SPOTLIGHT MIDDLE EAST

# THE ROLE OF BLUE FINANCE IN FACILITATING A SUSTAINABLE BLUE ECONOMY

## A UAE PERSPECTIVE

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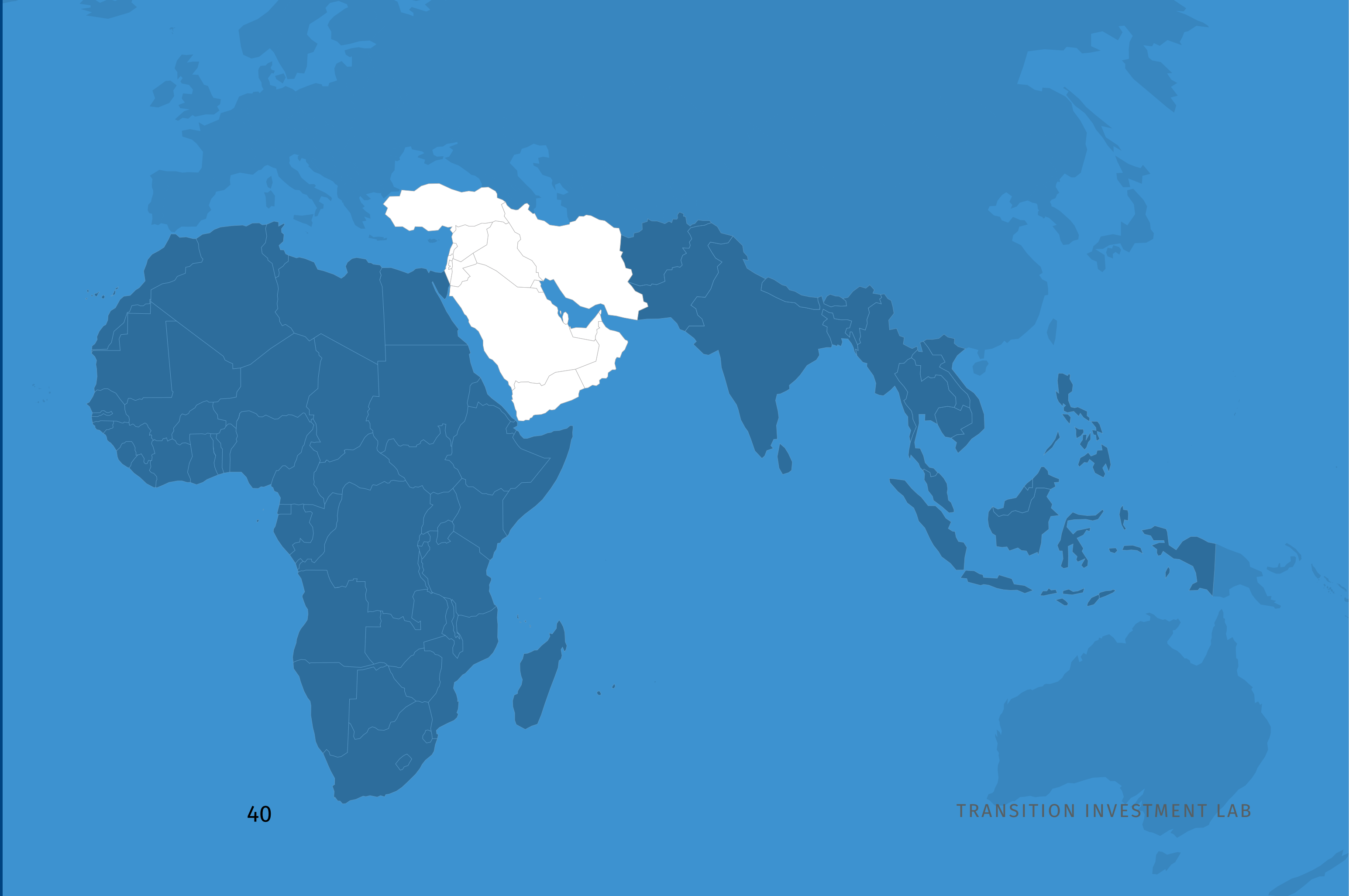


## The UAE's Marine Natural Capital

The cultural and economic history of the UAE and the region is inextricably linked to its marine heritage and its marine ecosystem. Located on the southern side of the Strait of Hormuz, the UAE is at the crossroads of major trade routes and serves as a vital gateway for trade between the east and the west.

