Scoping study for the use of financial instruments under the EMFF and related advisory support activities

Final Report
June 2015

DISCLAIMER

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SUMMARY

What is the purpose of this report?

The European Structural and Investment Funds (ESIF) policy framework emphasises the need for more use of financial instruments (FIs) in 2014-2020: the overall aim is therefore to deliver more ESIF funding through financial instruments in the future. To help achieve this, the European Commission, in partnership with the EIB, has set up a single advisory platform on ESIF financial instruments for the programming period 2014-2020. This advisory platform is called *fi-compass* (www.fi-compass.eu). DG MARE shares the ambition for greater use of financial instruments under the European Maritime and Fisheries Fund (EMFF) and requested the *fi-compass* advisory platform to carry out this study examining the potential for FIs under the EMFF, the most appropriate forms of FIs for the sector and to identify the advisory needs of the sector to be addressed to help overcome the barriers to this ambition for more widespread FI implementation.

What is the opportunity?

On the ground, the European seafood sector is diverse, with a few non-SME companies; however the great majority are micro-enterprises that can lack the capital for significant investment. Commercial credit providers often do not cater for SMEs in the seafood sector – due to the rather small scale and perception of high risk – therefore more favourable loans and guarantees from EMFF FIs would be attractive.

EMFF Managing Authorities (MAs) can facilitate in establishing relationships between the sector and commercial credit providers, for example, through providing FI guarantees to improve lending conditions.

The regulatory context for FI implementation under the EMFF is also particularly supportive. The EMFF Regulation stipulates – the only ESI fund regulation to do so – that support for large processors can only be through FIs. Furthermore, there is potential for FIs to be applied under EMFF measures in all the main economic sub-sectors (fishing, aquaculture and processing) including, but not limited to:

- Diversification within fishing (gear upgrades etc.) and outside fishing (new maritime ventures);
- Start-up support (new fishers and aquaculture farmers);
- Resource and energy efficiency (vessels, culture systems and processing facilities);
- Modernisation (of landing facilities, vessels, production and processing systems); and
- Environmental improvements (possible in all sectors).

The definition of FIs in the Financial Regulation referred to in the Common Provisions Regulation[1] (CPR) lists three main forms of investment via the financial instrument: equity (or quasi-equity) investments, loans and guarantees.

There are numerous variations and potential combinations of FIs. The choice will depend on Member State (MS) circumstances, which highlights the importance of a detailed ex-ante assessment (regulatory requirement prior to FI implementation) that takes account of the specifics of the fisheries and aquaculture sector, the lending environment and institutional structure of a Member State. But taking a high-level view, the forms of financial instrument that offer the strongest rationale under EMFF are loans and guarantees – in particular a risk-sharing loan approach and capped portfolio guarantee approach. These address the financing difficulties faced in the fisheries sector and have a manageable level of complexity in their implementation. EMFF MAs have the opportunity to combine technical support (as a single operation) with loans and guarantees for final recipient business plan development/improvement. This can help in supporting the quality of business plans subjected to commercial lending decisions and supporting the overall investment pipeline.

For the EMFF, a relatively small ESI fund, linkage with other ESIFs looks to be an attractive way to introduce FIs cost-effectively. The consistency between ESIFs under the CPR and their shared priorities creates good potential for EMFF MAs to benefit from FIs that are already established or proposed under other ESIFs. The common regulatory framework (and thematic objectives) of the five ESIFs offer the possibility of pooling different ESI funds in one FI operation, using the implementation structure, whether with a fund of fund structure or without. Three thematic objectives offer potential in this regard:

1. Enhancing the competitiveness of SMEs, of the agricultural sector (for the European Agricultural Fund for Rural Development (EAFRD)) and of the fishery and aquaculture sector (for the EMFF);

2. Supporting the shift towards a low-carbon economy in all sectors;

3. Preserving and protecting the environment and promoting resource efficiency.

1 *Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.*

Equally, there is potential for pooling different ESI funds in one FI operation following a community-led local development approach as set out in Article 32 of Regulation (EU) No 1303/2013.

Appropriate separation between the administrations of the funds must be maintained, but co-operation enables synergies, some of the administrative burden to be shared and creates scale that is more attractive for Financial Intermediaries.

What is current situation and capacity of EMFF MAs to adopt FIs?

EMFF MA experience with FIs is very limited. There was limited deployment in the 2007-2013 programming period and this was in part driven by attempts to avoid de-commitment of funds.

For 2014-2020, as at May 2015, the situation shows promise in terms of openness to implementation. EMFF MAs in consultations have indicated the following in terms of their position relative to implementing FIs in the 2014-2020 programming period:

- Seven have decided, or at least expressed their intention, to use FIs. Of these, the combined indicative allocations from six countries totalled about EUR 88 million.
- For ten others, the intention to use FIs is more tentative.
- Ten have stated that they do not intend to implement FIs under the EMFF.

However, EMFF Managing Authorities report the following, real and perceived, challenges as affecting their decision and outlook on implementing financial instruments. In brief these are:

- **A preference for grants** remains and a lack of political will to push for their replacement by FIs.
- **Complexity:** Many MAs consider FIs too complex and they have uncertainties over legal requirements, establishing an FI, how to manage FIs and reporting requirements.
- **Administrative burden:** MAs expect excessive administrative burden in set up and operation, particularly as FIs would operate alongside ongoing grant provision.
- **Timescales:** MAs expect FIs to require longer-term monitoring than grants. Clarification, for them, is needed for annual accounting and how recycled funds can be accounted for and re-allocated within or outside the FIs.

- **Scale:** The small size of the firms and of the whole sector in some MS indicate to MAs that fisheries-specific FIs may not attain the minimum critical mass to justify the costs for the MA and/or make its implementation attractive for a financial intermediary.
- **Responsibilities:** There is uncertainty in relation to responsibilities, both at the stage of funding approval of an operation and responsibility at the stage of completion.
- **Procedures:** In the view of many MS, the procedures to meet the ex-ante and ex-post responsibilities concerning FIs are not clear.
- **Co-operation:** In many instances there is insufficient communication between the different ESIF MAs to explore cooperation and the potential to pool different ESI funds in one FI operation, whether using the implementation structure with a fund of fund structure or without. Regional delivery of some ESIFs and national delivery of others add further challenges to co-operation.
- **Credit availability:** Some MAs believe that the current low interest rates in commercial markets would result in little demand for FIs through the EMFF. Conversely others found that even with capped loan guarantees via an EMFF FI, many operators in fisheries and aquaculture could still not access commercial credit due to the residual risk.

An ex-ante assessment is a regulatory requirement for, and the first step in, the implementation of financial instruments. EMFF sectors, particularly processing, have a varied and dynamic investment context, which heightens the need for high-quality ex-ante assessments. However, implementing particular aspects of ex-ante assessments (such as the development of market analysis and preparation of a proposed investment strategy) in a multi-stakeholder context may prove especially challenging for EMFF MAs.

What are the advisory needs of EMFF MAs?

This study analysed the needs for EMFF-specific advisory support and the following recommendations are proposed:

Recommendation 1: Online resources to include frequently asked questions (addressing the MA issues highlighted in this report) should be further developed.

Recommendation 2: Support for EMFF MAs in undertaking ex-ante assessments through enhancing common ESIF advice with sector-specific cases/information should be stepped up.

Recommendation 3: Targeted awareness-raising services should be provided to those MS considering FI use under the EMFF, guiding MS through the decisions and procedures required to establish FIs, including providing a steer on ex-ante assessments.

Recommendation 4: There is room for awareness-raising events for EMFF MAs, desk officers, policy-makers and sector producer groups, prioritising those MS where ex-ante assessments are still to be conducted. Policy briefing papers that quantify the benefits of successful FIs should be produced to support awareness-raising efforts.

Recommendation 5: Information sharing and co-operation between Commission DGs and ESIF MAs is important for the successful implementation of financial instruments.

How can *fi-compass* help to build capacity among EMFF MAs?

fi-compass (www.fi-compass.eu) serves as a single knowledge platform and catalyst that provides orientation, information, initial guidance and learning opportunities when it comes to the implementation of ESIF financial instruments.

In 2014 and 2015, the *fi-compass* common ESIF work stream has focused on providing advice on design and set-up of financial instruments and general awareness raising on the benefits of financial instruments. EMFF MAs can benefit from this *fi-compass* common work stream. In the future, it is envisaged that *fi-compass* will continue this awareness raising but also enhance activities aimed at broadening the knowledge of stakeholders on specific technical issues related to either the stage of implementation of FIs or specific thematic objectives.

Acronyms

CF	Cohesion Fund
CPR	Common Provisions Regulation
CSF	Common Strategic Framework
DG MARE	Directorate General for Fisheries and Maritime Affairs
DG REGIO	Directorate General for Regional and Urban Policy
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission (Commission)
ECA	European Court of Auditors
EFF	European Fisheries Fund
EIB	European Investment Bank
EIB Group	Refers to both the EIB and EIF
EIF	European Investment Fund
EMFF	European Maritime and Fisheries Fund
EPRC	European Policy Research Centre
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Fund
EU	European Union
FEI	Financial Engineering Instrument
FI	Financial instrument
FoF	Fund of Funds
FM	Fund Manager
FP7	The 7th Research & Development Framework Programme
GBER	General Block Exemption Regulation
HF	Holding Fund
ICT	Information and Communication Technology

IFI	International Finance Institution
IPSUD	Integrated Plan for Sustainable Urban Development
JASMINE	Joint Action to Support Microfinance Institutions in Europe
JASPERS	Joint Assistance to Support Projects in European Regions
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investment in City Areas
MA	Managing Authority
MoU	Memorandum of Understanding
MS	Member State (of the European Union)
OA	Operational Agreement
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
ORI	Other Revolving Instrument
PA	Partnership Agreement (between EU and Member States)
PPP	Public Private Partnership
R&D	Research and Development
ROP	Regional Operational Programme
RSFF	Risk Sharing Finance Facility
SFLG	Small Funds Loan Guarantee Scheme
SG	Steering Group
SME	Small and Medium-sized Enterprise
TA	Technical Assistance
TFEU	Treaty on the Functioning of the European Union
UDF	Urban Development Fund
UP	Union Priority
VC	Venture Capital
VfM	Value for Money

1 INTRODUCTION

1.1 Background

The European Structural and Investment Funds (ESIF) policy framework emphasises the need for more use of financial instruments in 2014-2020: the overall aim is therefore to deliver more ESIF funding through financial instruments (FIs) in the future. The European Commission, in partnership with the EIB, provides a single advisory platform on ESIF Financial instruments (FIs) for the programing period 2014-2020 in support of this objective. This advisory platform is called *fi-compass* (www.fi-compass.eu).

This scoping study is an important first step in designing European Maritime and Fisheries Fund (EMFF) advisory support, including under *fi-compass*. It answers three key questions:

1. What is the stated interest, and in particular the potential, for delivering EMFF support through FIs in 2014-2020?

2. What models/concepts for FIs under the EMFF could be feasible to implement in response to this potential and what barriers need to be overcome to realise these?

3. What can be done to help overcome barriers to implementation and ensure a wide and successful uptake of FIs in the EMFF as a delivery mode in terms of technical support, including by *fi-compass*?

1.2 Approach

A three-stage approach to this project was adopted:

1. Undertake a review of EFF experiences and EMFF plans for FIs;
2. Explore examples of best practices in Financial Engineering Instrument (F(E)I) implementation;
3. Develop recommendations for the provision of support, including via *fi-compass*.

These stages were undertaken simultaneously, with the results from Stage 1 and 2 used to inform consultations and raise awareness of financial instruments amongst stakeholders (including MS administrations, financial institutions and DG MARE desk officers).

A questionnaire was submitted, along with a letter of introduction, to 26 Member State EMFF Managing Authorities (MA) and 24 responses were received[2], although not all responded to all questions or in an equal level of detail. Overall the results of the consultation identify the issues perceived by the MAs, which are consistent with the issues expressed by the MAs during the *fi-compass* conference on FIs held in Brussels on 19-20 January 2015[3]. Consultations were also undertaken with DG MARE, DG REGIO and EIB staff.

2 *Luxembourg was not included; Cyprus and Portugal did not provide a response. The DG MARE desk officer for Greece was consulted rather than the MA.*

3 *http://www.fi-compass.eu/conference-overview*

1.3 Report Structure

This report first provides some context for considering the use of financial instruments (FIs) under the EMFF and experiences with FIs[4] under the European Fisheries Fund (EFF).

It goes on to explore the potential for FIs under the EMFF (Section 3), what type of FIs may be most appropriate (Section 4) and what can be done to improve uptake and effectiveness (Section 5).

4 *Termed Financial Engineering Instruments (FEI) under the previous programming period (2007-2013).*

2 THE CONTEXT FOR FINANCIAL INSTRUMENTS IN THE EMFF

This section provides an outline context for investment in the fisheries, aquaculture and seafood sector. It goes on to review the experience of using financial instruments in the previous programming period (2007-2013), both under the EFF as well as other EU Structural Funds. The purpose is to better understand the extent of previous FI use, the main areas in which they were used and the possible lessons for FI use under the EMFF.

2.1 Seafood Sector support

The European seafood sector (the focus of support under the EMFF) has sub-sectors that can be broadly categorised as fishing, aquaculture and seafood processing. In 2011 total income from the fisheries sector was EUR 7 billion, the aquaculture sector, EUR 3.5 billion, while the output from the processing sector was valued at EUR 28 billion[5].

The businesses making up the seafood sector are very diverse in terms of scale, but the great majority are small scale (85 % of the fishing fleet is made up of vessels below 12 metres in length and 90 % of aquaculture businesses are micro-enterprises with less than 10 employees). The reliance on natural resources means that businesses are often in remote coastal or rural locations.

There are a range of new financing vehicles for leveraging and raising private investment with new products regularly being developed. Recent innovations such as peer-to-peer lending (e.g. crowd funding and angel investing) can combine public and private sector funds, often for a stake in the company seeking the funding. These innovative financing approaches tend not to be sector-specific and therefore do not explicitly exclude seafood sector businesses. However, the general characteristics of the sector (small scale, often family-owned businesses operating in the traditional primary production sector) make it less likely that enterprises would seek such innovative funding and also that prospective funders would find investment in these enterprises attractive. Commercial credit, sometimes with a grant contribution through the EFF, remains the primary source of investment in the sector.

Economic data is collected on EU businesses in these sub-sectors through the Data Collection Framework (DCF). This is analysed by the Scientific Technical and Economic Committee for Fisheries (STECF), which then reports on the economic performance of these sectors. The sections below describe recent investment activities by these seafood sub-sectors and the implications for financial instruments under the EMFF.

5 *Facts and Figures on the Common Fisheries Policy (DG MARE, 2014)*

In some reports a Future Expectations Indicator is presented, which is simply the ratio of net investment and depreciation: positive values show more investments than depreciation of capital and vice versa. This is reported below, where available for that particular sub-sector.

