Food and Agriculture Organization
of the United Nations

FAO's
Blue Growth Initiative

Blue finance guidance notes

Impact investment

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Why impact investing?

The fisheries and aquaculture sector has been facing challenges to attract investment, because the value chain of this sector is complex and unfamiliar to financial institutions who have difficulties to establish a complete risk assessment framework before undertaking any substantive investments.

A report from The Nature Conservancy and Encourage Capital – 'Towards a Blue Revolution: Catalyzing Private Investment in Sustainable Aquaculture Production Systems' – notes the FAO forecast that the aquaculture sector will require an additional USD 150-300 billion in capital investment by 2030. It suggests that the sector has yet to attract significant capital for a number of reasons:

- Production systems are heavily capital intensive.
- Much of the required capital is for long-term periods.
- Some technologies are unproven at scale.
- Some businesses are early stage and therefore high-risk.
- There is a lack of investor-focused information on blue economy opportunities.
- There are few successful pilot projects to highlight possibilities.

This growth in aquaculture and small-scale fishery has the potential to cause significant environmental and social damage if it is done inappropriately. It is therefore vital to attract impact finance to drive growth towards sustainable forms of aquaculture with positive ecological and social benefits.

What is impact investment?

Impact investment is investing which seeks to generate a positive social and/or environmental benefit as well as a financial return. Investments could include companies, infrastructure, funds, land and non-profits. Impact investing can cover all asset classes, such as equities, fixed income, project finance, real estate and venture capital.

Impact investing asset class/returns rate spectrum

Key criteria and status quo of impact investment

While there is no absolute definition of impact investing, the Global Impact Investor Network (GIIN) assesses impact investing in terms of four key criteria:

- **Intentionality:** an investor's intention to have a positive social or environmental impact through investments.
- **Return expectation:** impact investments are expected to generate a financial return or, at minimum, a return of capital.
- **Range of return expectations and asset classes:** target financial returns range from below market to risk-adjusted market rate and can be made across asset classes.
- **Impact measurement:** the investor is committed to measure and report the social and environmental performance and progress of underlying investments.

The GIIN estimates the current size of the global impact investing market to be around USD 500 billion, with more than 1 300 investment organisations and over 425 available investment products.

Size of the impact investment market

$500
billions

1 300
investment organizations

425
investment products

Key actors of impact investment

- **Multi-lateral development banks and development finance institutions**, looking for large-scale positive socio-economic and environmental impacts.
- **NGOs and religious institutions,** looking for positive impacts aligned with their mission.
- **Philanthropic organisations and individuals**, looking for positive impacts, often to support specific goals.
- **Asset owners such as pension funds and insurance companies**, looking for positive impacts in line with their business objectives.
- **Asset managers, private equity and venture capital funds**, offering impact products for institutional and private clients.

Impact investment seeks to address major challenges such as renewable energy, sustainable agriculture, environmental conservation, poverty reduction and gender equality. The most recent data shows that 36 percent of impact investors were primarily seeking social impacts, 7 percent were seeking environmental impacts and 56 percent were considering both. The top Sustainable Development Goals (SDGs) targeted by impact investors were as follows:

Theme	Percentage of investors targeting theme
DECENT WORK AND ECONOMIC GROWTH	73%
NO POVERTY	61%
REDUCED INEQUALITIES	59%
GOOD HEALTH AND WELL-BEING	58%
AFFORDABLE AND CLEAN ENERGY	55%
GENDER EQUALITY	50%
SUSTAINABLE CITIES AND COMMUNITIES	50%
CLIMATE ACTION	50%
QUALITY EDUCATION	49%
RESPONSIBLE CONSUMPTION AND PRODUCTION	42%
INDUSTRY, INNOVATION AND INFRASTRUCTURE	41%
CLEAN WATER AND SANITATION	40%
ZERO HUNGER	38%
PARTNERSHIPS FOR SUSTAINABLE DEVELOPMENT	37%
LIFE ON LAND	27%
LIFE BELOW WATER	21%
Peace, justice and strong institutions	18%

As seen above, many impact investors are aligning their targets with the various Sustainable Development Goals.

