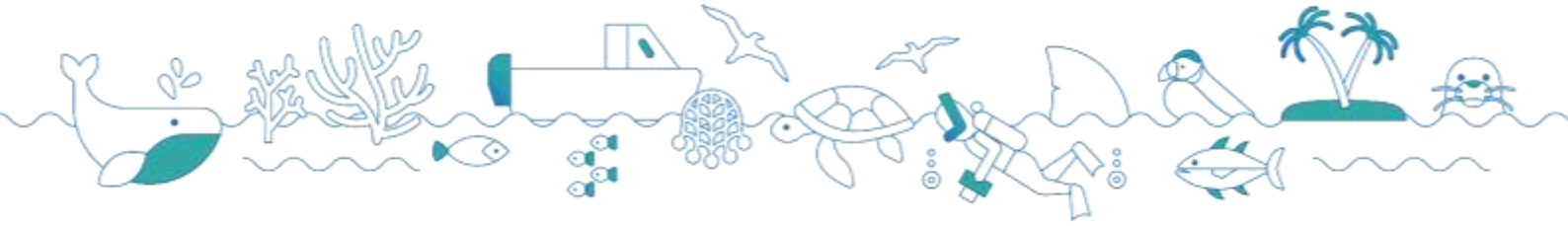
Strategic Business Case

September 2019

Environmental Finance

sky ocean rescue | WWF

Working together to safeguard Marine Protected Areas



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1. EXECUTIVE SUMMARY

1.1. The problem

The marine environment delivers significant benefits upon which society and economies depend, including food resources, carbon capture, and places for people to enjoy. Increased pressure from human activity is degrading marine habitats and leading to overexploitation of Ocean resources. If society is to continue to benefit from the Ocean and achieve a Sustainable Blue Economy[i,ii], we will need to invest in the recovery, protection and effective management of our marine natural capital.

Marine Protected Areas ("MPAs"), designated marine and coastal areas that restrict human activity for the protection of ecosystems and resources, are a key part of the policy toolkit available to ensure the protection and sustainable use of the marine environment.

Current funding received from government and philanthropic sources is insufficient to enable MPAs to perform their intended functions. There is an urgent need for more long-term, stable financing to ensure that MPAs and the wider marine environment are effectively managed to protect and enhance marine and coastal ecosystems.

An outsized proportion of the global conservation finance market is, however, directed towards terrestrial projects, leaving marine conservation behind. Access to funding is also hindered by marine management complexity and a lack of coordinated governance in place.

1.2. The solution

To increase the effectiveness of UK MPAs, WWF-UK ("WWF") and Sky Ocean Rescue ("Sky") partnered together to launch the UK SEAS programme. Since January 2018, Environmental Finance Limited ("EF") has been working with the partnership to develop a replicable investment and governance model to meet MPA funding needs.

EF applied an evidence-led approach, based on extensive consultation carried out in a case study area of North Devon, UK, to inform the design of an environmental impact fund (the "Blue Impact Fund") and an aligned governance vehicle (the "Ocean Trust") dedicated to protecting and enhancing the marine environment.

The **Blue Impact Fund** will invest in enterprise models that benefit the marine and coastal environment and are capable of generating returns for investors. Blue Impact Fund investments will also seek to generate surplus returns (i.e. returns beyond those due to investors and required for funding costs) for funding activities and programmes that deliver additional marine impact.

The **Ocean Trust**, a governance vehicle aligned with the Blue Impact Fund, will enable effective marine management while overseeing Blue Impact Fund investment activities and allocation of surpluses in order to maximise marine benefit.

The Blue Impact Fund and Ocean Trust will work together to simultaneously tackle the two key challenges to marine conservation: funding and effective governance.

1.3. Strategic Business Case objectives

This document aims to achieve the following objectives:

- Highlight the issues facing marine conservation financing and gaps in today's market.
- Outline the rationale for and objectives of the Blue Impact Fund and Ocean Trust.
- Support fundraising to establish and launch the Blue Impact Fund and Ocean Trust.

2. BACKGROUND

2.1. The problem

Demand for conservation finance far outstrips the currently available supply. Global demand for conservation finance is approximately US$300-400 billion per annum; in 2014, supply reached just US$52 billion. While public sector funding and grant capital can be expected to account for up to 25% of total demand, the remaining 75% will need to be provided by private sector investment – a funding gap of almost 30 times current levels.[iii]

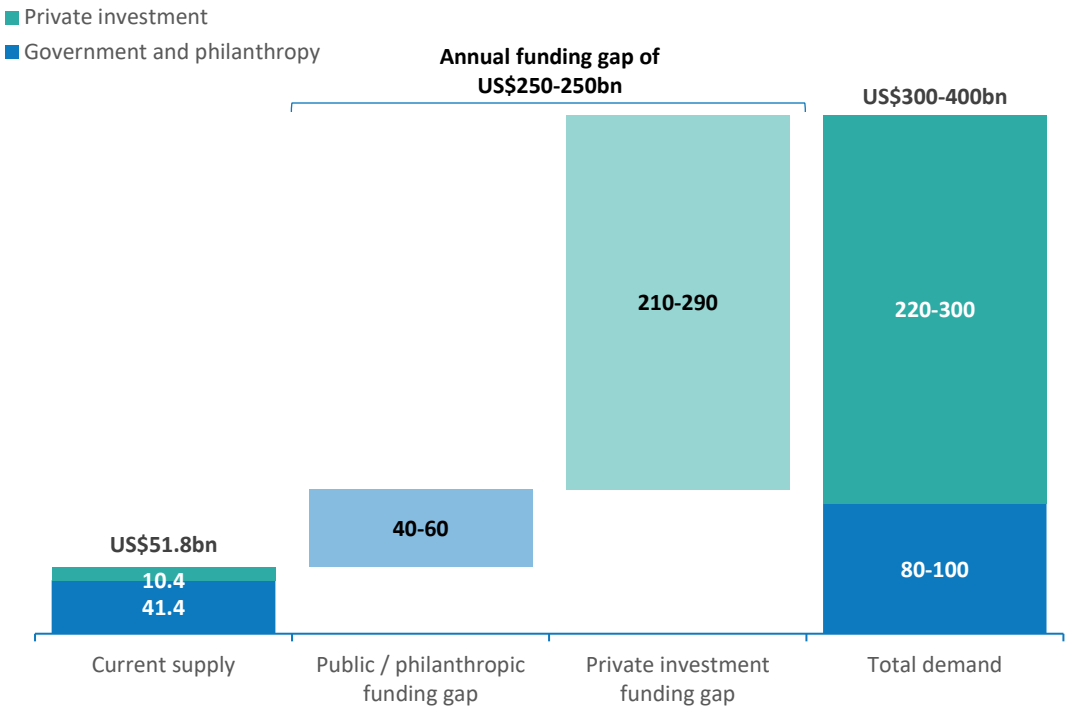


Figure 1: Demand for conservation finance, 2014

In order to achieve national and supranational targets for biodiversity conservation and long-term environmental sustainability, a significant increase in public and private capital will need to be made available.

Governance and funding for the marine environment

Oceans cover more than 71% of the Earth's surface and contain around 97% of its water supply, making it the world's largest habitat.[iv] However, compared with terrestrial advances in conservation efforts, marine and coastal conservation is substantially less developed. For example, whereas 15% of the world's land is protected, only 7.7% of the world's oceans are protected.[v]

Humans' ability to manage designated areas for conservation is significantly determined by historic definitions of ownership and governing laws. As our predominant domain, the terrestrial environment has been subject to man-made borders. The demarcation of marine areas is impossible to implement in the same way as on land, given the depth and fluidity of oceans, and therefore governance has traditionally been more challenging to navigate and police.

Clear control of assets and aligned governance are key to attracting conservation funding. Terrestrial environments have an advantage in securing access to funding for projects as investors are likely to understand the structures in place to ensure that funds are being deployed effectively. The governance and management of marine environments, by contrast, is highly complex, hindering access to funding for marine conservation. The development of effective governance structures for marine environments is critical for enabling the funding income necessary for conservation.

Marine Protected Areas

MPAs are designated areas of seas, oceans or estuaries that restrict human activity for the purpose of conservation, typically to protect natural or cultural resources. While they are designated for conservation purposes, MPAs generate several additional benefits for communities and economies local to the area.

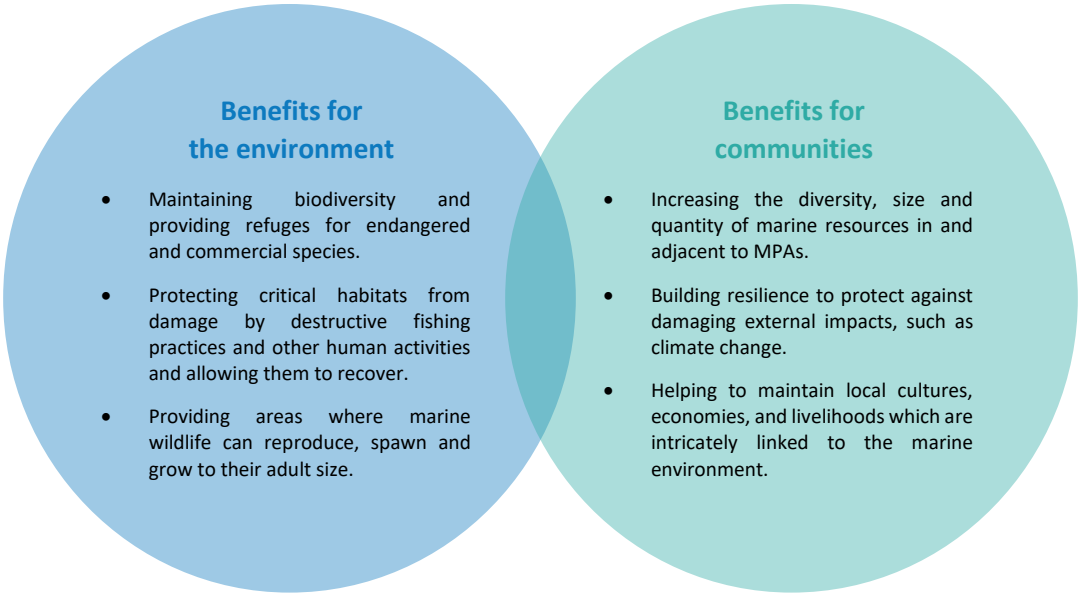


Figure 2: Benefits of MPAs

MPAs are a key part of the policy toolkit in use globally to ensure long-term conservation and sustainable use of the marine environment. The UN Sustainable Development Goals (Goal 14) and the UN Convention on Biological Diversity ("CBD") (through the Aichi biodiversity targets) both recognise the need for effective MPAs.[vi]

> **"AN MPA IS A CLEARLY DEFINED GEOGRAPHICAL SPACE, RECOGNISED, DEDICATED AND MANAGED, THROUGH LEGAL OR OTHER EFFECTIVE MEANS, TO ACHIEVE THE LONG-TERM CONSERVATION OF NATURE WITH ASSOCIATED ECOSYSTEM SERVICES AND CULTURAL VALUES."**
>
> International Union for the Conservation of Nature (IUCN)

The 196 member nations of the CBD have made considerable efforts towards achieving Aichi biodiversity target 11, which calls for 10% of coastal and marine areas to be designated under protected status by 2020. The latest figures show that MPAs currently cover 27,841,368km^2 of the earth, representing 7.7% of the world's

oceans.[vii] Within the EU, the UK is leading the charge with 25% of its marine areas currently designated.[viii]

Designation of MPAs is only the first step in protecting marine biodiversity. Without effective management, MPAs risk becoming "paper parks": areas that are designated on paper but do not perform their intended function in practice.

Effective management varies from one MPA to another, based on the type of environment and local resources. However, WWF has developed a tool, the Compass, which aims to define effective MPA management and guide them towards being well-managed. The Compass tool divides the lifecycle of an MPA into three stages, and provides assessment criteria relating to each phase of the MPA lifecycle: 'set up', 'plans and management', 'involving people', 'decision making', 'resources', 'monitoring', and 'results'. The tool clearly shows where MPAs are doing well and where extra resources are needed. Only by achieving all the criteria on the Compass can an MPA be considered to be effectively managed.

According to the IUCN's Global Conservation Standards to Marine Protected Areas, an effectively managed MPA must:

1. Have **well-constructed and defined objectives and goals** for nature conservation.
2. **Address the threats to marine biodiversity** through activities and uses that are compatible with and support the conservation objectives and goals.
3. **Ensure low ecological impact of extractive activities** (where these occur), and that they are compatible with the MPA's objective(s).
4. **Not have any environmentally damaging industrial activities or infrastructural developments** located in, adjacent to, or otherwise negatively affecting it.
5. **Regulate fisheries activities** (where these occur) such that they are low impact, assessed and managed to the highest standards, and do not impact the ecological integrity of the area.
6. Have **adequate resourcing**, including staff capacity.
7. Have **sufficient investment in compliance**.
8. **Monitor and track performance** to inform adaptive management.[ix]

In order to meet the IUCN standards, funding is required to set up necessary systems and procedures and to ensure appropriate resources for the continued management of the MPA. While the majority of this funding should be provided by public bodies, additional sources of funding will be required to ensure that MPAs are managed to a high standard in the long term and to reduce exposure to political financial cycles.

The MPA funding gap

Funding for MPAs varies based on geography, macropolitical environment and governance. In November 2018, Eftec produced a report for WWF on the cost of managing MPAs and the wider marine environment in a case study area in the south-west UK.[x] The report aimed to understand the total costs of management, evaluate the total spending by all government bodies, private companies and NGOs, and estimate the costs of a "well-managed" scenario for MPAs.

The report used the Compass tool as a framework to divide MPA management activities into five key categories:

1. Understand and define MPA.
2. Stakeholder engagement.
3. Governance.
4. Operations and planning.
5. Monitoring and review.

Activities were also separated into one-off costs (typically relating to set-up and early stage operation of each MPA) and recurring costs (for ongoing management of each MPA, once operational).

Following in-depth analysis, the report estimated the average costs and spending associated with a typical MPA in North Devon:

Activity	Cost
One-off costs for establishing a new MPA	£400,000 – £900,000 (upfront)
Four full-time employees and running costs	Up to £200,000 (per annum)
Current average spending per MPA	£44,000 (per annum)

Figure 3: Estimated funding gap for UK MPAs based on a case study area in North Devon

Synergies between adjacent MPAs were not considered within the report. Based on estimated running costs and current average spend, an indicative funding gap of up to £156,000 per MPA per annum (excluding upfront costs) is required to manage the areas to a baseline standard.

2.2. Project objectives

To help address the issues surrounding marine conservation, WWF and Sky partnered together to launch the UK SEAS programme – an initiative with the aim of improving the effectiveness and sustainable management of the UK's MPAs. UK SEAS is part of a wider government-led initiative, the Marine Pioneer, which is part of a 25-year plan to restore the UK's natural environment (the 25 Year Environment Plan).

