Executive Summary

Make Money Matter: Expanding Impact Investing for Sustainable Oceans, Fisheries, and Livelihoods

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pfc social impact advisors
creative solutions for complex times

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Acknowledgement
Our Team, Our Approach, Our Appreciation

The pfc team brought together colleagues representing skills in deal making, finance, fisheries, conservation, academia, advocacy, and philanthropy. This diversity of perspective represents the approach we take in our social investment—be creative, challenge assumptions, listen, adapt, and refine. Many thanks to Hari Balasubramanian, Mick Blowfield, Mark Campanale, Jim Litwin, Rares Pamfil, and Jenn Pryce. We appreciate the support of Research Fellows Srijita Chakraborty, Alexis McGivern, and Harrison Pharamond in keeping our research current and ideas flowing.

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Executive Summary

"Our only security is our ability to **change**."

— Philip Lilly

More than three billion people depend on the ocean for their livelihoods and for sustenance, the vast majority of whom live in emerging markets around the world. As the largest connected biosphere on Earth, the ocean is home to an estimated 50-80 percent of all life and plays a critical role in stabilizing our ever-changing climate. The ocean generates 50 percent of the world's oxygen and absorbs 25 percent of carbon emissions from human activities.[1] As the source of millions of jobs across multiple sectors including fishing, tourism, and transport, the ocean contributes at least $1.5 trillion annually to the global economy (more recent estimates value the ocean's contribution closer to $2.5 trillion).[2] Our health, well-being, and prosperity are inextricably linked to the sustainability of the ocean and its vast biodiversity. This interconnectedness is a fundamental component of sustainable development, and nowhere is this more evident than in small-scale fisheries.

Depending on the region, fisheries are the source of 15-20 percent of human protein, especially in highly populated regions of Asia such as China, Japan, and Indonesia.[3] About 95 million tonnes of wild-caught fish and other seafood are landed each year,[4] on top of 100 million tonnes of farmed fish produced by the rapidly expanding aquaculture industry.[5] Although industrial fleets account for most wild-caught fish, 40 percent of total catch comes from small-scale fisheries globally. These fisheries are more prominent in emerging markets—representing 66 percent of total catch in Africa and 47 percent in Asia—where they have a significant impact on local food security and nutrition.[6]

Small-scale fisheries collectively represent the ocean's largest source of employment, providing more livelihoods than industrial fisheries, oil and gas, shipping, and tourism combined. An estimated 113 million people, 45 percent of whom are women, depend on small-scale fishing for their livelihoods—60 million employed by small-scale fisheries and another 53 million who engage in subsistence fishing. When average household size is considered, this means that the livelihoods of nearly half a billion people depend at least partially on small-scale fisheries.[7]

And yet, despite the profound impact on the lives and livelihoods of billions of people around the world, the ocean and fisheries are often overlooked when it comes to financing sustainable development. Recent studies have estimated a total annual funding gap of $150 billion for ocean conservation.[8] Among the United Nations' seventeen Sustainable Development Goals (SDGs), SDG14—"Life Below Water"—is among the least funded.[9] Between 2010 and 2020, only $13 billion was invested to support a sustainable ocean economy, primarily through philanthropy and official development assistance (ODA).[10] This funding gap needs to be addressed, as the ocean and those who rely on it for their livelihoods are under increasing pressure due to climate change, illegal and unregulated fishing, plastic pollution, and numerous other factors negatively affecting ocean health. Climate change alone threatens to reduce fish stock in certain tropical regions by 30-40 percent by 2100.[11] This would have a profound negative impact on small-scale fisheries and coastal communities that lack the financial resources and support to adapt.

Our Goals

How can financing be mobilized to ensure the sustainability and prosperity of oceans, fisheries, and coastal communities around the world? This report provides a snapshot of sustainable ocean investing to date and articulates pathways for helping sustain oceans, fisheries, and the communities that depend on them. Our team's goals were to better understand challenges and to intuit ways to overcome barriers to leverage new resources for sustainable oceans and fisheries.

The pfc team, comprised of colleagues from finance, academia, sustainable fisheries, and socially responsible investing, examined 155 sustainability funds (100 non-fisheries funds and 55 fisheries funds) to understand what is working and what needs to improve in order to achieve the ambitious UN SDGs. We had confidential conversations with more than 50 colleagues from finance, fund management, non-profit organizations, and donors to hear their perspectives. We are thankful for their candor and for allowing us to include quotes to help give their experienced voice to this analysis.

Throughout the report, we consider how to leverage more money and support from mainstream financial institutions, and what organizational changes are needed to increase access to capital for sustainable fisheries. We place a particular emphasis on the relationships that sustainable fisheries funds have with intermediaries and nongovernmental organizations (NGOs) and community-based organizations (CBOs) where much of the real work of helping fisheries and fishing communities takes place.

Headlines

The report's headline: sustaining oceans, fisheries, and fishing communities requires more money and more intentionality in spending those resources. As team member Dr. Michael (Mick) Blowfield adds, "and not just money thrown willy-nilly at anything that smells of fish." Fishing communities face layer upon layer of challenges ranging from climate change and overfishing to corruption, slavery, and inequality. Fisheries cannot navigate this complexity alone—finance with purpose, along with tailored non-financial support, will enable fisheries, fishing communities, and investors to tackle these challenges together.

Funding itself needs to be more creative and collaborative. It requires blended capital deals that reduce dependency on philanthropy while creating and testing new forms of cross-sectoral funder collaborations that work at scale.