2.1.1 Fishing Fleet Support

The latest Annual Economic Report for the EU fishing fleet[6] reports that in 2012, the EU fleet generated EUR 6.9 billion in revenue, and an estimated 6.6 % of the fleet's revenue was retained as net profit.

Performances varied between gear types and MS, with losses reported for five MS fishing fleets (Belgium, Cyprus, Malta, Netherlands and Slovenia). The Belgian and the Dutch fleets are dominated by beam trawlers, which have been struggling to remain viable with high fuel prices. This situation may now be easing with reduced fuel prices and gear adaptations to reduce fuel consumption. Malta and Cyprus are mainly small-scale fleets with a few larger trawlers dependent on Mediterranean fisheries that are generally over-exploited. For Slovenia a scrapping exercise removing a significant section of the fleet resulted in much-reduced landings, but may show improved economic performance in years to come.

In-year investments by the EU fleet amounted to EUR 419 million, a 6 % increase on investments in 2011, which could indicate some optimism in the future of the fishing sector. Investments as a proportion of revenue averaged 6 % across EU Member States. However the largest EU fleets in terms of overall power (Italy, Spain, France and the UK) were below this level. The data quality on investment is questionable as it depends upon data samples capturing occasional large-scale investments, i.e. new vessels, which may only be once every 20 years. For example data for 2012 from Ireland and Denmark showed 18 % and 16 % increases in investment levels respectively compared to 2011.

EFF investment under Axis 1 was dominated by the permanent cessation (scrapping) of fishing vessels, which accounted for 15.4 % of total EFF funding. By 31 May 2014, the EFF had contributed to 4,087 permanent cessation operations at a total public cost of nearly EUR 900 million, with EUR 527 million from the EFF[7]. Some of this funding was re-invested in the sector by recipients after commercial loans on vessels had been repaid. To avoid a repeat of this under the EMFF, the permitted allocation to scrapping is much more limited and will only support highly targeted schemes where overcapacity is proven.

6 *Scientific, Technical and Economic Committee for Fisheries (STECF) – The 2014 Annual Economic Report on the EU Fishing Fleet (STECF-14-16). 2014. Publications Office of the European Union, Luxembourg, EUR 26901 EN, JRC 92507, pp.363.*

7 *7th Annual Report on the Implementation of the European Fisheries Fund (2013) Brussels, 16.12.2014 COM(2014) 738 final.*

One area with a comparatively high leverage effect was onboard investments. A total investment of EUR 415 million was made onboard fishing vessels and for selectivity, of which EUR 145 million was private investment. This amounts to around EUR 21 million per year of private investment, which is around 5 % of in-year investments by the fleet as estimated by the STECF for 2012. According to these levels of investment, the EFF leveraged a small but significant amount of fleet investment with the majority of investment via private finance.

There were over 86,000 vessels in the EU fleet in 2012, with most belonging to family businesses and 74 % of the vessels defined as small scale (below 12m in length using static gear[8]). The economic performance of the small-scale fleet has generally deteriorated and results for 2013 suggest a continuing declining trend for this segment. Therefore, although some significant multi-vessel operations exist, the scale of investment by the great majority of fishing 'customers' would be relatively small. Fleet and onshore investments are needed to address the challenges posed by the landing obligation (increased gear selectivity, quota trading, storage and use of bycatch, etc.).

2.1.2 Aquaculture Support

Collecting data on the economic performance of the EU aquaculture sector is a relatively recent activity and coverage across the EU remains patchy. The multinational characteristics of the larger operators and the small holding characteristics of the smallest operators both create challenges for the effective collection of financial performance data. The most recent STECF report is the first to report on levels of debt and investments in the sector.

8 *Static gear is defined as nets or traps that are not pulled through the water; the opposite of mobile gear.*

In 2012 the turnover of the EU aquaculture sector was EUR 4 billion. There are five large producer MS – France, United Kingdom, Greece, Spain and Italy – with reported turnovers between EUR 400 million and EUR 1 billon. All other countries have reported turnovers less than EUR 200 million. The species produced by the most enterprises was mussel, but the largest in terms of total sales was Atlantic salmon. Some of the highest-value species are marine cage-farmed species (Atlantic salmon, European seabass and Gilthead seabream), which require high levels of capital investment for equipment, stocking the cages and feed.

Despite much of the production value being dominated by larger capital-intensive enterprises, most (90 %) of the enterprises in the sub-sector are micro-enterprises (with less than 10 employees). For example, Spain is the largest mussel producer in Europe (accounting for 62 % of production), located mostly in the Galician region and run by small-scale family-owned enterprises. The sector is closely associated with the canning industry, which are also situated in the same areas to process local production. Some of these canning companies are understood to have received support under the ERDF.

The shellfish sector and the marine sector made a positive net profit in 2012, while the freshwater sector (trout and carp) showed a net loss. Across Europe investment exceeded depreciation, with significant net investment reported in the UK, Bulgaria and Italy. By contrast, depreciation was greater than investment in France, Denmark and Portugal. These results should be treated with caution due to data quality, but as with the other seafood subsectors, the data do indicate the variable investment across Europe. It is also indicative of sporadic large investments by the sector (expansion into new sites or purchase of new vessels) rather than regular annual investment on a smaller scale (such as repair and maintenance of equipment, which may not be reported as investment).

Under 2007-2013 EFF programmes, a total of EUR 1.3 billion was invested in 7,209 aquaculture operations up to 31 May 2014, including EUR 493 million of EFF funding, EUR 214 million of national public contribution and EUR 581 million of private funding. This equates to around EUR 200 million of investment through the EFF per year, around 5 % of turnover[9].

Significant investment in the aquaculture sector could be expected over the EMFF programming period with 'productive investment' being supported under the EMFF (Article 48). However, under the EFF, the ability of many small-scale producers to present a viable business plan has prevented them from taking up grants, as they could not secure match funding with commercial loans.

9 *Seventh Annual Report on the Implementation of the European Fisheries Fund (2013) Brussels, 16.12.2014 COM(2014) 738 final.*

2.1.3 Fish Processing Support

In 2012 the fish processing sector in the EU comprised approximately 3,500 firms with fish processing as their main activity, 5 % less than in 2008. Despite an increase in production costs, the industry was still profitable, accounting for about EUR 27.9 billion of income and more than EUR 6.4 billion of Gross Added Value (GVA)[10].

Under EFF programmes, by 31 May 2014, total investments in the processing sector represented the largest area of support (16.65 % of total budget) and amounted to just under EUR 2 billion for 5,057 operations, including the largest proportion of private sector investment (43 % of private contributions under the EFF). This includes EUR 568 million financed by the EFF, EUR 308 million by national public funding and EUR 1.1 billion by private funding[11]. This is an average of EUR 183 million over six years, or around 20 % of the sector's net investment as estimated by the STECF. Of the remaining 80 % of investment, there are instances of large processing companies benefiting from ERDF support, but it is likely that most investment is from the private sector (from income and commercial providers).

The level of investment in the European food-processing sector generally increased after the financial crisis up to 2011, but decreased by 22 % in 2012/13[12]. The STECF concluded, "The distinct decrease of the 2012 EU overall F(E)I (still positive) may be caused by a hold-up phenomenon, meaning that companies are waiting with new investment until the new EU fisheries funds regulations are clear and in force."

The pattern of investment in seafood processing is also changing. In several MS with a strong processing sector, the industry is further outsourcing activities, which then leads to an increase in investment and volume of processed products in other countries. The Baltic States and Poland reported increasing investments and activities in 2011, while Denmark and Germany showed decreasing investment activities, even when some of the indicators (like net profit) improved. In 2012 the situation altered with Germany and Spain showing increased investment and Poland showing a decrease. While ex-ante assessments are a regulatory requirement for the implementation of financial instruments, the varied and dynamic investment situation in Europe's processing sector highlights the particular importance of high-quality ex-ante assessments to determine the current situation in each MS or region.

10 *Scientific, Technical and Economic Committee for Fisheries (STECF) – The Economic Performance Report on the EU Fish Processing (STECF-14-21) 2014. Publications Office of the European Union, Luxembourg, ISBN 978-92-79-44714-3.*

11 *Seventh Annual Report on the Implementation of the European Fisheries Fund (2013) Brussels, 16.12.2014 COM(2014) 738 final.*

12 *Scientific, Technical and Economic Committee for Fisheries (STECF) – The Economic Performance Report on the EU Fish Processing (STECF-14-21). 2014. Publications Office of the European Union, Luxembourg, 2014.*

The STECF identified a number of constraints to seafood processing sector growth[13]:

- Most companies are still relatively small, as 90 % of the employees are employed in companies with less than 10 employees. These companies are often family-owned and have no or very limited intention to increase production. Large investments to increase production are not possible for many of these businesses due to lack of capital or lack of market demand.
- There are only a few large companies that could act as leaders for parts of the sector.
- The sector is relatively small and not attractive for the development of supporting industries, which makes investments more expensive.

2.1.4 Summary

The European seafood sector is polarised with few large companies, and micro-enterprises account for the great majority of businesses.

The majority of businesses in the sector are micro-enterprises that often lack the capital for significant investment and are not obvious candidates for commercial credit providers and so more favourable loans and guarantees from an FI would be attractive.

For non-SME companies in the processing sector, financial instruments enable access to EMFF support whereas grant support is only available to SMEs. These large companies may be regionally significant and there are instances of large seafood processors receiving ERDF support.

Commercial lenders may perceive the seafood sector as being comparatively high risk compared to other economic sectors. The public sector could therefore facilitate in establishing relationships between the sector and commercial lenders as well as providing guarantees to improve lending conditions.

2.2 Experiences with Financial instruments

Financial instruments to date have been deployed most extensively in Regional and Urban Policies. By the end of 2013 the total value of operational programmes (OP) contributions paid to the FIs amounted to EUR 14,278 million, including EUR 9,597 million of Structural Funds (ERDF and ESF).[14]

13 *Scientific, Technical and Economic Committee for Fisheries (STECF) – The Economic Performance of the EU Aquaculture Sector (STECF14-18). 2014. Publications Office of the European Union, Luxembourg, EUR 27033 EN, JRC 93169, pp. 451.*

14 *Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006. Programming period 2007-2013. Situation as at 31 December 2013.*

The first FIs set up in European regions mainly targeted enterprises. A specific focus on SMEs was introduced with the EIB Group's Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative that created a Holding Fund to encourage financial intermediaries to provide support to SMEs[15]. More recently established FIs have also invested in urban development projects or in specific investment activities in energy efficiency and renewable energies (including support through the Joint European Support for Sustainable Investment in City Areas (JESSICA) policy initiative[16]).

Financial products that can be provided through FIs include loans, guarantees, equity and other forms of assistance. Some general lessons/recommendations relevant to the EMFF are summarised below (further details are provided in Appendix B):

- Implement FIs in a way that ensures a balance between a reasonable rate of return to attract private capital and ensuring that the wider policy objectives are achieved.
- Supply MS with model financial instruments for SMEs in order to speed up implementation and reduce establishment costs.
- Successful FIs under the ERDF have often been managed by a financial intermediary with the skills and expertise to efficiently support implementation.

There is a potential for more synergies to be explored, e.g. via multi-fund OPs to ensure FI of sufficient scale. There is also the possibility to develop a 'Fund of Funds' (FoF). There are a number of benefits in using an FoF structure (e.g. economies of scale, greater flexibility in allocations and recycling of funds), but they do require large-scale allocations and are complex to establish. The FoF approach is further described in Section 4.3.

2.3 Experiences with Financial instruments under the EFF

Despite a growing interest in FIs and increasing encouragement from the EC, only six of the 27 MS established FIs under the EFF in 2007-2013, which accounted for 1.5 % of EFF funding.

15 *http://www.eib.org/products/blending/jeremie/index.htm*
16 *http://www.eib.org/products/blending/jessica/*

An initial driver for four of the Member States (BG, EL, NL and RO) was to use FIs as a mechanism to avoid the de-commitment of EFF funds and these have not always resulted in the full uptake of those funds. Under the Common Provisions Regulation (CPR) for 2014-2020 there is a requirement for ESIF MAs to undertake ex-ante assessment to establish market failure and what form of financial instrument would be suitable.

Three examples of FIs under the EFF were identified as being of particular interest for the study: the Netherlands, which is currently being set up, utilising an existing Holding Fund structure, the Latvia Guarantee Fund for the EAFRD and EFF and the Estonia Guarantee Fund for aquaculture. The following summarises experiences with these FIs.

2.3.1 The Netherlands

In 2014 the Netherlands set up a three-year EUR 3.5 million revolving loan fund, using the remaining 2007-2013 EFF monies, named the 'Visserij Investeringsfonds Nederland' (VIN) (Netherlands Fisheries Investment Fund).

Funds were provided via the Ministry of Economic Development through a Holding Fund set up by the municipality of The Hague in 2013 to make use of the EIB's JESSICA instrument for urban development. They in turn have recently recruited a fund manager, Stichting Nationaal Groenfonds[17] (SNG) (National Green Fund Foundation), which has delegated the daily operation to the 'Fondsbeheer Nederland' (Public Fund Management Netherlands).

17 *The SNG was founded by the Dutch Ministry of Agriculture (which was incorporated into the Ministry of Economic Affairs several years ago) and several provinces, thus it is a foundation with a public background.*

The minimum loan amount has been set at EUR 10,000 and the maximum loan amount to either EUR 100,000, with a duration of three years or EUR 300,000 for a maximum of five years.

The MA identified four areas where information and assistance were needed:

1. Ensuring compliance with the 2007-2013 **Regulatory Framework** – in relation to the ERDF (as it was using an existing urban development instrument), EFF regulation and also national financial regulations.

2. Clarification on implications for **State aid** and ensuring that arrangements are in compliance with **competition** rules.

3. Establishing the procedures necessary for adequate **Governance** – in compliance with EFF reporting and national auditing requirements.

4. Technical assistance in developing lending criteria and reviewing business plans.

The FI was set up under the EFF (and in part driven by pressure to utilise remaining funds), under which there was no legal requirement for an ex-ante assessment to identify market failure (as is now the case under Article 37 of the Common Provisions Regulation for 2014-2020) and no time to undertake one. However, the MA was keen to ensure that there was minimal disturbance to the commercial market. The fund therefore requires evidence that the applicant has been unsuccessful in sourcing commercial credit (e.g. a rejection letter from a bank).

The investment fund has specified loan conditions for the following types of investments in line with the EFF regulation:

1. Investments on board fishing vessels (Article 25);

2. Productive investments in aquaculture (Article 29);

3. Processing and marketing (Article 34);

4. Projects that previously received aid from the EFF.

Projects where a VIN loan may be possible are the projects approved under the following schemes of the Ministry of Economic Affairs:

- Investments in aquaculture (EFF Article 29);
- Collective actions (EFF Article 37);
- Innovation in the supply chain (EFF Article 41 (pilot projects));
- Sustainable development of fisheries areas (EFF Article 44).

