WELCOME FROM THE SUPERVISORY BOARD

Nature-based solutions contribute substantially to achieving the Sustainable Development Goals by preserving biodiversity, addressing climate change and providing sustainable livelihood opportunities. The Blue Action Fund follows this rationale by conserving marine life and fostering local sustainable development.

The recent global assessment report of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) confirmed the fundamental role of the oceans for the earth’s ecosystems. It also highlighted the need to expand, connect and effectively manage marine protected area (MPA) networks and to promote the conservation and restoration of marine ecosystems to induce transformative change required to achieve sustainability. In addition, the ocean features highly on the climate agenda: In 2019, the Intergovernmental Panel on Climate Change (IPCC) will publish a special report on the “Ocean and Cryosphere in a Changing Climate” and the 25th Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) in December in Chile will particularly focus on the role of the ocean in climate change mitigation and adaptation.

The Blue Action Fund is therefore proud to finance ambitious yet realistic projects to establish or expand MPAs, to improve MPA management effectiveness and to enhance livelihood conditions and food security of local communities. Launched in 2017, the Blue Action Fund successfully started its grant programme in 2018. It also launched two calls for proposals in 2018, one for the Western Indian Ocean and one for South East Asian Seas to further grow its grant portfolio. This would not have been possible without the financial support of the German Ministry for Economic Cooperation and Development (BMZ) through the KfW Development Bank (KfW), and the Swedish Ministry for Foreign Affairs, which both increased their contributions to the Blue Action Fund in 2018. In addition, we warmly welcome the Agence Française de Développement as a new funder of this joint endeavour.

While we are proud of the progress that has been made thus far, we are keenly aware of the challenges that lie ahead to achieve the Sustainable Development Goals. In 2020, Portugal and Kenya will co-host the second UN Ocean conference. Also, a post-2020 global biodiversity framework is expected to be agreed at the 15th Conference of the Parties (COP) to the Convention on Biological Diversity (CBD). In view of these events, we will launch an additional call for proposals in 2019 to further broaden Blue Action Fund’s grant programme.

We are delighted to share our 2018 Annual Report with you. It is an honour to join forces in this cause with our Management Board and our outstanding partners and grantees around the world. To all of you, we extend our deepest thanks.

Ingrid-Gabriela Hoven
Chair of the Supervisory Board

Stephan Opitz
Deputy Chair of the Supervisory Board
2018 – A YEAR IN REVIEW

Programme

Blue Action Fund’s programme is premised on the belief that NGOs play an essential role in marine conservation. It is designed to support projects proposed by NGOs through contributions ranging from €1 million to €3 million. To ensure ownership and increase synergies with other efforts, the grantees must fund a significant part of the total project costs. The projects we fund support local, national and regional marine conservation strategies and are all endorsed by the relevant government authorities. Blue Action therefore perfectly embodies the goals of the Paris Declaration.

A restricted call for proposals during the launch phase of the Fund and our first open call for proposals focussing on Small Island Developing States has resulted in the five projects that constitute our current portfolio. In 2018, we had two more open calls for proposals focussing on the Western Indian Ocean and the East Asian Seas respectively. Several new grant agreements for projects from these two calls are expected to be signed in 2019.

Ongoing Grants

The Blue Action Fund signed a total of five grant agreements in 2018.

All projects seek to establish or better manage MPAs of regional importance, to conserve biodiversity and recover fish stocks; and to enhance livelihood conditions and food security.

This is done among others through activities which support:

- **MPA Governance**
  - management plans
  - mapping and demarcation
  - monitoring, control and enforcement measures
  - data collection
  - training of staff

- **Sustainable Livelihoods**
  - saving clubs
  - sustainable tourism initiatives
  - reduction of harvest losses in fisheries
  - empowerment of women

- **Species Conservation / Sustainable Fisheries**
  - gear selectivity
  - co-management initiatives
  - conservation measures for key species

- **Habitat Conservation and Restoration**
  - mangroves
  - coral reefs
  - seagrass beds

The aggregated ambition of our current grant portfolio is to establish a total of around 30,000 km² of new well-managed MPAs and to better manage around 145,000 km². A total of >220,000 people, e.g. employees of MPA management authorities, fishermen, and other users of marine resources and their families, are estimated to directly benefit from the projects. More detailed information on our current grants can be found on our website.
Fauna & Flora International