If managed appropriately, MPAs are an effective tool for ocean conservation and enhancement. The development of a proven strategy for their ongoing management and funding could enable the long-term success of MPAs. These outcomes could be achieved on a global basis.

While the public sector must continue to provide funding for marine management and conservation, strains on public funding require that additional funds are obtained from other sources.

THE DEVELOPMENT OF A FINANCIALLY SUSTAINABLE AND REPLICABLE SOLUTION FOR FUNDING MPAS WILL ENABLE THEIR LONG-TERM SUCCESS IN ACHIEVING THE PROTECTION AND ENHANCEMENT OF THE WORLD'S OCEANS.

EF has been working with the UK SEAS programme since January 2018 to identify and develop new sustainable funding opportunities to support the management of MPAs.

The UK SEAS sustainable finance project initially focussed on the case study area of North Devon in the south-west UK, with the aim of developing a replicable financing model that can be shared and implemented elsewhere – in the UK, across Europe and globally.

Sustainable marine finance project evolution

The UK SEAS sustainable marine finance project has evolved through several stages since its inception. The key stages of the project have included:

1. **Concept design and options assessment –** identified six potential funding models for supporting North Devon's MPAs.
2. **Optimum model identification –** assessed the funding models reviewed in the concept design for viability against the project objectives.
3. **Evidence gathering –** conducted a detailed review of potential pipeline opportunities for investment and funding needs.
4. **Fund refinement –** designed a funding structure based on evidence gathered.

The project has pursued an evidence-led approach to designing an effective funding and governance structure to meet the needs of North Devon's MPAs.

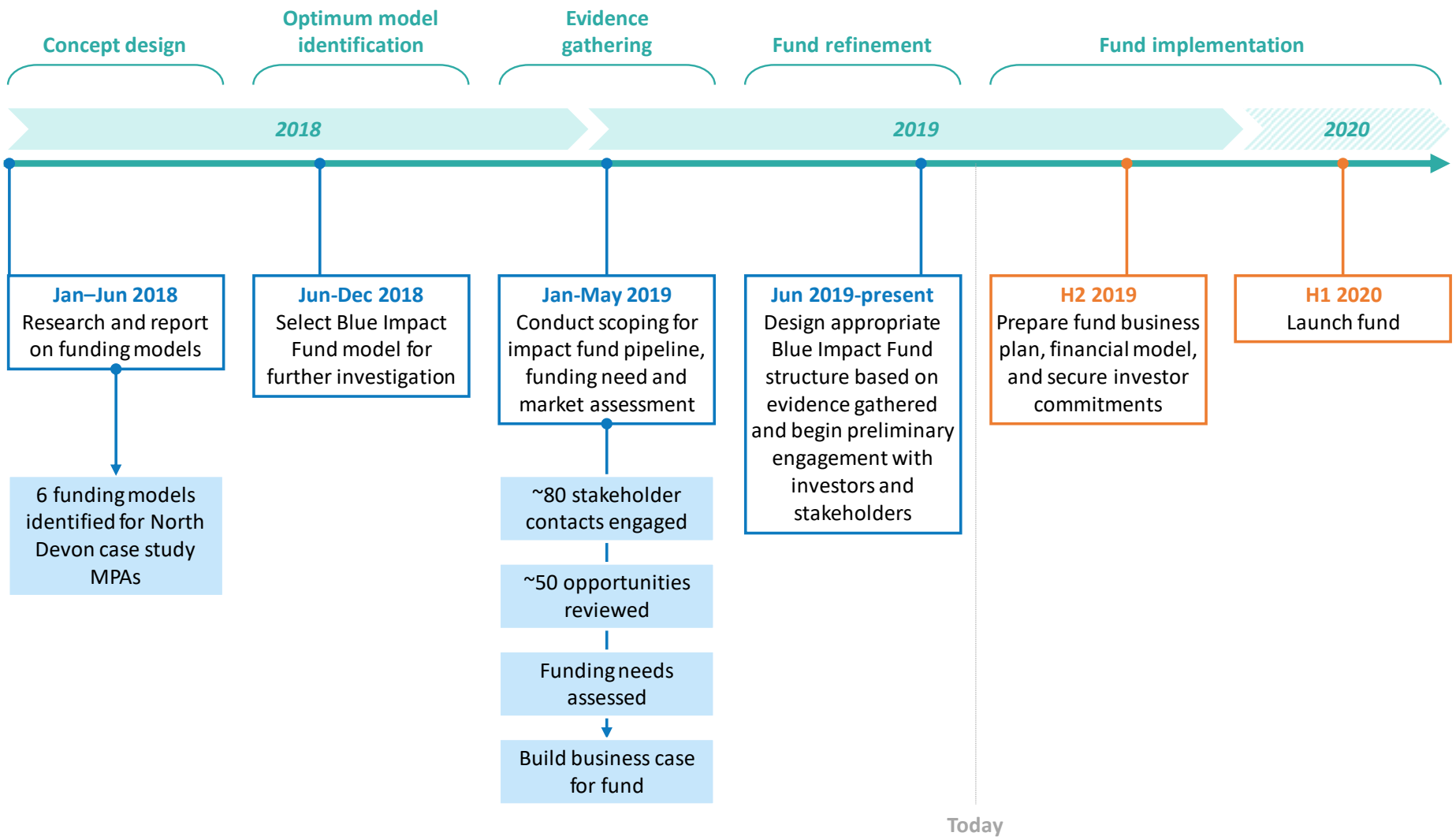


Figure 4: Sustainable marine finance project evolution

2.3. Assessment of options

In June 2018, EF and Vivid Economics partnered together to produce a report for WWF on sustainable financing models available to support MPAs in North Devon.[xi] The report examined six models that have been trialled elsewhere and that are potentially viable in the case study area.

Model name	Model description	Viability
Place-based portfolio	MPAs are governed by a charitable trust, with funds generated through an endowment and sustainable enterprise activities.	**Yes.** Already being tested by the North Devon Biosphere Foundation and can be combined with other models.
Marine biodiversity net gain fund	Proceeds of mitigation payments obtained from planning obligations (e.g. section 106) are aggregated into a fund dedicated to improving marine biodiversity.	**Not yet.** Policy change is required to extend planning obligations and biodiversity metrics to the marine environment.
Blue carbon fund	Proceeds of the sale of blue carbon credits generate revenues for a blue carbon fund.	**Not yet.** Requires further development of the blue carbon market.
Nutrient offsetting scheme	A market for nutrient credits is established to enable water quality improvement transactions.	**No.** Complex delivery and does not provide funds directly for marine environments.
Marine improvement district	Businesses contribute a voluntary levy which can be used to raise finance for the local marine and coastal environment.	**Yes.** Could be implemented as part of a place-based portfolio structure. Requires substantial stakeholder engagement.
Blue impact fund	Investment in enterprises operating for the benefit of marine and coastal environments generates financial and environmental benefits for MPAs.	**Yes.** Highly replicable, scalable, and enhances local economies.

Figure 5: Financing models for filling the North Devon MPA funding gap

Of the six models identified through the report, one was determined to be both viable in the case study context and promised the replicability and scale targeted by the project objectives. An impact fund dedicated to investing in a range of businesses operating for the benefit of marine

and coastal environments (a "Blue Impact Fund") demonstrated the potential to address the project objectives within a near-term timeframe and without the need for policy change.

A Blue Impact Fund would aim to stimulate sustainable marine and coastal economies while producing returns that could be directed towards MPA management and marine enhancement activities.

Blue Impact Fund investment could reap additional benefits, including:

1. Increasing awareness of and support for MPAs.
2. Creating new business opportunities, jobs and livelihoods in coastal areas.
3. Diversifying and boosting resilience of coastal economies.
4. Reducing environmental pressure on the marine environment.

2.4. Blue Impact Fund concept

A Blue Impact Fund will drive investment into environmentally sustainable businesses to deliver environmental benefit, boost the blue economy, and catalyse further development of marine conservation funding models.

The Blue Impact Fund will apply a blend of investment and grant funding to fund the protection and enhancement of the marine environment, which will help to maximise the impact achieved.

Investment in sustainable enterprise models

The primary activity of the fund will be to invest in enterprise models that benefit the marine and coastal environment. This benefit could be generated through the performance of a direct service for the environment, or alternatively by working to reduce the pressure of human activities on marine areas.

Grant funding for marine benefit

A portion of funds and surplus returns generated by investment activities will be allocated, through a separate funding structure, to:

- Non-revenue-generating interventions and programmes (such as MPAs) that deliver the conservation and recovery of the marine and coastal environment ("Ocean Recovery").
- High-impact, early-stage enterprise models that operate for the benefit of the marine and coastal environment but require funding for further development before being able to attract investment ("Capacity Building").

This separate fund (an "Ocean Benefit Fund") will provide tailored support in the form of grant funding, technical assistance and resource support to organisations working to protect and/or enhance the biodiversity and resilience of marine and coastal areas.

Aligned governance for the marine environment

The investment activities of the Blue Impact Fund and allocation of surpluses from the Ocean Benefit Fund require effective, aligned governance. This can be achieved through a dedicated trust structure charged with governing the Blue Impact Fund and owning and administering the Ocean Benefit Fund (an "Ocean Trust").

The establishment of an aligned funding and governance model provides an opportunity to catalyse the implementation of other funding models for marine and coastal conservation. For example, the Ocean Trust could provide the necessary infrastructure and set-up funding for creating a marine improvement district or delivering the sale of blue carbon credits.

2.5. Blue Impact Fund pipeline assessment

THE CONCEPT OF A BLUE IMPACT FUND FOR DELIVERING STRATEGIC INVESTMENT INTO ENVIRONMENTALLY SUSTAINABLE BUSINESSES WAS DEVELOPED FROM AN EVIDENCE-BASED APPROACH.

Over the first half of 2019, EF conducted a review of potential investment opportunities delivering both financial returns and environmental benefit. The data gathered through the scoping review was used to evidence the need for a Blue Impact Fund and to inform the design and structure of the fund.

Scoping review process

Leveraging the networks of EF and the UK SEAS programme, EF consulted with over 80 stakeholders engaged either in the protection and enhancement of the marine environment or in enterprise models that benefit the marine environment.

In addition to targeted stakeholder engagement, the EF project team attended conferences that attracted a range of stakeholders involved in marine conservation or enterprise. Conferences attended by the EF project team included the Ocean Business Summit 2019 in Southampton, UK, and the European Maritime Day 2019 in Lisbon, Portugal.

Through extensive stakeholder engagement, EF identified potential opportunities for Blue Impact Fund investment. Opportunities selected for further review were required to meet the two key components of environmental impact investment:

1. They must produce (or demonstrate potential to produce) financial returns.
2. They must deliver environmental impact.

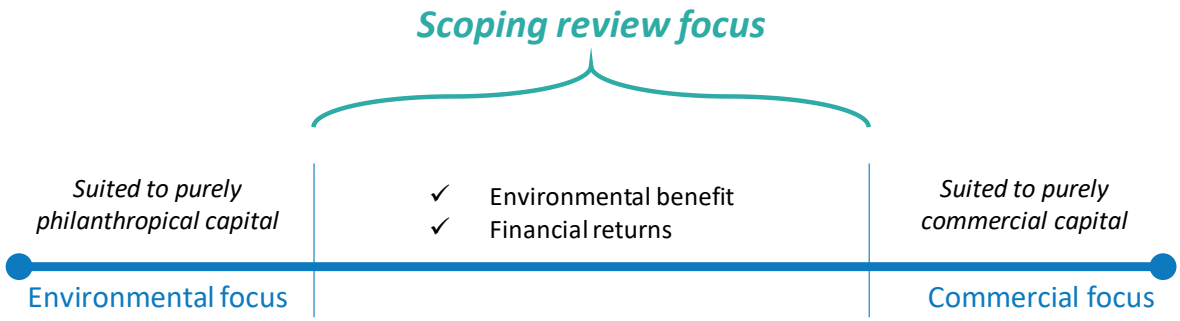


Figure 6: Environmental impact investment criteria

The scoping review process revealed 48 opportunities that were deemed potentially viable for investment.

Scoping review findings

The 48 investment opportunities identified during the scoping review were analysed against the project objectives. Eligible projects were grouped according to several key criteria to assess trends and opportunities, including:

- Enterprise sector
- Stage of enterprise development
- Geographic location
- Enterprise investment need

Enterprise sector

Analysis of investment opportunities revealed sector trends, highlighting those that are particularly relevant to the proposed eligibility criteria for Blue impact Fund investment. Sustainable enterprise models within the aquaculture industry, which includes offshore, estuarine and onshore cultivation of seafood, presented a significant opportunity for investment. Prevalent sector trends also included coastal and marine tourism/recreation business models, technology (including robotics and blue biotechnology) and innovations throughout the seafood supply chain.

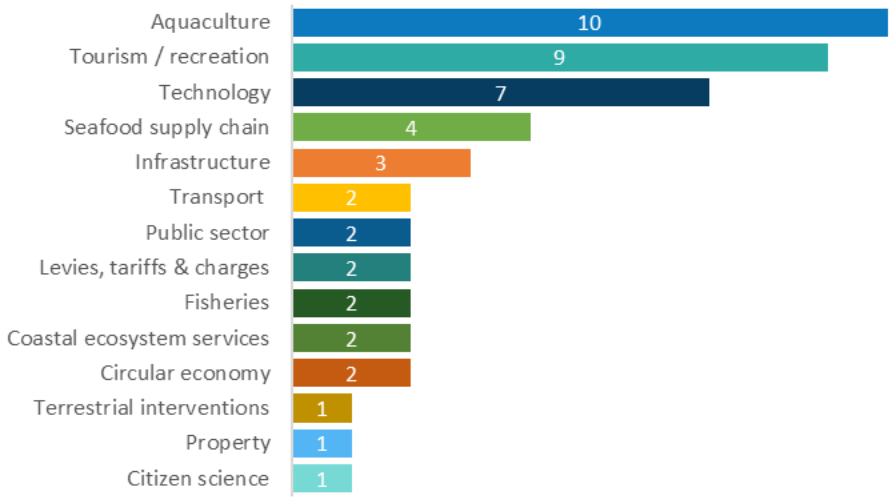


Figure 7: Analysis of Blue Impact Fund investment opportunities by sector

Stage of enterprise development

Identified opportunities were categorised according to the stage of the enterprise model, which included the full range of enterprise development stages from embryonic ideas through to operational, revenue-generating models.

Figure 8: Analysis of Blue Impact Fund investment opportunities by enterprise model stage

The majority of identified opportunities were pre-revenue models that would not be able to support repayable finance but required innovation funding or further research and development before being able to generate revenues.

