Small-Scale Fisheries Impact Bond

Fishers Rustian and Sugianto off the coast of Pasi Kolaga, Indonesia. Photo Credit: Jason Houston for Rare.

Overview

Following a feasibility study in collaboration with Levoca, Rare is launching the world's first Small-Scale Fisheries (SSF) Impact Bond to channel private and philanthropic capital toward the revitalization of coastal communities and ecosystems. The SSF Impact Bond will finance community-led co-management of small-scale fisheries, a proven pathway to meeting the needs of people and nature.

The initial investment will fund the Bond's pilot: the establishment of five new "Managed Access with Reserves (MA+R)," areas in Southeast Sulawesi, Indonesia. MA+R is a fisheries management system that pairs sustainable use with protection of coastal waters, and puts local government and local fishers in control of managing their assets. The goal is to stabilize fish biomass and protect critical marine ecosystems and habitats, while strengthening the small-scale fisheries sector critical to food security and livelihoods.

As a new blended finance vehicle, the SSF Impact Bond could be a vital pathway for countries to deliver on their goals for protecting 30 percent of land and sea by 2030 (30x30).

Why Small-Scale Fisheries?

Small-scale fisheries are predominantly in coastal waters where high human use meets high biodiversity.

Small-scale fisheries are responsible for:

- 40% of global fish catch
- Employment of 113 million people (including 45 million women)
- US$58 billion in estimated catch value

The territorial seas, where small-scale fisheries are mainly located, are home to:

- 70% of ocean biodiversity
- 100% of mangroves and seagrass beds
- 83% of coral reefs

A Challenge of Finance

Despite the importance of SSF for coastal communities and ecosystems, the sector faces serious challenges. Throughout the Global South, SSFs typically operate in an informal economy and are unable to access capital. Support for SSF traditionally flows from the national budget to the sub-national government. Since the value of SSF is not clearly defined and recorded catch is undervalued, they are chronically underfunded.

Despite modest progress, global investment in improving ocean health remains woefully inadequate. To achieve the global goal of protecting 30 percent of the ocean by 2030, global spending on marine protected areas would need to reach US$9-12 billion — 9 to 12 times greater than current spending. Sustainable Development Goal (SDG) 14: Life Below Water remains the most underfunded SDG.

Philanthropy cannot do it alone. There is an increased need to develop innovative financial methods to unlock new funding sources, particularly from the private sector. This is where the SSF Impact Bond comes in as a model that can be replicated and scaled throughout the Global South.

A New Model for Outcome-Based Finance

This first-of-its-kind SSF Impact Bond is novel in its use of "Outcome-Based Finance" (OBF) that ties financing to results. In sectors that target hard-to-reach SDGs, innovative financial mechanisms offer the unique opportunity to leverage the assets and skills of a diverse range of involved partners while at the same time sharing the risks of financing and achieving SDG outcomes. The key mechanism behind OBF is that all or at least some of the program funding is paid out only once pre-defined results have been independently verified and achieved.

The SSF Impact Bond will be implemented in three rounds (Cohorts), mobilizing at least US$160 million to protect, restore, and sustainably manage thousands of hectares of coastal ecosystems. The pilot impact bond is approximately US$10 million, with a targeted launch for Q1/Q2 of 2024. As part of this first pilot Cohort, the feasibility and scalability of outcomes-based MA+R programs will be demonstrated, eventually providing opportunities for governments to fund future MA+Rs in pursuit of their 30x30 commitments.

What is an Impact Bond?

Impact bonds are structured as contracts; they are agreements among multiple parties — investors, service providers, and outcome funders — to achieve specific social or environmental outcomes. The structure of an impact bond involves:

- Investors who provide upfront capital to fund the program or initiative. This funding is provided with no guarantee that they will get it back.
- Service Providers to implement the project or intervention, aiming to achieve the predetermined outcomes.
- Outcome Funders including governments, philanthropic organizations, or other entities that agree to pay for the outcomes achieved. They repay the investors if the agreed-upon outcomes are met. They might also pay a premium for exceptional results.

The contract outlines the terms and conditions, including the specific outcomes to be achieved, the payment mechanisms, the responsibilities of each party, and the criteria for success. It is essentially a performance-based agreement where payment is contingent upon the successful delivery of outcomes.

For more information about our work or opportunities to invest with us, contact Kate Schweigart, Rare Vice President of Innovative Finance, at kschweigart@rare.org.