‘Establishing a network of marine protected areas across São Tomé and Príncipe through a co-management approach’
São Tomé and Príncipe
Duration: 2018-2023
Blue Action Fund Grant: 1,941
Match Funding: 648
Total Project Costs: 2,589

WWF Germany

‘Safeguarding PSEPA – Precious Seas Effectively Protected and Administered’
Mozambique
Duration: 2018-2022
Blue Action Fund Grant: 2,250
Match Funding: 754
Total Project Costs: 3,004

Conservation International

‘Making the Eastern Tropical Pacific Marine Protected Area Network a driver of local community sustainable development’
Costa Rica, Ecuador, Colombia, Panama
Duration: 2018-2021
Blue Action Fund Grant: 2,750
Match Funding: 922
Total Project Costs: 3,672

Wildlife Conservation Society

‘Scaling up marine protected areas in Melanesia for biodiversity conservation, food security and livelihoods’
Fiji, Solomon Islands, Papua New Guinea
Duration: 2018-2021
Blue Action Fund Grant: 2,713
Match Funding: 1,070
Total Project Costs: 3,783

Rare

‘Network of Community-Managed MPAs for Inshore Small-Scale Fisheries in Mozambique’
Mozambique
Duration: 2018-2021
Blue Action Fund Grant: 1,635
Match Funding: 546
Total Project Costs: 2,181
Outreach & Partners

We presented Blue Action Fund and its mission at several events during 2018. On the eve of the Our Ocean Conference 2018 in Bali, Blue Action Fund hosted a high-level panel discussion on “Marine Protected Areas – Aichi Target 11 and beyond”. The platform was used by Germany and Sweden to make additional contributions public. Also, the Agence Française de Développement (AFD) announced its first contribution to the Blue Action Fund at the event (see also the financial section of this report).
Lean Organisational Structure

Blue Action Fund continues to be characterised by a lean structure and low administrative costs. The Fund’s day-to-day activities were managed by the Management Board composed of a salaried, full-time Executive Director and two part-time members whose time is volunteered. In addition, a Programme Assistant was hired in 2018. The Supervisory Board, consisting of representatives from BMZ, KfW and the Swedish Ministry for Foreign Affairs as well as an observer appointed by AFD, guides Blue Action Fund’s strategic development. Members of the Supervisory Board serve on an honorary basis.

Blue Action Fund saves administrative costs through its collaboration with Nature Trust Alliance—a shared service organisation set up to provide support services, such as financial management, IT and communications to Blue Action Fund and two other conservation trust funds.

IUCN remains a partner of Blue Action Fund, providing essential support in the project appraisal and selection process as well as the monitoring and evaluation of projects.

Outlook 2019

In 2019, we expect to finalise several grant agreements from the calls for proposals launched in 2018 focusing on South-East Asia. In addition, we will prepare another open call for proposals and start the mid-term monitoring and evaluation process for our initial projects. As with any young organisation, we will continue to develop, test and fine-tune our processes.

We expect that this will result in a significant increase in our contribution to marine conservation and to promoting sustainable livelihoods. We are convinced that we are on a good path to becoming a key player in the financing of global ocean conservation and we look forward to welcoming additional partners interested in joining us on this mission.
The information in this section should be read in conjunction with Blue Action Fund’s 2018 financial statements including the notes thereto, which are published on our website in the 2018 audit report finalised by Blue Action Fund’s independent auditor.

A Growing Funding Base

Blue Action Fund’s total assets at the end of 2018 amounted to approximately €64 million, compared to €49 million at the end of 2017. In 2018, Blue Action Fund was able to further increase its assets thanks to additional funding contributions: the Swedish Ministry for Foreign Affairs through the Swedish International Development Cooperation Agency (SIDA) in Stockholm contributed another €2.8 million; the German Ministry for Economic Co-operation and Development (BMZ) through KfW added €11.1 million. The Agence Française de Développement (AFD) made its first contribution to the Blue Action Fund amounting to €2.5 million with the intention of providing a second instalment of the same size in 2019.

**Balance Sheet**

Assets consisted to a large extent of cash and cash equivalents and a growing share of investment securities. The receivables of just over €200,000 consisted of accrued interest on bank deposits.

Capital at December 31, 2018 consisted of our Endowment Capital and our Spendable Capital, the latter in the form of a €3 million grant from BMZ in 2016 to support our operating costs, which must be used over a 10-year period. We used €150,000 of the spendable capital in 2018 to cover operational costs, which leaves €2.55 million to be used before the end of 2026.

The reserves of Blue Action Fund at December 31, 2018 consisted mostly of our Funding Capacity Reserve and new Project Reserves, both of which are pools of funds that will be spent over what is likely to be a period of four to seven years from receipt of the funds. The 2018 increase in the Funding Capacity Reserve reflects the 2018 BMZ donation. The newly created Project Reserves comprises most of the SIDA donations in 2017 and 2018.
Most of this funding is earmarked for our grant programme and a small portion is available to support operating costs. The Free and Savings Reserves combine two separate reserves which enable Blue Action Fund to strengthen its balance sheet over time by adding a portion (defined under German foundation tax principles) of the net revenue to reserves.

Funds carried forward reflect mainly current use donations [e.g. the SIDA donation] that have not yet been spent or added to project reserves. As noted above, in 2018 most of the 2017 and 2018 SIDA donations were added to reserves.

As a result, the total equity of Euro 61.1 million was up over €12 Million on last year.

Liabilities of Blue Action Fund at December 31, 2018 consisted of the €2.5 Million donation by AFD, which is considered a liability since it must be paid back in case of non-fulfilment. Trade accounts and other liabilities of €301,000 reflect mainly (€286,000) a funding request from a Grant which dates from 2018, but was only received in 2019.

**Income Statement**

Blue Action Fund’s income statement is summarised in the table below.

<table>
<thead>
<tr>
<th>SUMMARY INCOME STATEMENT (amounts in EUR 000s)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenue</td>
<td>2,823</td>
<td>5,152</td>
</tr>
<tr>
<td>Total Grant and Other Expenses</td>
<td>(1,707)</td>
<td>(293)</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>1,116</td>
<td>4,860</td>
</tr>
<tr>
<td>Carry-forward from Prior Year</td>
<td>5,160</td>
<td>---</td>
</tr>
<tr>
<td>Net-transfer to/from Reserves &amp; Capital</td>
<td>[6,018]</td>
<td>[300]</td>
</tr>
<tr>
<td>Funds Carried Forward</td>
<td>258</td>
<td>5,180</td>
</tr>
</tbody>
</table>

Blue Action Fund was in a start-up phase in 2017. The comparison of figures between 2017 and 2018 in most cases reflects little more than that. Because much of Blue Action Fund’s funding is supplied by the use of reserves and the prior year’s carry forward which are shown below the net income line. Net income should not be judged as an indicator of Blue Action Fund’s operating performance. Blue Action Fund’s true “bottom line” is therefore the funds carried forward line, which needs to be considered in conjunction with the development of balance sheet reserves and liabilities to measure the foundation’s financial health and performance.

**Net Revenues**

Blue Action Fund’s Net Revenue is composed of its Revenues from Donations and Grants and its Net Investment Income as shown in the table below.

<table>
<thead>
<tr>
<th>NET REVENUE (amounts in EUR 000s)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from Donations &amp; Grants</td>
<td>2,819</td>
<td>5,189</td>
</tr>
<tr>
<td>Net Invest Income</td>
<td>4</td>
<td>(37)</td>
</tr>
<tr>
<td>of which: Investment Income</td>
<td>345</td>
<td>22</td>
</tr>
<tr>
<td>Net Revenue</td>
<td>2,823</td>
<td>5,153</td>
</tr>
</tbody>
</table>

In 2017 and 2018 revenue from donations and grants varied considerably, since contributions to Blue Action Fund made in the form of current use donations [like Sweden’s two grants to date] flow through this line of the income statement. In the future, contributions classified as liabilities [such as the AFD grant] will flow through this position as they are used.
Net Investment Income should over time provide a meaningful contribution to Net Revenues as Blue Action Fund’s capital and reserves are gradually invested. In 2018, Blue Action Fund generated a modest net investment income of €3,500. This is due to the near zero interest rates prevailing for bank deposits in Germany, the market conditions during 2018 and the fact that the investment programme had started in late 2017, which meant that most of the investments were only made during the course of 2018. The full benefit of the investment programme should begin to appear in 2019.

The result of the above was a total net revenue of about €2.82 million in 2018, compared to €5.15 million in the previous year reflecting the large first contribution from SIDA in 2017.

**Expenses and Efficiency Ratio**

Blue Action Fund started its programme in 2018 and signed the first five grant agreements. Funding for grants (including support to NGOs to develop full project proposals) amounted to about €1.33 million.

<table>
<thead>
<tr>
<th>EXPENSES (amounts in EUR)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Programme Grants &amp; Projects</strong></td>
<td>1,331,034</td>
<td>16,743</td>
</tr>
<tr>
<td>Grants to NGOs</td>
<td>1,331,034</td>
<td>---</td>
</tr>
<tr>
<td>Promotional &amp; Research Activities</td>
<td>---</td>
<td>16,743</td>
</tr>
<tr>
<td><strong>Programme Development and Management</strong></td>
<td>115,001</td>
<td>91,344</td>
</tr>
<tr>
<td>Internal</td>
<td>85,101</td>
<td>31,344</td>
</tr>
<tr>
<td>External</td>
<td>29,900</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Administrative &amp; Fundraising</strong></td>
<td>26,716</td>
<td>184,602</td>
</tr>
<tr>
<td><strong>Total Grant &amp; Other Expenses</strong></td>
<td>1,706,751</td>
<td>292,689</td>
</tr>
</tbody>
</table>

Programme development and management expenses of just over €115,000 reflect the allocation of the staff’s time to project proposal reviews and the management of grants as a portion of salary expenses, the travel expenses related to the programme and fees paid to IUCN. Higher internal costs in 2018 reflect the increased internal staff as grant management activities grew and the decreased external cost reflects the review of only one call for proposals in 2018 by IUCN.
Administrative and fundraising costs of about €260,000 reflect an allocation of internal salary costs, Blue Action Fund’s share of the costs of the Nature Trust Alliance, bookkeeping, communications and other third-party costs, as well as the organisation of a fundraising event. The increase in 2017 compared to 2018 again reflects the start-up nature of 2017.

Blue Action Fund monitors its operating efficiency in order to assess cost effectiveness of our programme delivery. To do so, we compare the sum of the administration cost with the total expenses. The ratio in 2018 was 15%. We expect the ratio to fall well below 10% once the programme is in full swing.

Funds Carried Forward

The following table shows the development of Blue Action’s funds carried forward.

<table>
<thead>
<tr>
<th>FUNDS CARRIED FORWARD (amounts in EUR 000s)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET INCOME</td>
<td>1,116</td>
<td>4,860</td>
</tr>
<tr>
<td>Carry-forward from Prior Year</td>
<td>5,160</td>
<td>---</td>
</tr>
<tr>
<td>Transfer from Reserves &amp; Spendable Capital</td>
<td>1,096</td>
<td>300</td>
</tr>
<tr>
<td>Transfer from Reserves</td>
<td>(7,113)</td>
<td>---</td>
</tr>
<tr>
<td>Carry-forward Current Year</td>
<td>258</td>
<td>5,160</td>
</tr>
</tbody>
</table>

The lower net income in 2018 reflects the revenue and expenses discussed above. The carry-forward from 2017 into 2018 reflects mainly the SIDA donation in 2017. The transfer from reserves in 2018 reflects use of Euro 946,000 of Blue Action Fund’s funding capacity reserve for the grant programme and Euro 150,000 of the spendable capital for administrative expenses. The 2017 figure, in contrast, is only use of the spendable capital reserve. The transfer to reserves in 2018 of Euro 7.1 million reflects the creation of a Euro 6.83 million project reserve with the remaining SIDA funds, which will be spent in grants in the coming years. The balance of roughly Euro 285,000 reflects the permitted use under German tax law of a portion of investment income and current use donations to build reserves.