The blue economy covers many of these goals, in particular:

- **SDG 14:** LIFE BELOW WATER;
- **SDG 12:** RESPONSIBLE CONSUMPTION AND PRODUCTION;
- **SDG 8:** DECENT WORK AND ECONOMIC GROWTH;
- **SDG 9:** INDUSTRY, INNOVATION AND INFRASTRUCTURE;
- **SDG 2:** ZERO HUNGER.

While many impact investors cover some of these themes, it is notable that the majority do not focus on blue economy SDGs and fewer than a quarter look at Life Below Water. There is therefore a significant opportunity to tap into the USD 500 billion of impact investment capital to leverage the blue economy.

Aquaculture has had some success in attracting commercial private capital, with a number of large-scale publicly listed aquaculture companies. However, in order to ensure that these projects are sustainably run, it would be beneficial to attract more impact investors into the sector, due to their focus on achieving and measuring net positive socio-economic and environmental impacts.

Attracting large-scale commercial finance to fisheries has proven difficult. This is mostly due to the high-risk nature of small-scale fishing, which is reliant on regional fish stocks and is vulnerable to disruption from factors such as weather. Furthermore, in order to restore fish stocks, a three-stage reform process is required.

The first two stages of this process generally incur costs without generating meaningful returns and are best suited to public funding. There are opportunities, however, for long-term patient capital which is focused on positive impacts to invest towards the end of the second stage and in the third stage of such projects, which is where impact investment may be most effective.

Design of policy instruments

↓

Delivery of policy instruments

↓

Creation of sustainable value chains

How does impact investment work?

Impacts measurement

Impact investors measure these themes in a number of ways:

GIIN sets out impact measurement best practice as:

Methodologies of enabling impacting investment

Impact investors are looking for projects or companies with a clear positive impact on society and/or the environment, with no obvious negative impacts elsewhere. Due to the wide range of impact investors, a project or company does not necessarily need to produce market returns, but would need to protect capital as a minimum and potentially deliver some positive return over time.

Qualitative information

e.g. information from stakeholders gathered via interviews

Quantitative metrics

e.g. number of jobs created directly and indirectly, tonnes of CO_2 saved

Metrics aligned to GIIN's IRIS methodology

The IRIS methodology is aligned with the Global Reporting Initiative (GRI) and provides standardised metrics to enable comparison between products.

Standard frameworks for example the SDGs

using the SDG targets to measure impact

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Establishing and stating social and environmental objectives to relevant stakeholders.

↓

Setting performance metrics/targets related to these objectives using standardized metrics wherever possible.

↓

Monitoring and managing the performance of investees against these targets.

↓

Reporting on social and environmental performance to relevant stakeholders .

Those projects or companies which deliver commercial rates of return may still want to attract impact investment due to its longer-term holding periods and its focus on sustainability. Impact investors also like to be able to quantify and measure the impacts if possible, but this is not necessarily a pre-condition if the project is clearly beneficial to society or the environment.

Impact investment has a number of ways to help small-scale fisheries and aquaculture. It is a major provider of microfinance, which has a positive social impact on small-scale fishing operators. The FAO, with support from Wilderness Markets and Conservation International, is looking to develop a Sustainable Fisheries Fund for the Western Central Atlantic. This fund would increase access to credit for small and medium-sized enterprises (SMEs) in the fisheries sector in return for the uptake of sustainable fishing practices. Impacts will be measured and monitored and therefore could attract investment from many different types of impact-focused organisations.

Impact investors also played a major role in financing a Blue Bond for the Seychelles Government. This bond is being used to finance the transition to sustainable management of its small-scale artisanal fishery, enabling the recovery of fish stocks and improved marine conservation. This bond was an important pilot project and the Nature Conservancy plans to roll out this model for a further $1.6 billion of private capital. Impact investors are a likely first port of call for this capital.

Pros and cons of impact investing

Traditionally, finance for sustainable development has come from two distinct sources: grants and donations from government and philanthropy, and private capital from commercial organisations. Impact investing offers a chance to blend these two sources, with both positive and negative consequences.

For governments and philanthropic organisations, investing in a project rather than donating to it enables money to potentially be recycled and used for other projects. Financial returns are much less important in this case and even zero-return projects allow capital to be re-used for greater impact.

