Brainstorming Meeting on Impact Financing in the Fisheries Sector in Structurally Weak and Vulnerable Economies

Concept Note

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I. Background

Development finance has gone through fundamental changes over the past decades, with private capital increasingly taking center stage. This change continues today, with a growing shift away from the traditional development financing model to an "impact financing" model. The shift has primarily been driven by increasing interest in leveraging private capital for social and environmental goals. Against this background, private capital has been increasingly seeking investment opportunities in productive sectors with strong environmental and social impacts, such as agriculture and fisheries. Consequently, the demand for impact financing has shown tremendous growth in recent years. With the adoption of the Sustainable Development Goals (SDGs) by the international community, the expansion of impact investing offers unique opportunities for financing the SDGs, especially in structurally weak and vulnerable economies such as the Least Developed Countries (LDCs) and Small Island Developing States (SIDS). The adoption of the SDGs also signals the need for a comprehensive and integrated approach towards sustainable development, including its economic, social and environmental pillars.

The fisheries and aquaculture sector has significant economic, social and environmental impacts. It is vital for achieving the SDGs and - due to its multifunctional and multidimensional nature - can be attractive for impact investments targeting different goals (such as social impact investment, environment impact investment and development impact investment). Various studies show that the fisheries sector in small, weak and vulnerable economies offers investment opportunities for private capital, albeit with significant risks for potential investors. Assessing and monitoring this risk is complicated by the lack of adequate data, especially for small-scale and deep-water fisheries in LDCs. However, minimizing the perceived and actual risks prevalent in the fisheries sector is critically important for leveraging and targeting private investment in the sector. This calls for developing well-functioning assessment and guarantee schemes, and adopting investment models that help to minimize risk. Experience shows that blended financial models (a combination of loans and grants) can often generate win-win solutions for lenders and borrowers.

Channeling capital to the fishery sector from impact investors, private sector and traditional financial institutions requires several pre-conditions to be met:

- First, a clear understanding of the economic, social and environmental potential of fisheries. This involves the identification of the expected financial return of the investment and other socio-economic benefits, such as upgrading and expansion of fisheries exports, environmental sustainability, and social benefits, e.g. in terms of improved nutrition and employment creation.

- Second, the identification of strategies to tap the potential of the sector.

- Third, an analysis of existing policies and institutions to identify both well-defined business models, and the conduciveness of the micro- and macro-economic environment.

- Finally, the availability and interest of financial institutions, including intermediaries and insurance facilities.

UNCTAD's recent work reveals that several LDCs and SIDS are endowed with significant fisheries resources and are among the world's largest fish producers. Cutting across the three facets of development, the fisheries and aquaculture sector holds significant potential for economic and social development, as well as environmental protection in many LDCs and SIDS. It offers employment opportunities for millions of people, including vulnerable and marginalized groups in rural areas. In particular, the participation of women in fisheries trade, management and development, as well as in technical fisheries laboratories is significant: 90 per cent of the workforce in fishery processing firms in Mauritius, Mozambique, Myanmar and Uganda, and more than 98% of laboratory technicians and experts in Myanmar, are women. Furthermore, in many LDCs and SIDS, fisheries are an important source of protein for the population, which is key in ensuring food security.

Besides its contribution to employment creation, food security and poverty reduction, the fisheries sector is a major source of export earnings for several LDCs. For Uganda, earnings from fisheries exports are the second largest among the country's top merchandise as in 14 of the 47 LDCs, fisheries are among the top five export items. For SIDS, fisheries contribute to foreign exchange earnings not only though direct exports, but also via fees from fish license agreements: the Pacific Islands Forum Fisheries Agency reports that while their membership (composed largely of SIDS) contributes 40 per cent of the worldwide supply of tuna for canning, two thirds of it is caught by foreign vessels, and only about 10 per cent is processed onshore in the region.[1] Statistics such as these suggest that many LDCs and SIDS are unable to fully harness their wealth of marine resources to support development and income generation in their economies.

In sum, the sector is crucially important for poverty reduction, is an important source of income and acts as a driver of progress towards the SDGs. Furthermore, due to current demographic trends, as well as improved income levels and a growing need for quality and nutritional dietary sources, the global demand for fisheries has been consistently rising over the last three decades and this trend is projected to increase further in the coming years. By contrast, the fisheries sector in LDCs and SIDS remains largely informal, dominated by traditional or artisanal activities, with limited access to more productive industrial food processing. Consequently, over the last three decades, the share of LDCs and SIDS in total fisheries exports has been stagnant and remained negligible.

The inability of LDCs to expand their fisheries exports is due to a number of binding constraints on both the supply- and demand-side of the industry. The main supply side constraints include deficient transportation and storage facilities, poor energy infrastructure and high electricity cost, inadequate access to capital for small operators, Illegal, Unreported and Unregulated (IUU) fishing; overfishing and depletion of fish resources, and degradation of marine ecosystems.

In contrast, the most pervasive demand-side problem that LDCs and SIDS are facing is their inability to comply with food quality and safety standards imposed by importing countries. Stringent safety and quality norms—public or private—block access to major import markets for many countries because standards are not harmonized, and are costly to meet. Moreover, structural problems throughout the value chain, such as processing and testing facilities and procurement methods, are all too evident in LDCs and SIDS. Therefore the predominantly artisanal or traditional nature of fishing, which coexists side by side with emerging industrial fishing, makes it more difficult for these LDCs to enforce international standards imposed by major import markets. In a few extreme cases, such as Comoros, SIDS exclusively rely on fees from fish license agreements, as domestic companies are unable to comply with the international standards of importing countries.

While most LDCs and SIDS enjoy duty-free and quota-free access to the markets of developed countries, taking advantage of this requires obtaining certification for a series of food safety and environmental standards imposed by importing countries and the private sector. Attaining these certifications often necessitates investments to improve the production infrastructure and processes, establishing regular monitoring and control protocols, adjusting current regulations and opening the access to certified laboratory testing facilities. Once obtained, the certification can open significant export markets, ensuring higher incomes, and employment generation, as well as more sustainable fish production. Despite the opportunities presented by export certifications for fisheries, capital markets in

[1] Pacific Islands Forum Fisheries Agency, Statement to the SIDS Conference on behalf of the fisheries ministers of PSIDS, Third International Conference on Small Island Developing States, September 2014.

LDCs and SIDS are often reluctant to finance the needed investments, and few international investors so far have shown an interest in the sector.

The potential and the challenges of the fisheries sector call for both an innovative approach and new development financing models to better include impact investors, and development finance institutions, governments, institutional investors (such as pension funds), insurance companies, corporations, foundations, philanthropic families and high-net-worth individuals. Impact financing could play an important role in creating such innovative financial solutions. Moreover, the policy and institutional frameworks in LDCs and SIDS should also facilitate impact financing and the participation of the private sector (domestic and foreign) in the fishery sector.

In this context, the Brainstorming Meeting aims to bring together representatives of all interested stakeholders, including development financing institutions, private (impact) investors, and relevant multilateral institutions to identify ways in which development actors and the private sector can facilitate certification of the fisheries sector in developing countries.

II. Objectives of the brainstorming meeting

The objectives of the meeting are to:

(1) Exchange views on how to best direct impact financing to the fisheries sector in LDCs and SIDS;

(2) Identify successful experiences and best practices in formulating bankable projects in the fisheries sector;

(3) Explore practical ways and means to develop guarantee schemes for private impact investors against potential risks; and

(4) Balance the costs and benefits of private certification with a view to seeking ways and means to reduce the cost of certification for exporters from LDCs and SIDS.

The brainstorming meeting will have four broad sessions, organized around the following themes:

1. Opportunities and Challenges of the Fisheries and Aquaculture Sector in LDCs and other vulnerable economies

This session aims to present the significant potential of the fisheries and aquaculture sector in LDCs and other structurally weak and vulnerable economies. The session will highlight the multidimensional nature of the fisheries and aquaculture sector, and the significant role of the sector in achieving the SDGs. It will highlight the numerous supply-side and demand-side constraints that are preventing the sector from developing. In particular, it will shed light on the challenges posed by private standards such as environmental standards on the fisheries sector of weak and vulnerable economies.

2. Criteria for picking bankable project, attracting and targeting Impact Investment to the Fisheries Sector

Despite the growth-opportunities presented by the sector in many LDCs and SIDS, it has so far failed to attract significant interest among international investors.

This session will discuss the key obstacles that have prevented impact investors from supporting the fisheries and aquaculture sectors in LDCs to date, and how best to overcome them. This includes understanding the criteria used by impact investors for bankable projects, and exploring the potential role of guarantee schemes for private impact investors against potential risks in these structurally weak and vulnerable economies.

The session also allows representatives of impact investors to outline what criteria they use to select investment projects and what qualities define potential clients. For example, an impact investor specialized in aquaculture[2] listed the following characteristics as essential for consideration as an eligible investment:

- A strong and experienced management team which is financially committed to and rewarded by the company's success;
- A strong competitive position as a result of superior technology, innovative products, comparative cost advantages, established market position, significant barriers to entry and/or dominant distribution in its market;
- With respect to expansion funding, a reasonable expectation of earnings growth based on past financial performance or a strong likelihood of new market success; and
- With respect to start-up or early stage funding, a sound business plan with proof of concept that presents a convincing opportunity to establish a competitive business in a growth market.

Beyond the economic criteria, it would also be useful to identify feasible environmental and social criteria to be achieved by the investment. Examples could include:

- Improved management of fisheries resources to ensure sustainability; and
- The creation of employment in rural areas

3. Maximizing benefits and/or minimizing costs of environmental certification (private standards)

In its previous analytical work on developing and upgrading fisheries exports in LDCs and SIDS, UNCTAD identified several cases where comparatively small investments in certification infrastructure or equipment yielded significant cost-savings and/or export benefits for a number of fisheries producers. For example, in Mozambique the absence of a certified testing laboratory means that every year the authorities send multiple samples of fish to Italy for testing for compliance with EU import regulations at a cost of 8,000 euros per sample. Similarly, Fishery authorities in Myanmar send multiple samples to Thailand and Italy every year, at a total cost of 300,000 euros per year.

In the mentioned cases, the testing apparatus that would have saved Mozambique and Myanmar these expenses costs US$ 60.000 dollars. This session will explore the likely benefits from attaining certification, in view of a business-case for investment. In this context, the session will address the following questions:

- How can the cost of certification for exporters from LDCs and SIDS be reduced?
- How can the long-term benefits of certification be maximized?
- What is the right way for LDCs and SIDS to export directly to high-end markets with higher rates of return?

4. Insurance and guarantee schemes against perceived risks and pitfalls undermining impact financing in fisheries

This session will explore different insurance and guarantee schemes against perceived and real risks to investments (domestic or foreign) in the fishery sector. It will identify the main risks and suitable guarantee or insurance modalities to facilitate investment flows to the fishery sector. This is particularly important given the fact that the fishery sector in LDCs and other vulnerable economies is viewed as risky for private investments (domestic and international). Therefore, insurance against investments in the sector including impact investment has become an essential component in altering the behavior of

[2] Aqua-Spark, The Netherlands: http://www.aqua-spark.nl/the-approach/criteria/

investors. The session will also identify options and strategies for motivating private and public insurers to guarantee investors in the fishery sector of poorer and weaker economies.

III. Modalities:

The meeting will take place in London on 14 November 2018. UNCTAD will host the meeting in collaboration with the International Maritime Organization.