The country's ports, shipping industry, and desalination facilities are economically significant. In addition, the UAE's beautiful coasts are essential for tourism, coastal real estate, and recreational activities. These sectors are interdependent with each other and have a direct impact on the marine environment in and around the UAE.

Oceans absorb 30% of global carbon dioxide emissions and act as an enormous heat sink for the planet, storing nearly 93% of all excess heat energy generated. For the region that is highly susceptible to climate change, this service seems particularly important. Coastal habitats such as mangroves, coastal sabkhas, seagrass meadows and salt marshes play an important role in sequestering $CO_2$. The blue carbon ecosystems in Abu Dhabi alone store an estimated 52-181 million tonnes of carbon dioxide equivalent ($CO_2$ eq) within their soil and biomass. These habitats are an important shelter for seabirds, dugongs, many fish and other species, and provide several important environmental services, such as eco-tourism activities and purification of the air and marine waters.

As a maritime nation, the UAE has included the sustainable development of the oceans in its key strategies and policy initiatives including the National Biodiversity Strategy and Action Plan and the Sustainable Finance Declarations in Abu Dhabi and Dubai. To conserve and protect its oceans, the UAE has also demarcated 16 marine areas as protected areas. The total protected area cover in the UAE is about 15.53 per cent in 2020, accounting for 18.4 per cent of its terrestrial territory and 12.01 percent of its marine territory. The ambition is to protect 30% of its seas in line with the new target of the Kunming-Montreal Global Biodiversity Framework by 2030.[1]

Further, the UAE's National 2030 Agenda for Sustainable Development presents a cross-governmental framework linked to the UAE Vision 2021 and has categorised Sustainable Development Goal (SDG) 14 as a "competitive knowledge economy".

At the COP 28 meetings in 2023, the Government of Umm Al Quwain (UAQ), in partnership with the UAE Ministry of Economy and Emirates Nature-WWF, announced an initiative to develop a set of Sustainable Blue Economy guidelines. The guidelines span key sectors such as tourism and recreation, the built environment and food, among others. UAQ is implementing its Sustainable Blue Economy Strategy 2031 which aims to (i) triple the Emirate's GDP in partnership with the private sector; (ii) make the blue economy one of the strategic drivers for the economy of UAQ and have it contribute at least 40% to UAQ's GDP; and (iii) become net carbon positive.

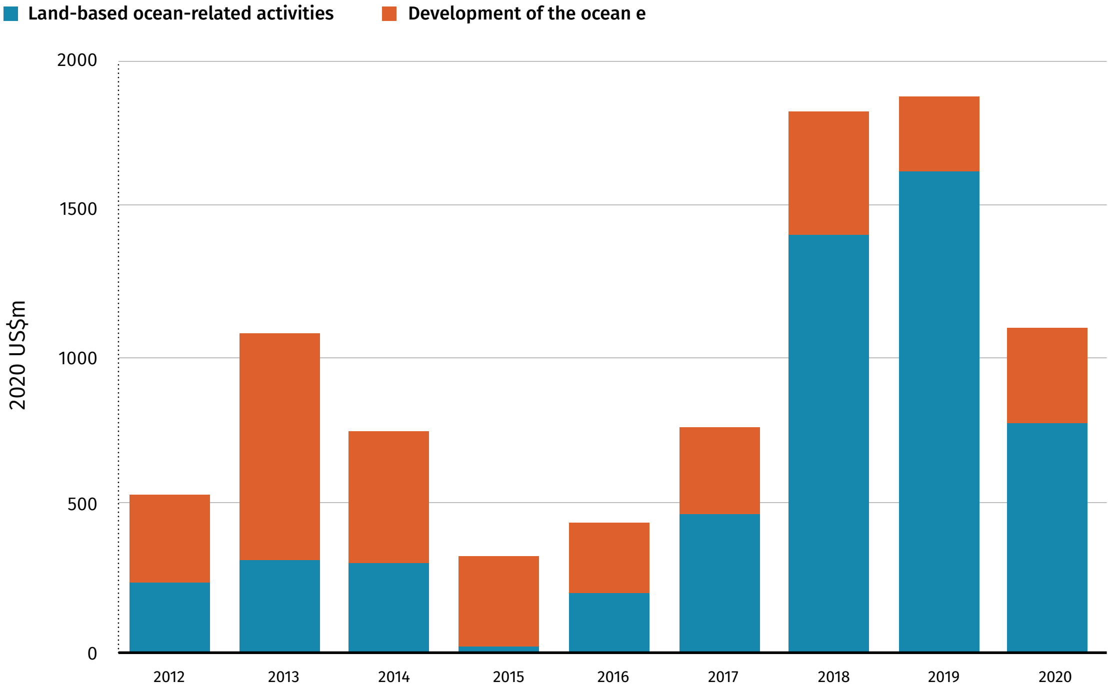
The UAE has also initiated the Smart Map on Natural Capital of the UAE. The UAE has worked on creating ecosystem accounts mostly focusing on coastal ecosystems and has produced the first maps of coastal ecosystems for the North-Western region with the aim of supporting decision-making and informing management relating to these ecosystems. These interactive maps show the distribution and extent of coastal habitats and describe their condition. Importantly, maps and databases provide a baseline for future monitoring of these ecosystems.