Case study

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Althelia Sustainable Ocean Fund

Althelia Funds is an impact investor, recently acquired by the French responsible investor Mirova, which invests to protect natural capital, in particular forests and oceans. Its Sustainable Ocean Fund is being launched to create a portfolio based around three opportunities:

- **Sustainable seafood:** best-practice aquaculture and wild-caught seafood businesses that can be certified sustainable.
- **Circular economy:** key coastal infrastructure and businesses which unlock value from waste and pollution, especially plastics.
- **Ocean conservation:** coastal protection and management to improve biodiversity and resilience in coastal communities, creating business opportunities in tourism, payments for ecosystem services and blue-economy infrastructure.

The fund will target impacts across social development, livelihoods and net conservation, including:

- at least 17 500 ha of mangroves protected from deforestation and degradation, containing over 9m tonnes of CO_2e;
- produce at least 177 000 tonnes of climate-smart fish protein with a footprint of less than 0.58m t CO_2e;
- create or directly support more than 5 500 jobs in under-served coastal communities and indirectly support a further 14 000 jobs;
- finance the direct protection and sustainable management of more than 175 ecosystems.

The fund will focus on emerging markets and small island states and aims to invest in 15-20 projects with timelines up to 8 years. The fund is backed by a USD 50 million development credit facility with USAID, which will provide a principal protection guarantee for eligible projects in the portfolio. Investors in the fund include the European Investment Bank, Axa Investment Managers and the IADB.

Case study

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Encourage Capital

Encourage Capital is an investment firm which seeks to deploy private capital to address the world's most pressing challenges. The firm is focused on generating investment returns together with social and environmental impacts. In order to address the challenge of sustainable seafood, they are developing a strategy to invest in companies and projects which achieve three goals:

- promote sustainable seafood production;
- strengthen global food security;
- support coastal communities and ecosystems.

With support from Bloomberg Philanthropies and the Rockefeller Foundation, Encourage Capital has developed a number of potential strategies at local, industrial and global scales to improve the sustainability of seafood production. An example project – the Merluza Strategy – examines how artisanal fishing communities in Chile might be supported by restoring stocks of common hake, which have been over-fished and predated by jumbo squid over the past decades. By creating a supply chain which prohibits illegally caught fish and rewards sustainable fishing practices, the project aims to:

- restore fish stock biomass;
- enhance fishing community livelihoods;
- increase the number of seafood meals produced in support of local and global food security.

The strategy involves reducing hake fishing by more than a quarter, in order to allow stocks to recover. Mechanisms to achieve this reduction include:

- implementation of full vessel monitoring and catch documentation;
- replacement of all nets below a minimum mesh size;
- retrofitting hake fishing vessels to fish jumbo squid instead ;
- buying 60 percent of the industrial hake quota, re-allocating 80 percent to artisanal fishers and reserving 20 percent to allow stocks to recover;
- creating a vertically integrated hake and squid processing company, paying a 50 percent price premium for fully compliant catches.

The strategy suggests that a $17.5m impact investment could potentially generate returns of around 16 percent over a 10-year period.

However, creating an investable structure is not always viable and may restrict projects from achieving their maximum impact. For example, creating a microfinance scheme to lend money to communities which are most deprived may result in slightly negative returns as defaults exceed money repaid. The impact may still be very significant in raising a community out of poverty, but such a scheme could not be turned into an impact investment without guarantees that capital will be returned. This could be achieved via a blended finance structure in which public or philanthropic money covers any losses and impact investors are guaranteed a zero or positive return. There is a risk, however, that in order to create a positive return, those highest-risk communities will be denied access to capital, thus creating a sub-optimal project from an impact perspective.

For private capital, impact investing can offer market returns with additional positive environmental and social impacts. This can help asset managers to meet increasing demand from individual investors for products which have a positive benefit to society. It also enables asset owners to align their investments with their beliefs, for example in the case of non-governmental organisations (NGOs), religious institutions or pension funds for the health or education sectors. On the downside, some investments offer sub-market or zero returns, making them suitable only for a small number

of investors. Investors also have greater due diligence and reporting burdens as they need to assess and report on the impacts as well as the financial performance of their portfolio.

Across the impact investment spectrum, other issues include:

- The availability of exit options – how do investors get their money back in a given timeframe?
- How well are impacts measured and monitored?
- Lack of track record for many investments;
- Lack of experienced business managers to run projects and companies;
- Creating suitable structures to attract private investment.