A loan serving an existing project with EFF support is only possible under the following circumstances:

- The loan is intended to finance the excess of budgeted project costs, and;
- RVO.nl[18] has approved an amendment of the project.

The fund was launched in 2014 and as of May 2015 the uptake has been slow. Only two projects are in an advanced stage of evaluation and several others are at initial stages only. Due to the run-up delays, it is uncertain whether the available funds will be used by the end of the eligibility period, i.e. end-2015. Therefore the MA is seeking a deadline extension.

The Netherlands MA will decide whether to use FIs under the EMFF following an evaluation of this existing FI, expected in 2016.

2.3.2 Latvia

The Latvian Credit Fund was set up in 2010 in order to solve the situation faced by EAFRD and EFF grant recipients[19] where many projects that were eligible for a grant could not take them up because grants were only given on project completion and commercial banks were reluctant to lend to what they considered as high-risk projects, especially during the financial crisis.

18 Rijksdienst voor Ondernemend Nederland/Netherlands Enterprise Agency.

19 The practice of pre-financing grants with loans from a financial instrument is not allowed in the 2014-2020 programming period.

A fund of around EUR 44.7 million (of which EUR 7.2 million was from the EFF) was established to provide loans to farmers and fisheries sectors at lower interest rates. It involves a number of players with different roles:

- The Ministry of Agriculture is the **managing authority** and is responsible for detailing national regulations.
- The Rural Support Service is the **payments agency** responsible for: (a) evaluating business plans submitted by the Credit Fund; (b) transferring funds to the Credit Fund; (c) evaluating project applications submitted by beneficiaries in compliance with EU and national regulations; and (d) supervising the use of funds within the Credit Fund.
- The Rural Development Fund (RDF), the **fund manager**, evaluates **financial intermediaries**, transfers funds to financial intermediaries, establishes a budget and keeps records for the Credit Fund.
- **Financial intermediaries** (banks) approve loan applications and report to the RDF and to the Paying Agency.

Applicants with successful project applications are eligible for support from the Credit Fund loan with a maximum loan term of 15 years. Two projects out of 58 in total were for recipients under the EFF: SIA Kuršu zeme (a fish processing company) and Sia Dāmas zivju audzētava (an aquaculture farm). Between them these two projects received EUR 4.6 million from the Credit Fund, which is substantially larger than the other agriculture loans. According to the financial intermediary that provided the most loans, amounts (with 96 % of recipients under the EAFRD) ranged in general from EUR 37,000 to EUR 1 million. The average repayment period set was 11.3 years.

Only 71 % of funds were allocated by October 2014 because commercial loans became more accessible (both in terms of price and availability) and the grants supplemented by the financial instrument came to an end[20]. Despite this, the Credit Fund is considered to have been successful in addressing the market gap that existed. The main success factors were seen to be (i) that the Credit Fund matched well the needs of the target group, (ii) utilisation of existing institutional relationships and (iii) the good awareness raising of the Credit Fund (BGI Consulting, 2014[21]).

Associations of beneficiaries were important for raising awareness, since they publicised information about Credit Fund loans. In terms of 'soft' support, the Latvian Rural Advisory and Training Centre helped potential recipients to apply for loans.

20 *The practice of pre-financing grants with loans from a financial instrument is not allowed in the 2014-2020 programming period.*

21 *BGI Consulting (2014). Case study: Credit Fund funded by the EFF and EAFRD – Latvia. EIB consultancy assignment for ESI Funds awareness raising on financial instruments via dedicated factsheets and case studies.*

An important feature of this case is how the financial instrument was extended beyond the EAFRD. The financial instrument was initially suggested for the EAFRD and was then replicated in the EFF Operational Programme (OP). This was possible because the instrument addressed the same market gap and because public and private stakeholders cooperated closely.

Latvia's Partnership Agreement identifies significant market barriers for SMEs in Latvia in access to finance for business start-ups, micro-credits, export and credit guarantees. The Latvian EMFF MA will decide whether to use FIs under the EMFF following an ex-ante assessment to be concluded in 2015.

The expectation for the 2014-2020 period is that with regular commercial loans available, the focus will be on smaller recipients and business start-ups in rural areas that face more challenges in getting finance.

Some modifications to the approach will be introduced, taking into account the lessons learned and the new legal framework.

- The practice of pre-financing grants with loans from a financial instrument is no longer allowed in the 2014-2020 programming period.
- An ex-ante assessment will be carried out to establish the need for the FI.
- Experience shows that credit institutions are more willing to provide loans to clients with a solid credit history, so preference was given to large projects. The managing authority plans to provide more support for small beneficiaries, with a turnover of less than EUR 70,000, and for business start-ups in rural areas.
- 'Soft' support for applicants and beneficiaries will be combined with the Credit Fund, e.g. technical support for the preparation of business plans.
- The administrative burden should decrease if institutions are merged into a 'one-stop-shop'.

2.3.3 Estonia

In many MS banks are not willing to financially support the aquaculture sector as it is considered a small, risky and comparatively unknown business sector. To address this issue, Estonia created a loan fund, managed by the Rural Development Foundation (established by the Ministry of Agriculture) to support aquaculture SMEs.

The objective is to co-finance investments for SMEs in the aquaculture sector through long-term loans. The target beneficiaries are aquaculture producers who are sustainable in the long term and who are orientated towards growth (increases to production or expansion of activities) but who have limited access to capital.

The whole fund is now considered to be self-sufficient and has a EUR 36 million equity, with a total of EUR 500 million in revolving funds.

An evaluation exploring the experiences with FI implementation found that:

- There is very little sector-specific knowledge in the banking sector;
- The banking sector in Estonia is not interested in new or micro-enterprises seeking small loans (e.g. below EUR 100,000);
- Without alternative financial markets there is a funding gap.

The Estonian Rural Development Foundation now has a comparatively long track record (over 10 years) as a financial intermediary delivering FIs for the agriculture and aquaculture sectors. For rural SMEs, including fisheries and aquaculture SMEs, the fund provides loans of up to EUR 100,000 over five years. The fund operators have also established a larger-scale, longer-term loan product that loans up to EUR 500,000 to EUR 6 million over 15 years. Subsidised guarantee funds have also proved to be very popular.

Following this successful experience, Estonia plans to use around 8 % of the EMFF budget for FIs in the form of equity and bank loans to SMEs in the Estonian aquaculture and processing sector. This will also address an ongoing market failure as commercial banks are uninterested in offering loans of less than EUR 100,000.

2.3.4 Other FI experiences under the EFF

The MAs of Romania, Bulgaria and Greece sought to allocate EFF resources to F(E)Is offering guarantees to the aquaculture sector. Ultimately these did not result in substantial sector investment and are therefore of less interest to this study, but lessons can still be learned:

- Romania: EUR 17.5 million were allocated to guarantee bank loans to aquaculture SMEs that were also EFF beneficiaries. The objective was to enable those beneficiaries to secure the necessary match funding for EFF-supported investments[22]. Up to 80 % of the loan value was guaranteed through the financial instrument. There was interest from beneficiaries, but even at 80 %, the banking sector often refused credit, as the business plans did not show clear project viability. The objectives were only partially achieved with 20 % of EFF projects cancelled due to a lack of private co-financing, which caused problems for the final beneficiaries, but also for the MA, as committed funds were not taken up. Lending institutions do not know the sector and so are less inclined to lend. This illustrates the importance of MAs in informing banking sector partners on sector performance and prospects; it also highlights the importance of ensuring that final recipients have credible business plans.
- Bulgaria: Bank guarantees were provided to aquaculture SMEs for loans for new construction, modernisation and expansion of fish farming operations. The Bulgaria MA reports that uptake was good, but they experienced compliance problems with public procurement rules in the selection of a financial intermediary. This shows the importance of seeking appropriate advice and support from the relevant sources to ensure that FIs are compliant with the regulations surrounding public aid.
- Greece: FIs were set up under the EFF in the form of a EUR 35 million Holding Fund providing guarantees for aquaculture, processing and vessel modernisation (Ernst & Young, 2011[23]). However the commercial banks were not interested in supporting the initiative due to the lack of national liquidity during the financial crisis and there was effectively no take-up. The EFF funding of Greek SME aquaculture and processing ventures continued via grants. It was found that the proposed guarantee products were not preferred by beneficiaries compared to commercial loans despite the latter's higher borrowing costs, as there is less paper work for commercial loans. This suggests that complexity is a factor in the decision-making of potential final recipients; technical support could be provided to facilitate uptake by final recipients.

22 *The practice of pre-financing grants with loans from a financial instrument is not allowed in the 2014-2020 programming period.*

23 *Ernst & Young (2011). Interim evaluation of the European Fisheries Fund (2007-2013). Final report, February 2011. 115 pages.*

2.3.5 Member States not using F(E)Is under the EFF

EMFF MAs in those MS where F(E)Is were not developed cite the main reasons for not further exploring potential use of FI as:

- The limited knowledge of FIs;
- The perceived complexity of establishing and running FIs;
- The lack of capacity within the MA;
- The continued availability and demand for grants.

The EMFF MAs perceptions in relation to FIs are explored in more detail in Chapter 3.

The wider economic context during the EFF programming period is also significant. Europe experienced recession as part of the global financial crisis, leading to a period with limited investment. Subsequently financial institutions have re-assessed their lending criteria with more conservative risk profiling; resulting in reduced lending to SMEs and a focus on well-understood sectors. This has made engagement by the Financial Sector with MAs on support to the fisheries and aquaculture sector less likely, even with the prospect of guarantees to reduce risk.

In the later years of the EFF programme, commercial interest rates in many MS have been at historic lows, which has reduced the cost of borrowing and thus lessened the need for lower-cost publically financed credit schemes. However, the strict lending criteria and collaterals required do still present a barrier to accessing credit for fisheries and aquaculture operators.

3 THE POTENTIAL FOR FINANCIAL INSTRUMENTS UNDER THE EMFF 2014-2020

This chapter presents the regulatory framework for financial instruments under the EMFF and the potential for co-operation between the EMFF and other ESIFs. It also explores the possibilities of co-operation among MS and the implications of the use of financial instruments.

3.1 Regulatory possibilities

The following legislation governs the use of financial instruments:

- The Common Provision Regulation (1303/2013) and several complementary acts are applicable to all ESIFs[24].
- Specific details of the EMFF are set in Regulation 508/2014, the Commission Implementation Regulation (CIR) 771/2014 and several specific acts regarding the allowed intensity of aid and State aid.
- Similarly to the EMFF, the other ESIFs are governed by specific Regulations and implementation of delegated regulations.

Use of financial instruments for all ESIFs is primarily defined in the Financial Regulation and the Common Provisions Regulation (CPR). Legislation on EMFF and other ESIFs makes only references to the specificities of the sectors involved.

The CPR refers to the definition of 'financial instruments' in Article 2 of the Financial Regulation[25] as:

'Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants.'

The CPR, Article 37.1 defines two important conditions for the use of financial instruments:

- Supported investments must be financially viable;
- The market does not provide sufficient funding.

In addition, the CPR Article 37.2 specifies which information must be provided in the ex-ante assessment to justify the use of FIs. This regards *inter alia* an analysis of market failure, estimation of investment needs and the value added of the proposed FIs.

24 For a comprehensive list, see http://ec.europa.eu/regional_policy/en/information/legislation/regulations/

25 Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002.

EMFF Reg. 508/2014 does not make any provisions that are additional to the CPR, with the exception of Article 69.2, which states in relation to the processing of fishery and aquaculture products:

'As regards enterprises other than SMEs, the support referred to in paragraph 1 shall only be granted through the financial instruments provided for in Title IV of Part Two of Regulation (EU) No 1303/2013.'

This means that in fish processing only SMEs are eligible for grants and FIs. However, non-SME fish processors can only be supported through FIs.

Implementing Regulation 771/2014, related to the EMFF, requires that Section 14 of the national Operational Programme be dedicated to the FIs and it should deal with three topics:

1. Description of the planned use of financial instruments;

2. Selection of the EMFF measures planned to be implemented through the financial instruments;

3. Indicative amounts planned to be used through the financial instruments.

According to the ex-ante assessment methodologies[26] prepared to assist stakeholders in preparation of ex-ante assessments, "Given the limited uptake of FIs under the EFF in the 2007-2013 period, for the 2014-2020 period, setting up FIs in the fisheries and aquaculture sector under the EMFF will be a challenge for MAs located in often small fisheries administrations. It will therefore be important to try to avoid setting up completely new sector-specific instruments, but rather build on existing national, regional or local FIs (sector-specific or other). Another alternative is to explore synergies with other FIs already set up in the ERDF, ESF or EAFRD, or to be established in the 2014-2020 period."

26 PWC, Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period -Enhancing the competitiveness of SME, including agriculture, microcredit and fisheries (Thematic objective 3), Volume III available at www.fi-compass.eu

3.2 Plans of the Member States

At the time of producing this report, few EMFF Operational Programmes (OP) have been finalised and are available for review. DG MARE has provided preliminary indications, based on drafts of the submitted OPs. This is presented in Table 1 and supplemented by information from consultations with MAs.

To further inform understanding of MS intentions over FI use, a review of published Partnership Agreements (PA) was undertaken. When FIs are foreseen in the PA, then they may also be introduced under the EMFF, assuming that the ex-ante assessment concludes that the FIs may be effective. When the PA does not foresee using FIs, it still can be amended should an FI be introduced under the EMFF (or any other fund).

Table 1 Planned use of FI under the EMFF by Member States (known situation at April 2015)

MS	FIs in PA[27]	FIs in the EMFF[28]	Amount (million EUR)	Areas/sectors/types	Justification and comments
AU	No	No	0	n/a	Preference for grants, small size of the sector.
BE	No	Maybe	0	n/a	Complexity of the FIs and small size of the sector. Depending on ex-ante assessment, could be a national FI for Fisheries and Aquaculture (FIVA)
BG	?	Maybe	0	n/a	Awaiting results of the ex-ante assessment.
CY	?	No	0	n/a	Small scale of the sector and OP.
CZ	Yes	No	0	n/a	• Preference for subsidies; • Administrative burden; • No absorption capacity for the FI within the fisheries OP. • Small scale of the programme and sector.
DE	No	No	0	n/a	Administrative burden. Long-term commitment of financial resources without guarantee of success.
DK	Yes	Maybe	0	n/a	Lack of critical mass as sector too small, but FIs may be considered in the future.
EE	?	Yes	10	Productive invest-ments in processing and aquaculture.	Positive experience in 2007-2013, but still subject to ex-ante assessment.
EL	?	Maybe	0	n/a	Use and content yet to be decided. No ex-ante assessment started.
ES	Yes	Yes	42.75	Aquaculture, processing, start-up support, diversification.	Address lack of access to commercial credit. Development of SME potential.
FI	?	Maybe	0	Aquaculture and processing.	Recognised by administrations as a more effective use of funds, which reduces market distortion.
FR	Yes	Yes	0	Studies still to de-fine areas.	Studies ongoing, but expect guaran-tees without a grant component.
HR	?	Maybe	0	Reference to syner-gies with ERDF.	Lack of experience. Reference to off-the-shelf FI. Depending on ex-an-te assessment.