The Opportunities for Foundations

Foundations can play several important roles:

- First, foundations can serve as important navigators and translators to mobilize capital and overcome communication barriers between investors and communities. The report refers to these barriers—which interfere with partnerships to achieve a shared vision of ocean and fisheries conservation—as 'Lost in Translation.'

- Second, foundations can serve to create transparent feedback loops as new forms of collaborative investments are made. Sharing this knowledge and information fieldwide will help expand investing wisely and efficiently. We simply don't have time to waste on reinventing the wheel with every transaction.

- Finally, foundations can become more educated about impact investing to serve as effective advocates for oceans, fisheries, and coastal communities.

Below are highlights from the first four chapters of the report.

Chapter 1: Finance with Purpose

Chapter 1 provides a big picture of the world of investment funds that have the specific intention of promoting social and environmental sustainability. We examined more than 100 funds, taking environmental, social, and governance (ESG) factors into consideration when making investment decisions. Mostly, this chapter focuses on impact investment funds where there is a much more discernible sustainability purpose. Of particular interest were funds that have scaled, especially where they have expanded from discretionary capital to attract mainstream capital. We looked for fund trends and innovations over a period of 15 years, focusing particularly on the areas of sustainability and conservation that have received the largest investments over time: financial inclusion, healthcare, clean energy, forestry, and agriculture. We examined ways in which funds are financed and structured and why they succeed or stumble. Our goal in taking this macro-perspective of sustainability funds was to understand key lessons that can be applied to sustainable fisheries funds.

Chapter 2: Mobilizing Private Capital

Chapter 2 attempts to answer two questions: Why is private capital slow to invest in sustainable fisheries? How can existing incentives and structures mobilize more private capital? If oceans and fisheries funds are to grow to a size where they make a significant difference to sustainability, then they need to be attractive to large investment institutions that have access to major capital markets and are trusted by large institutional investors. This chapter examines what large fund managers and mainstream financial institutions are looking for in order to be more active in oceans and fisheries. It looks at the criteria large fund managers use when making investment decisions and assesses whether impact investors are giving these proper considerations. It also examines what incentivizes fund managers and others in financial institutions, and how remuneration packages, bonuses, etc. motivate industry professionals to take impact investing seriously.

We analysed business objectives, compensation and bonuses, and organizational culture, along with external incentives such as regulation, tax advantages, and shareholder accountability. The focus is mostly on unlisted investments (private equity and private debt), which provide growth capital for sustainable fisheries and conservation finance. Finally, in a separate section on seafood businesses, divestments, and shareholder advocacy, we explore investments in listed equities and ways investors can avoid supporting companies that negatively impact fisheries and fishers.

Chapter 3: A Community Perspective—Lost in Translation

Making oceans and fisheries an attractive investment opportunity for more and larger investors is important in order to meet sustainability goals, but it needs to be done while simultaneously benefiting those closest to and most dependent on the oceans' natural resources. This chapter explores fishing communities' priorities and their crucial role in achieving sustainability. Just as fund managers have criteria to determine if they are willing to go down the oceans and fisheries investment route, so communities have their own criteria for what are attractive or unattractive opportunities. The chapter uses cases from Mexico, looking through different lenses such as type of community, position in the supply chain, and notably the often-overlooked aspect of gender.

The financial ecosystem for oceans and fisheries is described, and particular attention is given to intermediary organizations that play a vital role linking investors with communities. It concludes with a comprehensive array of suggestions about how to meet the challenges for stakeholders throughout the ecosystem.

Table 1: Examples of recent funds with commercial investment

- S2G Ventures' S2G Oceans fund
- Credit Suisse and Rockefeller Asset Management's Ocean Engagement Fund
- BlueFront Equity (Norway)
- Neptune NRCP

Chapter 4: A Look Back, A Vision Forward

This chapter examines 55 sustainable fisheries funds from 2008-2020 with estimated assets under management (AUM) of at least $3.5 billion. The analysis looks at trends in fund development, size, scope, and geographic distribution. We also provide an overview of Walton Family Foundation (WFF) grantmaking contributions to the field of sustainable fisheries by priority areas and geographic distribution. Finally, we summarize lessons and suggestions from fund managers, foundations, and nongovernmental organizations (NGOs) involved in impact investing and examine efforts to leverage private capital to support oceans and fisheries conservation.

A Sustainable Fisheries Primer is available to provide information about innovations in investing to support community-based fisheries. It describes innovations supporting small-scale fisheries, livelihoods, and new financial tools including insurance, resiliency notes and bonds, and credits.

Celebrate and Crack Open the Champagne? Yes, No, and Maybe

In the last dozen years, there has been a significant increase in the number and size of funds focused on sustainable oceans and fisheries. Today, there are about 55 funds, compared to under five in 2008. Over that same period, assets under management have risen from $1 billion to over $3.5 billion. What's more, there has been a marked shift from philanthropic to commercial investment, and there has been a significant increase in innovative finance involving large financial institutions over the past five years (Table 1).[12] There seems to be a story of healthy growth in a sector that is especially important to the UN SDGs.

So, should we be cracking open the champagne (or not) when we consider these achievements?

'Yes, No, and Maybe' is never a satisfactory answer, but it is probably the most accurate one given the current situation. We can celebrate the growth in available funds and finance, and we should not ignore how the theory of change philanthropies pursued – initial non-commercial investment demonstrating the viability of funding a hitherto neglected aspect of sustainability – has borne fruit to a degree. But there are also at least three strong reasons to temper celebrations.