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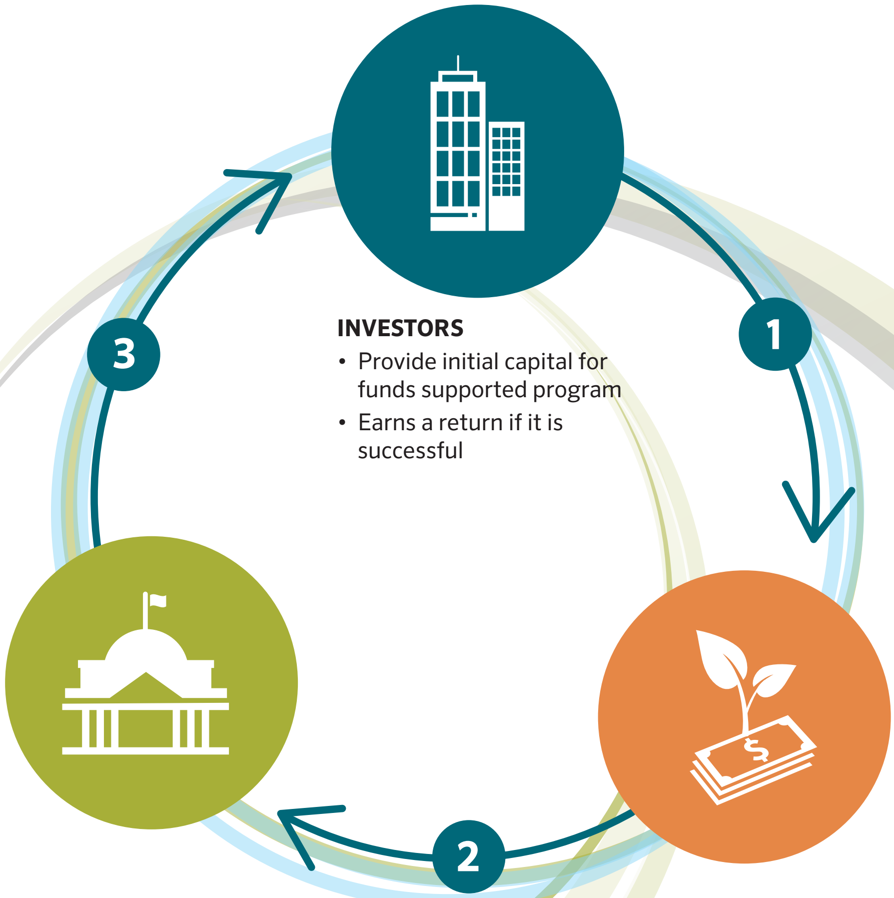
Key actors for impact investment



INVESTORS

- Provide initial capital for funds supported program
- Earns a return if it is successful

SOCIAL SERVICE PROVIDER

- Address a social issue through their social impact activities
- Pay for successful social outcomes to investors

FUNDING CHANNEL INTERMEDIARY

- Identify issues address able with funds
- Facilitate collaborative design and fund flow
- Support service providers with technical assistance, monitor project progress and economic valuation

Financial investment in the fisheries and aquaculture sectors has traditionally been limited. Fisheries and aquaculture sectors' production and profitability have historically been rather unpredictable. Therefore they presented risky business models for the financial sector. However, our understanding of how to manage this unpredictability, through established best practices and ever improving technology, is shifting this paradigm. The financial sector and fisheries and aquaculture sectors can mutually benefit from collaboration given the important scale and economic impact of these sectors, including contributions to employment, value addition and food security. The Blue Finance guidance notes, prepared under FAO's Blue Growth Initiative, include brochures on microfinance and insurance for small-scale fisheries and small-scale aquaculture producers, blue bonds, blended finance and impact investment. The brochures aim to provide governmental, non-governmental, private and public stakeholders with information, resources and concrete pathways for obtaining finance to support blue growth transitions at local, national, regional and global scales.

The Blue Finance Guidance Notes series includes:

- Microfinance for small-scale fisheries
- Blue bonds
- Insurance for small-scale fisheries
- Blended finance
- Aquaculture insurance for small-scale producers
- Impact investment

Food and Agriculture Organization of the United Nations
Fisheries and Aquaculture Department
Viale delle Terme di Caracalla
00153 Rome, Italy

FI-Inquiries@fao.org www.fao.org/fishery/en
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