## Financing the Sustainable Blue Economy

The sustainable blue economy refers to all sectors of the economy which have a direct or indirect connection to the ocean and is based on circularity, collaboration, resilience, opportunity and inter-dependence. It is estimated that USD 1 trillion of additional finance is required by 2030 and USD 2 trillion of finance is required between 2030-2050 to deliver ocean-climate mitigation solutions. Despite the value our oceans generate for our economies, it remains a well-documented fact that SDG 14 is the least funded of all 17 SDGs. USD 175 billion per year is needed to achieve SDG 14 by 2030, yet, between 2015 and 2019, just below $10 billion was actually invested. A lack of understanding of the importance of the ocean to our ecosystems prevents finance from being freely available towards ocean-based initiatives. We need policies and finance mechanisms that encourage private sector innovation, initiatives both at a local and global level and the removal of barriers for attracting mainstream investment. Ocean-based solutions also need to be supported with finance at scale, in order to bring about a transformational change to the approach towards management of the oceans and to encourage the growth of a sustainable blue economy.

Almost all businesses around the world rely on our oceans at some point in their value chain, whether it is ports, shipping, or ocean energy. However, when we consider the flow of funds from the private sector for the development of the ocean economy, the level of investment does not reflect the wide-reaching role our oceans play in supporting the private sector (see Figure 1).

**Figure 1: Amounts mobilised from the private sector for development of the ocean economy** *(US$m, 2012-20)*




## Blue finance

*"Protecting the oceans and preserving clean water resources isn't just a moral imperative – it is also a growing financial opportunity"*
— International Finance Corporation

Blue finance and in particular blue bonds can play a critical role in unlocking finance flows towards the sustainable blue economy. Blue bonds can be issued by a variety of public and private sector issuers such as (i) sovereigns and sub-sovereign entities, (ii) development finance institutions and multilateral development banks (iii) financial institutions and (iv) corporates.

In what could be characterised as an important development as it relates to blue finance, on 6 September 2023, the International Capital Markets Association (ICMA), together with the International Finance Corporation, the United Nations Global Compact, the United Nations Environment Programme and the Asian Development Bank published a global practitioner's guide for bonds to finance the sustainable blue economy (the "Blue Bond Guidance"). The Blue Bond Guidance builds on existing market standards that underpin the global sustainable bond markets and also draws on others pre-existing specific blue guidance. The Blue Bond Guidance is meant to be used in conjunction with the Green Bond Principles, the Sustainability Linked Bond Principles, the Social Bond Principles and the Sustainability Bond Principles (the ICMA Principles) as proposed by the ICMA. The Blue Bond Guidance will be especially significant in enabling a greater number of issuances which would be labelled "blue" owing to the participation of institutions such as ICMA in the development of this framework and more issuances adhering to the Blue Bond Guidance in addition to the relevant ICMA Principles[2].

The Blue Bond Guidance will act as additional thematic guidance on use of proceed bonds such as green bonds or sustainability bonds to finance projects supporting the sustainable blue economy and ocean health. It also points to the possible use of sustainability-linked bonds incorporating "blue" key performance indicators.

