



Realising Financial Instruments in the EMFF: potential and use

Rod Cappell, Poseidon

COFASP, Kiel, 9th Dec 2016

Realising Financial Instruments in the EMFF

Contents:

1. Experience with FIs under the EFF (2007 – 2013)
2. Experience with FIs under other EU Structural Funds
3. Potential use under EMFF
4. Current plans for FIs

Experience with FIs under the EFF (2007 – 2013)

- **Only 3 of the Managing Authorities used FI under European Fisheries Fund:**
 1. **Estonia** allocated EUR 4.9 million to co-finance investments of aquaculture SMEs through long term loans.
 2. **Latvia** in 2010 set up a joint EFF / EAFRD credit fund of around EUR 44.7 million (4.6 from EFF) to give low interest loans (only 2 for fisheries enterprises)
 3. **The Netherlands** in 2014 set up a EUR 3.5 million revolving fund for fisheries SMEs to access working capital. Funds delivered via an existing holding fund managed by National Green Fund Foundation (implemented by Rabobank)
- Some seafood businesses have accessed FI under other structural funds (mainly ERDF)
- There is no obvious tracking of the extent of this by EFF MAs

Experience with FIs under the EFF (2007 – 2013)

Why so few examples?

- EFF Managing Authorities cite complexity, capacity and the scale of the EFF budget as reasons why FI were not considered.
- MAs may not want to commit funds to FIs where less certainty of success and they don't know how easy it is to re-allocate funds elsewhere.
- A history of grant awards in the sector means that these are favoured
- The economic crisis meant that fewer firms were seeking investment support

But..

1. The few examples of FIs that were established under EFF show positive results so far.
2. Some seafood sector businesses accessed FIs via other structural funds.

More extensive FI experience under other EU Structural Funds

1. FIs were set-up in 25 Member States (all except Ireland, Luxembourg and Croatia)
2. The total value of OP contributions paid to the FIs amounted to EUR 14.3 billion, inc. EUR 9.6 billion of Structural Funds (ERDF and ESF) during 2007-2013.
3. Initial target enterprises (91%); more recent investment in urban development projects (6%) and in energy efficiency and renewable energies (3%).
4. Variety of products: mainly loans & guarantees, but some equity/venture capital investments, with other support such as interest rate and guarantee fee subsidies.
5. European Court of Auditors found regulatory framework didn't help so has been somewhat simplified for 2014-2020 with 'off the shelf' FIs.

Potential use under EMFF 2014-2020

TWO BASIC DELIVERY MODES for FINANCIAL INSTRUMENTS:

(a) Set up at Union level, managed directly or indirectly by the Commission (SME initiative etc.);

[Not planned for FIs under EMFF]

(b) Set up at national, regional, transnational or cross-border level.

These can be managed by or under the responsibility of the managing authority using a private, state or parastatal institution or bank (as a financial intermediary)

COOPERATION WITH OTHER ESI FUNDS

Fund	Focus	Objectives	Linkage with EMFF
EAFRD	Rural areas (as defined by MA)	Competitiveness of agriculture Sustainability Territorial development	Similar objectives Many fishing areas are also rural
ERDF	Urban areas Areas with natural / demographic handicaps	Innovation Digital agenda SMEs Low carbon economy	Only some fishing areas are urban 3 out of 4 objectives common
ESF	People	Employment / labour mobility Poverty Education Public administration	Aid to people displaced from the fisheries sector Community-Led Local Development
Cohesion	MS with GNI<90% of EU average Public sector	Transport networks Environment, incl. energy efficiency	Limited use of FIs expected

COOPERATION BETWEEN EMFF AND OTHER ESI FUNDS

Cooperation is sensible because:

- Common Provisions Regulation means the regulatory framework is the same
- EMFF is a small fund – resources available for FIs are limited
- High administrative costs for separate implementation of fisheries FIs
- Efficiency gains particularly when FI implemented by a specialized financial institution
- Exploit synergies with other ESI funds through ‘fund of funds’

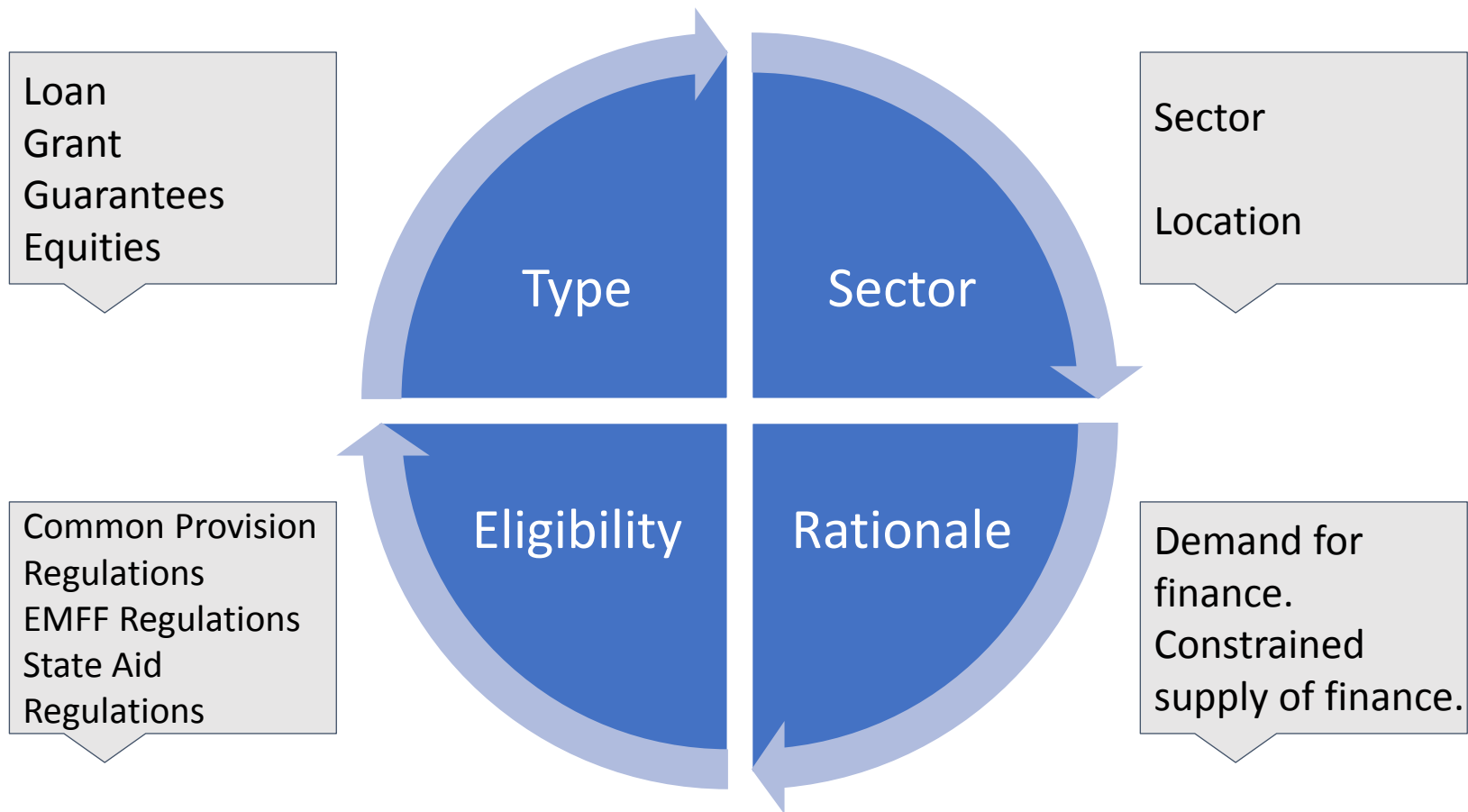
Two options for cooperation:

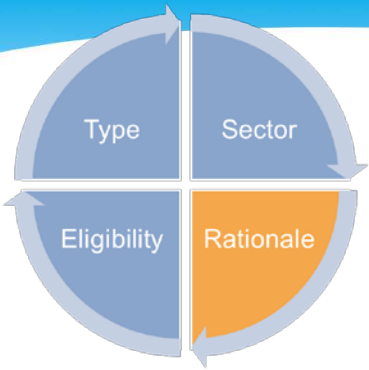
- Support the same investment (taking care to
- Use of common financial infrastructure

Note:

- Support from different ESI funds must be administered separately from all other financial flows (CPR art. 37.8)

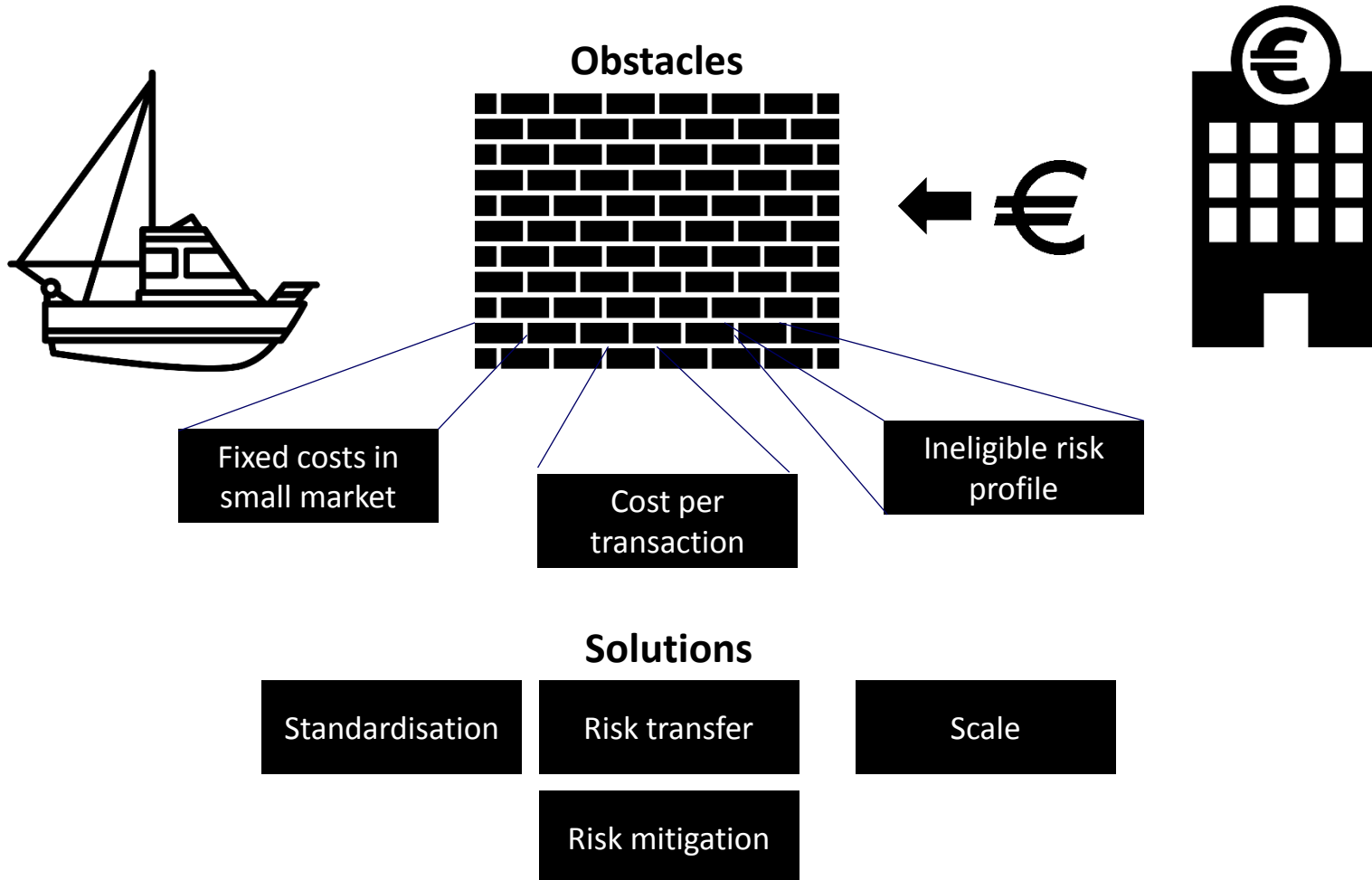
Four considerations in the use of Financial Instruments under the EMFF

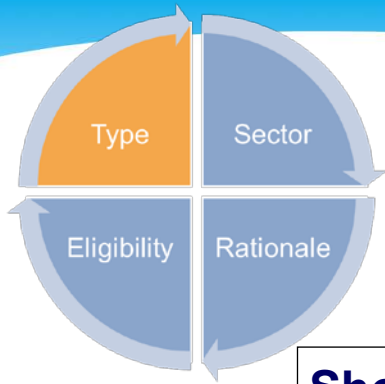




Rationale

Breaking down barriers to finance:





Type

Short list of financial instruments

1. Loans

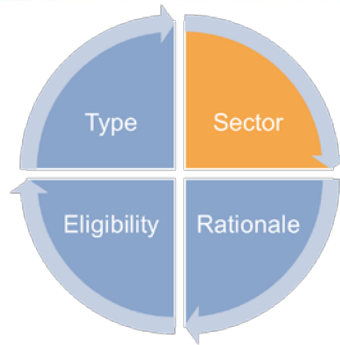
- 'Off the shelf' risk-sharing loan model is available
- Other models could be developed

2. Capped guarantee

- Individual guarantee capped up to 80% of loan value
- Total portfolio guarantee also capped
- Shares the risk between intermediary bodies & EMFF M.A.

3. Grants twinned with loans

- Envisage a grant for technical assistance to develop business case
- Followed by (ESIF) loan



Sector

Wide potential application within the sector

FI target	Loan	Capped guarantee	Grants twinned with loans
Diversification	✓	✓	✓
Start-up support	✓	✓	✓
Gear upgrades	✓	✓	✓
Vessel energy efficiency	✓	✓	✓
Landing facilities	✓	✓	✓
Aquaculture investments	✓	✓	✓
Organic aquaculture	✓	✓	✓
Processing investments	✓	✓	✓

Current plans for FI under EMFF

Six MS committed in their OP to use FI (including the 3 that used FI under EFF). EUR 80.25 million committed, equivalent to 1.4% of EMFF shared management.

MS	Budget	Type of instrument
EE	10,000,000	Long-term loans following previous scheme.
ES	42,750,000	Soft loans for SME fishing and aquaculture operators
IT	20,000,000	Soft loans, equity participations, guarantees
LV	2,000,000	Soft loans – following positive experience with EFF
NL	5,500,000	Revolving fund – continuation of existing fund
UK	Not specified	Soft loans to scale up aquaculture operations
Total	80,250,000	

Many others to decide after the ex ante assessment (to show if market failure).

Some MS are NOT proposing use of Financial Instruments under EMFF

Denmark – lack of a critical mass to justify FI use

Germany - Administrative expense too great in relation to a small number of possible beneficiaries

Belgium – Most urgent remedies for CFP (in relation to the fleet) would not be available under FIs

Czech Republic - Aquaculture sector shows low returns on the invested capital and most are not capable of making the investment without the subsidy support

Poland - Not enough knowledge and for this reason political decision to use only grants

Slovakia - Complexity, lack of knowledge, administrative burden.

Managing Authorities need the following for FI to be established:

- Relevant models showing EMFF FI in existing national set-ups
- Expect an intermediate body will be set up, but don't know how to go about this
- Guidance for the interpretation to the regulations, the process, legal requirements and the ex ante assessment.
- Explanation of financial terminology and how this should be translated in practice.
- A central resource and portal for assistance

Summary

- Very limited experience with Financial Instruments under fisheries funds to date
- More use of FI is planned under EMFF, but still limited in scale
- Ex ante assessments needed to see if FIs are needed to address market failure
- Managing Authorities will need a lot of assistance
- Linking with other ESI funds makes sense for EMFF FIs to benefit from experience, share architecture and make the scale attractive to more financial intermediaries (competition).
- fi-compass is the EIB technical support platform to provide assistance:

www.fi-compass.eu

Thank you for your attention



Rod Cappell

rod@consult-poseidon.com

www.consult-poseidon.com

POSEIDON 
Aquatic Resource Management Ltd