27 Question mark (?) means that the position in relation to FI use is not known at the time of reporting.

28 'Maybe' means that the position of the MS is still undecided.

MS	FIs in PA[27]	FIs in the EMFF[28]	Amount (million EUR)	Areas/sectors/types	Justification and comments
HU	?	No	0	n/a	Preference for grants.
IE	?	Maybe	0	Processing	Exploring possible linkage with the EAFRD food fund. No ex-ante assessment initiated to date.
IT	?	Yes	20	Articles 30, 31, 32, 41, 42, 48 and 69. Depending on ex-ante assessment.	Loans and micro-credits combined with grants. Experimental character due to lack of experience.
LT	?	Yes	0.3	Potentially all sectors.	Managed under the same fund as the RDP
LV	?	Maybe	0	n/a	FIs for fisheries sector will be decided by ex-ante assessment.
MT	Yes	No	0	n/a	Only ERDF monies (EUR 15 million) proposed for the SME initiative.
NL	Yes	Yes	6	26 (44.3), 38 (44.1c), 39 (44.1c), 47, 48, 68	Not developed. Waiting for evaluation of the revolving fund set up under the EFF.
PL	Yes	No	0	n/a	Not enough knowledge, hence a political decision to only use grants.
PT	?	Maybe	0	Competitiveness of SMEs.	PA proposes the establishment of a state Financial Intermediary (IFD) to manage funds from all ESIFs.
RO	?	Maybe	0	n/a	Ex-ante assessment still to be started
SE	?	No	0	n/a	No demand for FIs and preference for grants – simpler for the MA.
SI	Yes	No	0	n/a	Input to establish and manage a financial instrument is larger than the impact, given the small size and firms in the sector.
SK	Yes	No	0	n/a	- Beneficiaries do not provide sufficient financial return; - Complexity and high administrative burden in comparison to the scope and budget of the OP.
UK	Yes	Yes	8.5*	Fishing and aquaculture start-up loans. Aquaculture growth and processing diversification.	Aim to address banks' unwillingness to lend to long-term returns, risky sector. Ex-ante assessment still to be started

Sources: PAs, MA survey and draft OPs

**Possibly partly funded from other ESIFs.*

As at May 2015, MS have reported the following concerning use of FIs under the EMFF:

- Seven MS have decided, or at least expressed their intention, to use FIs. Of these, the combined indicative allocations from six countries totalled about EUR 88 million;
- For ten MS, the use of FIs is more tentative;
- Ten MS have stated that they do not intend to implement FIs under the EMFF.

Only three MS stated that they had completed or initiated an ex-ante assessment (citing a lack of capacity and budget to commission while the EMFF OP was still being finalised). The ex-ante assessment is required for FIs to be established and so the indicated intentions (both to implement and not to implement FIs) are preliminary. In a few instances, cooperation with other ESIFs is foreseen, but for the moment these are intentions rather than concrete actions or even plans. EMFF MAs are fully focused on finalising their OP and would await the outcome of ex-ante assessments before engaging with other ESIF MAs on the potential for co-operation. The cooperation could in particular materialise through sharing the same institutional infrastructure, i.e. financial intermediary. In particular situations (regions or sectors) specific synergies between the EMFF and other ESIFs may be identified in the ex-ante assessment.

As Table 1 illustrates, 17 MS are open to the possibility of implementing FIs and/or intend to support the sector through the FIs; these will certainly generate useful experiences and examples for others. Considering that in most MS the ex-ante assessment has not been initiated yet, the intentions are only formulated in general terms. These MS should be supported in their efforts and assisted in identifying the needs and formulating suitable FI approaches.

Two MS with large fishing sectors (Spain and Italy) have allocated substantial budgets to future FIs, accounting for more than three quarters of the total allocated to FIs to date. Spain intends to support a broad spectrum of operations in aquaculture, fish processing and innovation. Italy has suggested FI use under several EMFF articles (before ex-ante assessment findings) including investments in fishing, aquaculture and processing with intent to combine micro-credit with grants.

Various MS intend to support innovation through FIs to help address the inherent risk in innovation. The CPR does, however, include a requirement for 'financial viability', which must be interpreted appropriately in this instance.

MS could consider synergies with financial instruments implemented at EU level, such as InnovFin[29] which supports the use of financial instruments for innovation under Horizon 2020 and there is the potential for seafood sector innovation to benefit from this initiative as sectors include 'aquatic resources', 'food' and SMEs in general.

29 *InnovFin – EU Finance for Innovators is a joint initiative launched by the European Commission and the European Investment Bank Group (EIB and EIF) under Horizon 2020. http://www.eib.org/products/innovfin/index.htm*

3.3 Potential for FI use

In Table 2 below is an initial review of the potential for implementation of the EMFF measures using FIs. The criterion used to evaluate the FI potential is the financial viability, as required by the CPR, Article 37.1. In other words, is the measure targeting a revenue-generating/cost-saving investment and can it be expected that a contribution from the FI will improve the profitability of the supported firm sufficiently to allow it to repay the loan or provide a return to equity holders?

As evidenced by similar instruments outside Europe, it need not be the case that the funding directly results in expected increases in revenue to repay any loans provided, as long as the enterprise can show via its business plan that it would be able to repay the loan.

Table 2 Promising targets for FI use

EMFF Reg. Article	Shorthand description	Target activity
30	Diversification	Diversification of the income of fisherman through, e.g. investments onboard, angling tourism, restaurants and educational services, related to the fishing core business
31	Start-up support	Assistance to first acquisitions by young fishermen. This will help overcoming the high capital investment faced by new entrants.
38	Gear upgrades	Gear upgrades to improve size or species selectivity, or to reduce unwanted catches. Gear upgrades can have the additional benefit of reduced fuel consumption.
41	Vessel energy efficiency	Investments in equipment or engine replacement or engine modernisation to reduce fuel costs/minimise repair costs.
43	Landing facilities	Improvements to the infrastructure of fishing ports, auction halls, landing sites and shelters under the conditions of Article 43 can result in quality and marketing improvements.
48	Aquaculture investments	Investments in aquaculture including the modernisation of units, restoration of ponds or upgrading water handling systems can result in more efficient operations.
52	New aquaculture farmers	As with Article 31 above, new entrants are faced with high start-up costs and unwillingness from commercial lenders with the potential of several years before the first returns, even though the plan may be viable in the long term.
53	Organic aquaculture	Conversion to organic aquaculture processes, enabling entry to higher-value markets.
69	Processing investments	Investment in the processing of fishery and aquaculture products including energy efficiency investments, to process by-catch or to process catch that is not for human consumption.

3.4 Challenges for introducing FI under the EMFF

The very limited use of FIs under the EFF and the comparatively small funding allocations to FIs proposed so far under the EMFF, illustrate that EMFF MAs perceive there to be a number of challenges to address for FIs to be more widely used.

This section presents the perceptions expressed by MAs during consultation as to what those challenges are. The number of respondents, as a percentage of the total (24), is presented in the following table.

Table 3 Challenges to FI use under the EMFF perceived by MAs

Rank	Challenge to introducing FIs under the EMFF	% of respondent MS*
	Sector-related challenges	
1	Preference for grants	29 %
2	Small total budget/critical mass	24 %
3	Sector too small	12 %
	Limited absorption capacity of the sector	12 %
4	Credit availability	6 %
	Managing Authority challenges	
1	Complexity	29 %
2	Administrative burden	24 %
3	Lack of admin knowledge/resources	18 %
4	Long commitment of resources	6 %
	State aid rules unclear over FIs	6 %
	Internal procedures barrier to co-operation	6 %

** % of those answering the question*

3.4.1 Sector-related challenges

Political will

The MS indicate that there is a general **preference to use grants**. The sector in general and the selected beneficiaries in particular prefer to receive grants rather than loans, for evident reasons of financial attractiveness. As one MA stated, "When free money is on offer, this will always be preferred to a loan."

A shift from grants to FIs is a political decision, which on a sector basis appears less attractive and therefore less palatable than grants. Ministers associated with a sector can be unwilling to make unpopular decisions affecting that sector. It may therefore require a wider consideration of what is better value-for-money for the public purse. Faced with reduced amounts of funding, the sector may also recognise the potential to recycle funds through a financial instrument is preferable to supporting a few beneficiaries with grants. The arguments in favour of FIs are still to be delivered convincingly at a national level.

Scale

The fisheries sector in general, and aquaculture in particular, is considered by some MAs to have too little **absorption capacity** for FIs due to the small size of the firms and recent low levels of profitability. Some MA respondents believe that SMEs in the fisheries sector are not able to repay loans and therefore must be supported through grants. In fact these arguments are similar to those of the commercial financial sector and are the basis of the existing market failure. It should be noted that this issue was raised by MAs in advance of an ex-ante assessment identifying scale as a reason for a market failure.

A number of MS have ruled out FI use as they believe the sector is not large enough to justify establishing an FI. A fisheries-specific FI may not attain the minimum **critical mass** that would justify the related costs for the MA and/or make the implementation an interesting business case for an intermediary. Various respondents believe that their **EMFF budget is too small** to set up a viable FI. This suggests that co-operation with other ESIFs is worth considering, but this brings with it further uncertainties for MAs.

Credit availability

Some MS have highlighted the low interest rates from commercial providers as a reason not to develop FIs. However, despite current low interest rates, other MS note that the sector may still have limited access to commercial credit, even when public sector loan guarantees of up to 80 % are provided. This latter situation is presented as a reason for continued grant assistance. A credible business plan is required from a prospective final recipient under an FI, which should better ensure that public funds are used to support viable operations. At a programme level, an ex-ante assessment that identifies market failure and appropriate measures is a pre-requisite before establishing an FI.

The majority of MS responding to the consultation consider the EFF/EMFF as the major source of investment funding for the firms in the fisheries sector. Only six MS respondents mention commercial providers as sources of investment funding. However, data regarding the catching sector published by the Joint Research Centre (JRC)/STECF[30] indicates that the financial position (i.e. debts as a percentage of total assets) amounted to 20-60 % in most MS fishing sectors. This may be longer-term debt (e.g. to purchase vessels) rather than recent investments, but banks are clearly involved in providing credit to the catching sector. While an ex-ante assessment is a regulatory requirement for the implementation of financial instruments, this illustrates its general importance in giving a clear picture about credit availability and whether a market failure has been identified.

3.4.2 Managing Authority challenges

Complexity

Many MS consider FIs too **complex**. It is not clear to MAs which legal requirements apply, which steps have to be taken to set up an FI, how the FI should be managed and what reporting requirements it must meet.

The responses are somewhat different from the MS that already have some experience with EFF FIs (EE, LV, RO and NL). With the acquired experience they have a clearer idea how the FI can be set up and operated. Although the experiences are country- and situation-specific, sharing these experiences should be promoted.

Even in a cooperative set-up, the budget allocated from the EMFF has to be administered separately, and so some MAs view 'shared' FIs as more complex to administer. EMFF FIs have to adhere to specific rules, as the EMFF is not allowed to support certain types of investments.

30 *JRC/STECF, The 2013 Annual Economic Report on the EU Fishing Fleet (STECF 13-15).*

Administrative burden

Many MAs expect to face an excessive **administrative burden** in relation to setting up and executing FIs and they are uncertain regarding the correct procedures and audit requirements. Administrations have been operating grants for many years and the procedure for evaluation of projects, distribution of resources, monitoring and control are clear and well established. One of the MS responded to the question, What aspects of establishment of FIs are unclear? saying "ALL".

The system of grants therefore appears simpler, particularly as the introduction of FIs is in addition to maintaining the grants system. In many cases, however, administrative duties and detailed reporting are the task of another body (a financial intermediary or another institution to which these responsibilities may be delegated) and therefore the administrative burden is shared, perhaps even lessened for MAs compared to using an equivalent allocation to grant aid to separate projects.

Timescales

The timescales associated with FIs create further uncertainty for MAs. Three issues have been distinguished:

1. Managing loans and loan repayments (e.g. repaid over five years or longer) and the recycling of those payments within a seven-year funding programme;

2. How FI allocation and use is budgeted, monitored and reported in relation to the annual budgeting and reporting required under the EMFF and national budgets;

3. Whether unused funding from an FI (or recycled funds) can be re-allocated elsewhere under the EMFF and when can this happen.

In relation to the first point, grant operations approved under the EFF or EMFF have a relatively short duration so that the administering and monitoring effort is limited. MS expect that loans or guarantees provided under FIs will have to be followed for much longer (3-7 years).

In relation to the second point, ESIFs are operated on the basis of annual budget commitments. In the light of the n+3 and the rules for decommitment of appropriations (Article 136 CPR), it is not always clear to the MS to which year the allocation of an FI should be attributed. This creates increased uncertainty and there is a need to clarify how MAs manage the longer-term support provided under FIs.

In relation to the third point, budgetary clarity also needs to be given to how the budget of the FI should be treated if it is not sufficiently used. Can the resources be brought back under another budget line (dedicated to grants for example) and what rules apply to an ongoing FI beyond 2023 i.e. after the final settlement of the EMFF?

Responsibilities

There is also uncertainty in relation to **responsibilities**, both at the stage of funding approval of an operation and responsibility at the stage of completion:

Approval responsibility raises questions from MAs in terms of approval criteria and the role of the MA and the financial intermediary. FIs are particularly foreseen for commercially viable projects, but the MAs do not have experience in assessing business plans, while a commercial financial intermediary may use different criteria to those considered relevant for the FI. When establishing the FI, MAs require clarification of who is responsible for approving lending and agreement on the criteria to be used. This is to be defined in the Funding Agreement between an MA and a Financial Intermediary, which would include eligibility rules that meet EMFF criteria, responsibilities for application review and approval, as well as any further criteria agreed.

In relation to the **completion responsibility** it is not clear to some MS what the auditing rules will be for operations that failed to repay the loan (partially or even fully) or in instances where the issued guarantee had to be used. On what criteria will the auditor determine such 'loss' to the FI has been caused by inappropriate evaluation or is simply a consequence of the inherent risk of loans and guarantees.

Procedures

The **procedures** to meet the ex-ante and ex-post responsibilities are not clear to many MS. The knowledge and resources of the MAs and related administration are lacking when it comes to FIs. In other words, MAs are often not capable of executing an FI themselves and they do not know how the FI can be appropriately delegated to a financial intermediary to meet audit requirements. There are concerns regarding the adherence to audit and State aid rules. Some MS also indicate that their internal procedures are not designed for FI use and would have to be revised to accommodate FIs.