First, overall growth hides where the funds are investing. Sustainable aquaculture attracts by far the most investment, accounting for about 66 percent of AUM. This corresponds with the global expansion of aquaculture more generally. Wild-caught fisheries are arguably an area where there is the greatest need for investment, but it accounts for only 20 percent of AUM. Although there are signs of an uptick, investment in wild-caught fisheries is on the verge of being overtaken by investment in ocean health, especially plastic pollution, which is a very new area for funds. It's important to note that certain aquaculture and fishing practices can be very damaging to oceans and coastal communities. The link to sustainability cannot be taken for granted; funds need to carefully measure and monitor the impact of their investments to ensure they are promoting socially and environmentally responsible practices.

Second, the amount of funding by itself does not tell us anything about whether money is going where there is the greatest need. There is some correlation between investments and the primary fish production and marine economy jurisdictions, but there are significant difficulties in getting funds to community-based fisheries, which are important to resource management and exploitation. There is a sourcing, diligence, scale, and transaction cost limitation to aligning funding sources with high-impact, local solutions. Addressing the needs of fisheries will require new ways of thinking and deal making—approaches focused on partnering with communities that have the local knowledge to build lasting solutions.

Third, fisheries and ocean funds, although growing, are a tiny fraction of global capital. In the mainstream capital markets, individual funds of less than a billion dollars are considered small, whereas in fisheries a fund of $100 million is considered large. Furthermore, oceans and fisheries are amongst the most poorly funded dimensions of the SDGs, and they are not a common object for impact investing. More needs to be done to communicate the case for investment. The lack of interest from mainstream capital markets ignores the vital importance of the oceans and fisheries in the global effort to address climate change, food security, and gender equality.

If this situation does not change, oceans and fisheries will continue to decline, hindering our ability to meet the SDGs and to foster a sustainable future for humanity. Funds will remain dependent on discretionary capital, and they will be largely unable to tap into the much larger pools of commercial capital necessary for genuine and far-reaching transformation. Simply stated, they will struggle to be competitive in an increasingly crowded impact investment space. They may also eventually come to be seen as too high risk, and something best left to governments and development agencies.

Research Focus: Expand Investing for Positive Change

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Can this be prevented from happening? What is the added value that impact investing in fisheries can bring? Drawing on the evidence from the collective research, we will consider these key questions below. Our focus is on scaling – increasing the amount of investment and its impact in the oceans and fisheries sector. We look at the following topics and make suggestions for the kind of interventions that are needed to make expansion possible.

- Assessing the essential ingredients for expanding investment in sustainable oceans and fisheries so that funds are allocating billions of dollars, not millions, to this overlooked sector.

- Increasing the involvement of large financial institutions and mainstream capital markets by demonstrating successful approaches to help fund managers and others recognize that this is a viable investment approach. This includes finding ways to de-risk investments, including using blended capital structures, to make investments more attractive to mainstream markets.

- Ensuring that funds in this sector are having a positive sustainability impact, recognized not just by investors but throughout the fisheries supply chain.

‘From Millions to Billions’ – A Realistic Aspiration or Not?

There are two significant problems surrounding investment in oceans and fisheries.

First, mainstream investment in fisheries is often opaque with large funds happy to invest in companies with little supply chain transparency. As a result, even funds that burnish their ESG (environmental, social, and governance) credentials can be investing in companies that are having a negative environmental impact through overfishing and other practices.[13] The challenges are not insurmountable, as the thematic public equity fund Credit Suisse and Rockefeller Asset Management’s Ocean Engagement Fund has demonstrated. But there is a real risk that mainstream investment in aquaculture and wild-caught fisheries is worsening rather than solving sustainability challenges – or at best the environmental impact is unknown.

Levers for Change – Unaccountable Mainstream Funds

- Support robust sustainable fisheries policies at the national level.
- Support greater supply chain transparency requirements on stock exchanges.
- Build public and shareholder awareness of sustainable fisheries issues.
- Support investments both in high-performing sustainable ocean companies and activist approaches to laggards.

The second fundamental problem is that fisheries impact investment funds are not scaling in the way that’s required to bring about transformational change. This is not a problem unique to fisheries; it is one found in relation to various social and environmental challenges, and it has led to a situation where some elements of the SDGs are seen as more ‘investable’ than others (e.g., financial inclusion rather than education).[14] Oceans and fisheries are an area where, even by impact investing standards, funds are struggling to scale. Like any sector that is dominated by small funds, the impact in this area will fall well short of sustainability ambitions if funds are unable to attract mainstream capital. Some interviewees fear the sector will reach a dead end if this does not change.

What are the main obstacles that prevent scaling mainstream capital from happening? Or just as important, how have some of the larger, recent funds managed to overcome such obstacles?

Investability

There are various impact investment asset allocations (e.g., private debt, impact bonds, private equity, real assets), and there is no inherent reason why they should not be applied to fisheries. The most common class for impact investment as a whole is private debt, but for natural resource-oriented investments, real assets such as farmland and forests are also common.[15]

Therefore, the types of asset allocation are not a barrier—rather, the difficulty lies in the sorts of investment opportunities available. Overall, impact investment tends to gravitate towards asset-backed investments that give the investor the comfort of collateral (e.g., solar panels, buildings). their social or environmental benefits, have the look and feel of conventional opportunities, and are therefore easier to value and assess.