This voluntary Blue Bond Guidance is for broad use by the market to:

- provide issuers with guidance on the key components involved in launching a credible blue bond;
- aid investors by promoting availability of information to evaluate the environmental impact of their blue bond investments; and
- assist underwriters by offering vital steps that will facilitate transactions that preserve the integrity of the market.

## Creating investable opportunities into the Sustainable Blue Economy

Although sustainability as a theme has evolved over the past decades, there is less awareness of the strategic importance of how the full potential of blue economy sectors such as resilient ports, shipping, green ports, sustainable tourism and marine offshore wind renewable energy, amongst others, could be realised if finance flows are unlocked. According to the High-Level Panel for a Sustainable Ocean Economy (Ocean Panel) of the World Resource Institute, investing into a sustainable ocean economy could bring net positive returns. Investing €2.54 trillion in 2020 in just four ocean-based solutions – offshore wind production, sustainable ocean-based food production, decarbonisation of international shipping, and conservation and restoration of mangroves – would yield a net benefit of €14.11 trillion by 2050 (a benefit to cost ratio of 12:1, 10:1, 4:1 and 3:1 for each of the four sectors, respectively).

The ocean community, united under the Marrakech Partnership for Global Climate Action, with the support of the UN Climate Change High-Level Champions have launched the "Ocean Breakthroughs". The Ocean Breakthroughs are transformative pathways covering five key ocean sectors, where accelerated action and investments could deliver up to 35 percent of greenhouse gas emissions reduction and contribute to a resilient, nature-positive and net zero future by 2050. For the shipping industry, the Breakthroughs have set a goal of by 2030, "zero emission fuels make up 5% of international shipping's energy demand, 450,000 seafarers need to be retrained and upskilled. At least 30% of global trade needs to move through climate-adapting ports". Achieving the Ocean Breakthroughs will require significant ocean-based capital channelled through the port and shipping industry.

## Some key sectors eligible for blue financing as it is relevant to the UAE

### Shipping and the Maritime Sector

The Maritime Sector in the UAE is significant given its strategic location and access to the major international shipping routes. The UAE's shipping industry is a major contributor to its economy. The Emirate of Fujairah alone has almost 8 percent of the worlds bunkering capacity.

### Sustainable Ports

The UAE's seaports are international and regional hubs and an essential factor in driving economic growth and facilitating economic diversification. According to the World Shipping Council, two of the world's top 50 container ports are in the UAE, with Dubai featuring among the top ten. Overall, 61 per cent of cargo destined for GCC states arrives via the UAE's seaports. The UAE has 12 commercial trading ports (other than oil ports) with cargo tonnage of 80 million tonnes.

Ports are critical for development, global trade, and maritime innovation. Projects that increase environmental performance and sustainability of port infrastructure are key candidates for blue financing.

Potential areas for investment include:

- decarbonisation and renewable energy through green port technologies such as alternative fuel supplies, shipyard capabilities for green retrofits and clean onshore power upgrades;
- management of port pollution through using green supply chains in waste management and sustainable sourcing;
- nature-based solutions and conservation objectives in port development; and
- integration of sustainable ports into wider sustainable development plans and marine spatial plans.

### Sustainable Marine Transport

Of globally traded goods, 90 per cent travel by sea with shipping contributing almost 3 per cent of global GHG emissions. In July 2023, the International Maritime Organisation (IMO) adopted the 2023 IMO Strategy on Reduction of GHG emissions from Ships. The IMO Strategy identifies four levels of ambition for the international shipping sector. Technological innovation and the global introduction and availability of zero or near-zero GHG emission technologies, fuels and/or energy sources for international shipping are noted as integral to achieving the overall level of ambition.

Projects that involve increasing environmental performance and sustainability of maritime transportation are critical to achieving decarbonisation of the shipping industry. Potential areas for blue investment include:

- retrofitting vessels for decarbonisation and emissions reduction, energy efficiency and improved ballast water management;
- commissioning vessels that utilise alternatives to heavy fuel oil, provide improved fuel efficiency, leverage alternative technologies for low-carbon transport, present significantly lower emissions profiles; and
- sustainable vessel deconstruction and recycling, including by ensuring offshore platform installation, operation, decommissioning and transitioning are in line with the sustainable blue economy.