Co-operation

In many instances there is not sufficient communication between the different ESIF MAs, for **cooperation options** to be properly explored. The EMFF is often delivered through a central MA, while the ERDF and others are delivered regionally. With no clear mechanism to facilitate communication between these national and regional institutions, opportunities for co-operation are lost.

MS where the implementation of the EMFF is delegated to regional authorities (e.g. ES, DE, IT, FR and UK) may face additional issues, as co-operation within the EMFF to agree on shared management and reporting may be required to establish an FI.

Some EMFF MAs are aware of FIs under **other ESIFs**, but they believe that these are not relevant for fisheries, or that there would be no interest in incorporating the fisheries sector. However, in some instances even a modest contribution from fisheries could make an FI more attractive to potential intermediaries.

3.5 Co-operation with other ESIF programmes

Introduction

All European Structural and Investment Funds (ESIF) share the Common Provisions Regulation (1303/2013), which specifies the eleven Thematic Objectives (TOs) that are intended to achieve the objectives of Europe 2020. The EMFF (and the EAFRD) formulate in addition a number of Union Priorities, which in their turn implement a number of selected TOs. There is therefore clear policy synergy between the funds and operational consistency built into the ESIF, which facilitates co-operation between ESIFs in the establishment and operation of financial instruments. More specific policy synergies with the EMFF are further elaborated in relation to each ESIF below.

Cooperation between ESIFs offers a number of advantages. Implementation of the financial instrument may be more efficient, as administrative and financial experience can be pooled. A larger total allocation also makes FIs more attractive prospects for financial institutions and economies of scale may enable charges by financial intermediaries to be reduced.

In the event of combination of support from different ESIFs, Article 37(8) of the CPR states that:

"Final recipients supported by an ESI Fund financial instrument may also receive assistance from another ESIF priority or programme or from another instrument supported by the budget of the Union in accordance with applicable Union State aid rules. In that case, separate records shall be maintained for each source of assistance and the ESIFs' financial instrument support shall be part of an operation with eligible expenditure distinct from the other sources of assistance."

In view of the relatively small size of the EMFF, making use of the infrastructure and experience of FIs set up under other ESIFs can be a major advantage to establishing FIs under the EMFF.

There are different levels of co-operation between ESIFs:

- Sharing of administrative arrangements for one or more financial instruments, i.e. there is a common organisational architecture in which the same body manages allocations from two or more ESIFs, resulting in economies of scale;
- A sharing of objectives under a single vehicle, which allows combined support for one project from various ESIFs (see Article 37(8) above);
- A deeper collaboration combining the two approaches above, involving shared organisational structure, objectives and lending criteria between the ESIFs.

With the consistency between ESIFs under the CPR and their shared Thematic Objectives, there is clear potential for FIs under the EMFF to be connected with FIs that are already established or proposed under other ESIFs. There are also specific opportunities for more extensive co-operation with other ESIFs that could be explored and some of these are identified below. It can be expected that concerted cooperation of FIs under the EMFF with FIs under other ESIFs will lead to a greater policy impact than if each FI operated separately. At the same time, duplicative or cross-purpose policies must be avoided, where for example another ESIF MA provide grants to non-SME fish processing while the EMFF MA is actively promoting a financial instrument approach to processing.

3.5.1 European Agricultural Fund for Rural Development (EAFRD)

There are very strong links between the EAFRD and EMFF. Not only because both funds are based on the Europe 2020 strategy, but also because they both deal with issues regarding rural communities and rural development.

The EAFRD[31] is governed by two regulations[32]. Objectives of the EAFRD are in the line with three Union Priorities of Europe 2020, as follows:

Within the overall framework of the CAP, support for rural development, including for activities in the food and non-food sector and in forestry, shall contribute to achieving the following objectives:

a) *fostering the competitiveness of agriculture;*

b) *ensuring the sustainable management of natural resources, and climate action;*

c) *achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment.*

Direct links between the EMFF and EAFRD are primarily in relation to the development of rural areas in general and specifically in the diversification, creation and development of small enterprises and job creation. The programmes of Latvia present a constructive example of such cooperation (see Section 2.3.2). The diversification of rural economies and integration of food chains offer clear potential for co-operation on financial instruments across the fisheries and agriculture sectors. Overall, there is concrete potential for pooling the EAFRD and EMFF in one FI operation.

At a local level, close collaboration may be possible when the areas defined by a Local Action Group (LAG) and a Fisheries Local Action Group (FLAG) overlap. As each is developed via a 'bottom-up' approach rather than through top-down co-ordination, actions by MAs to facilitate such collaboration may be needed.

Cooperation between LAGs under the EAFRD and EMFF should result in a more cohesive approach to community-led local development and this could extend to the development of common financial instruments.

31 *Regulation (Regulation (EU) No 1305/2013 of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).*

Regulation (EU) No 1306/2013 of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy.

32 *http://enrd.ec.europa.eu/enrd-static/policy-in-action/cap-towards-2020/rdp-programming-2014-2020/legislation-and-guideline/en/legislation-and-guideline_en.html*

3.5.2 European Regional Development Fund (ERDF)

The ERDF[33, 34] focuses on regional development, aiming to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions.

ERDF is often directed towards urban areas[35] (Regulation 1301/2013, Articles 7- to 9), but it also supports some specific rural areas (areas with natural and demographic handicaps, Article 10 and Northernmost regions with very low population density, Article 11 and Outermost regions, Article 12). The development of rural areas is in general the responsibility of the EAFRD. The ERDF mentions rural areas only once (Article 5(9)(b), as it aims to promote 'social inclusion, combating poverty and any discrimination, by providing support for physical, economic and social regeneration of deprived communities in urban and rural areas'.

The above suggests that in terms of geographic scope, there is a greater potential overlap between the ERDF and EMFF beyond fishing ports associated with urban areas. However the challenges of co-operation (noted in Section 3.4 above) between regionally and nationally delivered programmes need to be addressed.

The ERDF directs its investments towards several key priority areas:

- Innovation and research;
- The digital agenda;
- Support for small and medium-sized enterprises (SMEs);
- The low-carbon economy.

The proportion of ERDF resources allocated to these priorities depends on the category of region, as outlined in Article 4(1) of the ERDF Regulation concerning thematic concentration. In more developed regions, at least 80 % of funds must focus on at least two of these priorities; 60 % of the funds in transition regions[36] and 50 % of the funds in less developed regions[37]. Article 5 of the ERDF Regulation also makes provision for funding to support other thematic objectives.

33 *Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006.*

34 *Text in italics is from: http://ec.europa.eu/regional_policy/thefunds/regional/index_en.cfm*

35 *Eurostat defines 'urban' as areas with more than 5,000 inhabitants and a density of more than 300/km² (http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Urban-rural_typology). This definition is applicable in NUTS-3 regions or smaller, but not to NUTS-1 and NUTS-2 level. It is unclear whether the ERDF also uses precisely this definition.*

36 *From Article 90 of 1303/2013: Transition regions are NUTS-2 regions with an average income of 75-90 % of the EU-27 average.*

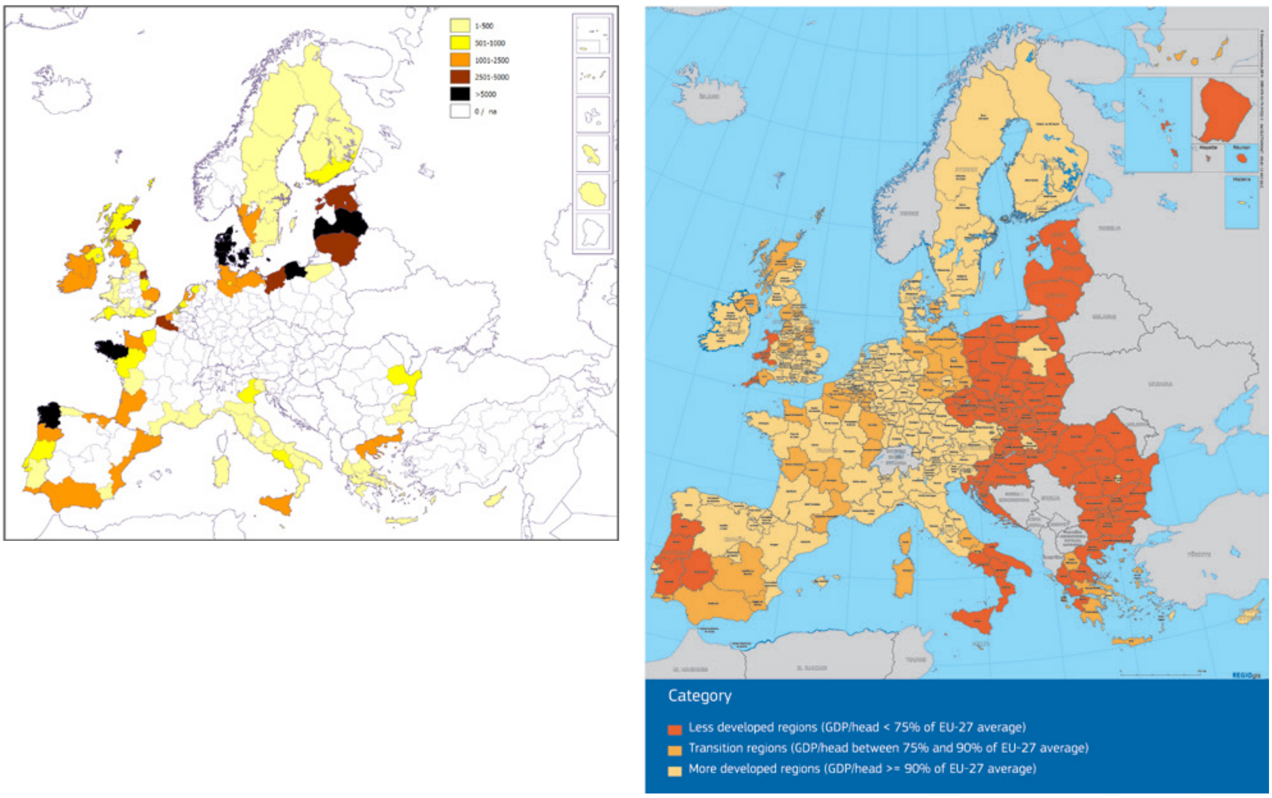
37 *From Article 90 of 1303/2013: Less developed regions are NUTS-2 regions with an average income below 75 % of the EU-27 average.*

There may be commonality between the ERDF and EMFF in 'Innovation and Research' as this is an area supported by the EMFF in fisheries (to reduce environmental impact and deal with the landing obligation); aquaculture and processing. The general prioritisation of support to SMEs is also consistent with the fisheries and aquaculture sectors that are dominated by micro-enterprises.

Some ERDF resources must be channelled specifically towards low-carbon economy projects: 20 % for the more developed regions; 15 % for transition regions and 12 % for less developed regions. Articles under the EMFF also support measures for energy efficiency within fisheries, aquaculture and processing businesses, presenting some clear areas of potential co-operation between the ERDF and EMFF.

To give an example on the potential for co-operation between EMFF and ERDF, the two maps below highlight in which NUTS2 regions the potential for cooperation in relation to fish processing may be most promising. Relatively high employment levels in fish processing that are also ERDF-eligible regions are identified in Estonia, Latvia and Lithuania), north Poland and north Portugal. Of these, the three Baltic States have experience with FI use and/or expressed interest in the use of FI under the EMFF.

Figure 1 Fish processing centres and ERDF-eligible regions



Sources: Employment in processing 2005: P. Salz and G. Macfadyen, Dependence on fisheries, report for the European Parliament 2005 (note that MS joining the EU since are not included); ERDF-eligible region, DG REGIO, 2012.
http://ec.europa.eu/regional_policy/sources/what/future/img/eligibility20142020.pdf

On a smaller geographical scale, there is also likely to be potential for pooling different ERDFs and EMFFs in one FI operation associated with fishing port and seafood processing centres (Boulogne, Grimsby, Ijmuiden, Killybegs, Peterhead, Vigo, Zeebrugge, etc.). Many of these port areas are subject to redevelopment targeting diversification into other maritime industries, but fisheries enterprises remain significant and may include non-SME processing companies that may only benefit from the EMFF via FIs.

There is anecdotal evidence of the ERDF having supported non-SME seafood processors in the 200713 programming period and indeed having supported aquaculture operations as well. Establishing a shared approach between the ERDF and EMFF would ensure a strategic approach to regional and fisheries sector assistance. It also safeguards against duplication or inconsistencies where the ERDF and EMFF are supporting the same sectors.

3.5.3 European Social Fund (ESF)

The ESF[38] invests in people, with a focus on improving employment and education opportunities across the European Union. Promotion of employment and social and territorial cohesion is one of the three Union Priorities of the Europe 2020 agenda. The ESF aims to improve the situation of the most vulnerable people at risk of poverty, and investments cover all EU regions.[39]

For the 2014-2020 programming period, the ESF is focused on four of the cohesion policy's thematic objectives:

- Promoting employment and supporting labour mobility;
- Promoting social inclusion and combating poverty;
- Investing in education, skills and lifelong learning;
- Enhancing institutional capacity and an efficient public administration.

Article 15 of the ESF deals specifically with FIs:

Pursuant to Article 37 of Regulation (EU) No 1303/2013, the ESF may support actions and policies falling within its scope through financial instruments, including micro-credits and guarantee funds.

This is clarified in Preamble 28:

The Member States and the regions should be encouraged to leverage the ESF through financial instruments in order to support, for example, students, job creation, worker mobility, social inclusion and social entrepreneurship.

38 *Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006.*

39 *http://ec.europa.eu/regional_policy/thefunds/social/index_en.cfm*

While there are fewer obvious opportunities for supporting labour mobility, education and enhancing institutional capacity through co-operation with the EMFF in the use of FIs, there are shared objectives of social inclusion and combating poverty.

20 % of ESF investments are to be committed to activities improving social inclusion and combating poverty. Article (3)(b)(vi) refers to Community-led local development (CLLD) strategies as part of promotion of social inclusion and combating poverty. This CLLD priority is reflected in both the ESF and the EMFF.

3.5.4 Cohesion Fund

The Cohesion Fund[40] (CF) is designed for Member States where Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. It aims to reduce economic and social disparities and to promote sustainable development.[41]

For the 2014-2020 programming period, the CF concerns Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. These already have experience of FIs under other ESIFs and some (Bulgaria, Estonia, Latvia, Romania) already have experience of FI use under the EFF and are exploring the potential to establish FIs under the EMFF.

The CF supports the following categories of operations:

- Trans-European transport networks, notably priority projects of European interest as identified by the EU. The Cohesion Fund will support infrastructure projects under the Connecting Europe Facility;
- Environment: the Cohesion Fund can also support projects related to energy or transport, as long as they clearly benefit the environment in terms of energy efficiency, use of renewable energy, developing rail transport, supporting intermodality and strengthening public transport, etc.