Natural resources are more complex. There can be a mix of investable assets (e.g., fish, timber) and what have hitherto been considered externalities (e.g., biodiversity, carbon sequestration, local community benefits). NGOs and governments often recognize the importance of externalities, but there is far too much difference of opinion and lack of standardization for investors to feel comfortable about rigorously and consistently including such factors in valuations. Marine fisheries introduce another degree of complexity to this because what might be considered 'investable assets', notably fish, often move between jurisdictions and cannot be 'owned' in any conventional sense. In addition, the transaction cost of financing sustainable, small-scale fisheries can prove to be a significant barrier for some investors.

Until the sustainability value of an investment is properly recognised and translated into investable assets, scaling will remain problematic. This, in turn, increases the risk that assets with the highest sustainability value will be marginalized in favor of ones that are familiar to the investor mindset. Some people think there is a race to create price signals for the positive externalities of natural resources, recognizing them as a kind of natural infrastructure asset class that provides renewable, environmentally sustainable goods and ecosystem services. There is some momentum in this direction in important financial organizations such as central banks and the likes of the OECD (Organisation for Economic Co-operation and Development)[16] But until externalities are properly integrated into accounting (thus disclosing the true cost of doing business), the sustainability value of oceans and fisheries risks being overlooked, and the sector will be seen as something too risky and complex in which to invest.

A common framework for investing in oceans and fisheries is needed to promote best practices and ensure the integrity and transparency of capital invested. The Green Bond Principles established by the International Capital Market Association (ICMA) in 2014 serve to guide the use and management of funds and the processes for evaluation, selection, and reporting for projects that contribute to environmental sustainability. A similar framework should be created for 'blue bonds' to advance the development of the oceans and fisheries investment ecosystem. The establishment of a set of common impact metrics for oceans and fisheries investments would be an important step in the right direction, but more work needs to be done in this area.

Policy and Regulation

"Policy is the driver for all ocean change." Regulation can accelerate the transition to sustainability in financial institutions that are otherwise slow to move and that lack a culture of innovation. These are opinions shared by several interviewees. Governments can develop policy and regulate at national and transnational levels, and creating a level playing field for aquaculture (and especially wild-caught fish) is important for the international fish trade and investment.

Some of these fund managers welcome recent government EU (European Union) regulatory decisions. For example, the Markets in Financial Instruments Directives (MiFID II) has been welcomed as a 'tectonic' game-changer. MiFID II requires wealth managers to actively discover clients' ESG preferences, and makes it illegal not to act on those preferences when making investment decisions. It has led once reluctant wealth managers to engage in sustainability conversations, and the resulting shift in attitude left at least one fund manager's head of impact investing "jumping for joy."

The impact of regulations is even greater when they are part of a coherent policy agenda that, in the case of Europe, includes a multinational Green Deal—a move to establish common standards on sustainable investment—and capital investment initiatives such as the European Investment Bank's Blue Economy Initiative.

Levers for Change – Strong, Comprehensive Government Programs, Designations, and Policies

- Engage with government as part of the process of creating a strong investment ecosystem.
- Understand the complexity of sustainable fisheries: it is multi-dimensional and concerns more than just fish.
- Support partnerships between government and other stakeholders (including investors) at the international and national levels.

Government policy and regulatory changes are only one part of the equation. Policy change is important to solve the complexity of fisheries investment, but it depends on having a dependable government that can tackle not only fishing, but also the other issues that get in the way of deal making such as corruption, slavery, climate, and poverty.

Funds and the investment industry more generally could play a bigger part in this kind of policy discussion. There is an appetite amongst some funds to make their voice on sustainability better heard, and the appetite for this is likely to increase due to the integration of sustainability into investment mandates and the increased participation of investors in global climate change discussions, such as the UNFCCC.

Apart from government, there are regulatory improvements that could be made at the level of stock exchanges (e.g., rules on disclosure and transparency regarding fisheries for publicly traded stocks), investment funds (e.g., regulation about the non-financial aspects of fisheries investments), and fisheries-related companies. Individual funds may have impact measurement and management practices, but these are used as part of a fund's comparative advantage, rather than something to be shared and applied across the fisheries investment sector. Fund managers such as BNP Paribas Asset Management are amongst a growing segment involved in sustainability-related shareholder resolutions.

Levers for Change – Policy Beyond Government

- Help fisheries funds to align with new regulatory changes and directives required of financial institutions whose financial position and leverage capacity give them significant clout with government and industry.
- Support convergence on data metrics to establish consistent measurement and reporting around oceans and fisheries.
- Help funds and other stakeholders to use the momentum created by recent directives and regulations and upcoming summits (e.g., the Paris Agreement, COP26, MiFID II).

Investor Education

Investors are moved to invest in what is visible and tangible. Key aspects of sustainable fisheries such as overfishing are literally under the water, and not visible to the naked eye. By contrast, images of plastic-polluted oceans have supported the increase in investor demand for clean oceans funds.

Educating investors about sustainable fisheries is essential to the future of fisheries funds. Here are some of the ways this could be done to better position fisheries investments for investment capital:

- Frame fisheries within the context of a global emergency. As COVID-19 has shown, asset owners respond quickly to global events and crises.
- Link fisheries to other impact focus areas that have drawn public attention, such as climate change. Find links to issues that are already salient to investors (climate change is the standout, but ocean health is relevant, too), or find ways to increase the importance of fisheries within SDG14. The latter is particularly important as wealth managers and advisors increasingly ask clients to rank SDGs as part of client onboarding.
- Link fisheries to other well-funded instruments and markets. Getting sustainable fisheries recognized as a form of carbon offset, for instance, would allow them to tap into billions of dollars of funding as carbon offsetting moves mainstream. Another approach is to show that investing in fisheries saves costs in other areas of impact investment such as healthcare or social insurance.
- Help investors develop an emotional connection to the cause. High net worth individuals are amongst those who invest when they are passionate about a cause. Organizations that work with such people can play a role in helping investors or donors identify how they may have a personal connection to fisheries.

Levers for Change – Making Oceans and Fisheries Visible

- Approach sustainable fisheries as a communications and awareness issue, rather than purely an investment one.
- Encourage ways to piggyback on existing interest in sustainability issues (e.g., climate change, biodiversity).
- Support improved communication between the investment community and the sustainable development community so that they can understand each other's viewpoints and red lines.

Investment Ecosystem

The sectors with relatively large impact investment funds, such as microfinance and clean energy, are ones with a well-developed investment ecosystem. Such an ecosystem has the following features:

- **A broad range of investors and accessible affordable investment products enabling access to capital for organizations at different stages of development** (e.g., angel investing and venture capital at the start-up stage, private equity at the growth stage, private debt to scale and the ability to access public markets equity and bonds at the expansion stage[17]).

- **A healthy market for buying and selling assets so that entering and exiting the market is relatively straightforward.**

- **Multiple types of limited partners** (e.g., pension funds, endowments, development finance institutions, family offices).

- **Government policy supportive of sustainability goals.** In sectors such as forestry and agriculture, there may also be market-based conservation/sustainability standards that act as a proxy for good management (e.g., Fairtrade, organic, responsible forest management). The Marine Stewardship Council provides a similar certification service in fisheries.

- **Products and services to assist the investment community in constructing, implementing, and managing sustainable investment strategies** (e.g., sell-side research firms offering data products and services such as ESG data and ratings, portfolio analytics, controversy alerts, and engagement services).

- **Groups of stakeholders such as NGOs wanting to influence what sustainability impacts an investment should deliver.** Some NGOs may also have their own funds available for investment.

The Role of Family Offices

Family offices are an important part of the investment ecosystem in several sectors, including fisheries. There are five main reasons for this:

- **They have longer time horizons than many investors** because of their mandate to preserve wealth across generations.
- **They are far more nimble than institutional investors, pension funds, or trusts,** which have more restrictions on how capital is used.
- **They are happy to integrate family values into their investment approach,** either because younger generations are reflecting on the purpose of money, or because older generations are concerned with their legacy.
- **Family office investment teams are not incentivized by 'impact carry'** (see below), and can therefore prioritize sourcing the investments that are right for the family's values, rather than personal gain.
- **Family office investment teams can be mandated to execute investments that provide concessionary returns**, in some cases allocating nearly all of their wealth to impact portfolios.[18]

There are downsides to working with family offices:

- They can be restricted because of the way they behave.
- They may focus on issues that are important to the family rather than consider what's a sustainability priority in a broader context.
- If a particular family office is seen as owning an issue, others might be dissuaded from investing in it.

- They may place unique restrictions and uses on their investments that create operational inefficiencies and limit scale for the fund manager.
- They can unpredictably change investment priorities and potentially undo advances in important investment areas such as oceans.

Levers for Change – Building Investment Ecosystems

- Invest in building a market rather than trying to pick individual investments.
- Construct a theory of change for oceans and fisheries built on an ideal investment ecosystem.
- Identify the key gaps in the investment ecosystem and use this as a basis for a strategic approach to capacity building.
- Consider the most impactful role family offices can play to strengthen the ecosystem.

Scaling: Fund Managers’ Perspectives

If oceans and fisheries funds are to scale, they will need something more than answers to the issues highlighted above (favorable regulations and directives, investment ecosystem, investor education, etc.). At present, the sector is dominated by small impact investing funds with a strong commitment to sustainability objectives, and fund managers at large institutions who are largely agnostic to or ignorant of non-financial impact.[19] The latter are particularly important if the sector is going to become part of those institutions’ product offerings. What fund managers want to know is if funds in this sector can deliver market returns and positive impact, and if managing these funds is financially compelling for managers themselves.

What Prevents Funds from Accessing Institutional Capital?

Each type of commercial financial institution that manages capital for sustainability has its own barriers to increasing access for clients. (Table 2)

Table 2: Fund-level barriers to scale

Banks (wealth management/private banking, and investment banking divisions)	Internal economics, operational policies and procedures, and compliance and legal guidelines favor large, highly commercial investments such as aquaculture, typically from fund managers with a track record. Changing priorities and leadership – “One day oceans fund, the next day energy.”
Private Equity Fund Managers (including venture capital)	Difficult to fundraise first-time funds. Apparent lack of investable business models around wild-caught fisheries.
Public Markets Asset Managers	Lack of data on exposure to fisheries in their portfolios and on the sustainability of their supply chains. Limited incentives to fund research on niche topics, such as biodiversity or conservation.
Pension Funds	Customers are just beginning to demand accountability for their portfolios. Debate about performance and fiduciary duty continues to slow transition, as does the lack of product availability.

Some of the recurring problems are:

- **Size.** Fisheries are an example of where deals are too small and uneconomical for the institution's existing distribution channels. Furthermore, managers are not incentivized to focus on such funds (e.g., banker bonuses are based on a percent of investment size).
- **Novelty.** The fisheries sector is amongst the sectors where impact investment funds cannot demonstrate the kind of historical track record for which institutional managers are looking. Also, their returns are often below the expectations of ambitious investors.
- **Slow demand.** Many clients express a general interest in impact investing and the dimensions of sustainability, but there isn't a strong enough tangible demand for this to register with conventional wealth managers and other decision-makers.
- **Limited expertise.** Institutions have only recently begun to develop impact investment capabilities.
- **Limited training.** Relationship managers—who are crucial to investor choices—are not trained to discuss impact products. In fact, their incentives are often linked to successful transactions, which leads them to sell products with which they are more familiar.
- **Reputational and regulatory risk.** Since 2008, banks have changed incentives to avoid scandal, complaints, or litigation, and the resultant risk and controls framework creates barriers for products that are unique or that lack a track record.
- **Illiquidity and risk.** Impact investment seeking sustainable outcomes can demand longer tenures, and many investments don't have a natural exit (IPO or acquisition) to create a liquidity event for investors. Lack of liquidity narrows the amount of investor capital.

When it comes to oceans and fisheries funds, to address these barriers, fund managers are paying attention to the following aspects of the deal-making process[20]:

1. **Deal flow.** There is a disconnect between the demand for investment from fisheries projects and conservation practitioners and the struggle fund managers claim to have when it comes to deploying capital, especially at scale. The deal flow challenge can only be overcome if there is a balance between supply and demand, and that, in turn, requires different actors in the investment supply chain to have a better understanding of each other. This issue, which has been called 'Lost in Translation', is something we examine deeply in Chapter 3 of the report.

2. **Sourcing.** Fund managers are struggling to find investment deals. The trusted deal flow channels in capital markets have largely missed the sustainable fisheries sector, and the emerging incubators and accelerators are too few, too small, too early, or too bespoke. Deal size is a critical barrier. Small deals and large deals are equally resource-intensive, and large capital holders are typically unable to execute efficiently on smaller or pre-commercial opportunities.

3. **Diligence.** Once deals appear, there is a challenge to vet them through conventional diligence processes. Project owners may not come from a background to articulate the economics and business models in a way that makes sense to financial professionals. In sectors like fisheries, there aren't enough investable assets and investment-ready projects to warrant employing subject matter experts. Such experts are common in mainstream investment, and without an equivalent in sustainability funds, they are open to accusations of 'greenwashing.'

4. **Transaction and structuring.** If a deal gets to the execution phase, barriers remain if something other than a vanilla debt or equity instrument is used. Due to the nature of sustainable ocean investments, multi-layered, risk-adjusted, and complex deal structures are required. Investors might want to keep the structure and terms simple because they are already taking a leap into a new sector. Equally, investees may already be wary of private capital, and adding complex deal structures might put them off entirely.

5. **Management and oversight.** There is a dearth of operating and scaling expertise in this space, which means many firms need to outsource support. Some notionally consider this technical assistance, while many consider it part of conventional operation and management (O&M). There is often an increased cost burden to find and source dedicated expertise to help portfolio companies achieve performance metrics and key performance indicators (KPIs).

6. **Exit.** While onboarding portfolio companies is an upfront challenge, there is also the consideration of where these entities will graduate to (and therefore how to realize liquidity in investment). Even if your fund has all the expertise and tools to deliver on an investment, without an ecosystem of financial actors, there are limited exit opportunities and liquidity events.

Wrestling with the Business Model

Table 3: Constraints on making deals with different elements of the wild-caught fisheries value chain

Investment Opportunity	Investment Opportunity Constraints on Making Deals
Enabling Environment	■ Lack of rights related to the natural resource ■ Poor enforcement and management of natural resources ■ Poor data availability of the resource, landings, and resource dependence
Producers / Harvesters / Fishers	■ Lack of viable investable and/or bankable entities ■ Lack of sustainable upgrading strategies ■ Excess capacity
Processors	■ Excess equity and/or capacity ■ Lack of sustainable upgrading strategies
Distributors	■ Lack of control over the natural resource ■ Concern over country risk

A problem that fund managers have with fisheries is the frequent absence of a clear, replicable business model. Aquaculture is more attractive than wild-caught fisheries because it offers a strong business model that can show predictable revenue streams. Success begets success, and over time, fund managers can see a demonstrated track record that in turn attracts more investment. The same is not true of wild-caught fisheries. There is not a pipeline of viable business models for such fisheries, and deals are not showing up in the marketplace. Moreover, as Table 3 demonstrates, there are constraints on deal making wherever one looks at the wild-caught fisheries' value chain.

Levers for Change – Winning Over Fund Managers

- Develop models of moving from discretionary capital to traditional finance, for example, through pilots of market connectivity to move from concessionary capital to private capital.
- Develop C-Suite relationships to leverage investment opportunities through collaborations.
- Help build the financial case for impact investing in the sector, so that advocates inside and outside of funds can present equally strong sustainability and financial cases.
- Invest in capacity building amongst fund managers, so that pinch points in the deal-making process are removed.

What Facilitates Fund Manager Buy-in

If deals were easier and business models stronger, this would only lead to a growth in oceans and fisheries funds if there were favorable incentives for fund managers to take a risk in this relatively new and unknown sector. Impact investing advocates bring a passion for sustainability, but that is not the first thing seasoned fund managers in large financial institutions are looking for. They want to be convinced that this is a great opportunity for them as individuals and their teams. According to financial institutions we spoke to that had made progress in this area, the following factors were deemed important to address[21]:

- **Business objectives and KPIs (Key Performance Indicators).** There are several ways to incentivize senior management and business units to make sustainable investments, including: a) setting broad sustainability targets at the group level; b) agreeing on specific sustainability goals in a process led by a group sustainability team; and c) providing sustainability committees with senior-level representation an opportunity to define and communicate institutional commitment.

- **Personal KPIs and bonus compensation.** Compensation models vary by business unit and role, but typically managers are rewarded based on scale and volume. There is a tangible trade-off between sustainability impact and compensation: a €50 million impact transaction will struggle to compete with a €300 million oil and gas derivative for example. Institutions that have tackled this dilemma have adjusted bonus structures to ensure impact transactions can compete for managers' time.

- **Compensation levels.** Until recently, impact investing managers have been less well rewarded than mainstream fund managers for reasons such as length of experience and size of funds. Now, there are signs of a war for talent with large institutions looking to recruit stronger and better impact capability into their listed equities business for example.

- **Talent and training.** A shortage of people with financial and sustainability expertise is also holding back the expansion of impact investing in large institutions. Schroders' strategic investment in BlueOrchard (a specialist impact fund manager) was probably primarily motivated by talent acquisition. A particular bottleneck at the moment is the lack of specialist talent amongst relationship managers who do not properly understand sustainability-related products and therefore struggle to persuade clients of their value.

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Impact Carry

Performance-based compensation is a feature of investment funds in general, and impact carry is a way of linking social and environmental returns to fund managers' compensation. It is found in pure play impact investing (although it is far from common), but it has the potential to be applied to larger institutions if they have the goal of providing social and/or environmental returns as well as financial ones.[22]

Multilateral institutions such as the European Investment Fund are starting to require that impact carry be present in the funds in which they invest. Targets are set when the fund is established, and the carry is determined by the fund performance at the time of exit. For instance, the carry of a venture capital fund is usually 20 percent, which means that 80 percent of the capital gains from exits would be returned to investors (limited partners), 10 percent would be kept by the fund's General Partner, and the other 10 percent could be kept by the fund manager, provided the impact goals are met.

Impact carry is popular amongst investors such as DFIs (Development Finance Institutions), high net worth individuals, family offices, and governments, but it remains to be seen if it will be one of the ways to incentivize the transition of impact investing to fund managers in mainstream investment institutions.

Levers for Change – Incentivizing Change

- Invest in the training of talent that has a balance of financial and sustainability skills.
- Encourage institutions to exchange learning about what works and what doesn't.
- Support the continued development of university programmes building the relationship between sustainability impact and finance.

Increasing Impact

From a sustainability perspective, increasing the amount of investment going into oceans and fisheries and attracting the amount of commercial capital needed to deliver on the SDGs are only worthwhile if funds have a meaningful social and environmental impact. Impact carry recognizes the importance of non-financial impact (see above), but it is still relatively rare.

Impact and Impact Investing

A fund's sustainability intent is captured in its impact thesis, which articulates the improvement in outcomes that the investor intends to achieve, and how the investment will contribute to that improvement. A standard definition of an impact thesis would be as fundamental to impact investing as standard accounting practices are to financial reporting, but at present an authoritative definition does not exist. Without this, investors struggle to distinguish between 'true impact' and 'greenwashing' or 'impact-washing.'[23]

This is starting to change. While large investment funds continue to develop their own processes as a unique selling point, more generic impact tools are emerging. In 2020, a consortium of asset managers launched the Sustainable Development Investments Asset Owner Platform (SDI AOP), which enables investors to assess companies on their contributions to the SDGs. The IFC (International Finance Corporation) has led the development of the Operating Principles for Impact Management to provide investors a framework ensuring impact considerations are integrated throughout the investment life cycle. The 100-plus signatories include impact investors such as BlueOrchard Finance and Incofin, DFIs such as the European Investment Bank, and mainstream investors such as BlackRock Inc, UBS Group, and Credit Suisse.

Fishery Communities

Impact investing is easier from a limited partner and fund manager perspective if there is a tangible investable asset. However, sustainable natural resources often depend on investing in an ecosystem of communities and natural resources, not a single asset. Sustainability may depend on investment in a range of activities such as fisheries management, advocacy, aquaculture, business engagement, capacity building, certification, marine conservation, monitoring and transparency, policy, social awareness, supply chains, standards, stakeholder engagement, and wild-caught fisheries. Success can rely not only on marine resources and their management, but also on the broader systemic issues that fish-dependent communities are facing (e.g., finances, education, health, equity), which also need to be addressed to support thriving individuals, families, and communities. Strategies that only address one or few of the material concerns for communities run the risk of falling down the list of community priorities if other basic needs are under pressure.[24]

Impact investing funds that specialize in fisheries have tried with limited and mixed success to address this complexity by investing in intermediary organizations such as COBI, SmartFish Inc, Future of Fish, and Blue Ventures. These organizations could distribute capital amongst communities and provide technical assistance to build local capacity to use the investments effectively. They know the communities they work with, their needs, and effective ways to promote conservation. This kind of technical assistance is a feature of successful impact investment in sectors such as agriculture, microfinance, and forestry, and it is often funded through discretionary capital. It is also costly, and investors without an impact investing background may gravitate towards assets that do not require that kind of extra support.

More work is needed to strengthen fund-intermediary-community relationships. The following challenges, in particular, have been noted in the fisheries context:

- **Scarcity of philanthropic resources makes NGOs tribal.** Intermediary organizations such as NGOs can find it difficult to collaborate with each other because they are competing for the same limited funds from overseas aid organizations and foundations.
- **Fear and distrust of large funds.** Large funds allocate investments in the millions of dollars, but communities' needs may only be in the thousands. Intermediaries feel under pressure to accept more capital than they are confident of being able to distribute, and, moreover, community awareness that the intermediary has so much money creates distrust and fear amongst all parties.
- **Complex investment processes.** Intermediaries recognize that aid agency and foundation support are becoming scarcer and more unpredictable, and this is leading to greater interest in impact investing. But the process of securing impact investing funding is lengthy and complex and can feel very detached from the communities being served. Intermediaries used to provide technical assistance to communities need assistance of their own when it comes to build out realistic and useful business plans that service both community and investor aspirations. The assistance available at present is oriented towards organizations that have secured funding, and there is inadequate support available to make intermediaries investment-ready.
- **Keeping fishers engaged in sustainability.** Fishers can drift away from sustainability initiatives if they do not address their wider concerns such as schools, hospitals, roads, and housing. Such concerns may be less about sustainable fisheries than sustainable livelihoods. Blended capital investments from private, public, and philanthropic sources are a way of creating multi-layered, community-wide investments to keep fishers engaged. Equally, if they are to reach the holy grail of sustainable oceans, fisheries, communities, and returns, investors need to think at a systems level and understand the context of the communities where they invest.

Lost in Translation

A recurring theme of this research is the trouble that diverse stakeholders often have communicating with eachother. Communities are wary about the relationship intermediary organizations have with investors; intermediaries struggle to understand what investors want of them; passionate impact investors are working to access larger pools of capital that are either unregulated and managed without sustainability priorities or facing an unclear and opaque regulatory future. Time and again, there are instances where the priorities of one party get lost when communicating with another, and that is having a negative effect on oceans and fisheries funds' growth.[25]

The narrative needs to change from stories to business models. An intermediary organization like Communidad y Biodiversidad COBI (Mexico) is used to fundraising from foundations through powerful storytelling about sustainability challenges. But to capture the interest of different types of investors, investees need to set out the business impact first so that investors keep listening long enough to learn about the social or environmental returns. To do this, prospective investees need to learn how to craft a different message of impact centred on concrete business plans, commercialization, finance, risk management, and sustainability. Understanding the knowledge and communication gaps across the social, environmental, and financial dimensions of the fisheries and oceans ecosystem is critically important. Building that understanding takes time so that parties come to comprehend each other's language, enabling them not only to talk to one another but also to listen.

Levers for Change – Increasing the Impact

- Support potential investees and sustainability advocates so that they can better understand and communicate with investors.
- Convene stakeholders to develop replicable, complex, and multi-layered investment prototypes at scale. These prototypes should be built from the ground up based on community-identified needs. They should work across the nexus of multiple SDGs—oceans, climate, food security, poverty alleviation, gender equality, and education.
- Invest in building the capacity of fund managers and others to work with non-traditional partners and clients.
- Expand educational training programmes across the supply chain for foundation staff, investors, NGOs, and intermediaries.

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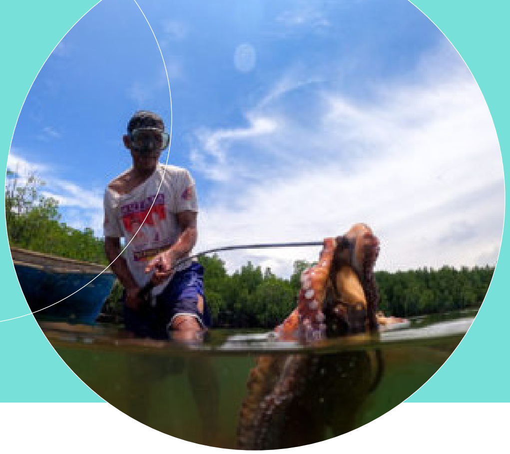
Conclusion



Getting beyond 'yes, no, maybe' for fisheries and oceans to a solid 'yes' begins with building new relationships—from investors, intermediaries, and advocates who may not speak the same language or have a common vision for sustainable fisheries. Moving investment from 'millions to billions' will require working across these diverse sectors and at the nexus of policy, education, communications, markets, community, and investment. It will require blending capital in ways that have never before been imagined to meet the holistic needs of communities and address inequalities in gender, climate, housing, health care, and conservation. This new way of 'thinking and acting' asks partners at the table to build trust, to be honest about their challenges, and to be willing to adapt. This moment in time offers a great opportunity for philanthropists, intermediaries, and community-based NGOs to become important navigators and translators among diverse finance partners and to ensure a collective vision for investing in resilient oceans, fisheries, and communities.

Full copies of Make Money Matter chapters and *Primer for a Blue Economy* are available on the pfc website: https://www.pfcsocialimpact.org when they are released publicly.

Endnotes

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[10]https://www.nature.com/articles/s41467-021-23168-y
[11]https://wwfeu.awsassets.panda.org/downloads/wwfreport_small_scale_fisheries_in_a_warming_ocean_2020.pdf
[12]See Chapter 4, discussion of fisheries funds' timeline.
[13]See Chapter 2, discussion of public equities.
[14]See Chapter 1, discussion of where investments are going.
[15]See Chapter 1, discussion of asset classes.
[16]For instance, the New Approaches to Economic Challenges initiative at the OECD.
[17]See Chapter 1, discussion of the investment ecosystem.
[18]See Chapter 2, discussion of Family Offices.
[19]'Fund manager' in this chapter refers to those involved in making investment decisions in a large financial institution.
[20]See Chapter 4, discussion of Insights, Ideas and Innovation.
[21]See Chapter 2, discussion of incentives in banks.
[22]See Chapter 2, discussion of impact carry.
[23]See Chapter 1, discussion of impact.
[24]See Chapter 3.
[25]See Chapter 3, discussion of 'Lost in Translation'.