The scoping review also evidenced a pipeline of revenue generating enterprises suitable for investment, which represented approximately 17% of the opportunities reviewed.

Geographic location

While the scoping review initially targeted investment opportunities in the case study area of North Devon, the geographic scope of the review was subsequently widened to capture enterprise models being developed elsewhere in the UK, Europe or globally that could be implemented in a North Devon context.

Enterprise investment need

Given the high-level nature of the interviews with stakeholders and entrepreneurs, quantifiable data demonstrating the investment need for each opportunity was difficult to obtain or assess. Confidentiality around business finances and the prevalence of embryonic or early-stage concepts were key barriers to analysing the scale of investment need.

However, 15 out of the 48 projects reviewed were able to provide targeted investment amounts. These ranged from ≤£100,000, typically targeting grant funding or technical/resource assistance, to ≥£5,000,000 for implementation of large-scale pilot models.

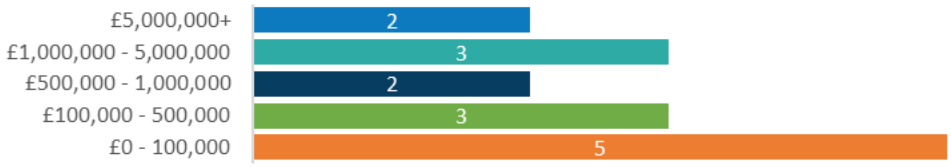


Figure 9: Analysis of demand for Blue Impact Fund investment by investment size

Regardless of the investment scale, interviewees were able to provide an indication of the type of investment required, which varied greatly and included grants, patient capital or traditional repayable finance. In line with the analysis of enterprise model stage, the pre-revenue opportunities typically required grant and seed funding while operational, revenue-generating models sought patient, repayable capital.

Scoping phase conclusions

Sub-national markets are not ready for investment of a sufficient scale to support its local MPAs

Investment opportunities reviewed in North Devon (and those that could be implemented in North Devon) are typically underdeveloped and small in scale. Investment in these opportunities would not generate sufficient returns to support the area's MPAs.

The bulk of enterprises reviewed require significant Capacity Building support for development and growth before they will be able to achieve a status commensurate with large-scale investment.

There is ample opportunity across a broader geographic spectrum to build a pipeline for a Blue Impact Fund of a larger scale

During the scoping review process, many opportunities were discovered that were eligible for investment but were not applicable to North Devon specifically. These opportunities

demonstrated the ability to generate financial returns while delivering environmental impact. The diversity and number of projects meeting these two key criteria of environmental impact investment highlighted the demand for large-scale funding for marine impact.

A spectrum of funding options is required to meet the needs of enterprises operating for the benefit of marine and coastal environments

Investment opportunities identified during the scoping review revealed four distinct funding needs, following key stages of enterprise development and environmental impact.

- **Ocean Recovery –** Grant-funded programmes are required to deliver direct marine management and conservation work.
- **Capacity Building –** Pre-revenue-generating stages of businesses development require grant capital, resource and technical support to enable preparation for investment.
- **Grant and repayable investment –** Early-stage enterprise models with a clear revenue generation potential require tailored grant and repayable capital to support business implementation.
- **Patient repayable investment –** Operational, revenue-generating enterprise models require patient, affordable investment to support business growth.

The four funding needs can be grouped into two funding structures: an Ocean Benefit Fund targeting high-impact grant funding, and a Blue Impact Fund targeting needs-based, impact-led investment.

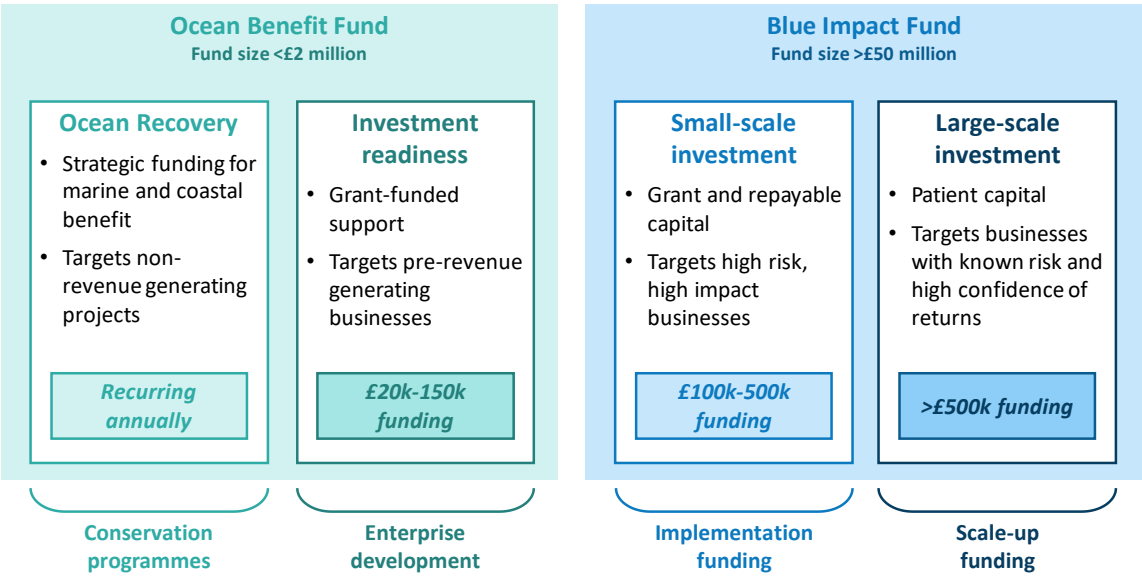


Figure 10: Marine impact funding needs

The concept of an aligned Blue Impact Fund and Ocean Benefit Fund will work to meet the distinct funding requirements of sustainable enterprise models throughout their development, and to enable the maximum level of environmental impact.

3. MARKET OPPORTUNITY

3.1. Introduction to the Sustainable Blue Economy

The term "blue economy" refers to all economic activity relating to the oceans, seas and coasts. The global blue economy is estimated to be worth US$24 trillion and investors and policymakers are increasingly turning to the ocean for new opportunities and resources.[xii] Over the period 2009-17, the EU blue economy saw growth of 7.9%, which was driven by particularly high growth across four sectors: coastal tourism (26.1%), marine living resources (24.4%), port activities (21.9%) and shipbuilding and repair (15.6%).[xiii]

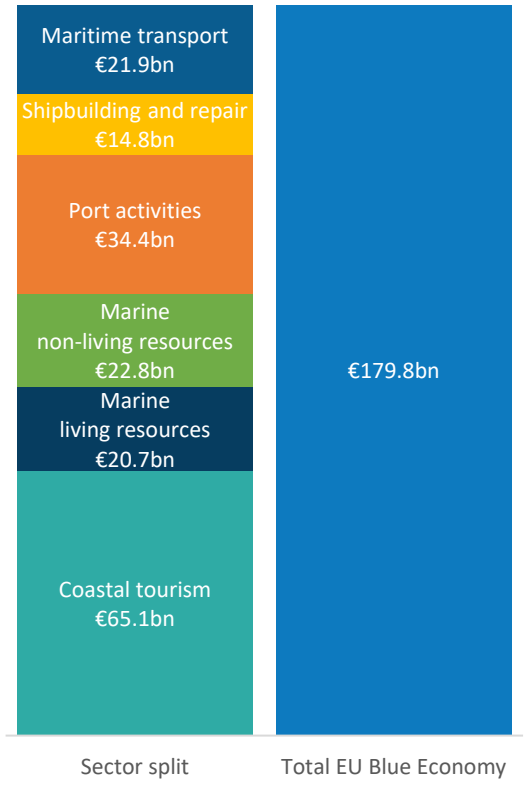


Figure 11: Sector contribution to the EU blue economy

However, unsustainable commercial activities and ineffective governance are eroding the ocean's natural capital on which economic growth depends. It is estimated that marine litter generates losses of almost €11 billion a year in costs and lost revenues to sectors like fishing, aquaculture, tourism and government. Furthermore, indirect impacts of human activities – for example, relating to climate change – is likely to generate an increasing economic burden over the coming years. The cost of coastal flooding across the EU, predicted to increase due to changes in the climate, is estimated to reach €12-40 billion a year by 2050 and affect 500,000-740,000 EU citizens (depending on the scenario).[xiv]

Given the value of the biodiversity and the ecosystems contained within these environments, their protection and enhancement will be imperative to ensuring the future success of the marine and coastal communities that drive the blue economy. Promoting the development and growth of blue economy activities that are performed in environmentally beneficial and sustainable ways (the "Sustainable Blue Economy"), defined by WWF as one which:

- *Provides social and economic benefits for current and future generations;*
- *Restores, protects and maintains diverse, productive and resilient ecosystems;*
- *And is based on clean technologies, renewable energy and circular material flows.*

is key to unlocking the long-term success of these vital ecosystems.

3.2. Market analysis

Financing for conservation

Funding for the development and operation of projects for environmental benefit is often provided in the form of grants from public sector organisations, philanthropists or NGOs. Grants provide neither the scale nor the certainty of funding to ensure the financial sustainability of conservation projects. Investment, where capital is provided with the intention of generating a financial return, traditionally provided by private finance institutions, is required to fill the finance gap needed to address critical conservation challenges.

Private investment is not always appropriate as many conservation activities do not generate revenues. However, eligible revenue-generating projects and activities could be financed with private investment in order to ensure that the limited sources of grant funding are focussed on activities that are unable to attract investment.

While private investment is increasingly present in the conservation sector, private capital tends to pose more rigorous demands on investments than do grant or concessionary forms of capital. Traditional investment decisions are made on the balance of risk and reward, and while the impact objectives of conservation investment add a third metric to the balance, the same risk-reward considerations apply.

As a result, evidence shows that conservation investment activity is largely skewed towards mature business models and traditional forms of finance (i.e. mature debt and equity). A review of the sector in 2016 showed that investment in early-stage business models (both for new and proven concepts) comprised less than one-third of the total conservation finance market.[xv]

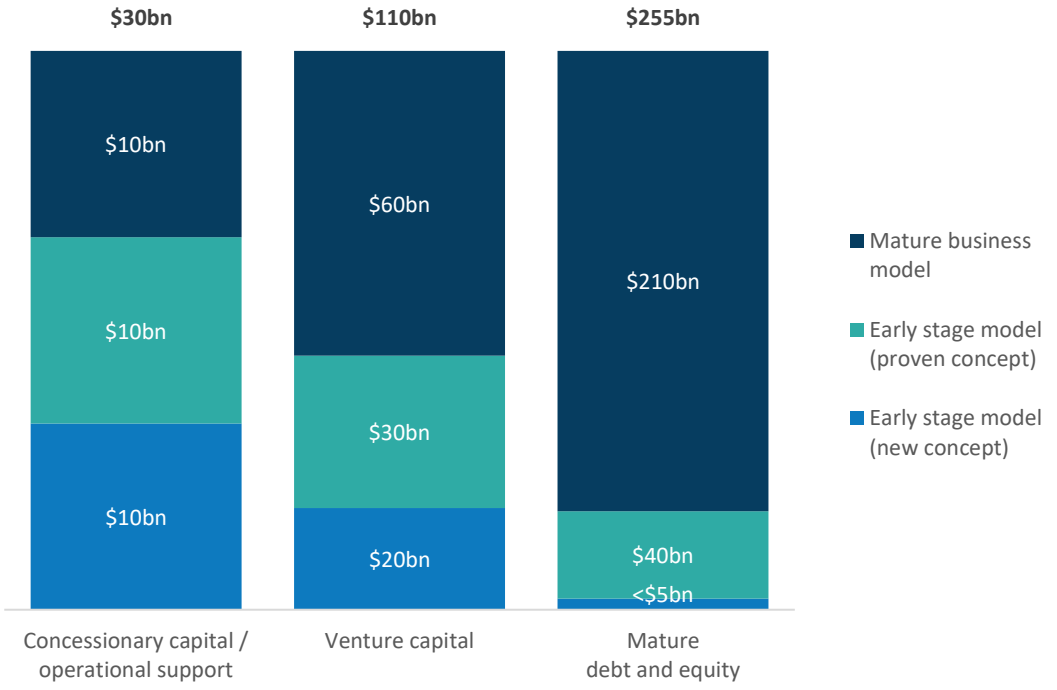


Figure 12: Estimated total invested capital in conservation finance, 2016

The lower the certainty of investment, the higher the associated investment risk. Conservation enterprise models at an earlier stage of development provide uncertain revenue generation potential and so struggle to procure investment, despite the high level of impact they are capable of delivering.

Progressing business models from early-stage blended financing and venture capital to the realm of traditional investment is key to unlocking supply of capital in the conservation finance market.

Financing for the Sustainable Blue Economy

Within the UK, European and the global conservation investment market, sources of capital for funding and investing in the marine environment are available; however, these are rarely tailored to the needs of the vast majority of business models operating for the benefit of the marine environment. These funding sources include public sector programmes, charitable initiatives and private sector investment.

Marine conservation funding map

An assessment of the market, summarised in the table below, reveals important themes about the status of the marine investment market.

	Source of funds			Type of capital					Investment strategy				Target sector / impact					Geography			
	Public sector	Private sector	Charitable sector	Grants	Operational / technical support	Venture capital	Patient debt and equity	Mature debt and equity	Early-stage businesses	Mature businesses	Environmental focus	Marine focus	Not marine specific	Blue economy	Ocean plastics	Aquaculture	Technology	Global	Europe	National / Regional	Developing markets
European Investment Bank	•			•	•	•	•	•	•	•	•	•	•	•					•		
EU LIFE Programme	•			•	•	•	•	•	•	•	•	•	•						•		
European Maritime and Fisheries Fund	•			•					•			•				•			•		
Seafood Innovation Fund	•			•	•				•		•	•				•				•	
Submariner Network	•	•		•	•	•			•			•		•			•			•	
The Esmée Fairbairn Foundation			•	•			•		•	•	•	•	•							•	
Global Environment Facility	•			•			•				•		•								•
Aqua-Spark		•				•			•							•		•			
The Meloy Fund			•				•	•	•	•		•				•				•	•
Sky Ocean Rescue		•		•		•			•						•				•		
Proposed Blue Impact Fund	•	•	•			•	•	•		•	•	•		•	•	•	•		•	•	
Proposed Marine Benefit Fund	•	•	•	•	•				•		•	•		•	•	•	•		•	•	

Figure 13: Marine conservation funding map

Marine projects struggle to compete for funding in a crowded conservation finance market

Conservation funding programmes provided by public authorities and NGOs tend to cover a wide range of conservation activities, rather than focussing on marine-specific investment. Examples include the European Investment Fund and the EU's LIFE programme.

Where funding sources specify either a terrestrial or marine investment scope, the number of sources and quantity of funds dedicated for terrestrial environments far outstrip those for marine environments.