The text of the CF regulation does not make direct reference to the use of FIs, but as an ESIF, FIs are an option.

Potential synergies between the EMFF and the CF may exist in the area of energy efficiency, in particular Article 4(a) (ii): promoting energy efficiency and renewable energy use in enterprises. The EMFF refers to energy efficiency in relation to fishing fleet (Articles 41, 43, 44), aquaculture

40 *Council Regulation (EU) No 1300/2013 of 17 December 2013 of the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006.*

41 *http://ec.europa.eu/regional_policy/thefunds/cohesion/index_en.cfm*

(Articles 48, 51, 53) and fish processing (Article 69). The CF also promotes a number of areas that are relevant to the EMFF (resource efficiency and biodiversity, incl. Natura 2000) (Article 4(c). As these tend to be delivered by public sector agencies or do not directly relate to economic activities, they may be less suitable to the application of FIs.

3.5.5 Analysis of co-operation potential

The consistency between ESIFs under the CPR and their shared thematic objectives creates good potential for EMFF MAs to benefit from FIs that are already established or proposed under other ESIFs. Appropriate separation between the funds must be maintained, but co-operation enables some of the administrative burden to be shared and increases scale (which is more attractive for financial intermediaries).

Considering the shared thematic objectives of the five ESIFs, Table 4 illustrates the potential for strategic co-operation between different ESI funds and possible pooling of funds in one FI operation. The three thematic objectives highlighted in bold seem to offer more scope for pooling of funds in one FI operation as they are more linked to investment, resulting in direct economic returns.

Table 4 EMFF links with other ESIFs

CPR	Cooperation aspect (short title)	EMFF	EAFRD	ERDF	ESF	CF
Article 9 (Thematic Objectives)	**TO 3 – Diversification and competitiveness of SMEs**	X	X	X	X	X
	TO 4 – Low carbon economy	X	X	X		X
	TO 6 – Environment and resource efficiency	X	X	X		
	TO 10 – Training, education and lifelong learning	X	X	X	X	
	TO 8 – Employment and labour mobility	X	X	X	X	
Article 32	**Community-led local development**	X	X	X	X	

Sources: EMFF 508/2014 Article 6; EAFRD 1305/2014 Article 5; ERDF 1301/2013 Article 5; ESF 1304/2013 Article 3; CF 1300/2014 Article 4.

** Activities under the themes in bold show more obvious potential for FIs as they can directly generate revenue. The other activities are synergistic with the ESIFs, but less obvious candidates for FI use.*

There is a broad spectrum of options for co-operation between the EMFF and **EAFRD**, both at national as well as local level, including the potential for pooling EMFF and EAFRD funds in one FI operation.

The potential for co-operation between EMFF and **ERDF** funding extends beyond certain fisheries centres as there are shared measures related to competitiveness of SMEs, low carbon economy, energy and resource efficiency as well as employment and lifelong learning. However, there is good potential for pooling EMFF and ERDF funds in one FI operation in regions that have high fish processing and/or aquaculture employment and ERDF-eligibility. For example, in fish processing the Baltic States, northern Poland and northern Portugal have such regions. There are also likely to be opportunities for co-operation in specific port and processing centres (e.g. Boulogne, Grimsby, IJmuiden, etc.) that may include non-SME processing companies that may only benefit from the EMFF via FIs.

Synergies between the EMFF and **ESF** could be achieved through the provision of micro-credit to entrepreneurs in fisheries areas or fishermen starting a new business. In addition, loans for the development of skills/education in order to increase labour mobility are an option.

The **Cohesion Fund** mainly features public sector support and consequently the potential for co-operation between the EMFF and Cohesion Fund in FI use seems limited. However both still have in common the thematic objectives of low carbon economy and resource efficiency.

3.6 State aid implications

The fishery and aquaculture sector is subject to competition rules (which include State aid) **to the extent determined by the legislator** in line with Article 42 of the Treaty on the Functioning of the European Union (TFEU) referring to the production and trade of agriculture products (including fishery and aquaculture products).

According to Article 8(2) EMFF (EC Reg. 508/2014), State aid rules do not apply to payments made by MS that respect the EMFF rules in so far as they relate to fishery-related operations. Operations considered as 'fishery-related' are those **concerning the production, processing and marketing of fishery and aquaculture products**.

Most of the operations co-financed under the EMFF are fishery-related, with the exception of measures aimed at fostering the implementation of the Integrated Maritime Policy (IMP) Union Priority (UP) 6. CLLD projects (UP 4) would also need to be examined on a case-by-case basis to determine if they are fishery-related.

Projects that are not fishery-related do not benefit from the exemption from the application of State aid rules provided under Article 8(2) EMFF and here **general State aid rules apply.** This does not necessarily mean that these must be notified to the Commission. If the amount involved is below EUR 200,000 per beneficiary (in direct subsidy or in gross grant equivalent) over a period of three years, the **General *de minimis* Regulation** will apply.

If the amount is larger than EUR 200,000 per beneficiary over a period of three years, the MA must examine whether the project could fall under the **General Block Exemption Regulation**. In this case, the Commission needs to be informed of the project but no notification is required. If the project does not meet the conditions to benefit from the General *de minimis* Regulation or the General Block Exemption Regulation, it will need to be notified to the Commission and it cannot be implemented before the Commission's decision.

According to Article 8(3) EMFF, fishery-related operations that are **financed outside the EMFF framework** (exclusively on the basis of national funds), but could have been eligible for funding under the EMFF constitute State aid and shall be treated in the same way. Most of these are covered by the **fishery-specific Block Exemption Regulation** (Commission Regulation (EU) No 1388/2014 of 16 December 2014) and are hence exempted from notification, provided they fall within the scope of the Regulation and comply with the notification threshold and the conditions for exemption. The Block Exemption Regulation applies only to SMEs.

Aid granted to undertakings in the fishery and aquaculture sector financed outside the EMFF framework can be covered by the **sector-specific *de minimis* Regulation** (Commission Regulation (EU) No 717/2014 of 27 June 2014), provided it falls within the scope of the Regulation and does not exceed a maximum of EUR 30,000 per beneficiary over a period of three years.

In addition to the above fishery-specific State aid legislation, the Commission has adopted revised guidelines[42] for the examination of State aid to the Fishery and Aquaculture Sector. The Guidelines set out the principles that the Commission will apply when assessing whether aid to the fishery and aquaculture sector can be considered compatible with the internal market.

42 *Communication from the Commission. Guidelines for the examination of State aid to the fishery and aquaculture sector. OJ C217/1 of 2.7.2015.*

4 TYPES OF FINANCIAL INSTRUMENT UNDER THE EMFF

4.1 FI typology

The Financial Regulation, referred to in the CPR, lists three main forms of investment under FIs: loans, guarantees and equity. An ex-ante assessment informs the decision on the suitability of the kinds of instruments and provides verification on suitability in a particular context. The CPR also anticipates that financial instruments may be combined with grant support. Table 5 compares these three financial instrument types and sets out a high-level view of their applicability to the EMFF in 2014-2020 based on an assessment against the criteria in Appendix A.

Table 5 Assessment of FI types

Instrument	Description	Considered further by this study	Assessment
Loans	Loans offered on preferential terms (in compliance with State aid) to encourage take-up.	✓	Common application under Structural Funds, especially the ERDF, allowing lessons to be drawn from other applications. Able to remedy sub-optimal investment and can achieve a leverage effect. Able to reach a wide range of recipients.
Guarantee	Commercial loans are partially guaranteed against default to reduce risk for lenders and encourage lending.	✓	Adopted under other Structural Funds in 2007-2013 allowing lessons to be drawn from other applications. Able to address sub-optimal investment and achieve a good leverage effect. May minimise market distortions by creating strong appropriate incentives for final recipients and financial intermediaries. Able to target a wide range of recipients.
Equity	Public funds are co-invested alongside private funds in a business.	✓	Possible as it has been adopted under other Structural Funds in 2007-2013. Able to address sub-optimal investment and achieve a leverage effect. Equity is most appropriate for high-risk, high-return investment opportunities available mainly in the aquaculture and processing sectors.

Potentially all models discussed above could be adopted under the EMFF. They have all been applied elsewhere under Structural Funds and so, when appropriately designed, should have a manageable level of complexity. However, detailed design elements may affect which approach is most relevant for a particular purpose.

4.2 FI models under the EMFF

Three approaches utilising loans, guarantees, and equity have been identified from past experience under structural funds:

1. **Risk-sharing loans for SMEs (RSL)**

   The risk-sharing loan model proposed here combines the EMFF and other public funds with private funds from financial intermediaries to provide loans to SMEs on preferential terms. Thus the same financial intermediary may assume the role a fund manager and a co-investor. The losses, recoveries and benefits are borne and shared in agreed proportions by the EMFF programme contribution and the additional resources provided by financial intermediaries.

2. **Capped portfolio guarantee**

   A guarantee covers the loss of the lender up to predetermined amount in the event that the final recipient does not repay the loan. A pool of public funding is held in a guarantee fund to offset losses incurred on a portfolio of loans, reducing risks to the originator of the loan.

   The capped portfolio guarantee is so named because the level of the guarantee is capped across each financial intermediary's portfolio and the intermediary is only exposed to losses greater than the amount of the capped guarantee. The capped portfolio guarantee model proposed here uses the EMFF and other public funds to guarantee commercial loans made by financial intermediaries.

3. **Equity**

   Equity investment involves providing capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits.

Equity could be provided from a common pool of the EMFF and other public funds alongside private funds to invest at-risk funds in new businesses, generally SMEs. Equity financing suits the development requirements of many SMEs, from innovative to traditional and can support undertakings to cover expenses from preliminary activities such as product research and development (R&D) until a product or service can start generating revenues.

Across these three approaches, there is a **horizontal option** of combining these financial products with technical support. This would be to provide technical support to facilitate the investment process. Financial instruments and technical support (but also other forms of support (including interest rate subsidies, and guarantee fee subsidies) may be combined under Article 37(7) CPR in a single financial instrument operation. The technical support combined with the financial instrument must be directly linked to the financial instrument and have the purpose of the facilitation and enhancement of the implementation of the financial instrument[43].

Table 6 overleaf describes various attributes for these three FI models and the horizontal technical support option.

43 For a full view of the possibilities of combining technical support with an FI please see the EC Guidance for Member States and Programme Authorities, CPR Article 37(7)(8)(9) – Combination of support from a financial instrument with other forms of support, available at www.fi-compass.eu.

Table 6 FI models

	FI model			Horizontal option (Technical support)
	1 Loan based on a portfolio Risk-Sharing loan model (RSL)	2 Capped portfolio guarantee (Capped Guarantee)	3 Equity	
Instrument form/ product	Loans	Loan guarantee	Equity	Technical support, for the preparation of the prospective investment, offered to Final Recipients.
Relationship with ESIF regulations	Listed as a form of investment in the Financial Regulation, referred to in the CPR. Possibility to implement an RSL via Standard T&C established under Commission Implementing Regulation No 964/2014.	Listed as a form of investment in the Financial Regulation, referred to in the CPR. Possibility to implement a capped portfolio guarantee via Standard T&C for a Capped Guarantee is established under Commission Implementing Regulation No 964/2014.	Listed as a form of investment in the Financial Regulation, referred to in the CPR.	Combining technical support and financial instruments in a single operation is anticipated by the CPR in Article 37(7) and Article 5 of Commission Delegated Regulation 480/2014.
Use of EMFF OP funds	EMFF OP funds are provided to intermediaries who in turn lend to final recipients at, in general, a preferential rate.	EMFF OP funds held as guarantee for private loan portfolio. Public funds cover losses to agreed level.	EMFF OP funds are invested alongside private funds in new/existing businesses.	EMFF OP funds, in the form of technical support for the preparation of the prospective investment via loan, guarantee or equity investment.

Use of private funds	Financial intermediaries can co-invest alongside EMFF OP funds to create a pool of funding at preferential terms. If the MA is implementing the Standard T&C, the risk is shared on a *pari passu* basis between the EMFF OP and private funds.	Private financing of loans to final recipients. The EMFF OP funds will partly guarantee (e.g. limited from 50 % to 80 %) those private sector loans, thus reducing the lender's risk.	Private funds can be invested alongside EMFF OP funds.	The provider of the loan, guarantee or equity utilises the technical support to help prepare the prospective investment.
Operational structure	Financial intermediaries originate loans. Financial intermediaries access OP funds according to a funding agreement.	Financial intermediaries originate loans. Guarantee agreement between guarantee fund and intermediaries.	Public funds committed alongside private funds to be invested by the fund manager in accordance with a funding agreement	Operational agreement to link grant and loan/guarantee/equity facility and processes.
Identity of key financial intermediaries	Intermediaries with specific experience of lending to the sector.	Guarantee fund manager. Financial intermediaries accessible (i.e. retail presence) to the sector.	Equity providers with experience in appraising and investing/divesting in new/existing businesses.	All
Examples of/ alignment with practice elsewhere	ERDF and EAFRD loan models in the 2007-2013 programming period targeted this approach and the experiences provided a basis for the development of Standard T&C established under Commission Implementing Regulation No 964/2014.	Model applied under the EAFRD and ERDF.	Estonia intending to include equity in FIs under the EMFF (see Section 2.3.3).	Analogous to the energy efficiency model in Estonia and Latvia, where grants established loan business case

All three FI models might, under favourable circumstances, achieve an efficient scale, particularly in big fishing nations with high EMFF allocations. Efficient scale means the scale at which the costs of setting up and implementing the instruments is spread across sufficient FI customers and volume that it is reduced to an acceptably low average cost per FI customer. Even where sufficient scale is possible under the EMFF alone, co-operation between ESIFs should be explored as economies of scale could be achieved.

Since the fisheries sector is a relatively small sector of the economy, in some MS the number and size of potential customers may not be sufficient to reach an efficient scale for these more complex FI models. In these circumstances collaboration with similar approaches under other ESIFs, sharing the same platforms for delivery of FI or adopting similar FI designs across multiple MS or sectors, may be necessary.

Where common platforms or designs are adopted across multiple MS, multi-lateral lending institutions such as the EIB could centrally manage participating MS' funds. This would be an innovation as it is not current practice and the potential for such an arrangement is only likely to be identified when MS have completed their ex-ante assessments.

4.3 Fund of Funds approach

A further approach to implementing the three FI models described is via a fund of funds. This approach provides for a possibility to blend concessional public funding which is then provided to financial intermediaries to deliver a range of financial products.

A benefit of the fund-of-funds approach for a debt-based FI is that it provides a single point of participation for commercial credit providers, allowing risk to be pooled across multiple products. Importantly, their risk is also reduced by positioning them as senior debt within a fund-of-funds structure, so that public funds take the first loss. This approach also simplifies the participation of these credit providers as they do not need to assess and engage with multiple recipients individually, but delegate this to the sub-funds. This model was adopted by JEREMIE funds in North West England[44].

