EMFF and Financial Instruments for 2021-2027: challenges and opportunities in the context of the COVID crisis

Context

The European Maritime and Fisheries Fund (EMFF) is one of the European Structural and Investment Funds (ESIFs). By providing financial support to fisheries and aquaculture, it contributes to the implementation of the Common Fisheries Policy and the EU Integrated Maritime Policy. The size of the EMFF is relatively small compared to other EU programmes. It had an overall budget of EUR 6.4 billion for the 2014-2020 programming period and 6.1 billion for 2021-2027 programming period in current prices, as recently agreed by the European institutions.

Already with the 2014-2020 programming period, the Common Provisions Regulation encouraged the use of financial instruments under all ESIFs, and thus the EMFF. In its proposal of the EMFF 2021-2027 Regulation in 2018, the Commission even suggested the obligation to use financial instruments for the EMFF. Based on a consultation of its members, the CPMR campaigned to waive this obligation and triilogue negotiations enabled the removal of such a requirement. However, its use is still promoted for both the aquaculture sector and SMEs in the seafood processing industries as well as for operations increasing the fishing vessels' capacity of boats of up to 24m max.

Until now there have only been a few examples of financial instruments for the EMFF. According to the 2015 Ficompass study, only 6 of the 27 Member States established financial instruments under the EMFF 2007-2013, which accounted for 1.5 % of EMFF funding. In 2014-2020 period, according to the 2019 EMFF implementation report, only Estonia currently implements financial instruments within the framework of the EMFF. In the new context of the COVID-19 crisis which affected the rentability of fishing enterprises, and at a crossroads between programming periods, this Technical Paper aims at setting the scene on the possibility of financial instruments for the EMFF for the next programming period. It will constitute a Background Paper for the debates which will be held in the framework of the CPMR Fisheries and Aquaculture Working Group meeting on 22 January 2020 (10.00-12.00 CET). According to the debates, the Paper will evolve and be completed.
1. EMFF and Financial Instruments: opportunities for the 2021-2027 programming period

1.1. A legal basis which could facilitate the implementation of FIs

According to the Common Provision Regulation and the EMFF Regulation, financial instruments could 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. Conditions for the use of financial instruments are the following:

- It should support investments financially viable;
- It should answer a market failure, and act where the market does not provide sufficient funding;
- Its establishment requires an ex-ante assessment to provide evidence of market failures or sub-optimal investment situations and the estimated level and scope of public investment needs, as well as complementarity with other forms of support.

Financial instruments can be set up at national, regional, transnational, or cross-border level and are managed by, or under the responsibility of, the Managing Authority. Managing Authorities can undertake implementation tasks directly or entrust a body governed by public or private law, carrying out tasks of a holding fund or a specific fund.

The final agreement on the new CPR for 2021-2027 reached in the trialogue in December has mainly simplify the provisions related to financial instruments. The number of elements covered in an ex-ante assessment has been reduced. Existing ex-ante assessments may be reviewed and updated leading to a quicker launch of the financial instrument.

From a CPMR perspective, this change will lighten the workload of Managing Authorities and intermediary bodies to set up a FI and can be beneficial to popularise the use of financial instruments for the EMFF.

The removal of the obligation to use financial instruments from the 2021-2027 EMFF Regulation is also a positive step from the negotiations. Financial instruments are encouraged for both the aquaculture sector and SMEs in the seafood processing industries (Articles 23 and 25). Financial instruments and grants can be used for operations increasing the vessel capacity for boats not exceeding 24m.

The CPMR welcomes that the use of financial instruments will remain on a voluntary basis and that the regulation will entrust Managing Authorities to determine the appropriate form of support to better adapt to the sectors’ needs.

In coherence with this message, the CPMR has also lobbied hard against the possibility to transfer resources to InvestEU up to 5% of each ESI fund (including the EMFF) as included in the new CPR, as it may be done at the expense of money allocated to regions. The final agreement in trialogue has at least lowered the ceiling to 2-3%.

1.2. FIs can increase the possibilities for SMEs to access finance

The European seafood sector is largely composed of micro-enterprises and small companies. Micro-enterprises lack capital for investment and are not the best candidates for commercial credit providers. Commercial banks consider the seafood sector as high risk or are just not very familiar with it. In some aquaculture companies, when the methods of production are long, it means that return on investment also takes longer. Strict lending criteria and collaterals required are barriers to accessing credit for
fisheries and aquaculture operators. In both cases, there are market failures where an EMFF Financial Instrument could take action.

Three approaches for each type of financial instrument have been identified for small and medium enterprises (SMEs):

- **Risk-sharing loans**: the idea here is to combine the EMFF and other public funds with private funds from financial intermediaries to provide loans for SMEs. The losses, recoveries and benefits are thus shared between the contributors.

- **Capped portfolio guarantee**: in this case public funding will contribute to a guarantee fund. The guarantee is thus “capped” across each financial intermediary, only exposed to losses greater than the amount of the capped guarantee.

- **Equity**: in this case, capital is provided to an enterprise and the provider of the capital receives in return total or partial ownership of the company. Equity could be relevant for investing at-risk funds in new businesses for SMEs. For example, it can be used to cover the costs of preliminary activities of research and development until the product or service starts generating revenues.

A further approach to implementing the three FI models is via a ‘fund of funds’ which provides a single point of participation for commercial credit providers, allowing risk to be pooled across multiple products.

In Estonia, the creation of a financial instrument under the EMFF has proven its use. Estonia developed a **EUR 15 million financial instrument** financed by the European Maritime and Fisheries Fund for the 2014-2020 period. The financial instrument is composed of 75% EMFF contribution (EUR 11.25 million) and 25% (EUR 3.75 million) national contribution.

Among the beneficiaries, Stonefish is a fishing enterprise which opened offering fresh fish, processed fish products and fishing gears and boats accessories. This private company could not obtain a bank loan due to the onerous conditions, especially for collateral. The company received a loan from MES which was combined with EMFF grants. The loan from the financial instrument enabled the company to build the fish shop and they could hire five people.

**1.3. An interesting option in a time of economic crisis**

With the COVID-19 crisis, market failure is even greater. Many small seafood companies have known important economic difficulties due to the lack of demand in seafood products which derives from the closure of restaurants, while the capacity of public administrations to provide grants may shrink due to the important support provided in many different economic sectors.

According to a [CPMR Study on Financial Instruments and Structural Funds](https://www.cpmr.org/files/docs/2016/Financial_Instruments_and_Structural_Funds_in_the_CFP_in_harmonisation.pdf) (2016), financial instruments were considered by a majority of regions responding to the survey as an added value compared to grants, as they are a way of mobilising other resources and fostering co-financing. Several respondents also mentioned the revolving nature of FIs as one of the benefits of the instruments they set up. The funds can be used again for new investments in the same area, establishing a more sustainable way of using public resources.

However, it is to be noted that only one country, Estonia, has implemented a financial instrument under the EMFF, which poses questions on whether financial instruments are the solution to support the fisheries and aquaculture sector in the upcoming programming period.
2. Challenges of the implementation of financial instruments under the EMFF

2.1. Estonia: a success which derives from a specific situation

For 2014-2020, only Estonia put in place a financial instrument for the EMFF which demonstrates the low appetite of Managing Authorities for this type of initiative in the last programming period.

Estonia developed investment loans for aquaculture production (four payments in 2019 amounted to EUR 2,008,168), growth loans for micro- and small enterprises in fish processing (nine loans amounted EUR 1,614,716 in 2019) and a long-term investment loan for enterprises starting or dealing with fish processing (six payments in 2019 for a total of EUR 4,029,484).

In Estonia, the success factor of the financial instrument relies on the characteristics of the fisheries and aquaculture sector. Some fisheries and aquaculture enterprises are starting their activities from scratch and do not have enough revenue or cash flow. They also often do not have enough collateral, an important aspect required by banks to accept providing a loan. This characteristic could mean that the Estonian sector could be more liberal than other countries where family-owned businesses predominate. In these other countries, the sector could be more impenetrable, which means that there could be less new entrepreneurs in fisheries and aquaculture, but rather young professionals who already belong to the business and have a treasury and collaterals to start their activities.

2.1. The challenge of implementing FIs: a complex management

Financial instruments may also be perceived as complex to establish and to manage, especially when Managing Authorities lack capacity. In the CPMR Study on Financial Instruments and Structural Funds (2016), Regions pointed out the complexity of juggling between several legislations applying to FIs (ESI Fund Regulations, State Aid guidelines, national laws), the quantity of guidance provided by the European Commission; convoluted monitoring and reporting procedures. Another success factor of the Estonian example was indeed the positive experience of the Estonian rural development foundation (MES), the body implementing the financial instrument and the financial intermediary, in the financial instrument’s implementation under the EFF (2007-2013). It already had provided loans, interest, capital support and guarantees to agricultural and fisheries businesses.

Besides, to manage an EMFF FI, Managing Authorities need to administer separately the budget allocated from the EMFF. FIs have to adhere to specific rules, as the EMFF is not allowed to support certain types of investment. In this context, synergies with other EU funds appear even more complex to manage, while being promoted by the Commission, due to the small size of the EMFF. As an example, Ireland developed an ex-ante assessment, where it considered that as the size of the EMFF is relatively small, it will be more attractive for financial institutions to implement a joint financial instrument both under the EMFF and the Rural Development Programme (RDP). However, no financial instrument has been implemented during the 2014-2020 programming period, and the complexity of such an operation can be assumed.

In addition, the Ficompass study (2015) also highlighted the difficulties induced by the timescale of financial instruments. While grant operations approved under the EMFF have a relatively short duration, loans or guarantees provided under FIs will have to be followed for much longer (3-7 years).

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Member States are not always sure of which year the allocation of an FI should be attributed to, to comply with the n+3 and the rules for decommitment of appropriations.

Finally, the Managing Authorities and intermediary bodies have to put in place a good institutional cooperation to reach the targeted public. In the 2007-2013 programming period, Latvia established a fund of around EUR 44.7 million (of which EUR 7.2 million was from the EMFF) to provide loans to farmers and fisheries sectors at lower interest rates. One of the main success factors was seen to be the good institutional cooperation as it involves a number of players with different roles: Managing Authority, Payment Agency, Fund Manager, Financial Intermediaries (banks). Associations of beneficiaries were important for raising awareness and to publicise information about Credit Fund loans. The Latvian Rural Advisory and Training Centre also helped potential recipients to apply for loans. Two projects out of 58 in total were for recipients under the EMFF amounting EUR 4.6 million.

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As a conclusion, financial instruments are not a “one size fits all” solution, and highly depend on a sound assessment of the state of play of the bank system combined with a clear picture of the fisheries and aquaculture sector characteristics. This sound assessment is also very time-consuming and implies that Managing Authorities or intermediary organisms have the shoulders to carry out such tasks, despite some facilitations provided by the new Common Provision Regulation.

While the new programming period will not require Managing Authorities to go through a lengthy process of analysis again if they already carry out ex-ante analyses, this still means that Managing Authorities and intermediary bodies are to provide adequate capacity to reach the targeted public and manage the financial instrument throughout its implementation phase.
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