An oft-cited reason for the lower quantum of funding available for the marine environment is the relative underdevelopment of the sector: sustainable marine business models tend to be at an earlier stage of their development than those based on land, implying a higher risk profile to investors.

Additionally, the marine environment is a more challenging physical environment in which to implement new operations, and therefore more expensive to carry out pilot projects. The demand for funding is typically polarised: technically complex infrastructure, such as for offshore renewable energy projects, require substantial investment and significant public and private sector support; other enterprise models, by contrast, are of a smaller scale and don't receive the same level of financial or resource support.

These factors combined work against marine projects when competing with terrestrial projects for the same pools of funding.

Funding for marine projects is often specific to sectors and stages of development

While conservation finance programmes such as the EU's LIFE programme provides a range of funding tools, funding specific to the blue economy tends to be more sector-specific and tailored for business models of a particular stage of development. For example, funding sources will focus on grant funding for early-stage business model, or traditional debt and equity for mature business models.

In order to progress from one stage to the next – from grant funding to patient investment, and finally to mature investment – businesses are required to navigate a complex network of funding options. In certain cases, funding options for business models benefiting marine and coastal environments in a certain stage of development are not available, further complicating the evolution of the business model.

For example, Dutch venture capital fund Aqua Spark offers tailored funding for growth in the sustainable aquaculture industry; the fund's scope covers early-stage venture capital for technological development and innovative enterprise models. Mature investment for the same sector is available from targeted funds and generalist sources, but these investors are either not available to specific regions (in the case of Althelia's Sustainable Ocean Fund, only developing and transitional economies) or not specialised in the risks and considerations facing marine enterprise models (in the case of the European Investment Bank's generalist funding programmes).

Funding for the complete trajectory of business evolution, from early-stage enterprise models to mature operational businesses, is required to enable the strategic growth and evolution of innovative business models that benefit the marine environment.

The private sector is underrepresented in the sustainable marine financing space

The private sector demonstrates a presence in sustainable marine financing through institutional investment (for example, Aqua Spark) and corporate responsibility projects (for example, Sky

Ocean Rescue). However, the amount of invested capital is significantly less than that made by public authorities and charitable organisations, and relative to terrestrial impact funds.

Data for sustainable marine financing is limited but the wider conservation finance market provides helpful insight: the EU has committed €400 billion to its eco-innovation funding programmes since 2014, while the private sector *globally* committed just $14.4 billion in the years 2014 and 2015.[xvi] The vast imbalance between public and private sector funding translates through to the marine financing sector, where private sector investment provides significant opportunity for catalysing additional capital supply in the market.

Political change leaves gaps and provides opportunities

Given that the bulk of funding opportunities for sustainable marine and coastal projects are dependent on public sector support, the macropolitical environment has an outsized influence on access to funding.

With a changing macropolitical climate (for example, in the face of Brexit), there is an opportunity to create a new funding structure that is independent of politics.

3.3. Addressing a gap in the market

Following an assessment of the sustainable marine financing market, three key themes emerged demonstrating gaps in the market:

- There are relatively few funding opportunities tailored for the benefit of marine and coastal environments, rather than for broader conservation initiatives.
- There is little Capacity Building support for migrating early-stage marine-focussed projects through to more mature forms of investment.
- A lack of continuity in available funding presents financial barriers to the growth of businesses that operate for the benefit of the marine environment.

In order to address these issues, a Blue Impact Fund – as part of a wider Financing Ecosystem (as described in section 4) – will blend public and private investment to provide flexible, affordable, patient capital to enterprises and activities that benefit marine and coastal environments. The Blue Impact Fund will generate a return for investors while delivering significant environmental impact.

By enabling these enterprise models and activities to grow with strategically tailored financing, the Blue Impact Fund will over time develop a pipeline of mature, tried-and-tested models that will become eligible for traditional private investment, thereby unlocking an important catalyst in the wider conservation finance market.

Adding value beyond financial provision

In addition to providing funding, the Financing Ecosystem will invigorate the marine conservation finance market by enabling the growth and maturation of early-stage business models through an Ocean Benefit Fund.

The Ocean Benefit Fund will provide grant funding as well as technical and resource support for investees, targeting businesses and models that require additional support before becoming eligible for investment.

The Ocean Benefit Fund will not only support eligible businesses to create direct impact in marine and coastal environments but will also support the ongoing sustainability of the Financing Ecosystem by building a pipeline of impactful investment opportunities eligible for Blue Impact Fund investment.

In addition to the enterprise development programme described above, the Ocean Benefit Fund will contribute funds towards Ocean Recovery initiatives relevant to the target geography, including localised programmes supporting marine biodiversity and ecosystems. The Ocean Benefit Fund will thereby contribute holistically to the value of protection and regeneration of the marine and coastal environment.

3.4. Investment opportunities

Eligibility for Blue Impact Fund investment hinges on two criteria:

- The ability to generate a financial return for investor (surpluses from which can be directed towards marine management – for example, through MPA structures).
- The ability to deliver benefits to Ocean Recovery (either through direct impact or by contributing funds to an Ocean Benefit Fund).

Critically, investments must satisfy clear environmental sustainability criteria. These criteria will be based on the Sustainable Blue Economy Finance Principles (the "Principles")[xvii], [xviii], developed by WWF, the European Commission, European Investment Bank and World Resources Institute and now embedded into UN Environment's Finance Initiative. These Principles offer a pioneering framework to guide future financing of the Sustainable Blue Economy.[xix] A taxonomy outlining how activities and enterprise models will be evaluated is currently in development, led by the United Nation's Environment's Finance Initiative, and will form part of the terms of reference for an investment committee to assess eligible investees.

Approach to investing in the Sustainable Blue Economy

The blue economy presents several key opportunities for investment that will support the growth of the Sustainable Blue Economy:

Type of Activity	Ocean Service	Opportunities for the Sustainable Blue Economy	Drivers of future growth
Coastal tourism	• Tourism and recreation	• Eco-tourism • Sustainable infrastructure	• Growth of global tourism • Domestic regulations • Coastal urbanisation
Marine living resources	• Seafood • Marine biotechnology	• Sustainable fisheries • Aquaculture • Multi-species aquaculture	• Food scarcity • Demand for protein • R&D in the healthcare industry
Marine non-living resources	• Energy • Minerals • Freshwater	• Renewable energy	• Demand for alternative energy source • Demand for minerals • Freshwater shortages
Port activities	• Transport and trade	• Sustainable port infrastructure and services	• Growth in seaborne trade • Domestic regulations
Maritime transport (including shipbuilding and repair)	• Transport and trade	• Technological innovations for increasing sustainability	• Growth in seaborne trade International regulations
Ocean Recovery	• Ocean monitoring and surveillance • Carbon sequestration • Coastal protection • Waste disposal	• Technology and R&D • Blue carbon • Habitat protection and restoration • Marine waste collection and recycling • Assimilation of nutrients and solid waste	• R&D in ocean technologies • Growth in marine and coastal protection and conservation activities

Figure 14: Sustainable Blue Economy opportunities for investment[xx]

Certain sectors demonstrate greater readiness for private investment, while other sectors are at an early stage of attracting investment and require funding to fuel further development.

For example, the sustainable aquaculture industry has seen a recent surge in investment interest from private sources. The Nature Conservancy and Encourage Capital recently released a report aimed at catalysing additional investment into the $243.5 billion industry, the world's fastest-growing form of food production.[xxi] Private investors such as Aqua Sparks have injected dedicated venture capital into the sector, and onshore aquaculture models such as shrimp producer Great British Shrimp has attracted £3 million investment from EIS and retail investors. These signals demonstrate the industry's capacity to absorb large-scale, venture and mature capital investment.

By contrast, newer industries such as marine waste collection and recycling require further R&D funding to allow these emerging sectors to grow to a scale commensurate with traditional investment.

While the ultimate investment structure of the Blue Impact Fund will be determined by investor appetite, a targeted approach to investment will allow the Blue Impact Fund to deploy investment in the near-term in sectors that demonstrate existing pipeline, while working to develop the pipeline for other focus areas in preparation for future investment.

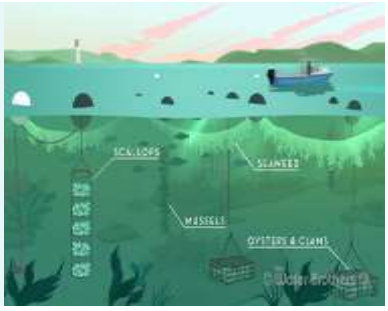
For more detail on investment approaches, see section 5.2 Portfolio and targeted approaches to Blue Impact Fund structure.

Pipeline opportunities

The scoping review process carried out by EF identified investment opportunities in marine and coastal markets with sustainable business models and environmentally beneficial outputs.

The projects reviewed covered several sectors that demonstrate an opportunity for developing the Sustainable Blue Economy. Highlighted below are a selection of potential opportunities for Blue Impact Fund investment:

Aquaculture	Sustainable onshore aquaculture
	**Development of sustainable onshore recirculating aquaculture systems ("RAS") for production of seafood.** ***Environmental impact:*** • Reduces demand for and impact of wild caught seafood. • Enables sustainable production.

Aquaculture	Sustainable offshore aquaculture
A multitrophic approach to offshore cultivation. ***Environmental impact:*** • Creates habitat for wildlife. • Sustainable source of food for humans and livestock. • Water quality and filtration benefits.	

Tourism / recreation	Eco-tourism
	**Developing the sustainable tourism industry along UK's coasts.** ***Environmental impact:*** • "Citizen science" for marine monitoring. • Reduces impact of tourism on marine and coastal biodiversity.

Transport	"Greening" the shipping industry
Retrofitting vessels with adaptations for fuel-efficiency. ***Environmental impact:*** • Reduces impact of shipping industry on climate and marine ecosystems.	

4. BLUE IMPACT FUND STRUCTURE

A BLUE IMPACT FUND WILL INVEST IN ENTERPRISES OPERATING FOR THE BENEFIT OF THE MARINE AND COASTAL ENVIRONMENT. THIS INVESTMENT WILL BOOST THE SUSTAINABLE BLUE ECONOMY, SUPPORT THE DEVELOPMENT OF SUSTAINABLE ENTERPRISE MODELS, AND DELIVER ENVIRONMENTAL IMPACT.

4.1. Proposed Blue Impact Fund structure

Investors

The Blue Impact Fund will be funded by impact investors and mission-aligned corporates that will contribute grant, first loss and risk capital, and institutional debt and equity.

Investment into the fund could be applied in a variety of ways, such as:

- **A blended structure**, which combines investment and grant capital contributions provided by investors within a single fund. The grant capital can be used to de-risk other forms of finance, for instance, by providing first-loss capital to attract co-investors.
- **An aligned structure**, where investment and grant capital contributions provided by investors are separated and application is tailored to each investment decision.

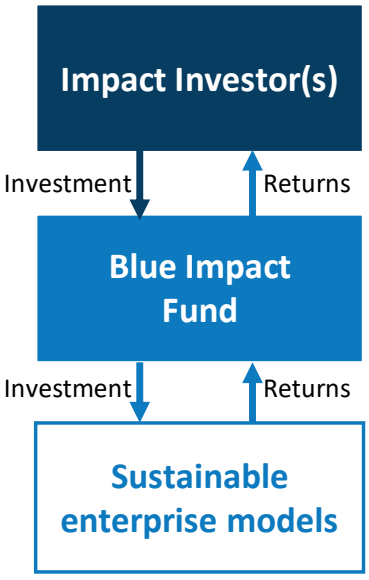


Figure 15: Blue Impact Fund investment structure

The capital delivery structure will be dependent on investor preferences and investment need. An aligned structure enables capital to be allocated flexibly in accordance with enterprise needs. The grant capital could be strategically blended within the fund as first-loss capital, or it could be used to provide tailored resource support to prepare immature business models for investment. The Blue Impact Fund could therefore adjust the structure of its investments to most appropriately meet the needs of investee projects.

Investments

In line with the Blue Impact Fund's mission and objectives, funds will be invested in business models that are capable of generating sufficient returns to service investment, while also delivering positive impact for marine and coastal environments.

To better manage risk, investments can be pooled into defined categories, for example by sector. The Blue Impact Fund could therefore invest broadly in enterprises that contribute to the restoration of marine health (a portfolio investment strategy), or alternatively focus investment in a particular sector or activity (a targeted invested strategy). Investment strategies are described in further detail in section 5.2 5.2Portfolio and targeted approaches to Blue Impact Fund structure.

Surplus returns

Surplus returns (i.e. returns beyond those due to investors and required to cover funding costs) can be used to fund several activities complementary to the Blue Impact Fund.

Ocean Recovery

Surpluses can be used to further the objectives of the Blue Impact Fund by funding Ocean Recovery programmes. These could include MPA set-up and management activities, direct conservation work, and research and development for marine conservation.

Capacity Building

Surpluses could additionally (or alternatively) be applied as grant capital for resource and technical support to pre-investment-ready businesses that meet the criteria of the Blue Impact Fund but lack the capacity to service investment or meet return targets.

An enterprise development programme could thus build a pipeline of opportunities for future Blue Impact Fund investment.

The need for an Ocean Benefit Fund

Surplus returns will deliver significant benefit for the marine environment by directly funding Ocean Recovery and Capacity Building activities. Bringing the target benefits of surpluses into a single fund structure, the Ocean Benefit Fund could attract additional funding (or match-funding) from impact-driven investors and grant funders.

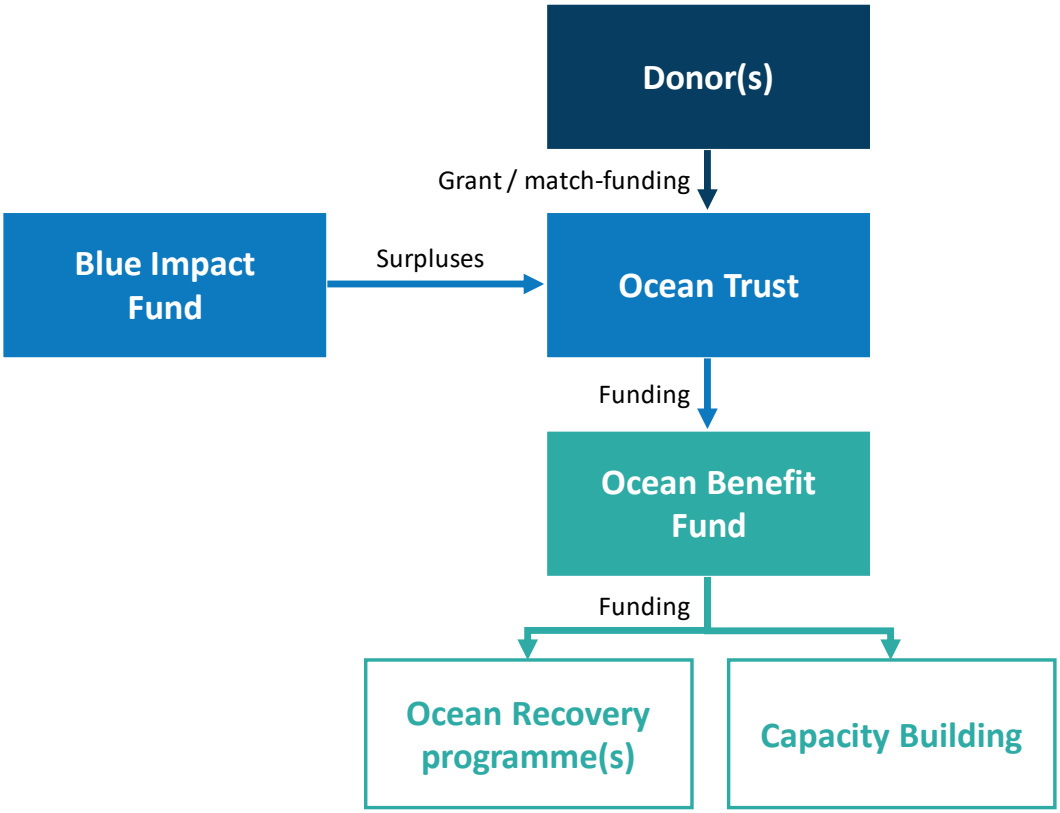


Figure 16: Ocean Benefit Fund funding structure

4.2. Blue Impact Fund governance

The Blue Impact Fund and Ocean Benefit Fund will require a robust governance structure to ensure effective management and oversight of the activities performed.

Marine governance is currently fractured and complex, divided between key governance bodies each covering specific realms of responsibility, with uncoordinated decision-making and no single management authority. A governance body that unifies public, NGO and private stakeholders will help to focus Ocean Recovery efforts between regions, while enabling more effective management of income flows between priority marine and coastal areas.

Given the transnational and uncontainable nature of the seas, governance should transcend national and regional boundaries.

An Ocean Trust for marine governance

A dedicated trust structure – an Ocean Trust – would enable consistent and aligned governance of the Blue Impact Fund's activities, whilst directly owning and deploying surplus funds from the Ocean Benefit Fund. The Ocean Trust will be led by selected representatives of marine management authorities and conservation specialists to ensure that the Blue Impact Fund complies with existing policy and infrastructure, while maximising the environmental impact that the fund can deliver. Critically, the Ocean Trust will align and strategically pool funding resources to accelerate support for the most urgent marine environmental needs.

Additional income streams

Additional income streams are available for marine conservation activities, many of which require policy or further market developments. These income streams might include, for example, offsetting payments from coastal or marine development, revenues generated by the sale of blue carbon credits, or income from taxes and levies (as detailed in section 2.3 Assessment of options).

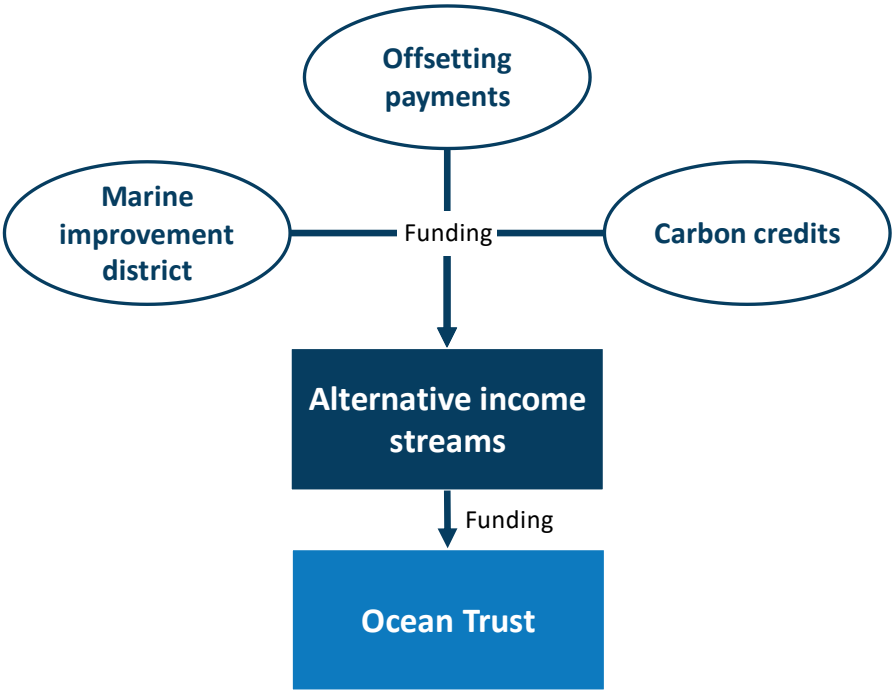


Figure 17: Alternative income streams for an Ocean Trust

By attracting private and blended investment into Ocean Recovery, the Ocean Trust will provide a structure capable of supporting the establishment of other funding models. If pooled into a unified structure dedicated to the protection and enhancement of the marine environment, these aggregated income streams can deliver significantly greater impact than they would remaining unmanaged, individual funding streams with no strategic alignment.

4.3. Building a sustainable Financing Ecosystem

The Blue Impact Fund and Ocean Trust are strategically aligned to generate maximum benefit. Through the delivery of investment and the application of surplus returns, the funding and governance structure will work in tandem as part of a sustainable *financing ecosystem* for the benefit of the marine and coastal environment (a "Financing Ecosystem").

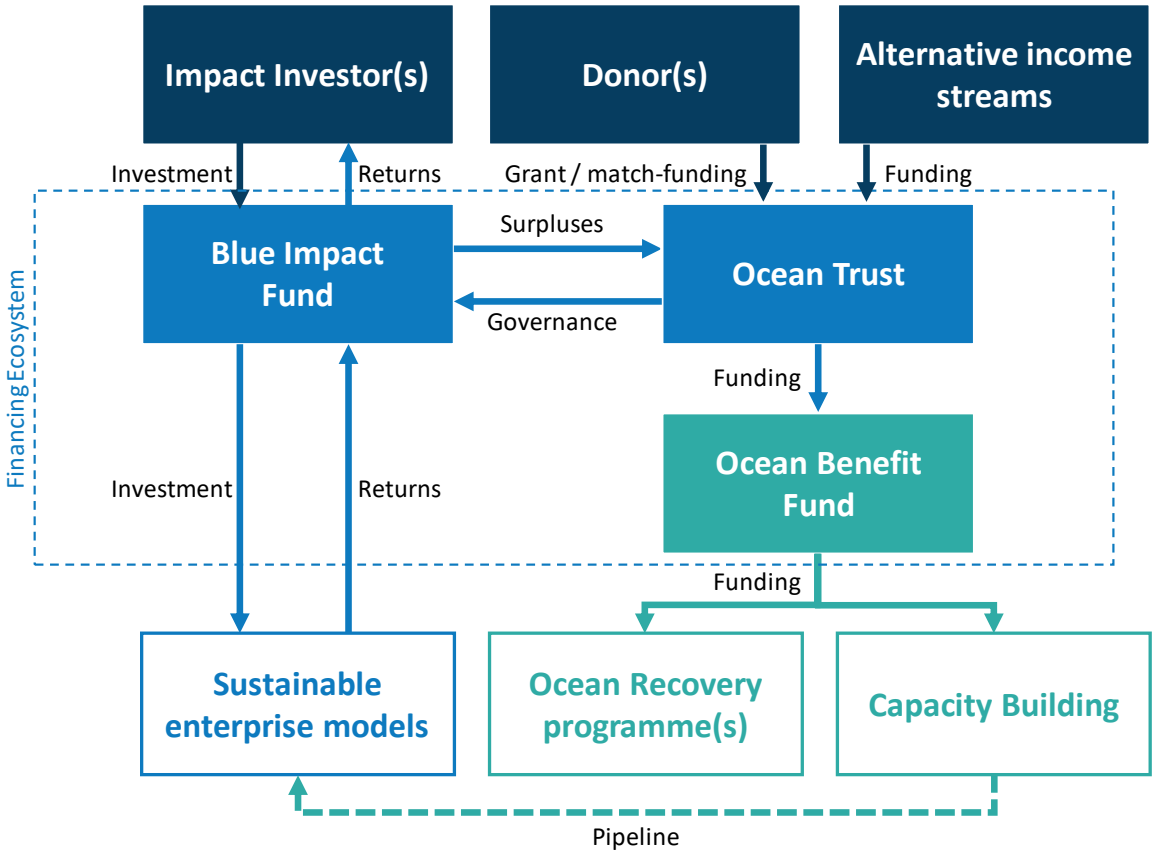


Figure 18: A sustainable Financing Ecosystem for delivering marine and coastal benefit

5. REPLICABILITY AND ALTERNATIVE APPLICATION

A key element of the vision for a Blue Impact Fund is the ability to design a model that can be replicated and scaled for the benefit of additional geographies, communities, and marine and coastal environments worldwide.

5.1. Methodology

The project process to date, from inception to fund design, has taken an evidence-based approach to arrive at the design of a Financing Ecosystem. The process has followed three key stages:

- Gathering evidence and understanding of the needs of sustainable enterprises.
- Developing a funding package that meets those needs.
- Designing a governance structure to support the implementation and management of the proposed funding package.

While the proposed structures of the Blue Impact Fund and Ocean Trust are intended to be flexible to the needs of different geographies and stakeholder groups, establishment of new Financing Ecosystems should undertake a similar process to ensure that the final funding structure meets the needs of the selected beneficiaries and achieves the intended objectives.

5.2. Replication of governance structures

A robust governance structure is critical to the success of the Financing Ecosystem. The establishment (or adoption) of a dedicated Ocean Trust will allow marine and coastal stakeholders to perform key governance functions for the Financing Ecosystem, including:

- Allocating and distributing funds generated through a variety of income streams.
- Funding the management of marine and coastal areas (for example, through MPAs).
- Governing the Blue Impact Fund and Ocean Benefit Fund.

Representatives from relevant conservation organisations and public authorities will lead the Ocean Trust, ensuring that the activities of the Financing Ecosystem are conducted appropriately and that the most pressing environmental needs are prioritised.

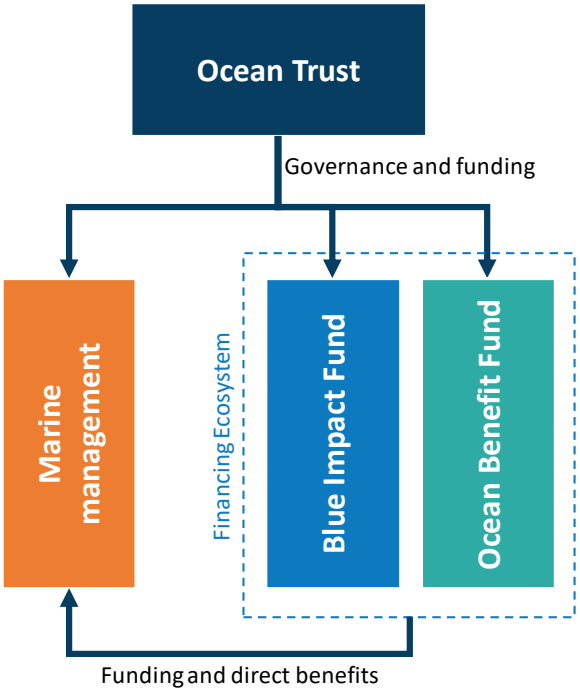


Figure 19: Ocean Trust governance

The Ocean Trust will be managed strategically against environmental needs and funding resources to bridge public, NGO and private interests. This structure will further ensure that wider policy changes do not inhibit the impact generated by the Financing Ecosystem.

The Ocean Trust structure has been designed to reflect the broad needs of the marine conservation sector and address the governance and management issues that surround it. While additional work is required to finalise the design of the first Ocean Trust, implementing a pilot will enable and inform the implementation of new marine governance models.

Portfolio and targeted approaches to Blue Impact Fund structure

As outlined in section 4.1 Proposed Blue Impact Fund structure, the investment structure of the Blue Impact Fund will predominantly be driven by investor appetite. For example, a Blue Impact Fund could take a *portfolio approach* to its investments, where the fund invests in a variety of different projects, diversifying its risk across sectors; alternatively, a Blue Impact Fund with a *targeted approach* to its investments could focus on a particular sector, developing a specialist focus to manage investment risk and diversify between investees within a given sector.

The Blue Impact Fund can be designed to allow for either investment strategy. However, a series of targeted funds is likely to provide the flexibility and focus required by investors and enable sectors that are ready for investment to be prioritised.

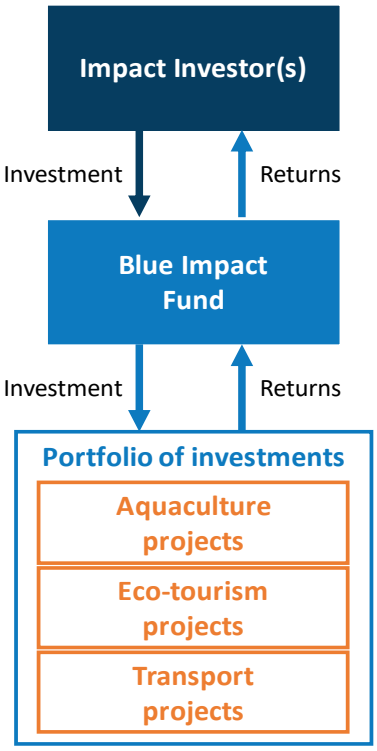


Figure 20: Portfolio investment approach

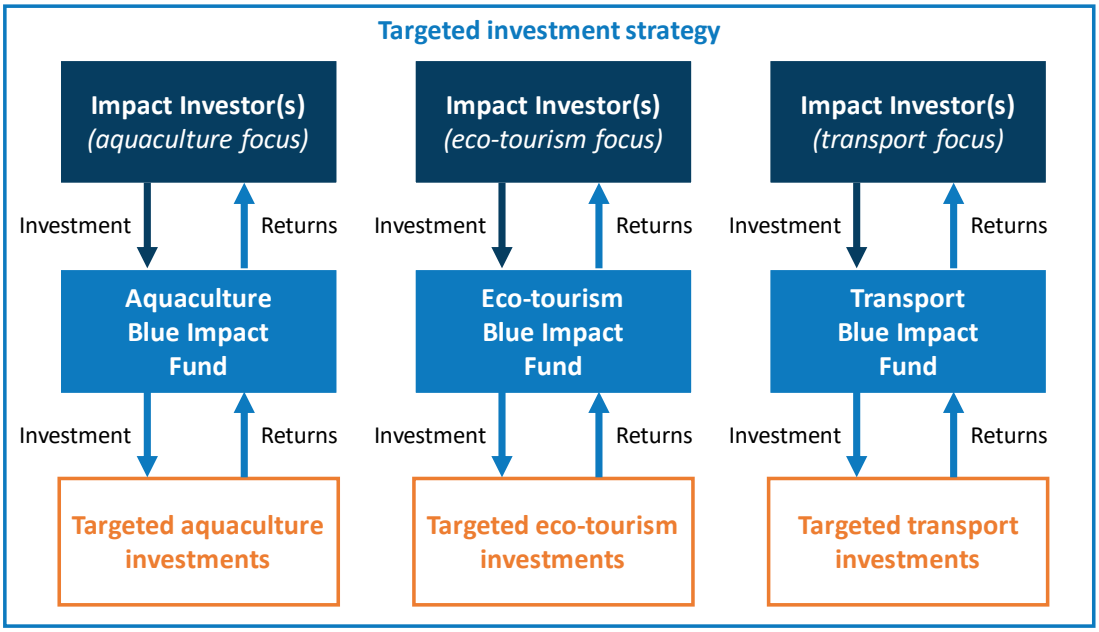


Figure 21: Targeted investment approach

Strategically embedded Ocean Trust structures

The Ocean Trust structure is designed with the intention of being replicated across different geographies. Localised Ocean Trusts may also be embedded within broader Ocean Trusts to create a trickle-down effect of impact and fund flows across entire geographies – from international to national and local / regional areas.

For example, an Ocean Trust servicing the UK might sit within a broader European Ocean Trust, so that income streams at the European level may also be allocated to UK-level impact (if specific, localised environmental needs are identified as a pan-European priority for access to funding).

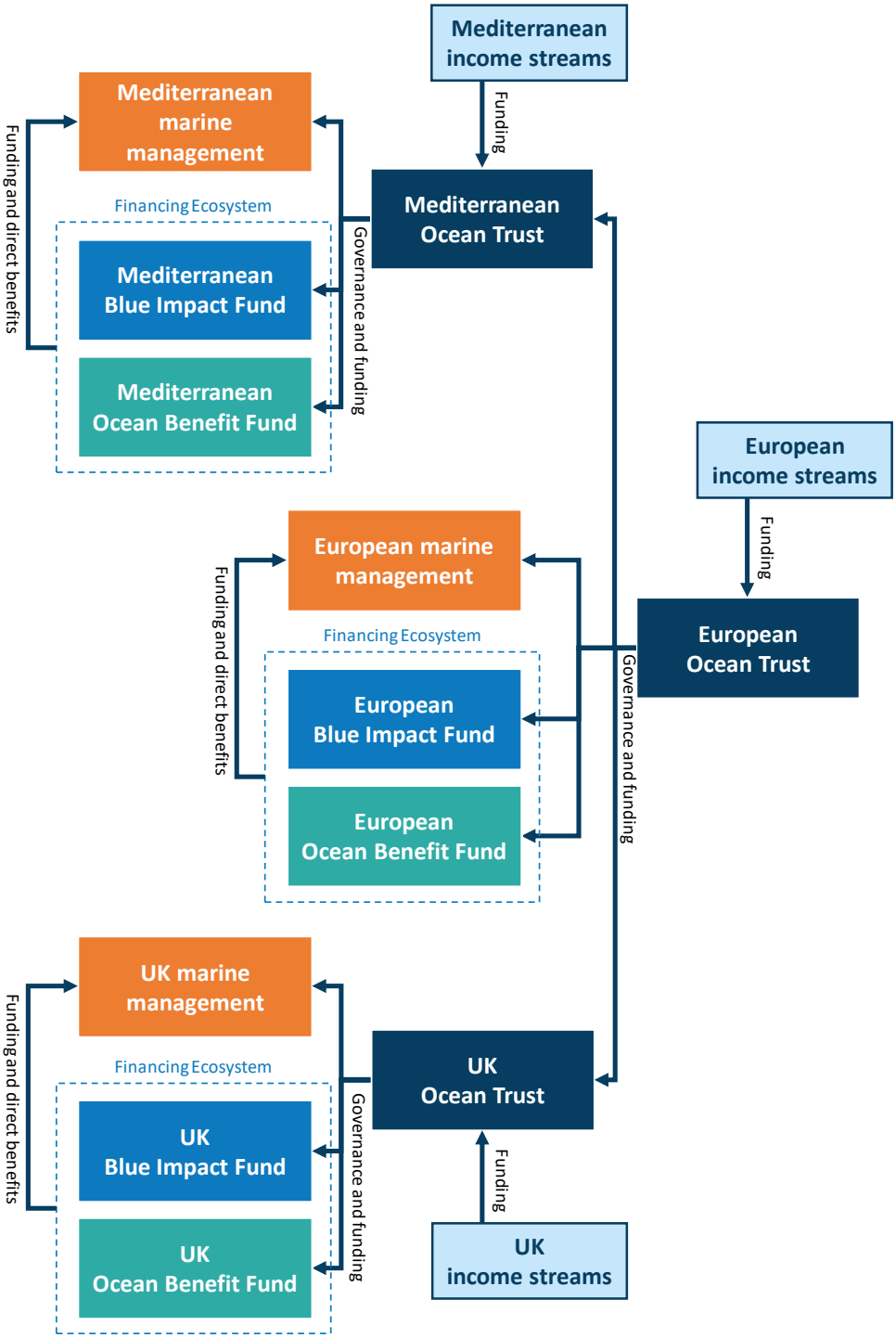


Figure 22: Illustrative governance network for a European Ocean Trust

Ocean Trusts serving different geographies will include representation from relevant public bodies and specialist advisors, to ensure that governance and funding are tailored to the needs of coverage regions.

5.3. Application to terrestrial conservation funding

The proposed Blue Impact Fund and Ocean Trust closely follows models previously developed by EF to deliver impact in terrestrial scenarios.

Precedent terrestrial examples

CORE – Investment in community-owned renewable energy

Community Owned Renewable Energy LLP ("CORE") was launched in July 2017 for the purpose of acquiring privately owned ground-mounted solar energy assets and transitioning these assets into community ownership in order to generate significant community benefit funds.

CORE is funded by leading social and environmental impact investors Big Society Capital ("BSC") and The Power to Change Trust ("PtC") and advised by EF.

CORE is structured as an aligned investment and grant programme, consisting of a £50 million investment fund to acquire operational solar assets in close collaboration with a selected community energy partner, and a £4.5m aligned grant programme delivered to ensure that the community partner has the skills and resources to maximise the benefits from the assets.

CORE funding is structured to enable community groups to acquire the asset over time through community fundraising. Assets are also restructured and optimised during CORE's ownership to maximise the revenues that can then be pooled into a fund for the benefit of the community (a "Community Benefit Fund").

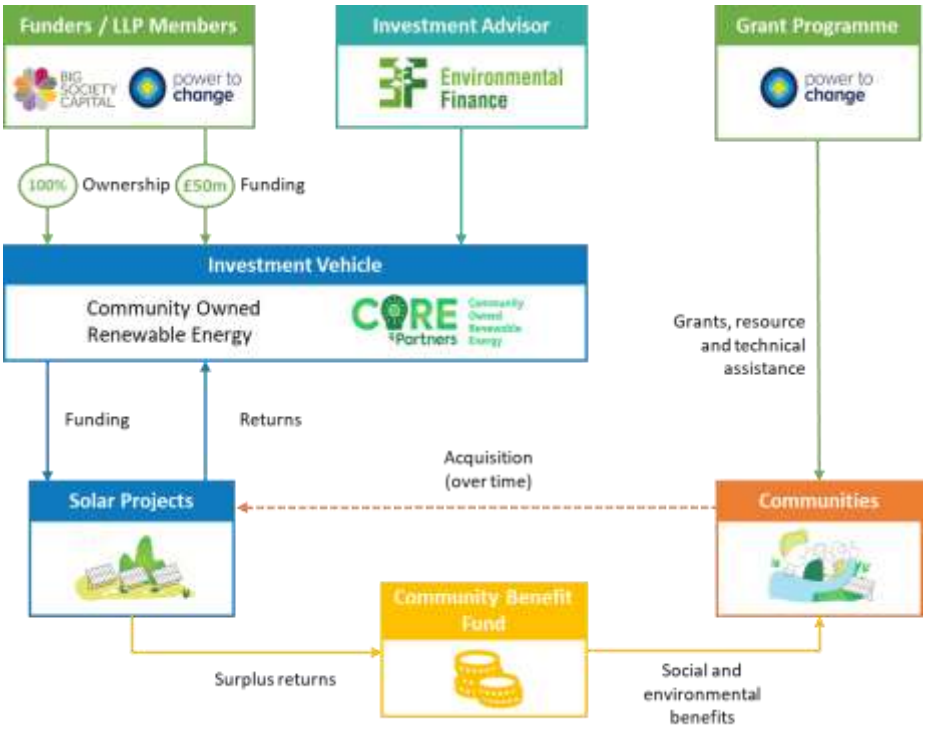


Figure 23: CORE fund structure

PICNIC – Investment in the UK's urban parks and green spaces

The Parks Enterprises Impact Fund ("PICNIC") was launched in June 2019 with the purpose of investing in the UK's urban parks and greenspaces. The pilot programme is being conducted in Newcastle. The parks are transferred to Newcastle Parks Trust (a place-based trust) and PICNIC invests in socially and environmentally impactful businesses operating in and around the parks.

PICNIC applies a blended funding structure to its investments to ensure that they meet the needs of investees while generating financial returns for investors. Surplus returns generated from PICNIC investments are delivered to the parks.

EF designed and structured the fund and acts as the investment manager for PICNIC.

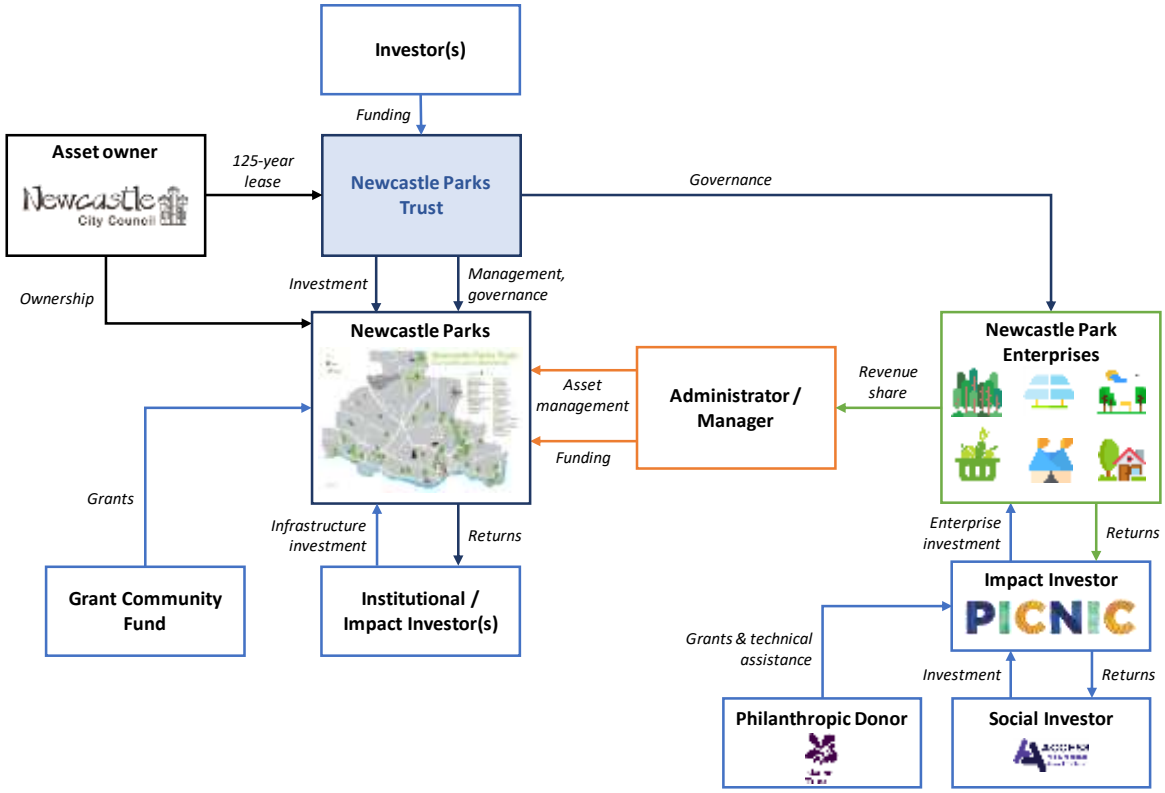


Figure 24: PICNIC fund governance and investment structure

PICNIC sits within a place-based portfolio structure to generate income in order to manage the park assets.

Application of the Blue Impact Fund in terrestrial conservation finance

The Blue Impact Fund will evidence the applicability of a place-based governance and funding structure in marine areas, a more complex environment than in precedent terrestrial contexts.

Having evidenced both the terrestrial and marine examples of how this structure works in practice and continues to deliver impact will incentivise the creation of additional governance and funding models for conservation in other sectors.

6. PROJECT DELIVERY

6.1. Key parties

WWF has funded work with EF to develop and achieve the delivery of the Blue Impact Fund and Ocean Trust. EF and WWF's work carried out to date in partnership with Sky has culminated in a two-year project to design and structure a replicable, scalable funding solution for marine environments.

Together, EF and WWF have combined expertise in the issues facing marine conservation and coastal economies, and the tools and solutions available to address them. The design and development of the project has been discussed with and supported by key members of the public sector, private investors and NGOs, who could provide further strategic advice during the fund development and delivery process.

Environmental Finance

EF is the UK's leading environmental impact investment advisor. EF has depth of experience in both innovative financing and natural capital asset management providing a range of investment, cost modelling, structuring, strategy and fund delivery services to some of the largest environmental organisations in the UK.

As a social enterprise, EF was established with a vision where society better uses its natural assets and resources, sharing them equitably within local economies to support thriving, healthy, and sustainable communities. As a social enterprise, 51% of profits are channelled back into investment in the sector. EF is a member of the Finance for Sustainability group, a non-profit organisation working on big ideas to connect new forms of investment to environmental and social issues in the UK.

EF has the leading UK track record of designing combined environmental and social impact funds, bringing together a range of market actors such as charitable trusts, lottery bodies and private capital to create blended funding solutions.

Fund design, structuring, fundraising and management

EF will lead on developing the fund design, set-up and structuring, and will be responsible for fundraising and engaging with investors. Following the launch of the Blue Impact Fund, EF will be responsible for managing the fund on an ongoing basis.

EF's business is divided between impact investment advisory and fund management services. We work with a diverse group of clients to design and implement innovative financing solutions for environmental and conservation projects. To date, EF has structured over £150 million of blended environmental impact funds, of which over £50 million is currently managed by EF.

WWF

For nearly 60 years, WWF has been protecting the future of nature.

The world's leading conservation organization, WWF works in 100 countries and is supported by close to five million members globally. WWF's unique way of working combines global reach with a foundation in science, involves action at every level from local to global, and ensures the delivery of innovative solutions that meet the needs of both people and nature.

Fund governance and conservation expertise

WWF will be responsible for ensuring the appropriate governance structures are in place for the effective governance of the Blue Impact Fund and to ensure delivery of the targeted environmental impact.

Following the launch of the Blue Impact Fund, WWF will have an ongoing role within its governance.

Industry and sector experts

Industry and sector experts – representing key stakeholder organisations or acting independently – will be selected to consult on the funding decision-making process and act as members of an investment committee.

Relevant advisers would also be procured to provide advice as part of due diligence processes ahead of making decisions on investment.

6.2. Delivery team and track record

EF and WWF has formed a delivery team partnership to set up and implement the Blue Impact Fund.

EF Delivery team

EF is comprised of an entrepreneurial team from a wide range of finance, consultancy and asset management professional backgrounds creating deliverable impact-led solutions to social and environmental problems.

Board of Directors

James Alexander
Non-Executive Director and Chair

Karen Dolenec
Non-Executive Director

Danyal Sattar
Non-Executive Director

Senior Management

Richard Speak
Co-founder

James Mansfield
Co-founder

Craig Humphrey
Director

Corporate Finance and Advisory

André Sarvarian
Associate Director

Christine Chiu
Senior Associate

Alicia Gibson
Senior Associate

Olivia Bennett
Associate

Nikki Gaddo
PICNIC Investment Manager

Jing Bai
Project Finance Associate

Shading denotes key project contacts.

EF track record

EF has led the design, structuring and creation of a number of impact funds for key clients in the conservation space and public sector. Selected fund creation and advisory experience includes:

CORE Community Owned Renewable Energy Partners	**Designed and structured a £50m community solar investment fund, Community Owned Renewable Energy Partners ("CORE").** • EF leads CORE's processes around origination, acquisition and refinancing of operational solar assets with the aim of transitioning these into community ownership and maximising the financial, environmental and social benefits generated within the local area. • CORE has currently acquired ~39MW of solar assets to date. • CORE is funded by leading impact investors Big Society Capital and Power to Change. • CORE is forecast to generate £8m for the communities it serves.
PICNIC	**Designed and structured a £3.3m parks enterprise investment fund, PICNIC Investment Limited ("PICNIC").** • PICNIC is the first impact investment fund focused on providing debt and grant funding to organisations and projects that deliver social and environmental impact through urban parks and greenspaces in the UK. • PICNIC is funded by Access Foundation, Big Society Capital and the National Lottery Community Fund. • National Trust provides specialist support as a delivery partner.
Department for Environment Food & Rural Affairs	**Developed a Strategic Case and Business Case for a £50m blended natural environment impact fund with the aim of catalysing private investment into the natural environment.** • Developed a finance model and identified a pipeline of near-market opportunities, including woodland creation, sustainable drainage, catchment interventions, peatland restoration, place-based strategic investment and biodiversity net gain. • Highlighted the role and structure of a technical assistance facility to provide the capacity and skills required to develop investment-ready business models.
Environment Agency	**Produced a practical guide for the process required to develop and deliver an Investment Readiness Fund** • Determined structural options and a preferred way forward to support the development of innovative financing models for natural capital • Outlined a detailed action plan including a sequence of tasks and an estimation of capacity, resources and timescales required to set up and deliver the Fund

Figure 25: EF fund design and structuring credentials

6.3. Delivery process

EF, in partnership with WWF-UK (through the UK SEAS programme), have conducted a scoping process to design an evidence-based investment model for marine and coastal impact. The Blue Impact Fund and Ocean Trust structure will work together to deliver sustainable environmental impact, reducing the ebbs and flows of traditional public and philanthropic funding programmes.

EF and WWF are seeking additional support for bringing this innovative and impactful funding model to life, a first-of-its-kind Financing Ecosystem and an opportunity for catalysing material investment in our oceans, seas and coasts. In order to progress the project through to implementation, we need:

- Governance support for the Blue Impact Fund and Ocean Trust.
- Funding to support structuring, fundraising and implementation of the Blue Impact Fund.

WWF has already committed £100,000 of its own funding through its partnership with Sky Ocean Rescue to support the set-up of the Blue Impact Fund. The partnership are seeking an additional contribution of £100,000 to cover legal and tax advice for the establishment of the fund structure, and to finalise the implementation of the fund.

The proposed budget for the required work included in the project delivery programme in section 6.4 Delivery timeline includes:

Workstream	Key Outputs	Budget[1]
Fund structuring	• Business plan / Investment Memorandum • Financial model • Investor engagement	£60,000 + VAT
Fund implementation	• Established fund vehicle • Recruitment of investment committee members • Recruitment of specialist advisors (e.g. due diligence) • Investor commitments • Fund recruitment • Fund documents[2]	£60,000 + VAT + 0.5-1.0% of capital raise
Legal advice[3]	• Legal costs relating to the establishment of the fund structure	[£60,000] + VAT
Tax advice[3]	• Tax structuring advice relating to the establishment of the fund structure	[£20,000] + VAT

Figure 26: Proposed budget for implementation of the Blue Impact Fund

***Notes**: (1) this proposed budget is based on a simple Alternative Investment Fund Manager (AIFM) Limited Partners-General Partners (LPGP) FCA regulated structure. Additional complexity may increase these costs; (2) key fund documents include Investment Committee Terms of Reference, Investment Manual, Template investment documents, Legal documents, Policies and risk register, Theory of Change; (3) workstreams to be delivered by a third-party adviser managed by EF.*

6.4. Delivery timeline

To bring the project through to implementation, we will:

- Prepare a full-length business plan for the Blue Impact Fund.
- Produce a comprehensive financial model.
- Structure and set up the fund, with relevant legal, financial and tax advice.
- Engage with investors and secure commitments.

Proposed project timeline

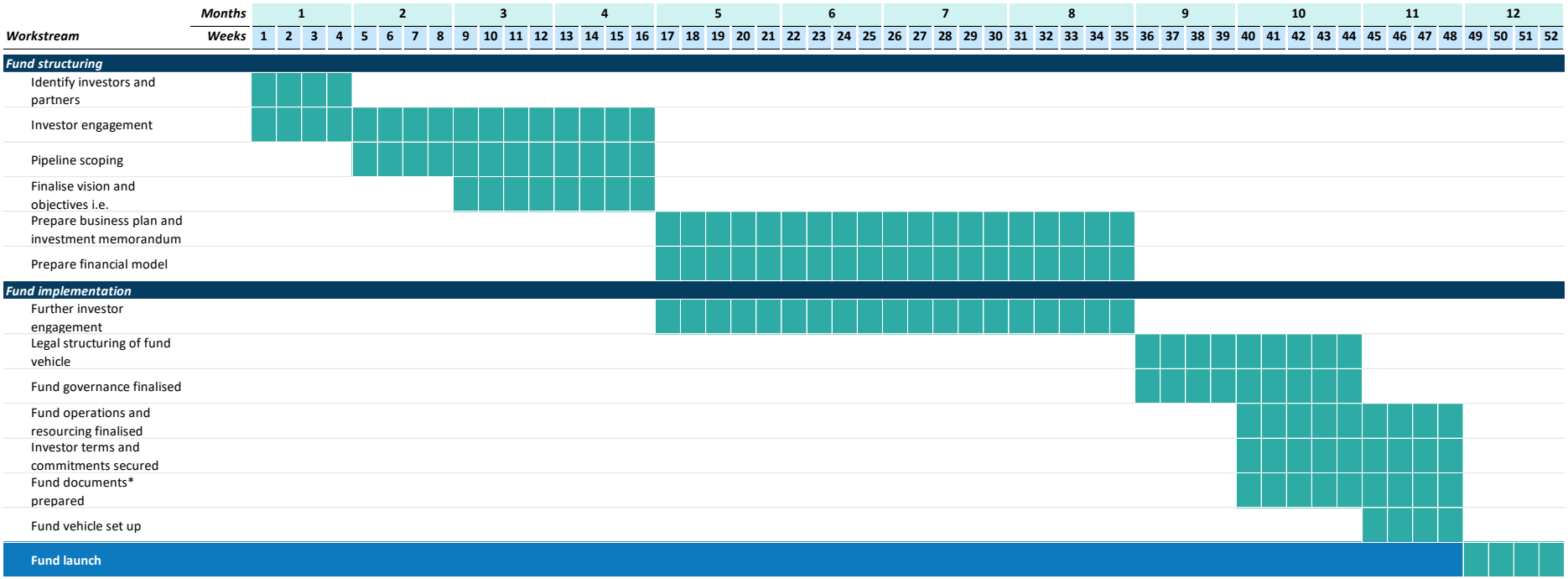


Figure 27: Detailed project delivery programme

7. CONCLUSIONS

7.1. Resolving the problem of funding and governance for marine protection

Public sector funding dominates the support network for Ocean Recovery activities and programmes, with private sector investment lagging. Development of a coordinated marine governance structure is key to enable access to additional funding streams to ensure that marine and coastal ecosystems are protected and enhanced, securing the numerous benefits on which our societies and economies depend.

New funding mechanisms could provide valuable income streams for the marine environment. Some of these new mechanisms, including blue carbon, biodiversity net gain or nutrient offsetting programmes, require critical policy and market developments to enable their success.

A Blue Impact Fund, unlike other marine funding models, is a replicable, scalable structure that offers the opportunity to enhance marine environments, boost local economies and act as the cornerstone to enable the adoption of an aligned governance vehicle dedicated to the protection of the marine environment – the Ocean Trust.

The Ocean Trust will govern investment activities from the Blue Impact Fund, whilst owning and administering grant funding for activities and programmes that demonstrate considerable impact but don't expect to be able to generate returns on investment.

This combined structure will therefore take a dual-track approach to simultaneously tackle the two key barriers to marine conservation: funding and effective governance.

7.2. Addressing a gap in the market

Conservation investment typically goes to terrestrial projects due to the number and maturity of investment opportunities in the sector. Marine projects, given their tendency towards earlier stages of development, lose out in competition.

Funding for marine projects is typically highly specified by sector and investment stage. In order to progress from grant funding to patient investment, and finally to mature investment, impactful enterprises are required to navigate a complex network of funding options. In many cases there are gaps in the market that leave enterprises unable to access the necessary income to support their development.

A marine-focussed impact fund could attract increased private investment that, when combined with public funding, completes the evolution of the market to ensure that the needs of impactful enterprises are being met throughout their development. Blue Impact Fund capital will enable these enterprises to grow, ultimately building a stable and sustainable blue economy. Furthermore, a Blue Impact Fund and aligned Ocean Trust could work independently of politics to reduce the effect of macropolitics on public sector funding for marine projects.

APPENDIX

Theory of Change

The development of the Blue Impact Fund design and structure is driven by an outline theory of change with a long-term vision of developing a replicable, scalable funding model for the benefit of the marine environment.

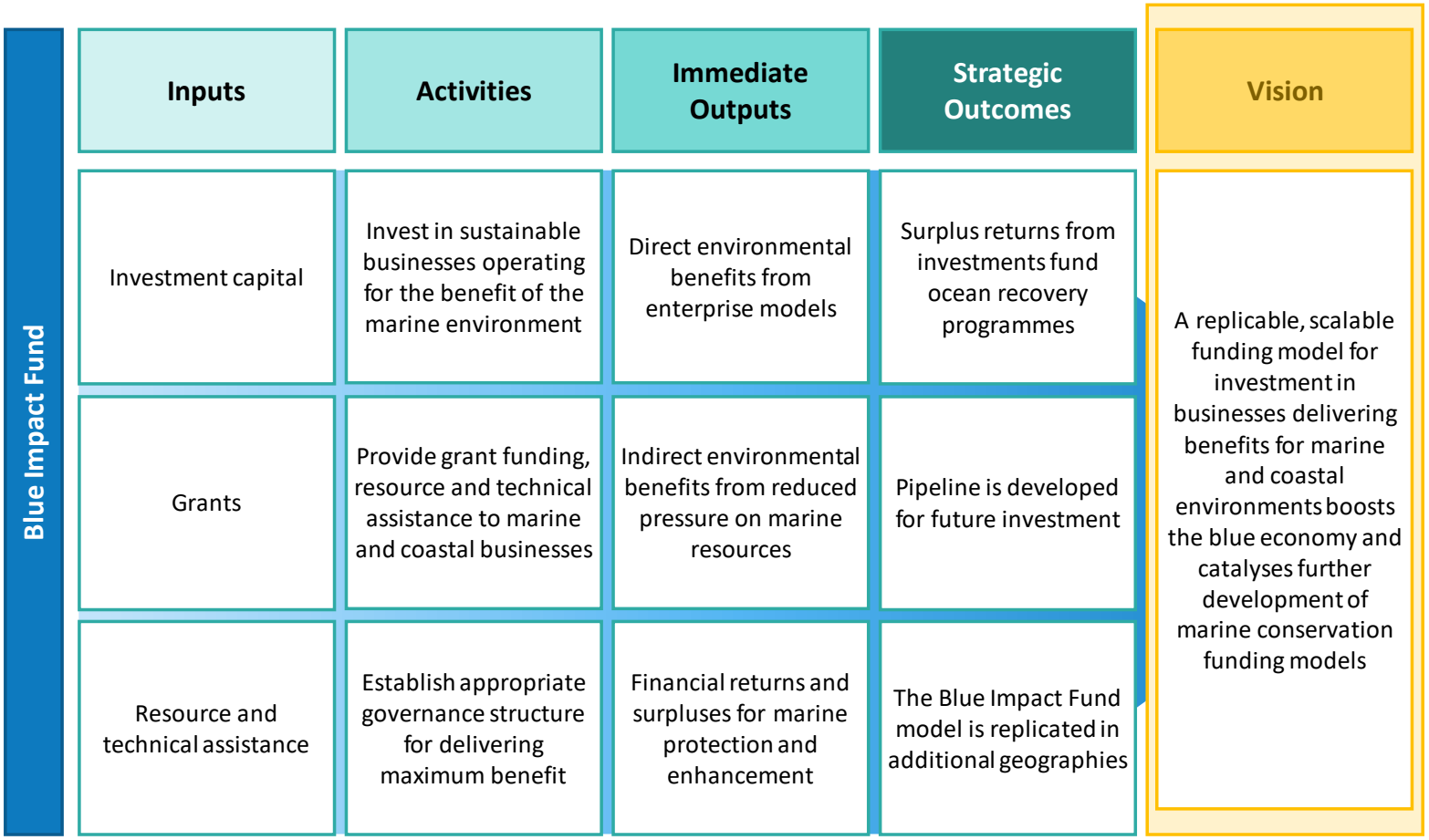


Figure 28: Blue Impact Fund theory of change

Environmental Finance Advisory Credentials

EF creates partnerships with leading conservation organisations to design innovative methods of generating investment into conservation of the environment, in the UK and globally.

giving nature a home	**Investment advisor to RSPB's conservation investment programme.**
	• Advised on:
	  ○ the delivery of a multi-function wetland for community scale flood defence.
	  ○ a new ownership and financial structure for farmland.
	  ○ financial modelling and transaction management for a debt-financed habitat bank.
	  ○ new practices for conservation management.
	• Advised and raised finance for the development and implementation of a UK-wide renewable energy project.

National Trust	**Investment advisor to the National Trust in developing and testing a "Parks Trust" model: a new operating model for long-term management and sustainable funding for parks and urban green spaces, whereby they are transferred to a Charitable Trust and managed by a new social enterprise.** • Established the PICNIC fund to invest in the UK's parks and urban green spaces, launching in Newcastle in 2019. • Advised on the creation of c.£60m of new social and environmental investment products for parks.
GMCA GREATER MANCHESTER COMBINED AUTHORITY	**Commissioned by the GMCA, in partnership with Eftec and Countryscape, to develop the first Natural Capital Investment Plan for Greater Manchester, aiming to provide an early example of how existing and new sources of funding and finance can be realised for natural capital initiatives.** • Established a pipeline of priority projects and outlined financing mechanisms and resources/capacity required to deliver opportunities.

Figure 29: EF advisory credentials

Environmental Finance team biographies

Board of Directors

 **James Alexander** Non-Executive Director	With almost 20 years of financial innovation experience, James has been involved in the social impact sector as an expert business growth strategist, entrepreneur and proposition builder. James is a co-founder of #voicefortheplanet, the movement aimed at securing a global deal for nature in 2020, launched at the World Economic Forum in 2019. He was previously a co-founder and Executive Director of Zopa, the world's first and Europe's largest P2P lender. James is and has been an advisor to a number of innovative finance payers including Seedrs, giffgaff gameplan, Loot, Tandem, LandBay and Spacehive. He has also advised social ventures and charities including the RSPB (where he was a Trustee), the GoodLab, Suffolk Wildlife Trust, and GreenThing.
 **Karen Dolenec** Non-Executive Director	Bringing to EF over 20 years of private markets investment experience, Karen has mostly focused on asset-backed strategies including infrastructure, real estate and natural resources. Karen is currently a partner at Ancala Partners, a European infrastructure investment firm. Prior to joining Ancala, Karen was a Managing Director at Terra Firma Capital Partners (formerly Nomura Principal Finance Group). Karen was responsible for managing one of the investment teams which involved deal sourcing and execution and overseeing key aspects of the portfolio businesses.
 **Danyal Sattar** Non-Executive Director	With over 25 years of impact, ethical and social investing experience, Danyal is one of the UK impact leaders. Danyal is currently CEO of The Big Issue Invest, leading the organisation's social investment arm. He brings with him a wealth of experience in providing finance and support to social enterprises and charities seeking to eradicate poverty while creating opportunities for people across the UK. Prior to his role as CEO, Danyal served as Head of Social Investment with the Joseph Rowntree Foundation, where he led the foundation's social investment allocation. In addition to deploying a £15 million fund, Danyal selected and executed investments and deployed new strategic programmes such as the Poverty Premium Fund.

Figure 30: EF board biographies

Blue Impact Fund Delivery Team

 **Jamie Mansfield** Co-founder	Jamie co-founded EF in 2016. Jamie leads EF's advisory work on structuring innovative financing models for natural capital, advising on the development of Defra's natural capital impact fund, Greater Manchester's Natural Capital Investment Plan and RSPB's conservation investment programme. He co-designed and manages a £50m community solar impact investment fund that aims to transition solar assets into community ownership. Jamie has extensive experience across M&A, project financing and debt underwriting of renewable energy and natural asset projects and has structured over £150m of long-term investments with institutional investors. Jamie is a member of the advisory panel for the Natural Capital Investment Forum.
 **Richard Speak** Co-founder	Rich conceived and founded EF in 2016. Rich leads EF's advisory work on the development of place-based approaches for long-term funding and management of urban parks and has designed and launched over £60m of impact funds for urban parks and community renewable energy. Rich spent the first part of his career working in cross border mergers and acquisitions for over 10 years, before redirecting his career to join the UK's leading social investment advisory firm, Social Finance. As a Director at Social Finance, Rich raised the first ever £10m Social Solar Bond aimed at reducing fuel poverty in the UK and completed £135m of social investment transactions.
 **Craig Humphrey** Director	Craig has 25 years of experience in investment banking, principally in M&A and capital raising. Craig and Rich previously worked together at Pall Mall Capital, an international corporate finance boutique where Craig undertook a wide range of projects in the energy and industrials sectors including a number of early solar transactions in continental Europe, financing industrial scale ground mount parks across Germany and Italy as well as thin film and panel manufacturers in Germany. He also helped to create a business in Wales using sheep's wool to provide a natural alternative for home insulation products. Craig is an MBA alumnus from London Business School.
 **Alicia Gibson** Senior Associate	Alicia is responsible for the strategic design and implementation of natural capital financing models, advising on the development of Greater Manchester's natural capital investment plan, and blended impact funds for Defra, WWF and the Environment Agency. Alicia previously qualified as a Chartered Accountant at Deloitte, where she provided audit and advisory services to fast growing private equity backed businesses. Alicia holds a first-class degree in Economics from the University of Bristol, where she specialised in environmental economics and international development.
 **Olivia Bennett** Associate	Olivia is responsible for managing key conservation financing projects for clients, covering themes across financing, project management, and fund design and implementation. Olivia started her career in capital markets origination at Citi, where she worked with clients across EMEA, structuring loan facilities for general and event-driven purposes. At the inception of the green loan market, Olivia delivered over €1.25bn green loans for large-cap corporate clients. Olivia also spent six weeks in Uganda advising two entrepreneurs on the development and growth of their businesses. Olivia holds a MA in Linguistics and French from the University of Edinburgh.

Figure 31: EF delivery team biographies

Terrestrial case studies

Community Owned Renewable Energy LLP

COMMUNITY OWNED RENEWABLE ENERGY LLP ("CORE") IS A £50 MILLION INVESTMENT PROGRAMME TARGETING GROUND-MOUNTED SOLAR FARMS IN THE UK, WITH THE PRINCIPAL OBJECTIVE OF TURNING THESE INTO COMMUNITY-OWNED ASSETS TO MAXIMISE EACH PROJECT'S ENVIRONMENTAL AND SOCIAL IMPACT.

CORE Partners Community Owned Renewable Energy

CORE's key partners

Funders

BIG SOCIETY CAPITAL

power to change

Advisor

Environmental Finance

CORE's process

Acquiring solar energy assets on behalf of communities

CORE acquires operational ground-mounted solar farms in the UK benefiting from the Feed-in Tariff (FiT) or Renewable Obligations Certificate (ROC) with the intention of selling its interest, over time, to the local community. The process is undertaken in close partnership with a selected community energy group.

CORE – Key investment terms

Fund Size	£50 million (of which £4.5million grant)	
Investment Structure	**£20 million equity**	**£30 million debt facility**
Term	3 years (with optional extension to 5 years)	3 years (or when equity capital is repaid in full, if earlier)
Size	~50% of total project value	~50% of total project value
Repayment	Refinanced by community fundraise	Amortising or bullet repayment

Figure 32: CORE investment terms and conditions

Restructuring and optimisation of assets

CORE takes a long-term view on asset value, actively investing in the repowering and optimisation of acquired assets to ensure maximum cashflow surplus to the community.

Maximising community ownership of solar energy

Following CORE's restructuring and optimisation programme, CORE engages and collaborates closely with local community partners to fundraise for the refinancing of an acquisition through a community share offer, which enables the local community to acquire the solar project.

Benefiting communities through grant funding

CORE's involvement with community assets doesn't stop at the point of transferring ownership. CORE delivers a bespoke community upskilling programme to ensure that communities have the requisite skills to maximise the benefits from each project. This programme is delivered through a tailored grant programme accessible to all of CORE's project communities.

PICNIC Investment Fund

IN JUNE 2019, EF LAUNCHED THE £3.3 MILLION PARKS ENTERPRISES IMPACT FUND ("PICNIC") TO PROVIDE BLENDED FUNDING TO ORGANISATIONS DELIVERING SOCIAL AND ENVIRONMENTAL IMPACT THROUGH URBAN PARKS AND GREEN SPACES IN THE UK.

PICNIC

PICNIC's key partners

Funders	Big Society Capital, Heritage Fund, Access
Advisor	Environmental Finance, National Trust

PICNIC overview

Inception and Development

The idea for an investment fund targeting parks and urban green spaces in the UK originated from a roundtable discussion between a number of sector leaders and innovators.

Environmental Finance partnered with National Trust to design a community parks business fund structure, bringing together sector expertise, fund design and investment experience.

PICNIC – Key investment terms	
Fund Size	£3.3 million
Investment Structure	Unsecured term loans to selected organisations, with up to 20% of the loan structured as a repayable grant
Loan Term	3-7 years *(5 years average)*
Loan Size	£25-150k *(£50k average)*
Interest Rate	5-10%
Repayment	Repaid in full at the end of the term, with a grace period of 2 years
Number of Investments	60 investments targeted over 4 years

Figure 33: PICNIC investment terms and conditions

The Access Foundation was engaged as a funding partner, and committed the full £3.3 million funds through their Growth Fund in a blended a repayable and grant investment profile.

Objectives

The Fund aims to demonstrate that targeted and flexible investments can build the capacity and financial sustainability of social enterprises operating through the UK's urban green spaces, enabling them to deliver meaningful community and environmental impact.

PICNIC will look to invest in 60 eligible organisations operating in and around a select group of parks in UK cities over a four-year investment period.

Vision

In conjunction with a number of broader initiatives working to enhance and protect the UK's urban green spaces, PICNIC works to create a localised, self-reinforcing network of impactful organisations, helping to sustain and improve the valuable park ecosystem.

DEFINITIONS

Term	Definition
Blended finance	The complementary and strategic use of public or private funds, including concessional tools, to mobilise additional capital flows
Blue carbon	Carbon captured by the world's oceans and coastal ecosystem
Blue economy	All economic activity relating to the oceans, seas and coasts
Business plan	Lays out a step-by-step plan of action for profitably operating the business model in line with the objectives
Carbon credit	A permit which allows a country or organisation to produce a certain amount of carbon emissions and which can be traded if the full allowance is not used
CBD	UN Convention on Biological Diversity
Conservation finance	Investments intended to return principal or generate profit while also resulting in a positive impact on natural resources and ecosystems
Debt	A sum of money that is borrowed by one party from another in return for interest
Due diligence	Conducting an appraisal of a business or activity to evaluate its commercial potential
Enterprise	A business, company, project or economic activity
Equity	A security or stock representing an ownership interest
Financial model	A financial rereport is presented to accurately forecast the price or future earnings performance of a company/ investment
Financial return	The profit or loss derived from an investment (or saving)
Financing Ecosystem	The Blue Impact Fund and Ocean Trust (described in detail in section 4.3 Building a sustainable Financing Ecosystem)
First-loss	Socially- and environmentally-driven funding provided by an investor or grant-maker who agrees to bear first losses in an investment to catalyse participation of additional investors
Impact investment	Investments made with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return
Institutional investors	Institutional investors include banks, insurance companies, pensions, hedge funds, REITs, investment advisors, endowments, and mutual funds
Investment or **finance**	Capital provided with the intention of generating a financial return
Capacity Building	Grant funding, resource support and technical assistance for developing impactful and sustainable enterprise models and Ocean Recovery programmes
Marine conservation	Preservation, protection and/or restoration of marine ecosystems
Marine improvement district	A funding model whereby businesses contribute a voluntary levy which can be used to raise finance for the local marine and coastal environment
Marine Protected Area or **MPA**	A clearly defined geographical space, recognised, dedicated and managed, through legal or other effective means, to achieve long term conservation of marine ecosystems
Natural capital	The world's stocks of natural assets including geology, soil, air, water and all living things
NGO	Non-governmental organisation
Nutrient offsetting	A method for managing nutrient use by placing a cap on total nutrient runoff losses within an area or catchment and introducing a system of nutrient allowances that can be bought and sold

Term	Definition
Ocean Recovery	The conservation and recovery of the marine and coastal environment
Ocean Trust	A governance structure for marine and coastal funding programmes (for example, the Blue Impact Fund and Ocean Benefit Fund, described in detail in section 4.2 Blue Impact Fund governance)
Offsetting	Payments for conservation or restoration activities to compensate for unavoidable environmental damages that occur during development
Philanthropic funding	Capital provided that aims to obtain broader societal benefits, and has no or a reduced expectation of any financial return
Place-based	Considering the specific needs of a local area
Principles	The Sustainable Blue Economy Finance Principles, created by WWF
Private capital	Funding provided by companies or financial organisations rather than government or the third sector
Public capital	Funding provided by government or public bodies
Revenue	Financial benefit that is realised from the sale of a product or service during a specific period
Section 106	Planning obligations under Section 106 of the Town and Country Planning Act 1990, are a mechanism which make a development proposal acceptable in planning terms, that would not otherwise be acceptable.
Sustainable Blue Economy	The development and growth of blue economy activities that are performed in environmentally beneficial and sustainable ways
Technical support	Assistance with technical, legal and financial matters to develop projects, tailoring them to investor expectations and aid investor understanding.
Theory of Change	A description and illustration of how and why a desired change is expected to happen in a particular context
Venture capital	A form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential

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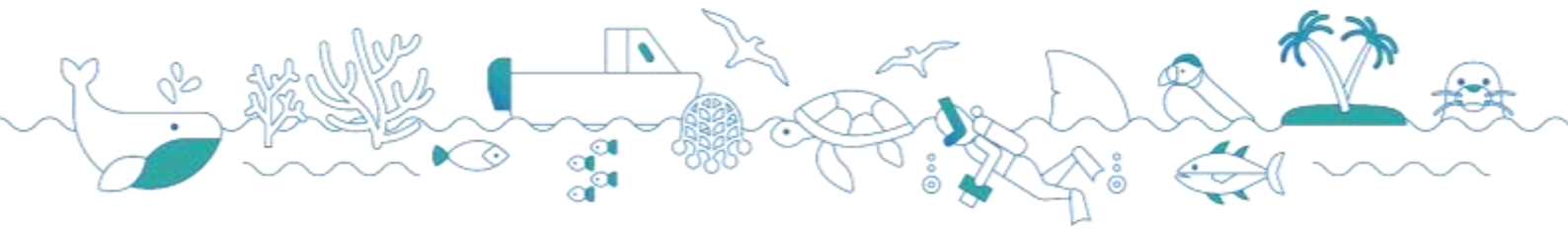

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