44 *For more details see http://www.eib.org/attachments/general/events/northwest-regional-development-agency.pdf and http://www.thenorthwestfund.co.uk/about-the-fund*

A disadvantage of this approach is that it requires sufficient scale to justify the extra layer of administration and the structure is more complex to establish and operate. This makes it less likely that an EMFF MA could take on such a task alone.

4.4 Comparison of FI models

In general, each model could be applied to a range of final recipients. The above is a possible menu of FI models from which a selection could be made depending on investment needs. However, there are some differences between options in relation to the nature of final recipients, their ability to leverage private funds, the necessary scale of the fund and practical feasibility based on past experience.

This section provides a comparison of the three FI models discussed above to assess their relative advantages and disadvantages. Table 7 then sets out the strengths, weaknesses, opportunities and threats (SWOT) for each FI model.

Table 7 SWOT analysis for the three FI models and horizontal option.

FI model	Advantages for Final Recipients	SWOT from an MA Perspective			
		Strengths	Weaknesses	Opportunities	Threats
Risk-sharing loan	Potential benefits for the final recipient could include inter alia lower interest rates and lower collateral requirements. A defined repayment schedule makes budgeting easier. The lending mechanism is well understood, reducing the need for capacity building and the risk of misunderstandings. Loans preserve the equity of the final recipient as there is no claim on the ownership of the enterprise.	Not particularly difficult to administer (so there are limited management costs/ fees). Applicable on a small scale. When adopting standard terms and conditions (off-the shelf), in line with *de minimis* and pre-cleared under State aid rules.	Usually limited leverage. Relies on having a diverse portfolio. Requires more resources than a guarantee for the same target portfolio of loans. There is no transfer of business expertise to FRs.	Intermediaries bring financial expertise to originate loans.	It can be challenging to balance returns, scale and administrative complexity to make FIs sufficiently attractive to intermediaries. Estimating default rates accurately may be challenging, especially for entities without credit history.

FI model	Advantages for Final Recipients	SWOT from an MA Perspective			
		Strengths	Weaknesses	Opportunities	Threats
Capped guarantee	Potential benefits for the final recipient could include inter alia lower interest rates and lower collateral requirements. Guarantees can preserve the equity of final recipients as there is normally no claim on the ownership of the enterprise.	Increased leverage Demonstrated ability to leverage private loans and generally high leverage effect. Reduced investment risk for third parties. Requires fewer resources than a loan for the same target portfolio of loans. When adopting standard terms and conditions (off-the shelf templates), in line with *de minimis* and pre-cleared under State aid rules.	Requires a diverse portfolio of loans to spread risk. May require scale or previous experience to justify the complexity of establishment. Does not increase the liquidity available for loans to the final recipients (but may provide capital relief in some cases). There is no transfer of business expertise to FRs.	Similarity of structures in other Structural Funds supports adaptation to other contexts. Intermediaries bring retail presence and financial expertise to originate loans.	It can be challenging to balance returns, scale and administrative complexity to make FIs sufficiently attractive to intermediaries. Estimating the appropriate cap, or maximum limit, can be challenging, especially for entities without credit history.

FI model	Advantages for Final Recipients	SWOT from an MA Perspective			
		Strengths	Weaknesses	Opportunities	Threats
Equity	The final recipient can benefit from the investor's management expertise. The final recipient strengthens their balance sheet.	Can support high-risk businesses that would struggle to attract conventional financing. Stimulates investment by local private equity as well. Active role of investor in the business/ project.	General lack of specialised providers for EMFF sectors. Long investment cycle.	Supports innovation in high-risk elements of the fisheries sector.	May not be able to attract the required entrepreneurial and managerial skill with relevant fisheries sector knowledge. Securing good-quality deal flow.
Horizontal option – technical support (combined with any of above – loans, guarantees or equity)	The final recipient benefits from an advisory which aims to increases the quality of the business/investment plan and subsequently the project.	Applicable on a small scale. Under Article 37(7), the combination of technical support with financial instruments constitutes a single FI operation.	May not directly support immediate adoption of FIs, particularly if product uptake rate is low due to inadequate business cases.	Intermediaries bring retail presence and financial expertise to prepare projects for subsequent investment. May address a barrier to SME finance in the medium- to long-run by increasing intermediary understanding of sector and SME needs.	It can be challenging to balance returns, scale and administrative complexity to make FIs sufficiently attractive to intermediaries. Ability to deliver better prepared projects that will support subsequent investment.

5 IMPROVING THE UPTAKE AND EFFECTIVENESS OF EMFF FINANCIAL INSTRUMENTS

5.1 The support needs and challenges for FI under the EMFF

This section summarises the challenges identified and where EMFF-specific advisory support can help to improve the uptake of FIs under the EMFF. Many of these challenges result from a lack of knowledge and misconceptions about financial instruments.

The EMFF MAs consulted as part of this study identified the following issues preventing greater uptake of financial instruments:

- **A preference for grants:** The sector and the managing authorities are used to grants and there is often a lack of political will to push for their replacement by FIs.
- **Complexity:** Many MAs consider FIs too complex. It is not clear which legal requirements apply, which steps have to be taken to set up an FI, how the FI should be managed and what reporting requirements it must meet.
- **Administrative burden:** As a result of the complexity highlighted above. MAs expect to face an additional administrative burden in relation to setting up and executing FIs, particularly as they would operate alongside ongoing grant provision, and they are uncertain about the correct procedures and audit requirements. Some MAs believe that their internal procedures would have to be revised to accommodate FIs.
- **Timescales:** MAs expect that loans or guarantees provided under FIs will have to be monitored for much longer than grants. There is uncertainty over budgeting and reporting as ESIF are operated on the basis of annual budgets and the n+3 rule. For MAs tasked with achieving uptake of available funds across the programming period, the recycling of those funds with loan repayments can be considered problematic. Clarification is needed on how the FI receipts will be accounted for and re-allocated within or outside the FI.
- **Scale:** The fisheries sector in general, and aquaculture in particular, is perceived to have too little potential for FIs due to the small size of the firms and the likelihood of failing to achieve scale and recover costs. A fisheries-specific FI may not attain the minimum critical mass to justify the costs for the MA and/or make the implementation attractive to a financial intermediary.
- **Co-operation:** In many instances there is not sufficient communication between the different ESIF MAs, for the potential for cooperation and the potential to pool different ESI funds in one FI operation to be properly explored. Regional delivery of some ESIFs and national delivery of others is seen to add further challenges to co-operation.
- **Credit availability:** There are diverse views on the provision of credit from commercial operators; some MAs believe the current low interest rates of commercial loans would result in little demand for FIs through the EMFF. Other MAs have found that even with loan guarantees

via an FI, many operators in fisheries and aquaculture could still not access credit from commercial providers. This again highlights the importance of a detailed ex-ante assessment to identify the market failure and appropriate solution in each Member State.

An ex-ante assessment is a regulatory requirement for, and the first step in, the implementation of financial instruments. EMFF sectors, particularly processing, have a varied and dynamic investment context, which heightens the need for a high quality ex-ante assessments. However, implementing particular aspects of ex-ante assessments (such as the development of market analysis and preparation of a proposed investment strategy) in a multi-stakeholder context may prove especially challenging for EMFF MAs.

Addressing the above can be distilled into some key challenges and recommendations for improving the uptake of FIs under the EMFF. First, establish whether there is a need for FIs and if so what kind. Second, address uncertainties over the establishment of FIs, and the requisite procedures should be addressed. Third, raise demand for FIs by developing the political will to move the sector away from grant dependency. These challenges and what can be done to meet them are detailed below.

5.2 Common fi-compass advisory support for all ESIF – current and forthcoming

fi-compass (www.fi-compass.eu) serves as a single knowledge platform and catalyst that provides orientation, information, guidance and learning opportunities when it comes to the implementation of ESIF financial instruments. For practitioners who are implementing or considering implementing financial instruments, *fi-compass* aims to give them a jump-start and create a community of good practice.

fi-compass does this through providing upstream advice on each of the four stages of the financial instrument lifecycle. The four stages are design, set-up, implementation and winding up. Across these stages, a common ESIF work stream offers advice relevant to all ESIF financial instruments, including the EMFF, resulting from the common legislative framework and market practices from across Europe.

In 2014 and 2015, the *fi-compass* common ESIF work stream has focused on providing advice on design and set-up of financial instruments and general awareness raising on the benefits of financial instruments. This fits with the current situation and demands of ESIF managing authorities.

EMFF stakeholders involved in the design and set-up of financial instruments, or considering it, can benefit from this common ESIF work stream in a number of ways in 2015 and beyond:

- Handbooks on *Ex-Ante Assessment*, *Selection of Financial Intermediaries*, *State Aid, Developing a Business Plan;*
- Factsheets explaining key concepts such as *Advice on FI products, Developing an FI Action Plan, Governance and Implementation Structure, Synergies and Combinations of Support, Funding Agreement Preparation* and *FIs and CLLD and ITI;*
- Case studies linked to many of the above topics;
- Awareness raising and learning events in most Member States on financial instruments taking place in late 2015 and first part of 2016;
- Capacity building training/learning, both face-to-face and e-learning;
- A *knowledge management hub* (*fi-compass.eu*) which provides easy access to all of the above.

In 2016/7, it is envisaged that *fi-compass* will continue this awareness raising but also enhance activities aiming at broadening the knowledge of stakeholders on specific technical issues related to either the stage of implementation of FIs or specific thematic objectives.

In the context of identified support needs under the EMFF (see Section 5.1) the following recommendations are set for the provision of advisory support.

5.3 Recommendations for EMFF-specific advisory support

5.1.2 Challenge 1 – Establishing the need for an FI

a. Methodological guidance

The European Commission has already released a series of guidance notes[45] and more are under preparation.

The EIB and *fi-compass* have produced a number of relevant documents to support MAs in determining the need for, and establishment of, FIs. Two of those documents are particularly relevant for EMFF MAs, namely the *Ex-ante assessment General Methodology* and its *Volume III Enhancing the competitiveness of SMEs, including agriculture, microcredit and fisheries.*

Section 3 of this report outlines some particular characteristics of the fisheries and aquaculture sectors, but first and foremost SMEs within these sectors should be recognised as businesses with similar investment needs as other SMEs. There is also clear synergy between the EMFF and other ESIFs. The common resources already available from *fi-compass* are therefore relevant to the EMFF. Given the volume of the guidance and some particular considerations for EMFF support (e.g. in terms of prohibition to increases in fishing capacity) EMFF MAs would benefit from some signposting in order to access the guidance they need.

Recommendation 1: Online resources to include frequently asked questions (addressing the MA issues highlighted in this report) should be further developed.

b. Ex-ante assessment

An ex-ante assessment should not only be viewed as a formal requirement for setting up an FI, but as a fundamental tool for the MA to understand the specific needs of the sector and define the basic rationale and principles of the FI.

45 *As at 21 September 2015, EC short reference guide for MAs, Guidance for Member States on Article37(2) CPR – Ex-ante assessment, Guidance for Member States on Article 37(4) CPR, Support to enterprises/working capital, Guidance for Member States on Article 41 CPR – Request for payment, Guidance for Member States on Financial Instruments – Glossary, European Structural and Investment Funds, Guidance for Member States and Programme Authorities CPR Article 37(7)(8)(9) Combination of support from a financial instrument with other forms of support.*

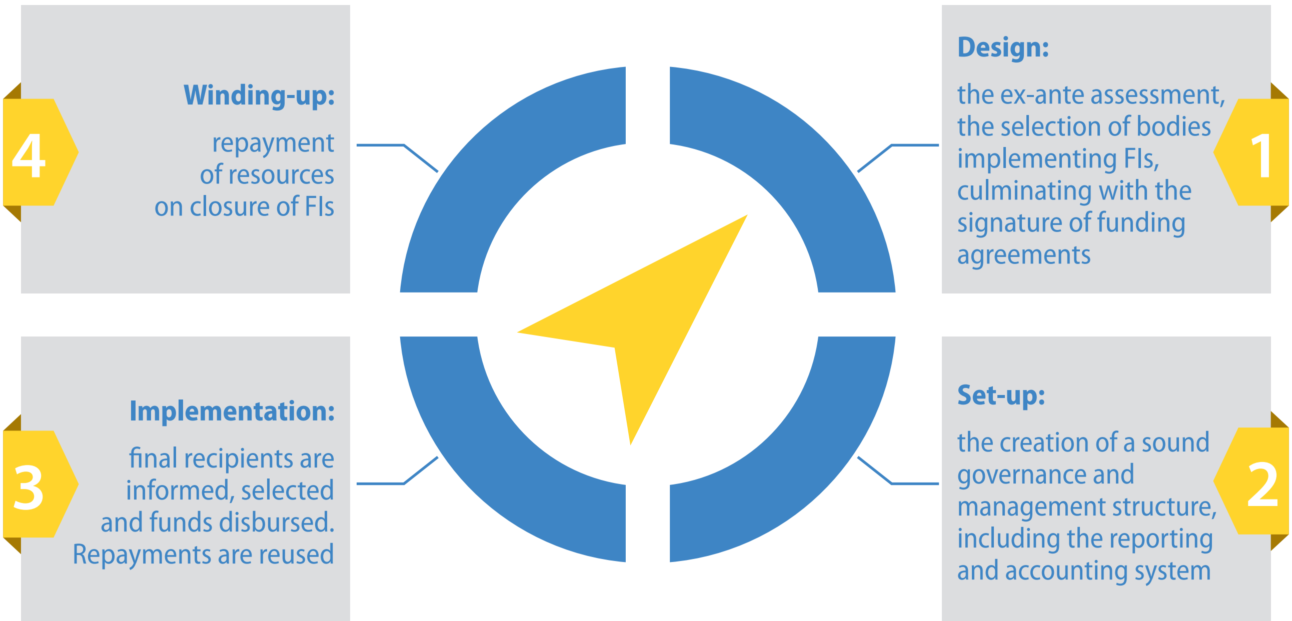
General guidance on ex-ante assessment is available via the quick reference guide and the General methodology (Volume I[46]), while more specific guidance on SMEs and fisheries is presented in Volume III[47]. Some of the specificities of the fisheries and aquaculture sector are explored in Chapter 12, which sets out some of the issues facing the sector and expectations of FI demand, concluding that "demand for FIs in the fisheries and aquaculture sector under the EMFF will mostly likely be focused in the processing sector". However, EMFF MA intentions already go beyond the processing sector to target FIs in fishing and aquaculture. A high-quality ex-ante assessment is required to establish exactly where and what type of FIs should be developed.

The SME ex-ante assessment guidance (Volume III) foresees no specific amendments to the general approach described in Chapter 10 of the General Methodology. While the overall methodology for ex-ante assessment need not be amended for the EMFF, additional guidance through sector-specific examples and information would be helpful to Managing Authorities.

