

SRI LANKA'S BLUE ECONOMY

A position paper by UNDP Sri Lanka
& Lakshman Kadirgamar Institute of
International Relations and Strategic Studies



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PREFACE

This position paper proposes a Blue Economy development approach for Sri Lanka and highlights recommendations and commitments to a nationally driven sustainable Blue Economy pathway, anchored by a Marine Spatial Plan. The paper provides guiding principles to balance both the economic and conservation objectives of Sri Lanka's marine territory and offers a broad governance framework for an inclusive, whole-of-society approach which is coordinated between the government, civil society, and the private sector. Further, this can be used by government policymakers for commencing internal discussions within the bureaucracy and to engage with academics, civil society organisations, international organisations, and private sector stakeholders working in Blue Economy sectors. This will build ownership, support human-centric design, mitigate risks, and establish accountability.

A sustainable Blue Economy is a marine-based economy that,

- Provides social and economic benefits for current and future generations by contributing to food security, poverty eradication, livelihoods, income, employment, health, safety, equity, and political stability.
- Restores, protects, and maintains the diversity, productivity, resilience, core functions, and intrinsic value of marine ecosystems – the natural capital upon which its prosperity depends.
- Is based on clean technologies, renewable energy, and circular material flows to secure economic and social stability over time.

A sustainable Blue Economy is governed by public and private processes that are,

- Inclusive and based on active and effective stakeholder engagement and participation.
- Well-informed, precautionary, and adaptive: decisions are based on scientifically sound information to avoid harmful effects that undermine long-term sustainability.
- Accountable and transparent.
- Holistic, cross-sectoral, and long-term: decisions are based on an assessment and accounting of their economic, social, and environmental values, benefits, and costs to society, as well as their impacts on other activities and across borders, now and in the future.
- Innovative and proactive in looking for the most effective and efficient ways to meet the needs of the present and future generations without undermining the capacity of nature to support human economic activities and wellbeing.



To create a sustainable Blue Economy, public and private actors must,

- Set clear, measurable, and internally consistent goals and targets to inform their planning, resource allocation, execution, monitoring and evaluation activities with a clear direction. Goals and targets for different economic, social, and ecological areas – as well as related policies and programmes – must be made as integrated and coherent as possible, to avoid conflicts and contradictions.
- Assess and communicate their performance on these goals and targets to all stakeholders, including the public, in a transparent and accessible way.
- Plan, manage and effectively govern the use of marine space and resources through forward-looking, precautionary, adaptive, and integrated processes that ensure the long-term health and sustainable use of the sea, while also considering human activities on land. To minimize the trade-offs and address potential negative impacts, such processes should also use appropriate tools and methods to capture the range of benefits that ecosystem goods and services can bring to different stakeholders, whilst identifying scientifically driven information on the best spatial and temporal allocation of resources which would help address the same.
- Develop and apply standards, guidelines and best practices that support a sustainable Blue Economy. For organisations, the application of such standards should not only ensure that their activities are conducted responsibly but also improve their own performance and competitiveness, today and in the future.
- Recognise that the maritime and land-based economies are interlinked and that many of the threats facing marine environments originate on land.
- Actively cooperate, and share information, knowledge, international practices, lessons learned, perspectives and ideas across national, sectoral, organisational, and other borders, to ensure collective stewardship of our common marine heritage.



POLICY SUMMARY

The Blue Economy approach involves a series of steps for its adoption:

1. **Awareness, Evaluation & Government Approval:** It begins with a whole of society government recognition of the importance of blue sectors in economic strategy. Research is conducted to assess the potential benefits, and a cabinet paper is prepared for government approval.
2. **Gathering Information & Setting the Agenda:** Detailed research and cost-benefit analysis are performed, focusing on sustainable marine sectors, job creation, and environmental impact. A policy framework is developed, emphasising integration into various sectors.
3. **Development of Blue Economic Policies:** With the involvement of and consultation with multiple departments and agencies, enabling conditions at legal and institutional levels are developed, allowing predictable decision-making. A strong institutional framework and external expert assistance are crucial.
4. **Whole of Society Endorsement of Blue Economic Policies:** Draft policies undergo extensive consultations with various stakeholders, including parliamentarians, the private sector, and civil society, ensuring societal endorsement. Coordinating ministries present the policies to the government for approval.
5. **Drafting a Strategy and Action Plan:** A strategy and action plan are created to translate policies into actionable steps. This includes alignment exercises, assessing available resources, and analysing the political and environmental landscape. Financing opportunities are also identified.
6. **Implementation of the Strategy:** Institutional arrangements are established to carry out the strategy. Coordination between ministries, public, private, and civil society organisations is crucial. Monitoring and evaluation ensure policy adjustments as needed.
7. **A Range of Financing Options and Instruments Identified to Finance the Blue Economy:** Public and private sector enabled to mobilize sources of finance. Emerging new financing instruments identified and embedded in broader country-level investment programmes and project pipelines.

SRI LANKA'S BLUE ECONOMY: THE WAY FORWARD

A position paper by UNDP Sri Lanka & Lakshman Kadirgamar Institute of International Relations and Strategic Studies¹

Blue Economy - the next economic frontier that can transform sustainable development in Sri Lanka

Sri Lanka has historically shared an intimate bond with the ocean, but the potential of the country's Blue Economy is yet to be realised. Sri Lanka stands to gain from tapping into the unexplored ocean frontier by carefully planning activities in a way that balances both economic and environmental objectives. Leveraging the country's vast ocean resources to advance 'blue industries' that supply goods and services to 'blue value chains' offers an innovative pathway to improve Sri Lanka's external and trade balances.

Sri Lanka's maritime area includes approximately 1,640 km of the country's coastline, the territorial seas, contiguous zones, Exclusive Economic Zone (EEZ) and historic waters. The coastal area covers 24% of the total land area across 14 administrative districts and is inhabited by 32% of the population. The island's coastal regions also host 4 commercial ports, main railway lines, and 22 fisheries harbours, contributing to 65% of industrial output, 80% of tourism-related infrastructure, and 80% of fish production. The Maritime Zone Law No. 22 of 1976 provides national authority over the territorial sea and maritime zones of Sri Lanka and outlines the extent of the country's EEZ, 200 nautical miles from the baseline, and an area of 517,000 square kilometres, amounting to 8 times the total area of land. Under the UN Law of the Sea, Sri Lanka is entitled to - and has submitted a claim for - an extended area of seabed amounting to 23 times its land mass (1.4 million square kilometres). Given the size of the maritime area and the potential it holds, positioning the Blue Economy at the heart of economic development is a timely exercise, especially as Sri Lanka begins a sustainable economic recovery (Kumara, 2017).

The sustainable management and exploitation of ocean resources is central to the Blue Economy and requires balancing conservation and economic objectives while unlocking the potential of the oceans.

This is reflected in the 14th Sustainable Development Goal (SDG), 'Life below water', which emphasises the importance of the oceans and seas for people's livelihoods, national economies, and the planet's ecosystem. Marine resources must be sustainably managed by current generations to ensure that future generations can continue to benefit from diverse ocean resources.

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Without a clear blue economic strategy and priorities, coupled with support for implementation and oversight, governments risk the overexploitation of these valuable resources and compromising sustainable growth in the long run.

For Sri Lanka, the Blue Economy offers a diverse range of opportunities for sustainable, clean, and fair growth in both traditional and emerging sectors, but it also requires innovation to meet these sustainability objectives. Leveraging Sri Lanka's unique location in the Indian Ocean and its proximity to the main East-West shipping routes, the port industry has significant economic potential and could increase its contribution to GDP from 2.5% to 6% by 2030 (Kumara, 2017). The fisheries sector directly contributes to 1.4% of GDP while also providing domestic food security, livelihoods for coastal communities, and a crucial source of foreign exchange earnings. Further potential in this sector could be unlocked through technological innovations and infrastructure investments that improve productivity while also preserving traditions.

The tourism industry can also be transformed under the blue economic model; the sector currently contributes to 8% of GDP and is the third largest source of foreign exchange (Kumara, 2017). With targeted investments and a clear ocean tourism strategy, Sri Lanka's tourism industry can evolve and unlock further opportunities in sustainable coastal tourism. Beyond already-established sectors, Sri Lanka can employ a Blue Economy approach to develop under- or unexplored sectors, such as aquaculture, energy, biotechnology, and mineral industries as part of a diverse Blue Economy portfolio. This approach would also enhance Sri Lanka's bargaining power and resilience on the geopolitical stage and support its responses to emerging threats in the Indian Ocean region.

Sri Lanka stands to benefit significantly from a clear blue economic strategy, both in existing and emerging sectors. This brief aims to inform policymakers about the importance of the Blue Economy, its potential contributions to sustainable economic growth, and how institutional frameworks can unlock the potential of such a diverse sector.

1. FOUNDATIONS: UNDERSTANDING THE BASICS OF THE BLUE ECONOMY

1.1 DEFINING THE BLUE ECONOMY

Blue Economy is the sustainable use of ocean resources for economic growth, jobs, and social and financial inclusion, with a focus on the preservation and restoration of ocean ecosystems and the services they provide.

According to UN estimates, the Blue Economy generates between \$3 trillion and \$6 trillion globally every year, with sectors like fisheries and aquaculture supporting approximately 260 million jobs worldwide. However, the ocean's enormous economic potential also makes it highly vulnerable to overexploitation and degradation because of human activity. As a growing global population continues to put additional pressure on natural resources, pollution, climate change, and global warming are threatening the health of ocean ecosystems. It is estimated that on the current trajectory, there will be more plastic in the oceans than fish by 2050 (UNDP, 2023).

Integration, especially policy and sectoral is key to ensure the realisation of the Blue Economy. However, it is difficult to achieve the same given the potential competing agendas of sectors and the need sometimes to share power, thus, exacerbating the trade-offs between economic advancement and environmental protection. Further, one of the biggest barriers to a holistic Blue Economy approach is a persistent, entrenched belief that there is a trade-off between looking after the environment and making life more affordable for people. But this is a misconception, too often an excuse for inaction and overlooking the sheer scale of subsidies still supporting practices harmful to the environment. This inadequately supports those negatively impacted by a transition from nature-negative to nature-positive changes putting people against the planet, squandering opportunities, and risking dangerous backsliding.

Employing a Blue Economy approach addresses this as it is a progressive policy approach which underpins that economic progress and the environment must be mutually supporting. It involves maximising the benefits of ocean resources under the constraints of sustainable resource management. This is particularly important in developing countries, many of which are home to a considerable proportion of vulnerable ocean-dependent populations. With rapid growth in several ocean-based industries but also severe risk of climate-induced economic challenges, developing countries must explore sustainable ways to unlock the potential of the Blue Economy. Sri Lanka faces significant climate vulnerabilities and must understand the trade-offs that exist in the Blue Economy.

1.2 BENEFITS OF A BLUE ECONOMY APPROACH

The benefits of the blue economic framework are multidimensional but can broadly be summarised by the following points. A blue economic approach:

- ▶ Strengthens the protection and management of ocean ecosystems, thereby securing sustainable access to critical resources that contribute to climate change mitigation and adaptation, provide social and economic benefits, and support livelihoods.
- ▶ Increases the number of businesses engaging with the Blue Economy, who stand to benefit from inclusive, diverse, and sustainable economic growth.
- ▶ Attracts investment into existing ocean-based economic sectors that bring new opportunities to maximise the social and economic benefits of existing resources.
- ▶ Stimulates development of new blue economic sectors, thereby diversifying the economy and reducing the pressure on ‘traditional’ marine resources.
- ▶ Shares knowledge and creates a better understanding of the value of a healthy marine ecosystem.

At the COP15 Convention on Biological Diversity in December 2022, Sri Lanka committed to protecting 30% of its land, ocean, coastal areas, and inland waters by 2030. These targets provide a platform for Sri Lanka to promote marine conservation and unlock the potential of the Blue Economy. Furthermore, a robust blue economic strategy aligns with Sri Lanka’s priorities as the upcoming chair of the Indian Ocean Rim Association (IORA). The government must establish its Blue Economy policy framework to facilitate an understanding of the benefits of the Blue Economy and outline the necessary measures for its implementation. Sri Lanka can lead by example and demonstrate the potential of the Blue Economy to other Indian Ocean developing states, enhancing collaboration on measures to enhance regional governance mechanisms.

1.3 ACHIEVEMENT OF THE NATIONALLY DETERMINED CONTRIBUTIONS (NDCS) THROUGH THE BLUE ECONOMY

Sri Lanka updated its NDCs and pledged to achieve a carbon Net Zero status by 2050 as part of its Climate Prosperity Plan at the United Nations Climate Change Conference 2022 (COP27) to combat the threat of climate change. The government is exploring adaptation opportunities in several sectors, including Agriculture, Fisheries, Livestock, Water, Biodiversity, Coastal and Marine, Tourism and Recreation, Urban Planning and Human Settlements, and Health.

Sri Lanka's Coastal and Marine Sector adaptation priorities are formulated under four NDCs which cover technical skills and systems development for monitoring and responding to climate change and variability. These include the establishment of forecasting systems to monitor rising sea levels, updated vulnerability and risk maps, shoreline management measures, and conservation efforts in vulnerable coastal areas. Shoreline management solutions, such as mangrove restoration, also have significant benefits that promote biodiversity and adaptation in the Forestry sector.

Adaptation requires clear frameworks and strong institutions to navigate the complexity and multisectoral approach required for productive solutions. This presents an opportunity to identify prominent climate vulnerabilities, address specific risks, and set ambitious, quantifiable targets for climate resilience.

The ocean plays a critical role in climate adaptation and resilience; many countries in the region are currently exploring ocean-based actions to limit greenhouse gas emissions and adapt to climate change. The blue economic architecture presents a strong opportunity for ocean-based sectoral adaptation and policy implementation, with measures that embrace the NDCs. Integrating Sri Lanka's NDCs into the Blue Economy approach is essential to promote nature-positive economic recovery in combination with a carbon-neutral, sustainable future. The Blue Economy framework must reflect the NDCs and finance such interventions in alignment with blue economic principles.

1.4 THE BLUE ECONOMIC MODEL – MONETISING CONSERVATION

The Blue Economy contributes to approximately 5% of global GDP, with the total value of key ocean assets estimated at around \$24 trillion (Global Environmental Facility, 2018). To ensure that the world's vast wealth of ocean resources is allocated efficiently, government strategies must recognise the direct and indirect benefits of blue economic investments. Investing in a sustainable ocean economy is not only about driving superior risk-adjusted returns, but also about protecting and restoring intangible blue resources. Traditional cost-benefit analyses attribute the most value to direct, revenue-generating activities, but fail to fully capture the longer-term, less-measurable benefits of a sustainable approach.

The case for a Blue Economy approach must emphasise the significant value generated by healthy ocean and coastal ecosystems and how an integrated approach to resource exploitation, ocean conservation and ecosystem restoration can generate substantial economic benefits through food security, climate disaster resilience, tourism recreation, and other sectors indirectly. This requires clear information on the costs and benefits of economic activity and building a robust model that quantifies costs and benefits that have non-market values, such as provision (e.g., subsistence fishing), regulation (e.g., storm surges, waves, and erosion), support (e.g., pollution filtration and oxygen production), and culture (e.g., aesthetics, recreation, leisure, and inspiration).

This model acts as the foundation for the blue economic framework and will effectively communicate the true costs and benefits of ocean activity to governments, local communities, and private sector stakeholders. Environmental Asset Valuation is one useful instrument to support the business case for the Blue Economy. This approach ensures that non-market values are not only quantified, but regularly updated and enhanced to align with new evidence. For example, attributing value to regulatory frameworks that protect critical carbon sinks, such as seagrass meadows, mangroves, and salt marsh estuaries, recognises the importance of these natural assets in reducing greenhouse gas emissions and replenishing ocean life. Under the current economic model, the true value of this regulation is not recognised, and the blue economic framework must support the development of a more robust measurement system.

There are already many mechanisms that finance conservation and the restoration of marine ecosystems. These include philanthropy and multilateral donor support via design and preparation funds, technical assistance funds, guarantees and risk insurance, and concessional finance. There is also a vital role for private and public investment capital; however, these financial instruments must respect cultural heritage, empower vulnerable communities, and ensure that benefits accrue at the source. Private and public investment capital can provide essential legal oversight and start-up financing for emerging values, such as biotechnology, but it is vital that their development is equitable and ocean-positive.

Climate financing mechanisms can also target several sub-sectors of Blue Economy investments, such as:

- **ECONOMIC AND SOCIAL RESILIENCE IN COASTAL REGIONS**

These investments include restoration of coastal “blue carbon” sinks (sea grass, mangroves, and coastal marshes), and making coastal infrastructure (utilities, roads, etc.) more resilient. The market for blue-carbon credits — generated by quantifying the amount of carbon captured and stored by ocean-restoration projects — is expected to grow by 15 times between 2020 and 2030,

reaching US\$50bn. Furthermore, the revenue generated from the sale of blue-carbon credits can be used to improve and expand Marine Protected Areas (MPAs), which only received approximately 7% of the US\$14bn spent on marine nature-based solutions. Blue carbon credits can be employed to fulfil both economic and conservation objectives.

This investment category includes working to ensure communications systems, seafloor telecommunications cables, utilities, and solid waste management facilities are climate resilient. Climate resilience means updating risk and insurance products to reduce incentives to build or design infrastructure without considering the consequences of climate change. This also ensures coastal and marine tourism infrastructure is built and operated sustainably without causing further environmental damage through overexploitation of marine resources. Another example of social resilience is supporting coastal communities to monitor the quality of their oceans through policy and science. This involves monitoring and mitigating ocean acidification, promoting blue carbon conservation and local restoration projects, and restoring mangroves and marshes to create environmental buffer zones.

These investments represent diverse industries, both existing and emerging, and can directly generate economic activity through new investments or indirect economic benefits through preserving existing demand. These coastal resilience investments are public interest projects with a focus on climate action, which are thus more likely to be financed through government-issued bonds.

- **OCEAN RENEWABLE ENERGY**

This includes offshore wind, solar, tidal wave energy, and geothermal energy. Investments in this category include research and development of renewable energy technologies and increased production of infrastructure and supply. Investors should explore integrated ocean management to complement other ocean investments and mitigate the potential negative impacts of increased investments in ocean infrastructure, such as blight or noise pollution, that may disrupt marine life and coastal communities. This should also capture investments in monitoring equipment.

Investments in this sector can attract both public and private financing through raising equity in energy firms, fixed-income instruments for public utilities, and government bonds for large infrastructure projects.

- **OCEAN-SOURCED FOOD**

Sustainable aquaculture and fisheries provide opportunities for investors to generate returns through emission-reducing investments (e.g., low-carbon or zero-emission vessels). There is also scope for investments in energy-efficient post-harvest production (e.g., cold storage and ice production) and alternative aquaculture feeds (e.g., algae, microbial, fungal, and insects). Investors should also analyse new emerging sub-sectors, including new cellular manufactured seafood (such as BlueNalu), kelp farming, as well as fisheries by-product transformation. Sri Lanka is already established in this sector so investments could capitalise on existing human capital and complement existing business practices.

Other emerging investment categories include ocean biotechnology, ocean-positive shipping, ocean clean-ups, and next-generation ocean activities, such as investing in nature-based solutions for carbon capture and storage technologies and identifying the most effective areas to initiate restoration projects.

Financing for SDG 14 also requires a shift in perspectives concerning blue economic investments. **Investing one dollar in certain ocean themes can yield at least five dollars in global benefits over the next 30 years, according to research commissioned by the High-Level Panel for a Sustainable Ocean Economy** (High Level Panel for a Sustainable Ocean Economy, 2021). This report says that investing US\$2trn-3.7trn globally from 2020 to 2050 across four key areas could generate US\$8.2trn-\$22.8 trillion in net benefits, a rate of return on investment of 410-615%. However, this requires embracing non-revenue-generating investments and incentivising creditors to support longer-term projects that preserve economic value. As climate change adaptation and marine conservation become increasingly integrated into long-term economic strategy, the model of economic value must evolve to capture the non-monetary benefits of such development strategies. To create incentives for low- and middle-income countries to incorporate environmental conservation into their economic strategy, the indirect economic benefits must be properly valued and internalised by investors and the international community.

Examples from other countries in the region: UNDP's experiences.

UNDP in Vietnam supported the government in designing a first-of-its-kind Blue Economy Scenarios exercise conducted in 2023 covered six key ocean economic sectors of fisheries, renewable energy, oil and gas, tourism, transportation, and environment and ecosystem (UNDP Viet Nam, 2022). The blue scenario for each sector was based on feasible sector-based interventions in policy, governance and management which were closely aligned to the blue economy concept. Blue scenarios were compared to baseline scenarios in which the existing approach to sector development was pursued until 2030. This revealed that the interactions between the economic sectors were positive or quite neutral, suggesting that there is still room for expansion of marine economic development. However, many of the economic sectors were negatively linked to the environment and ecosystems, suggesting that further expansion could lead to environmental degradation. Further, the blue scenarios indicated that ecosystem values linked to habitat quality, and the extent of key habitats (mangroves, seagrass, coral reefs, and lagoons) could be increased. This exercise was foundational for Viet Nam to embark on the country's Blue Economy programme.

1.5 RECOGNISING NON-REVENUE-GENERATING BENEFITS

International commitments to address climate change, such as the Paris Agreement and Conference of Parties (COP) convened by the United Nations Framework Convention on Climate Change (UNFCCC), have contributed to the evolution of the climate-oriented economic model. Multilateral organisations are increasingly embracing the simultaneous exploitation and conservation of marine resources which is central to the Blue Economy approach in developing countries. A hybrid model of monetising the direct and indirect economic benefits of ocean conservation can be internalised by government agencies in low- and middle-income countries to eliminate myopic economic development strategies. Governments must recognise the long-term economic potential of environmental conservation even if it limits short-term revenues through exploitation; without this reassessment of indirect economic value, developing countries risk overexploiting their marine resources to the detriment of their longer-term economic growth.

However, if low- and middle-income countries compromise short-term economic growth to promote environmental conservation and longer-term benefits for the environmental public good, the global economic order must recognise the opportunity cost of this trade-off and implement mechanisms to support sustainable economic growth. Developing countries must have access to concessional finance, climate grants, and other climate finance instruments that create the necessary fiscal space to invest in climate-resilient infrastructure. Developing countries will require debt to preserve their long-term economic potential through addressing climate vulnerabilities; this only becomes a problem if they are faced with short-sighted debt repayment schedules that do not recognise the long-term non-tangible economic benefits associated with such investments. If developing countries prioritise the overexploitation of resources to finance short-term debt repayments on loans for climate-resilient infrastructure, this compromises the benefits of such investments. Without access to concessional finance, investments are not made. Without generous repayment schedules, short-sighted revenue generation compromises sustainability.

Climate-resilient infrastructure does not generate direct revenues that can be used to offset the initial capital cost but, instead, preserve economic value in the face of climate vulnerabilities. Therefore, the global financial architecture must develop a model that embraces this long-sighted approach in developing countries through generous, longer-term debt repayment schedules. Without this, it is difficult to incentivise developing countries to incorporate climate priorities into their development strategy due to the perceived debt risk. This must also be internalised by creditors, private, bilateral, and multilateral, by recognising the significant opportunity costs associated with servicing debt obligations and the costs this poses to climate-vulnerable, debt-distressed countries. Reassessing the economic value of climate-resilient infrastructure and its contribution to the global fight against climate change is the only way creditors will facilitate these longer-term investments on concessional terms.

1.6 THE BLUE MULTIPLIER EFFECT

The economic multiplier effect associated with the Blue Economy is also a significant factor that must be emphasised when unlocking the sector’s full potential. The additional economic activity generated by blue economic development amplifies the initial benefits of investments through job creation, derived demand for ocean-dependent goods and services, and innovation across sectors that interact with the Blue Economy. The socioeconomic benefits of a robust blue economic strategy are not isolated to the sector; investments in ocean conservation, coastal infrastructure and climate resilience generate direct and indirect benefits that improve livelihoods across all sectors of the economy.

One traditional multiplier effect associated with blue economic infrastructure investments is job creation; investments require labour, and this creates employment opportunities for local people that materialise in wages that can be spent elsewhere in the local economy, further benefiting other sectors. The multiplier effect of such infrastructure investments also creates climate-induced economic benefits, where climate resilience improves the capacity of climate-vulnerable regions to develop sustainable economic strategies. These regions stand to benefit from climate change adaptation and can contribute to long-term economic growth far beyond their capacity in the presence of pressing climate challenges.

A climate-induced multiplier effect highlights the opportunity cost associated with climate-resilient infrastructure investments, as it recognises the value of maintaining economic benefits from vulnerable regions that would otherwise be compromised because of climate change. The value function of blue economic investments must incorporate these long-term benefits and opportunity costs to fully capture these multiplier effects. The multiplier effect goes far beyond vulnerable regions as climate resilience through ocean conservation stands to benefit many other sectors of the economy, and this emphasises the importance of a sustainable ocean strategy for Sri Lanka. The island relies heavily on the oceans and much of its economic potential is derived from sectors that are categorised under the Blue Economy. It is therefore vital that policymakers integrate blue economic growth into long-term economic strategy and recognise the multiplier effect of the Blue Economy far beyond the traditional sectors that rely on the oceans.

2. FINANCING THE BLUE ECONOMY: LESSONS FROM PREVIOUS CASE STUDIES

It is estimated that over 50 countries are now facing debt distress, the majority of which are middle-income countries. There is also a significant correlation between debt and climate vulnerabilities in middle-income countries, which presents a multidimensional challenge of pursuing sustainable economic growth alongside mitigating the effects of climate change (Jensen, 2022).

Debt-distressed middle-income countries must find innovative ways to create fiscal space for climate-resilient investments while also managing increasingly unsustainable debt burdens. The following case studies demonstrate that the Blue Economy is at the heart of a sustainable economic strategy and can be empowered through climate finance instruments that tackle debt and promote marine conservation simultaneously.

2.1 SEYCHELLES: BLUE BONDS

The economy of the Seychelles is intrinsically linked with the Blue Economy. Despite a small population of less than 100,000 and a land area of only 455 square kilometres, the Seychelles Exclusive Economic Zone (EEZ) consists of 1.37 million square kilometres, making it the 24th largest in the world (SeyCCAT, 2017). Therefore, developing a blue economic strategy that embraces such a rich endowment of marine resources is vital for Seychelles' economic prosperity.

In 2012 at the Rio+20 summit, Seychelles committed to increasing its marine protection from 0.04% to 30% of its Exclusive Economic Zone (EEZ) by 2020 (Government of Seychelles, 2012). This required the government to mobilise significant capital for conservation investments and develop a strategy to maximise the potential of its rich marine resource endowments. However, Seychelles continued to suffer from the longer-term economic consequences of the global financial crisis, which limited the fiscal space available for public investments in marine conservation. Seychelles' debt-to-GDP ratio exceeded 150% so the government faced pressing challenges to address climate and debt obligations simultaneously with limited fiscal resources (Commonwealth, 2020).

In 2018, Seychelles agreed to a debt-for-nature swap with The Nature Conservancy (TNC) which restructured \$21.6 million of public debt at a discounted rate of 93.5% of its original value (Commonwealth, 2020). The newly established Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) repurchased the debt and received sovereign debt service payments that financed conservation projects. SeyCCAT owns the debt, and the government is required to pay its debt obligations back on more generous terms, which provides cash flow relief on repayments that create fiscal space for investments in marine conservation. This enables the government to pursue its ambitious marine conservation targets, protecting 30% of its waters and protecting 15% of its high-biodiversity areas. The fund also supports the development and implementation of a Marine Spatial Plan (MSP), which establishes a clear regulatory framework for the Blue Economy and ensures that ocean conservation and sustainability are at the heart of Seychelles' economic growth (State House, Seychelles, 2020).

Although the debt-for-nature swap was small in absolute terms, it catalysed Seychelles to employ other climate finance instruments for ocean conservation. The deal signalled to investors that Seychelles were committed to meeting their ambitious marine conservation targets and the establishment of an MSP reinforced investor confidence in the Blue Economy. The implementation of a clear, sustainable strategy

for the Blue Economy also acted as a springboard for Seychelles to launch the world's first sovereign blue bond in 2018. The blue bond initiative combines private and public investment to expand marine protected areas and promote sustainable fishing practices. It demonstrates the potential for innovative climate finance and capital markets to align marine conservation with economic opportunities to develop a more sustainable Blue Economy.

2.2 BELIZE: DEBT-FOR-NATURE SWAPS

Tourism plays a crucial role in the economy of Belize; it is one of the country's leading industries and is a significant source of foreign exchange earnings and employment. When the COVID-19 pandemic heavily impacted the tourism sector, government revenues were reduced, and Belize also experienced a significant contraction in its GDP. Belize's public debt-to-GDP ratio increased from 100% to 125% of GDP and the government faced a severe risk of defaulting on its sovereign debt. The government entered debt restructuring negotiations to manage the unsustainable debt burden and by November 2021, Belize had agreed to a debt-for-nature swap with The Nature Conservancy.

The Belize debt-for-nature swap followed a similar structure to the Seychelles deal; through a tripartite swap, TNC financed the repurchase of Belize's only international bond, valued at \$553 million, by issuing \$346 million in blue bonds to private investors. The repurchase agreement was made at a discounted rate of 55 cents on the dollar, which unlocked approximately \$180 million that was allocated to ocean conservation projects and the preservation of the Belize Barrier Reef System (Owen, 2022). As part of the agreement, Belize worked closely with NGOs to establish strong environmental commitments and finance local conservation projects. The government agreed to spend \$4 million per year on marine conservation projects until 2041 and committed to increasing its Marine Protected Area to 30% of oceans by 2026 (Grund and Fontana, 2023). Although private investors were initially reluctant to invest in blue bonds, ambitious environmental targets, and a strong credit rating set by the International Development Finance Corporation (DFC) restored confidence in repayment and insured investors.

The Belize deal indicates that there is an appetite among private creditors to take haircuts in debt-distressed developing countries, especially in exchange for environmental conservation. It also emphasises the vital role that private investors play in financing such innovative debt restructuring instruments. Developing countries that risk falling short of their environmental commitments due to debt distress must work closely with private creditors and investors to incentivise debt relief in exchange for environmental conservation.

2.3 ECUADOR: THE ‘GALAPAGOS BOND’

Ecuador recently converted \$1.6 billion of its national debt into a \$656 million loan through a blue bond issued by Credit Suisse. This is the largest debt-for-nature swap in history and highlights the potential for climate finance instruments to restructure a large amount of developing countries’ debt in exchange for environmental commitments. Ecuador faces a significant risk of sovereign debt default, which incentivised creditors to take a significant haircut on their outstanding debt. The repurchase agreement was made at approximately 40 cents on the dollar and has wiped out \$1.1 billion in scheduled debt service repayments over the next 17 years (Jones and Campos, 2023). A sizeable portion of this saving will be reallocated to ocean conservation projects in the Galapagos Marine Reserve, sustainable fishing projects, and climate-resilient infrastructure development.

The agreement was financed through the issuance of a new ‘Galapagos Bond’ guaranteed by the Inter-American Development Bank, which supports institutional strengthening policies for environmental and public debt management in developing countries. The ‘Galapagos Bond’ is also attractive for investors because of an already well-established tourism industry in the archipelago that generates a continuous income stream for the Ecuadorian economy. Furthermore, the Galapagos Islands are recognised as one of the most biodiverse regions in the world; this reputation is attractive to private investors with corporate social responsibility targets.

2.4 THE BAHAMAS: BLUE CARBON CREDITING

Blue carbon crediting - much like traditional carbon crediting - also provides a financing opportunity for blue economic investments. Individuals, businesses, and governments purchase carbon credits to fund initiatives that offset their carbon emissions. Blue carbon credits are created through the growth and conservation of carbon-absorbing plants in the marine ecosystem. Mangroves, seagrasses and salt marshes are vital to ocean health; not only do they absorb 10 times as much carbon from the atmosphere compared to terrestrial forests, they also act as natural buffers to protect coastal ecosystems, provide water purification, preserve habitats for marine life, and also have significant multiplier effects that produce wider environmental benefits (Terrapass, 2023). Blue carbon credits are typically more expensive than traditional carbon credits as their price captures more demanding actions that have greater environmental benefits. These environmental benefits also materialise through preserving economic potential through conservation and slowing climate change.

The most advanced case study in blue carbon crediting is The Bahamas, which aims to create a blueprint for the future of blue carbon projects. Under the Climate Change and Carbon Initiatives Act, 2022, The Bahamian government established a regulatory framework for accrediting and trading blue carbon credits. It is estimated that the country's natural assets could attract up to \$50 billion and earn \$375 million annually from carbon credits; this revenue could be used to fund other essential climate-resilient infrastructure projects, particularly in renewable energy, which has further environmental benefits (DGB, 2023). The Bahamas' blue carbon crediting scheme is also linked directly to their Nationally Determined Contributions for both climate change mitigation and adaptation, which reassures buyers that there are targets for their investments that can be used to measure the effectiveness of the scheme. This gives investors the confidence that the government will deliver on their commitments to offset emissions.

Blue carbon crediting is an innovative initiative to finance blue economic developments. Blue carbon credits have the potential to generate significant, direct environmental benefits through ocean conservation, while also generating revenues that can fund essential climate-resilient infrastructure that has broader economic and environmental benefits.

2.5 LESSONS FOR SRI LANKA

The success of debt-for-nature swaps in Seychelles, Belize and Ecuador demonstrates the value of the Blue Economy to both governments and private creditors. Governments must establish environmental conservation strategies before employing climate finance instruments to create fiscal space; it is this organisational framework that gives government institutions the credibility required for private investors to mobilise capital for climate-resilient investments. If governments have ambitious targets and a strong environmental record, they are more likely to access climate finance to address debt distress. Debt relief should be valued as an additional benefit, rather than the core motivation for a debt-for-nature swap. This will lead to more efficient environmental outcomes and stronger incentives for private investors to engage with economies facing an elevated risk of default.

The Seychelles debt-for-nature swap highlights the importance of well-established environmental commitments when accessing climate finance. Seychelles developed a clear vision for their ocean conservation strategy long before the debt-for-nature swap and employed climate finance to create the necessary fiscal space to continue the implementation of their Marine Spatial Plan when facing debt distress. The direction of policy development needs to be reversed in many middle-income countries, including Sri Lanka. Debt-for-nature swaps must enable governments to maintain their investments in climate change mitigation and adaptation, rather than prioritising debt relief with environmental conservation as a byproduct. This is also reaffirmed through The Bahamas' blue carbon crediting scheme, where tying their blue carbon projects to NDCs reassures buyers that the government has binding commitments to offset their emissions. This transparency attracts buyers to the market and unlocks more finance to invest in ocean conservation projects. Moreover, blue carbon credit revenue could be allocated to projects with environmental and economic multiplier effects; in Sri Lanka, such revenues could target renewable energy infrastructure, which is essential to diversify the economy while also mitigating the effects of climate change (Iveson, 2023).

Each of these Blue Economy case studies also highlights the key role of the tourism sector in generating climate finance opportunities. Given that Seychelles, Belize, The Bahamas, and Ecuador all have strong tourism industries centred around their Blue Economy, marine conservation will preserve this demand and create further opportunities for blue ocean tourism. A growing tourism industry guarantees a sustainable source of government revenue and reassures creditors that their sovereign debtors will have sufficient fiscal space to service their debt repayments alongside their marine conservation commitments. Sri Lanka already has a strong coastal tourism industry so this can attract creditors to the blue economic framework as the government has already established strong tourism revenue streams. Further capitalising on blue tourism and developing a clear blended finance strategy will reassure creditors and support sustainable revenue streams.

3. A BLUEPRINT FOR THE BLUE ECONOMY IN SRI LANKA

3.1 A BLUE ECONOMY POLICY FRAMEWORK FOR SRI LANKA

The ocean and its ecosystems provide essential goods and services to support economic development. However, poorly planned economic development and unregulated resource exploitation in the ocean are further exacerbating the pressures of climate change and causing irreversible adverse impacts, leading to suboptimal economic, social, and development returns. This underlines the importance of a coordinated and integrated approach to blue economic development in Sri Lanka. The vision for a Blue Economy warrants a policy and legal framework that allocates and distributes ocean resources effectively, while mainstreaming gender, equity, and justice, including the capacity to enforce compliance with legislation that specifies how marine resources should be used and protected.

A blue economic framework in Sri Lanka would benefit from six key considerations, outlined below. Sri Lanka's blue economic framework must:

1. **Recognise the value of 'blue capital' and investments in natural assets.** Blue capital is the stock of natural resources found in coastal and maritime environments, such as coral reefs, mangroves, and seagrass beds. Recognition of the true value of marine environment goods and services must go together with a greater focus on the protection and restoration of ocean ecosystems.
2. **Maintain inclusive growth, empower blue businesses, and promote jobs in blue economic sectors.** Sri Lanka's Blue Economy should support socioeconomic development that is inclusive, fair, and equitable in terms of the sharing of benefits with all relevant stakeholders. For example, there must be a level playing field for small-scale fisheries' access to resources and markets; there must be measures to address the impact on livelihoods due to oceanic pollution and overfishing; marine-based eco-tourism giving special focus to local culture needs to be addressed; the design of the legislature and action plans should not be gender-blind and must account for the specific needs of women, youth and vulnerable groups, and recognize them as agents rather than passive recipients of such initiatives. Further, creating an environment that enables the growth of local enterprises and fosters private sector investments in inclusive and sustainable blue sectors is key to achieving this. Another critical component is promoting partnerships to support micro, small and medium-sized enterprises, and local communities. For example, the government can design programmes which target the coastal poor to support investment in healthy oceans. It is imperative that sustainable growth is driven by advancing science, technology, digital tools, data, and innovation, especially for ocean industries to reduce their environmental damage.
3. **Promote energy from low or zero-carbon sources.** Increasing the production of energy from renewable sources (i.e., solar, wind, tidal wave energy, etc.) to help mitigate climate change and reduce the dependency on imported fossil fuels would reduce Sri Lanka's vulnerability to fluctuating global fuel prices and provide a high degree of economic resilience.
4. **Address resource scarcity and promote the efficient allocation of resources.** Policymakers must recognise the risks and consequences of limited resources and establish a clear framework to maximise efficiency. This involves conserving resources in the short run and prioritising renewable resources in the long run, employing a circular economy model, and managing the trade-offs between short- and long-term consumption. It is also vital to manage living marine resources

(e.g., fish stocks) and consider the broader values, challenges, and issues in these areas.

5. **Build resilience to deal with the foreseeable impacts of climate change.** It is vital to recognise and manage the increasing, and inevitable, risks of climate change. Through adaptation and resilience-building, strategies can mitigate these risks through targeted infrastructure investments that protect and empower the most vulnerable areas of the Blue Economy. Coastal habitats also have a significant role to play in protecting coastal communities.
6. **Unlock new human capital in Sri Lanka's Blue Economy.** A blue economic framework must identify the skills and human capital necessary to adapt and develop educational, vocational, and professional training programs. This requires transforming the domestic education system to integrate environmental and marine priorities into the national curriculum. This also goes beyond formal education and must raise public awareness and knowledge of marine ecosystems. By integrating modern and traditional approaches to information, Sri Lanka can develop a home-grown marine science capability that would increase the understanding of the marine environment, its natural processes and cultural marine heritage. This establishes a skilled and experienced workforce through the transfer of knowledge at a local and national level.

3.2 A MARINE SPATIAL PLAN FOR SRI LANKA

Marine Spatial Planning (MSP) is an effective policy process that promotes collaboration between public and private stakeholders. It facilitates the analysis and efficient allocation of ocean resources for competing human activities in coastal and marine environments (e.g., tourism, renewable energy, fishing, and conservation). It also supports the development of a well-defined ocean strategy that pursues blue economic growth while promoting biodiversity and climate change adaptation.

Almost 100 countries/territories have completed - or are in the process of developing - MSP initiatives. Sri Lanka has a compelling case for the adoption of a sustainable blue economic model, with a particular focus on an MSP. In 2020, China implemented integrated management for natural resources and compiled National Land Spatial Planning (including ocean and land). In February 2023, India launched the country's first MSP framework in Puducherry. Among others, Seychelles' MSP is in its final stages and Viet Nam - with the support of UNDP - is currently in the process of developing a national marine spatial masterplan, which aims to fuel the sustainable development of marine economic clusters and establish sea-based economic hubs by 2030.

The Seychelles Marine Spatial Plan Initiative (SMSP) was developed to ensure that the government had an integrated, multi-sector approach to support the Blue Economy. The implementation of an MSP was endorsed as part of the debt-for-nature swap agreement and provided the framework for Seychelles to fulfil its ocean conservation targets. The Marine Spatial Plan also signalled to private investors, and bilateral and multilateral partners that Seychelles is committed to ocean conservation and blue economic growth. Clearly defined ocean conservation targets and the efficient allocation of marine resources made climate finance opportunities attractive to investors, who were reassured of Seychelles' ability to fulfil its environmental commitments and promote sustainable economic growth. This investor confidence also created a more attractive environment for launching Seychelles' sovereign blue bond scheme, which generated more revenues to invest in productive and sustainable ocean practices.

At the time of writing, UNDP is drafting an MSP Roadmap for Sri Lanka. The MSP Roadmap is an anchoring document that will inform the sustainable use of the country's ocean resources and lays out the foundation to employ a developed Marine Spatial Plan in Sri Lanka. The Government of Sri Lanka also committed to marine spatial planning in the 2023 National Budget. To complement the MSP Roadmap, Sri Lanka should also embark on a Blue Economy Scenarios exercise. Blue Scenarios posit that additional realistic and feasible interventions by a future date (i.e., 2030 or 2048) could improve economic and social outcomes, relative to the baseline scenario. Mechanisms and policies are adjusted to meet the requirements of increasing the quality of marine resources and ensuring environmental sustainability.

3.3 INTEGRATED NATIONAL FINANCING FRAMEWORK (INFF) AND ITS LINKAGES TO THE BLUE ECONOMY FINANCING

An Integrated National Financing Framework (INFF), which is currently being proposed and in the making for Sri Lanka, provides a framework to implement the sustainable development plans and strategies at the heart of the Addis Ababa Action Agenda at a country level. It helps countries strengthen planning processes and overcome existing impediments to financing sustainable development and the Sustainable Development Goals (SDGs). It outlines domestic and international sources of financing - both public and private - and enables countries to develop a strategy to increase investment, manage risks, and achieve sustainable development in line with their national sustainable development strategy.

The INFF manages an increasingly complex financing landscape by enhancing the coherence of different financing policies, mobilising additional financing to support sustainable development, supporting long-term investment, strengthening medium- and long-term planning, and matching different types of financing to their most appropriate use. This aligns development cooperation with national priorities and enhances the transparency of financing flows.

With the support of UNDP, Sri Lanka is currently exploring an INFF aligned with the NDCs, using the energy sector as an entry point. The INFF will align with Sri Lanka's Climate Prosperity Plan, which is anchored around three major goals focussing on energy, finance, and resilience. It will also directly target the NDCs that align with the energy transition commitments. Implementing this Financing Strategy requires significant financial resources and a combination of new financing policies, reforms, and instruments. To achieve energy sector NDCs, significant annual investments are required in key sectors to achieve Carbon Neutrality by 2050 in the domestic electricity sector. Although renewable energy sources in Sri Lanka are expanding, including through small-scale hydroelectricity, solar, wind, and modern biomass, the overall contribution is still small.

The renewable energy development plan for 2021 – 2026 also induces tidal energy, a key component of the Blue Economy. This provides an opportunity to identify Sri Lanka's potential in offshore and tidal energy, while also exploring Blue Economy financing aligned with NDCs and the INFF. The integrated financing approach has the potential to create synergies between financing and NDCs, ensure policy coherence, and finance the Blue Economy in alignment with the INFF architecture.

The Maldives developed and launched a climate-focused integrated financing strategy in March 2023 and became the first SIDS country to develop and formally endorse a financing strategy using an INFF approach. The country allocated \$96 million of its national budget to climate change mitigation and adaptation, a 30-fold increase from 10 years earlier. However, this expenditure level is only a fraction of the total financing required, which is estimated to be more than more than \$800 million. The Climate Financing Strategy helped The Maldives to bring together 16 prioritised financing policy areas that encompassed public and private financing. The key strategies are to reduce carbon emissions, incentivize clean energy sources, embed sustainability principles in financial decision-making, protect the financial system from climate risks, scale up the Green Fund and other climate funds, and unlock

private sector financing. Maldives leveraged the INFF approach to consider the disproportionate impact that climate change has on vulnerable groups, specifically in a small island state, and how measures can be developed to ensure livelihood opportunities are safeguarded through financing actions at all levels.

It is a complex and challenging endeavour to shift from ‘business as usual’ to empowering the Blue Economy. It requires a comprehensive approach that enables both public and private sector investments. The role of the government is to create robust legislative frameworks and invest in climate-resilient infrastructure that provides the foundation for private sector involvement in the Blue Economy. If the government creates an attractive environment for blue economic development, it will unlock private sector capital that creates local job opportunities, invests in local economies, and generates tax revenues for future public spending.

The government must also find innovative ways to unlock financing in the public sector. Previous blue economic case studies have employed climate finance instruments, such as debt-for-nature swaps and blue bonds, that have used private finance to raise public funds. The government must develop a blue economic framework that outlines clear priorities that feed into a sustainable economic development strategy. Such a framework would provide guidance to Sri Lankan policymakers within the government but also communicate priorities to private investors, who can target sectors that stand to benefit from the blue economic model. Climate finance and other conservation investments will only take place with investor confidence, which is enabled through such strategic frameworks. Therefore, it is vital that the government take the appropriate steps to kickstart this development process to unlock the potential of the Blue Economy.

3.4 PROPOSED NEXT STEPS

The following steps provide guidance to Sri Lankan policymakers on the process of developing blue economic policies and providing a strategic framework that can act as a springboard for blue economic development. The government must reflect on its priorities for the Blue Economy and implement policies that will enable the sector to thrive.

Step 1 – Awareness, Evaluation & Government Approval.

The adoption of the Blue Economy approach begins with government policymakers recognising the importance of blue sectors and incorporating these into economic strategy discussions. This is followed by initial research about the country-specific Blue Economy, determining the advantages and disadvantages of such an approach, and the economic benefits for national development, wealth creation, jobs, and other opportunities. Such tasks are typically assigned to senior government officers, who collate information through desk reviews and consultations with professionals, private sector consultants and other stakeholders, both at the national and international levels. The purpose of this initial research is to understand the role of the Blue Economy in Sri Lanka and the potential of incorporating these sectors into the economic development strategy.

If senior government officers and ministers are motivated to unlock the potential of the Blue Economy, a cabinet paper is prepared and submitted for discussions and approval. Government approval at this stage is key and determines the resource allocation for this approach. The government must also identify which agency leads the blue economic strategy and seek assistance from bilateral and multilateral partners on funding, technical assistance, and expertise.

Step 2 – Gathering Information on the Blue Economy and setting the agenda.

This step involves more detailed, in-depth research and consultation. It should also involve a cost-benefit study of the Blue Economy. The research conducted at this stage will cover:

- The analysis of the relevant stakeholders and whether they are already operating on a sustainable basis.
- The evaluation of key sustainable marine sectors and the value addition of other potential sectors.
- The potential to further develop and improve identified sectors, either through efficiency, innovation, or expansion.
- The potential to create new opportunities in the local economy, through job creation.
- The potential to restore ecosystems, improve sustainability and reduce environmental impacts.

Based on this research, the government may appoint an internal drafting team or work with an external consultancy firm to compose the Blue Economy policy framework. Clarity in the Terms of Reference (ToR) of the drafting team and consultations with various stakeholders are crucial aspects at this stage. The blue economic policy document should capture the cross-cutting nature of the Blue Economy and the need to integrate it into development, social and environmental sectors.

Step 3 – Development of blue economic policies.

Blue economic policy development will follow regular government procedures. However, due to its cross-cutting nature, it will involve the participation of key government ministers, departments, and agencies representing the environment, finance, fisheries, wildlife, tourism, ports and shipping, the Navy, the Coast Guard, and many other interested parties. The process requires a strong institutional framework to facilitate and promote discussions between stakeholders, including the appointment of a dedicated ministry, department, or agency to lead the process, a coordinator, and a steering committee. Sri Lanka - like other developing countries - will need the assistance of external experts to support policy development and legislation.

Step 4 – Whole-of-society endorsement of blue economic policies.

Typically, government policy is drafted after in-depth consultations with stakeholders. Upon producing a first draft of the policy document, further consultations and workshops are held with specific groups, such as parliamentarians, private sector stakeholders and civil society, to receive a diverse range of contributions. However, a contextualised, community-centered process is crucial for the Blue Economy as it is a new, complex, and multi-sectoral approach that requires many different and competing considerations. This ensures inclusivity in the design, delivery and advocacy for Blue Economy, and enables a societal endorsement of the same.

The blue economic framework requires structured participation from all partners and stakeholders to gather information and receive support from the interested parties. Participation and consultation meetings must target senior professionals and leaders in their respective sectors, while also promoting inclusivity and representing diverse interests such as race, ethnicity, and gender. After in-depth discussions and contributions to policy development, the coordinating ministries will present the policies to the government for further discussion and, finally, endorsement. This is typically followed by a cabinet paper for approval from the highest national decision-making body.

Step 5 – Drafting a strategy and action plan.

To implement the government's principles, proposals and ideas through the blue economic framework, a strategy and action plan are required to outline the activities, targets, indicators, responsible agencies and partners, timelines, and resource requirements. The strategy and action plan operationalize the policy and provide a clear roadmap to translate policies into actions on the ground. This process involves:

- Strategic alignment exercises and sectoral dialogue: this identifies existing differences, contradictions, and gaps in the economic and environmental sector policies and strategies, which could cause problems when aligning existing sectors with new policies.
- Blue capital assessment: this assesses the value and potential of the resources available within Sri Lanka's Exclusive Economic Zone.
- Situational analysis: this captures the political, economic, social, and environmental landscapes within Sri Lanka. This also focuses on the health impacts of economic activity in the marine environment.

A strategy and action plan must also identify financial opportunities that can mobilise capital for

investments in the Blue Economy. With robust environmental priorities that align with economic policies, the government can attract investors to the sector with clarity and transparency. The action plan can also communicate the forecasted economic and environmental benefits associated with blue economic investments, which establishes the initial returns that investors can expect.

Step 6 – Implementation of the strategy.

The last step of the Blue Economy approach is to develop the institutional arrangements to operationalize the strategy and action plan. The Government of Sri Lanka must decide which ministry, department or agency should lead the implementation of the blue economic framework, or whether there should be a newly established partnership between ministries to coordinate and monitor the process. To strengthen the government framework, an additional layer of coordination is required to provide public, private, and civil society organisations with the opportunity to contribute to the implementation process. The process should also incorporate monitoring and evaluation to ensure that policy development can be revisited and corrected as information evolves.

3.5 SUMMARY AND CONCLUSION

Sri Lanka's Exclusive Economic Zone contains some of the world's richest concentrations of biodiversity and supports the livelihoods of millions of people, both directly and indirectly. Sri Lanka's marine resources also include essential commodities, such as petroleum, natural gases, and minerals, which are not being effectively utilised. The emergence of a Blue Economy approach offers a unique opportunity to address complex and interconnected challenges, without compromising economic growth. Sustainable economic growth is the focus of the global policy discourse and many developing countries have already developed integrated ocean governance frameworks, which have successfully limited inter-sectoral conflicts and promoted collaboration in blue economic sectors. The Blue Economy approach has also acknowledged the need for policies that align future economic growth with ocean conservation and restoration. The Government of Sri Lanka has recognised the importance of the Blue Economy to its long-term economic development and has indicated the pivotal role of blue economic frameworks, such as Marine Spatial Planning, in recent policy discussions and publications.

It is essential for the government to align its economic development strategy with blue economic priorities to create a unified approach that unlocks the full potential of Sri Lanka's vast ocean resources. This report has presented the blue economic approach as a robust and integrated framework that has already been successfully implemented in many developing countries, including Seychelles, Maldives, and Viet Nam. Blue economic policies require a multi-sectoral approach that aligns national development strategies with ocean priorities. This must include the short-term and long-term implications of economic policies, combined with the direct and indirect costs and benefits. Policy misalignments must be identified and comprehensively addressed to ensure that the Blue Economy approach embraces already-established national development strategies.

The Blue Economy is an innovative concept that is driven by innovation, digitalisation, efficiency, and capacity development. It is vital that the government embraces this sustainable economic strategy and empowers local communities using a middle-out approach. For the true benefits of the Blue Economy to reach all areas of society, integrating local economies into investment plans, devolved budgets, and access to external financing is crucial. Sri Lanka's vast ocean resources must be sustainably accessed by all relevant sectors of the economy and conservation efforts must promote community-led engagement to demonstrate the value of collective action. The Blue Economy framework provides a springboard for Sri Lanka to be a trailblazer in sustainable economic development, but government and external stakeholder endorsement is essential to ensure that policies are robust and effective.

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