It is clear that the private sector has already identified the important role it must play in achieving decarbonisation of the global shipping industry alongside the financial sector. Blue finance can be used to support these decarbonisation initiatives and direct more funding into sectors that are critical to supporting ocean-based sectors like shipping.

### Marine Pollution

Land and ocean-based sectors are responsible for generating marine pollution. Plastic waste makes up an estimated 80 per cent of marine pollution. Projects that prevent, control, and reduce waste from entering the coastal and marine environments are critical to protecting and preserving the marine environment, and are eligible for blue financing.

Potential areas for investment include:

- wastewater management;
- non-point source pollution management;
- circular economy;
- solid waste management;
- waste prevention and reduction; and
- ocean-friendly chemicals and plastic-related sectors.

## NATURE BASED SOLUTIONS (NBS)

The Middle East is particularly susceptible to the effects of climate change and nature-based solutions (NbS) have the potential to tackle climate change and biodiversity crisis simultaneously while benefiting communities. NbS are defined by IUCN as actions to protect, sustainably manage, and restore natural and modified ecosystems that address societal challenges effectively and adaptively, simultaneously benefiting people and nature.

In the UAE, the Nature-based Solutions for Climate, Biodiversity & People in the UAE Project, which was launched in 2021, focuses on the management and restoration of key coastal ecosystems, including mangroves, seagrasses and saltmarshes. This project is a collaboration between the Ministry of Climate Change and Environment (MOCCAE), the Ministry of Economy (MoE), the Environment Agency – Abu Dhabi (EAD), the Government of Umm Al Quwain, Emirates Nature-WWF and the International Centre for Biosaline Agriculture (ICBA) among others.

The project aims to protect, restore and sustainably manage natural coastal ecosystems to act as carbon sinks, achieve measurable greenhouse gas emissions reductions or avoidance, enhance the climate-nature policy nexus, create commercially viable opportunities around ecotourism and food innovation to provide socio-economic benefits to people and unlock public/private finance for NbS.

According to the United Nations Environment Programme (UNEP), investment needs to increase to $384bn per year by 2025 and $484bn per year by 2030 to achieve the various climate, biodiversity and land degradation targets. Shifting financial flows towards climate-nature projects is therefore critical. Finance flows in its various forms could enable projects which supports NbS by providing capital, crafting innovative financial instruments and insurance products in addition to advising on risk management and performance structures.

## Building on the UAE Consensus – creating a New Blue Deal

At the COP 28 meetings in Dubai in 2023, one of the key themes for climate finance, and one of the outcomes from those meetings (widely referred to as the "UAE Consensus"), was the objective of making climate finance "available, accessible and affordable". Support for a sustainable blue economy is therefore a critical need and one which deserves the immediate attention of governments, policy makers, private sector institutions and other non-state actors.

Given the critical importance of the blue economy to the UAE and its plans for the diversification of its economy, it will be important for the financial sector and other stakeholders in the blue economy to recognise the utility of aligning their capital raising strategy with blue finance and thereby creating "blue" asset classes for investors. Increased participation by Multilateral Development Banks (MDBs), Development Finance Institutions, Sovereign Wealth Funds (SWFs) and investors from Sovereign-linked institutions in blue issuances from the region will enable in accelerating the transition to a sustainable blue economy. Blue bond issuances from some of the large ocean based enterprises the UAE will also enable others to follow their example as they consider their capital raising strategies.

A number of ocean-based industries such as shipping, ports, seafood and fisheries could benefit from having their capital raising labelled as "blue", as this could encourage more investors to engage with these industries and more issuers to align their business practices with ocean conservation, as well as to promote ancillary capital flows to these sectors.

Similar to the "New Deal" from the 1930's, we are at a point in time where we have to enact a new "Blue Deal" - one which would unlock a wave of investments into this most critical of ecosystems and enable the cause of a just ocean transition. As we protect the oceans so do we, the lives and livelihoods which depend upon it.

## Endnotes

1 Target 3 of the Kunming-Montreal Global Biodiversity Framework sets the target of conserving 30% of land, waters and seas by 2030.

2 97 per cent of the entire sustainable bond market (USD) totaling 4.3 trillion dollars across nearly 12,000 issuances were aligned to ICMA Principles.