Recommendation 2: Support for EMFF MAs in undertaking ex-ante assessments through enhancing common ESIF advice with sector-specific cases/information should be stepped-up.

5.1.3 Challenge 2 – Setting up an FI under the EMFF

Once the ex-ante assessment has demonstrated the rationale for an FI, the MA must take a number of operational steps and decisions in order to set up the financial instrument as shown below.



46 https://www.fi-compass.eu/publication/manual-ex-ante-assessment-guidance-vol-i-general-methodology
47 https://www.fi-compass.eu/publication/manual-ex-ante-assessment-guidance-vol-iii-enhancing-competitiveness-sme

The introduction of FIs is a political choice to move away from grants. That choice is constrained by budgetary obligations that are specified in the Operational Programme, which determines at least in the short term the budget to be made available to an FI before re-allocation is possible following review cycles. The budget of the FI will be determined by at least four factors – extent of the needs; policy priority attached to the FI; budgetary constraints; and type of instrument foreseen.

The same budget may be able to support more investments if it is used in the form of guarantees rather than if it is used for loans. It must also be decided whether the budget of the FI will be provided as a lump sum or in tranches from subsequent annual budgets of the EMFF. The Commission recommends that the payments to the financial instrument follow the tranching for requests of payments by the Commission as provided in Article 41 CPR[48].

As described in the CPR (Article 38(4)), there are several possibilities for which body can be entrusted with the implementation of an FI. Each of the possibilities has certain pros and cons which need to be assessed in the ex-ante assessment for each specific situation.

As each ESIF MA must make similar decisions, *fi-compass* has produced common advice on the above issues to enable MAs to benefit from good practice. This does not require EMFF-specific guidance, but sector-specific examples are helpful (similar to the nature of Recommendation 2).

There are a small number of individuals within MAs and financial intermediaries that have practical experience of establishing and administering FIs. This experience is likely to be more convincing than guidance documents alone. Effective and targeted guidance could therefore be provided via targeted awareness raising and access to a pool of 'experts', such as staff of MAs or financial intermediaries in MS that could provide advice to other MS MAs based on their practical experience.

Recommendation 3: Targeted awareness-raising services should be provided to those MS considering FI use under the EMFF, guiding MS through the decisions and procedures required to establish FIs, including providing a steer on ex-ante assessments.

48 *EC Guidance for Member States on Article 41 CPR – Request for payment. Available on www.fi-compass.eu.*

5.1.4 Challenge 3 – Awareness Raising

a. Communicating the benefits of financial instruments

The continued preference for grants and the limited commitment of EMFF funds to FIs so far illustrates that the arguments in favour of FIs are yet to be convincingly formulated and communicated. There are two target audiences for awareness raising to improve uptake of FIs under the EMFF:

1. The perceptions of staff in many Managing Authorities (and DG MARE desk officers) need to change in relation to FIs. They need to be convinced that the challenges (summarised in Section 5.1) can be addressed and the benefits outweigh the costs of FI establishment and operation.

2. National governments and sector representatives need to be made more aware of the benefits of FIs compared to grants.

FIs have advantages compared to grants as they are open to more potential final recipients; they require those final recipients and their projects to prove their economic viability; they are longer lasting with the potential to reinvest repayments back into the FI; and are less distorting to the market than 'free money' awarded to a number of grant final recipients. Yet, in many cases, a preference for grants remains.

FIs also offer fisheries enterprises the opportunity to build evidence of credit performance and a better understanding of fisheries and aquaculture within the banking sector. After three-to-five years of operation, an FI can produce evidence on the levels of repayment and default on credit, and the extent to which guarantees had to be activated.

For the MAs, the benefits of developing FI experience during this programming period, which could be considered a transition period in a move towards greater FI use, should be stressed. It is sensible to establish FIs now (if ex-ante assessment identifies a need) while *fi-compass* is present to provide the support functions proposed and gain valuable operational experience of FIs.

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Governments and the fisheries sector should recognise that a truly sustainable economic sector should not be dependent on grants. There are examples of fleet capacity buy-back schemes in Australia, Japan and the US that use financial instruments. A World Bank report[49] concludes "because buy-back schemes are effectively government subsidies for the improved performance of the fishing industry, it is expected that industry-financed buy-backs (against expectations of future increased revenues) should increasingly be explored". In the future public sector financial support for the fisheries sector may reduce and refocus, and the value from that support should be maximised.

The full range of benefits derived from FIs should be clearly communicated when promoting FI uptake. Briefing documents should present quantifiable evidence of the results and levels of leverage achieved under FIs and compared to leverage levels observed under EFF.

Recommendation 4: There is room for awareness-raising events for EMFF MAs, desk officers, policy-makers and sector producer groups, prioritising those Member States where ex-ante assessments are still to be conducted. Policy briefing papers that quantify the benefits of successful FIs should be produced to support awareness-raising efforts.

49 *World Bank, Saving Fish and Fishers Toward Sustainable and Equitable Governance of the Global Fishing Sector, May 2004.*

b. Co-operation with other ESIFs

The FI models discussed in this report vary in their complexity and in their likely leverage of private finance. Practical considerations of delivery and cost could be the over-riding factor in selecting an FI to be implemented. The key practical consideration concerns scale and the need to control set-up costs. This is a particularly important issue for the EMFF because individual Member State funds may be quite small and the stand-alone costs of setting up the more complex FI may be prohibitive. The solution is to look for opportunities to share common costs.

By coordinating their efforts or sharing assets, ESIFs within Member States (and potentially MAs from across MS) may reduce their costs and thus benefit from a wider range of FIs. There is often limited awareness of FI use under different ESIFs. The European Commission should facilitate the sharing of information between Commission DGs and between Member State ESIF MAs, with support from *fi-compass* when required.

Consultation with EMFF MAs has identified that with the capacity constraints faced by many MAs and the current pressure to finalise EMFF Operational Programmes, there is limited awareness of existing and proposed FIs under other ESIFs in the same Member State. This risks missing strategic alliances and cooperation opportunities and lessons are not learned from colleagues that have implemented FIs within the same Member State. A comprehensive review of the grant and lending environment (informed by the ex-ante assessment and engagement with MAs of other ESIFs) is needed, as uptake of FIs under the EMFF is likely to be low if target financial recipients can receive grants from other funds.

For improved co-operation between EMFF MAs and other ESIF MAs within Member States information and presentations from other ESIF MAs should form part of awareness-raising events to inform EMFF MAs of existing and proposed FIs under other ESIFs.

Recommendation 5: Information sharing and co-operation between Commission DGs and ESIF MAs is important for the successful implementation of financial instruments.

APPENDICES


ΕΡΙΦΕΡΕΙΑ ΚΕΝΤΡΙΚΗΣ ΜΑΚΕΔΟΝΙΑΣ
ΟΜΑΡΧΙΑΚΗ ΑΥΤΟΔΙΟΙΚΗΣΗ ΠΙΕΡΙΑΣ
ΤΟ ΕΡΓΟ "ΑΛΙΕΥΤΙΚΟ ΚΑΤΑΦΥΓΙΟ ΟΡΜΟΥ ΜΕΘΩΝΗΣ"
ΣΥΓΧΡΗΜΑΤΟΔΟΤΗΘΗΚΕ ΑΠΟ ΕΘΝΙΚΟΥΣ ΠΟΡΟΥΣ (25%) ΚΑΙ
ΑΠΟ ΤΟ ΕΥΡΩΠΑΪΚΟ ΤΑΜΕΙΟ ΠΕΡΙΦΕΡΕΙΑΚΗΣ ΑΝΑΠΤΥΞΗΣ (75%)
ΑΝΑΔΟΧΟΣ : ΗΛΙΟΧΩΡΑ Α.Ε.
ΚΑΤΑΣΚΕΥΗ : ΔΡΥΑΣ Α.Τ.Ε.Β.Ε.

Appendix A: Criteria for the high-level assessment of financial instrument models under the EMFF

The criteria set out here were used for assessing the suitability of models. They follow those established in the CPR for making an ex-ante assessment of the need for FIs. The criteria used are described in Table 18. Article 37 lists additional requirements for an ex-ante assessment to those discussed below, such as the need to detail a proposed investment strategy, specify expected results, and a process for reviewing and updating FIs (Article 37(2)(e), (f) and (g)).

Table 8 Criteria for assessing FI models

Ex-ante assessment criteria (CPR article)	Preliminary consideration for EMFF sectors
Existence of market failures or sub-optimal investment situations (Article 37(2(a))	Market failures and sub-optimal investment situations are likely to exist in the fisheries sector due to its small size and idiosyncratic characteristics. Prior to implementation, needs must be tested in an *ex-ante assessment*.
Expected added value of the financial instrument (Article 37(2)(b))	Are the returns (including social benefits) sufficient to justify the public funding employed? Are the returns superior to traditional grant approaches in the same sector?
Investment needs in line with thematic objectives or investment priorities (Article 37(2)(a))	An FI will only be taken up if it matches the investment needs of the final recipients. FI may only be offered if the investments match thematic objectives.
Expected leverage effect (Article 37(2)(c))	This is primarily target-specific.
Minimise market distortion (Article 37(2)(b))	The intrinsic design of the instrument should align the interests of the public funders, intermediaries and final recipients to support the objectives of the funding. In general, the FI should not dilute incentives for sensible commercial behaviour, nor favour some market participants over others except to correct an existing market distortion.
Lessons from similar instruments (Article 37(2(d))	A highly complex or untested FI will not be attractive to the final recipients or intermediaries. Adopted approaches should build on experience elsewhere wherever possible.

Appendix B: Experiences in F(E)I use under other ESIF funds

By the end of 2013 the MS MA's reported a total of 941 F(E)Is operating (including 69 holding funds and 872 specific funds) (EC, 2014[50]):

- 808 (91 %) account for F(E)Is for enterprises;
- 40 (6 %) for urban development projects;
- 24 (3 %) for funds for energy efficiency/renewable energies.

F(E)Is were set up in 25 Member States (all except Ireland, Luxembourg and Croatia) and received financial support from 176 OPs. The total value of OP contributions paid to the F(E)Is amounted to EUR 14,278 million, including EUR 9,597 million of Structural Funds (ERDF and ESF).

The financial support was delivered to enterprises through a variety of financial products, including loans, guarantees, equity/venture capital investments and other financial products such as interest rate and guarantee fee subsidies. Financial products, such as loans, micro-loans and guarantees, supported with EUR 680.33 million from the ESF OPs, targeted specific populations, such as self-employed, long-term unemployed and women.

Most of the 69 operating holding funds (HF) reported by the Member States were set up in 2009 or in 2010. They were managed either by the EIB (17 HFs), by the EIF (13 HFs) or by other financial institutions or bodies. As regards the procedure of selection of a fund manager, the MAs decided to attribute a contract or a grant directly to the EIB and EIF (43 %), or to select national holding fund managers in the open public procurement (15 %) or grant (42 %) procedure.

By the end of 2013 the number of F(E)Is set up was considered stable, with a rise in the OP contributions paid into F(E)Is compared to 2012 – with almost 47 % of OP contributions, or EUR 6,678 million, disbursed to final recipients by the end of 2013. However by the same date EUR 2,823 million out of EUR 17,101 million committed in funding agreements had not been paid into F(E)Is.

50 *EC (2014). Summary of data on the progress made in financing and implementing financial engineering instruments reported by the managing authorities in accordance with Article 67(2)(j) of Council Regulation (EC) No 1083/2006. Programming period 2007-2013 – Situation as at 31 December 2013. DG Regio 19/09/2014.*

There have been a number of critical evaluations conducted of F(E)I use over the 2007-2013 programming period, including a synthesis of use of the ERDF to support F(E)Is (Ward, 2012[51]) and an evaluation of the use of FIs by SMEs (European Court of Auditors, 2012[52]).

- Ward (2012) found that the use of F(E)Is by MS was relatively recent and limited in size. He noted a shift over the programming period from venture capital (VC) funds to loans and guarantees, mainly due to the expertise needed to set up and operate VC funds, as well as the need for sufficient innovative high growth firms to be viable. There is a stronger case for public support of loans and guarantees in many countries, given the limited access of SMEs to finance and the large amount of collateral often demanded by banks, especially in those MS where borrowing from banks is problematic. In particular F(E)Is were seen as a mechanism to fill a gap in the financial market between the demand for funding from SMEs and the available supply in a 'revolving' way, which means that more businesses can be supported. Ward summarised by saying that the complexity of F(E)Is and the time and resources needed to set them up have reduced their use, along with the limited extent of demand for them perceived by MAs and the preference for grants for many investments where the policy objectives extend beyond making a financial return. Looking to the future Ward considered that it was necessary to implement F(E)Is in a way that ensures compatibility between, on the one hand, the financial imperative of earning a reasonable rate of return in order both to attract private capital and to enable funds to be effectively recycled and, on the other, the pursuit of wider policy objectives.
- The European Court of Auditors (2012) recognised the use of FIs in that they are repayable revolving instruments that allow successive waves of SMEs to benefit. However the Court found that the effectiveness and efficiency of measures were hampered by important shortcomings, mainly due to the inappropriateness of the prevailing regulatory framework of the Structural Funds, e.g. they were originally designed for grants not FIs; and the ERDF's ability to leverage private investment was poor. The Court made a number of recommendations, including (i) exploring the possibility of supplying to the MS with off-the-shelf financial engineering structures and instruments for SMEs (e.g. grants with royalties, dedicated investment vehicles) in order to speed up implementation and reduce management costs and (ii) MS should, with the support of the Commission, aim at the inclusion of all ERDF co-financed financial instruments for SMEs into a single OP per MS. The Commission in its reply welcomed the Court's recommendation regarding off-the-shelf instruments, which is covered in the proposal for the new programming period. The Commission concurred with the aims of the recommendation aiming at the inclusion of all ERDF co-financed financial

51 *Ward (2012). Expert evaluation network delivering policy analysis on the performance of Cohesion Policy 2007-2013. The use of the ERDF to support Financial Engineering Instruments – Synthesis Report. Produced by Applica sprl, July 2012 for the European Commission Directorate-General for Regional Policy. 39 pages.*

52 *European Court of Auditors (2012). Financial instruments for SMEs co-financed by the ERDF, European Court of Auditors, Special Report No 2, 2012. 60 pages.*

instruments for SMEs into a single OP per MS, outlining that in the proposals for the new cohesion policy framework, the Commission opened the possibility of MS contributing to EU-level instruments. Furthermore, they include incentives where the whole priority axis is delivered through financial instruments. However the Commission highlighted that the implementation of cohesion policy programmes and the underlying actions (including financial instruments) under shared management and by national or regional authorities are fundamental elements of cohesion policy.

www.fi-compass.eu
contact@fi-compass.eu

European Commission
Directorate-General
Regional and Urban Policy
Unit B.3 "Financial Instruments and IFIs' Relations"
B-1049 Brussels

European Investment Bank
Advisory Services
fi-compass
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg