

- EMFF
- EUR 15 million
- Loans
- Fisheries and aquaculture
- Estonia

... supporting sustainable investments in fisheries and aquaculture ...

Financial Instrument for Fisheries and Aquaculture 2014-2020, Estonia

Case Study



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This document has been prepared with the support of a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, Infeurope and Spatial Foresight.

Abbreviations

Abbreviation	Full name
ARIB	Agricultural Registers and Information Board (paying agency)
EAFRD	European Agricultural Fund for Rural Development
ECB	European Central Bank
EFF	European Fisheries Fund (2007-2013)
EMFF	European Maritime and Fisheries Fund (2014-2020)
EMoRA	Estonian Ministry of Rural Affairs
ESIF	European Structural and Investment Funds
OP	Operational Programme
MES	Maaelu Edendamise Sihtasutus (Rural Development Foundation)
SME	Small and medium-sized enterprise



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1 Summary

This case study provides an overview of the implementation of Estonia's European Maritime and Fisheries Fund (EMFF) financial instrument set-up during the 2014-2020 programming period, which provides investment loans for aquaculture development as well as growth loans and long-term investment loans for fish processors.

The financial instrument was allocated EUR 15 million and was set-up to fill a market gap in financing for aquaculture and fish processing enterprises, as identified by the ex-ante assessment. These sectors experienced limited access to finance and unfavourable banking conditions such as a lack of microfinancing, high collateral requirements and short repayment periods. This was especially evident for micro and small enterprises, as well as for new and growing enterprises. As of June 2018, the financial instrument has addressed this funding gap by targeting aquaculture and fishery enterprises looking to develop capacity. Eligible investments can improve technological systems, increase efficiency, bring new products to market or increase the quality and added value of products. For example, Stonefish, a private limited company whose activities cover fishing, small-scale fish processing, as well as sales of fish, fish products and fishing equipment, used a loan from the financial instrument to build a fish shop with a processing unit and fishing net workshop.

Growth and investment loans have been provided by the body implementing the financial instrument – Maaelu Edendamise Sihtasutus (MES, the Estonian rural development foundation)¹, a state-owned financial intermediary. The loans have required less collateral and have longer repayment periods than commercial loans, as well as the interest rates have been lower than market rates. The financial instrument opened for applications at the end of January 2017 and by June 2018, 11 applications for EUR 1.71 million, or 11.4% of the allocated budget, had been approved. Additional private co-investment of about EUR 439 000 had been mobilised and demand was particularly strong from fish processors.

Estonia has established financial instruments using three of the European Structural and Investment Funds, the EMFF, the European Agricultural Fund for Rural Development (EAFRD) and the European Regional Development Fund. The financial instrument under the 2014-2020 EAFRD programme² was launched in 2016, so Estonia became the first Member State to provide loans for farm investments. Also, long-term and positive experience with similar instruments funded by the national budget, as well as with European Fisheries Fund (EFF) investment loans during the 2007-2013 programming period, contributed to a successful start for the EMFF 2014-2020 financial instrument. It was designed specifically for these sectors and although still in an early phase of implementation, it had functioned well and was expected to improve credit conditions in the sectors. More directly it should help to build capacity for aquaculture and fish processing enterprises.

1 MES is the body implementing the financial instrument; also referred to as a financial intermediary in the text of the case study.

2 *fi-compass* Case Study: Loans for rural development 2014-2020, Estonia, https://www.fi-compass.eu/sites/default/files/publications/case-study_Estonia.pdf.



Financial Instrument for Fisheries and Aquaculture 2014-2020, Estonia

THE FINANCIAL INSTRUMENT

Funding sources

European Maritime and Fisheries Fund – Operational Programme (OP) for Estonia 2014-2020

Types of financial products

Investment loans for aquaculture development, long-term investment loans for fish processors, growth loans for fish processors

Financial size

EUR 15 million OP resources (EUR 11.25 million from EMFF, EUR 3.75 million from national funding). Additional private co-investment from banks co-lending with MES to provide long-term investment loans for fish processors

Thematic focus

Union priority 2 – Fostering environmentally sustainable, resource efficient, innovative, competitive and knowledge-based aquaculture, and

Union priority 5 – Fostering marketing and processing

EMFF measures implemented through the financial instrument:

Productive investments in aquaculture (Article 48.1.a-d, f-h)

Processing of fisheries and aquaculture products (Article 69)

Timing

From 2017 to 2023

Partners involved

Ministry of Rural Affairs (managing authority), Rural Development Foundation (MES, body implementing the financial instrument), Agricultural Registers and Information Board (ARIB, paying agency), credit and financial institutions (co-investors)

ACHIEVEMENTS

Absorption rate

Applications approved for 11.4% of the OP resources (EMFF and national contribution) by June 2018

EU leverage³

1.68 times (as of June 2018)

Leverage of public resources⁴

1.26 times (as of June 2018)

Main achievements (as of June 2018)

16 applications received, 11 applications approved, in total EUR 1 710 203 (of which EUR 1 282 652 from EMFF and EUR 427 551 from national contribution).

EUR 438 592 of additional private co-investment from banks for long-term investment loans for fish processors.

3 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 2 148 795, divided by the total amount of EMFF allocation to this financial instrument, i.e. EUR 1 282 652. It does not include the reuse of resources returned to the instrument nor the management fees.

4 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. 2 148 795, divided by the total amount of public resources allocated to the financial instrument, i.e. EUR 1 710 203. It does not include the reuse of resources returned to the instrument nor the management fees.



2 Objectives

The Estonian fisheries and aquaculture sectors are relatively small. In 2016, the fishing sector employed only 413 full-time equivalent staff, the fish processing sector employed more than 1 700 full-time equivalent people and had total sales of about EUR 161 million.^{5,6} In addition, the annual catch from the Baltic Sea (80% of the total catch) was more than 60 000 tonnes.⁷

Estonian aquaculture is mostly in ponds and lakes, with rainbow trout making up around 90% of production. In 2016, 55 licensed fish farming companies produced about 870 tonnes of fish per year.⁸ For most of them aquaculture is not the only source of income.

As identified in the ex-ante assessment, commercial banks in Estonia mostly have relatively large scale customers in sectors that are significant for the whole economy. This means sometimes they lack knowledge about specific sectors such as fisheries, aquaculture and agriculture. Borrowing may be a problem and sub-optimal investment situations were identified, especially for micro enterprises and small and medium-sized enterprises (SMEs) as well as other start-ups and growing enterprises that the banks consider not sufficiently reliable. Additionally, enterprises from these sectors often lack sufficient collateral. This is a crucial factor, because the fishing industry is capital intensive, needing high levels of investments and longer periods to achieve a return on investment, compared to other businesses.

Given these difficulties, a EUR 15 million financial instrument has been set-up under the EMFF OP for Estonia 2014-2020 to fill gaps in access to finance for sustainable investments by aquaculture and fish processing enterprises. The Estonian EMFF financial instrument 2014-2020 has provided investment loans for aquaculture development, and long-term investment loans and growth loans for fish processors. EMFF OP measures planned to be implemented through the financial instrument include 'Productive investments in aquaculture' (Article 48.1.a-d, f-h)' and 'Processing of fisheries and aquaculture products (Article 69)', contributing to Union priorities 2 'Fostering environmentally sustainable, resource efficient, innovative, competitive and knowledge based aquaculture' and 5 'Fostering marketing and processing'.

While programming and introducing the EMFF 2014-2020 financial instrument for fisheries and aquaculture, the Estonian Ministry of Rural Affairs (EMoRA) considered the positive experience with previous financial instruments funded from the national budget and EFF 2007-2013, as well as EAFRD 2014-2020, all implemented through MES.

5 <http://publications.jrc.ec.europa.eu/repository/bitstream/JRC107883/lbaq17001enn.pdf>.

6 http://www.kalateave.ee/images/pdf/estonian_fishery_2016_eng_web.pdf.

7 https://www.stat.ee/publication-download-pdf?publication_id=44111.

8 http://www.kalateave.ee/images/pdf/estonian_fishery_2016_eng_web.pdf.

9 European Maritime and Fisheries Fund – Operational Programme for Estonia 2014-2020, <https://www.agri.ee/sites/default/files/content/arengukavad/emkf-2014/emkf-2014-rakenduskaava-2015-08-17.pdf>.

3 Design and set-up

This section describes the design and set-up of the financial instrument opened for applications to final recipients at the end of January 2017.

3.1 Preceding events

Estonia had a positive experience with a financial instrument for the fisheries and aquaculture sector supported through the EFF 2007-2013. This provided loans of almost EUR 6 million to 18 final recipients. These included about EUR 5 million for investments in production and processing for aquaculture enterprises and over EUR 1 million for investments by producer organisations. Demand was high amongst the target groups and all the financial instrument resources were disbursed.

Based on this experience, the EMFF managing authority decided to undertake an ex-ante assessment and verify any continuing need for this type of support. Therefore, a public procurement procedure was carried out by the managing authority between October and November 2013 to select an external assessor. The contract was awarded to Ernst & Young Baltic and the ex-ante assessment¹⁰, based on information available up to June 2014, covered the potential for using financial instruments during the 2014-2020 programming period under both the EAFRD Rural Development Programme and EMFF OP.

The ex-ante assessment was carried out within the regulatory framework and in close collaboration with representatives of EMoRA and MES. It looked in detail at evidence of market failure and sub optimal investment situations, as well as opportunities and demand for different types of financial products. It provided proposals for their programming and implementation, as well as the investment strategy.

The ex-ante assessment highlighted that about 60% of agriculture, fisheries, food and beverages enterprises had encountered problems with financing investments. It also showed there were no big differences in financial market gaps for different sectors (fisheries, agriculture). Banks are not interested in new micro-enterprises and do not usually provide long-term (seven or more years) loans or investment loans under EUR 100 000. About 50% of the producer groups had encountered problems with financing investments especially with a lack of collateral, high interest rates, high-risk rating and short repayment periods. About 90% of the producer groups surveyed were interested in financial instruments, mostly to fund investments in fixed assets.

The ex-ante assessment also analysed synergies and complementarities with the other measures supporting the same objective, primarily under the European Structural and Investment Funds. Such measures are implemented through state foundations, Enterprise Estonia, KredEx and Environmental Investment Centre. KredEx, for example, provides state-backed guarantees, loans and venture capital, but finance is not available for businesses in primary production for agricultural, fishery, aquaculture, and forestry products.

¹⁰ Ex-ante assessment report on financial instruments for 'Estonian Rural Development Programme 2014-2020' and 'European Maritime and Fisheries Fund (EMFF) 2014-2020 Operational Programme', Ernst & Young Baltic, 2014.



The main findings of the ex-ante assessment were used to design and set-up Estonia's EMFF financial instrument for fisheries and aquaculture. Based on its recommendations, the financial instrument complements existing financial products provided to the fisheries sector. It is also looking to fill market gaps, especially for priority target groups such as smaller and growth enterprises. Conclusions point out that financial instruments could help to modernise production, improve resource efficiency, and increase competitiveness of the target groups.

3.2 Funding and partners

The managing authority of the Estonian financial instrument is EMoRA, other partners include MES (body implementing the financial instrument), the Agricultural Registers and Information Board (ARIB, paying agency) and credit and financial institutions (co-investors). The total planned volume of the Estonian EMFF financial instrument during 2014-2020 is EUR 15 million, of which EUR 11.25 million (75%) is the EMFF contribution and EUR 3.75 million (25%) is the national contribution. As at June 2018, EUR 11.2 million from the EMFF OP contribution planned for the financial instrument had already been committed by the managing authority and this allocation has been earmarked to be provided for the types of products shown in Figure 3.1.

Figure 3.1: Budget allocation per type of products to be provided under the financial instrument (June 2018)

Product	Budget
Investment loans for aquaculture development	EUR 4 million
Long-term investment loans for fish processors	EUR 4 million
Growth loans for fish processors	EUR 3.2 million

MES was established by the Estonian Government in 1993. Its everyday tasks include providing loans, interest and capital support as well as guarantees to agricultural and fisheries businesses, processors and SMEs in rural areas. MES gained experience in financial instrument implementation co-financed under the EFF during the 2007-2013 programming period. Since 2016 it has provided financial instruments set-up under EAFRD Rural Development Programme 2014-2020.

To fund the financial instrument MES submitted a phased payment application to the paying agency which transferred the funds to a separate MES sub-account in the state treasury.¹¹

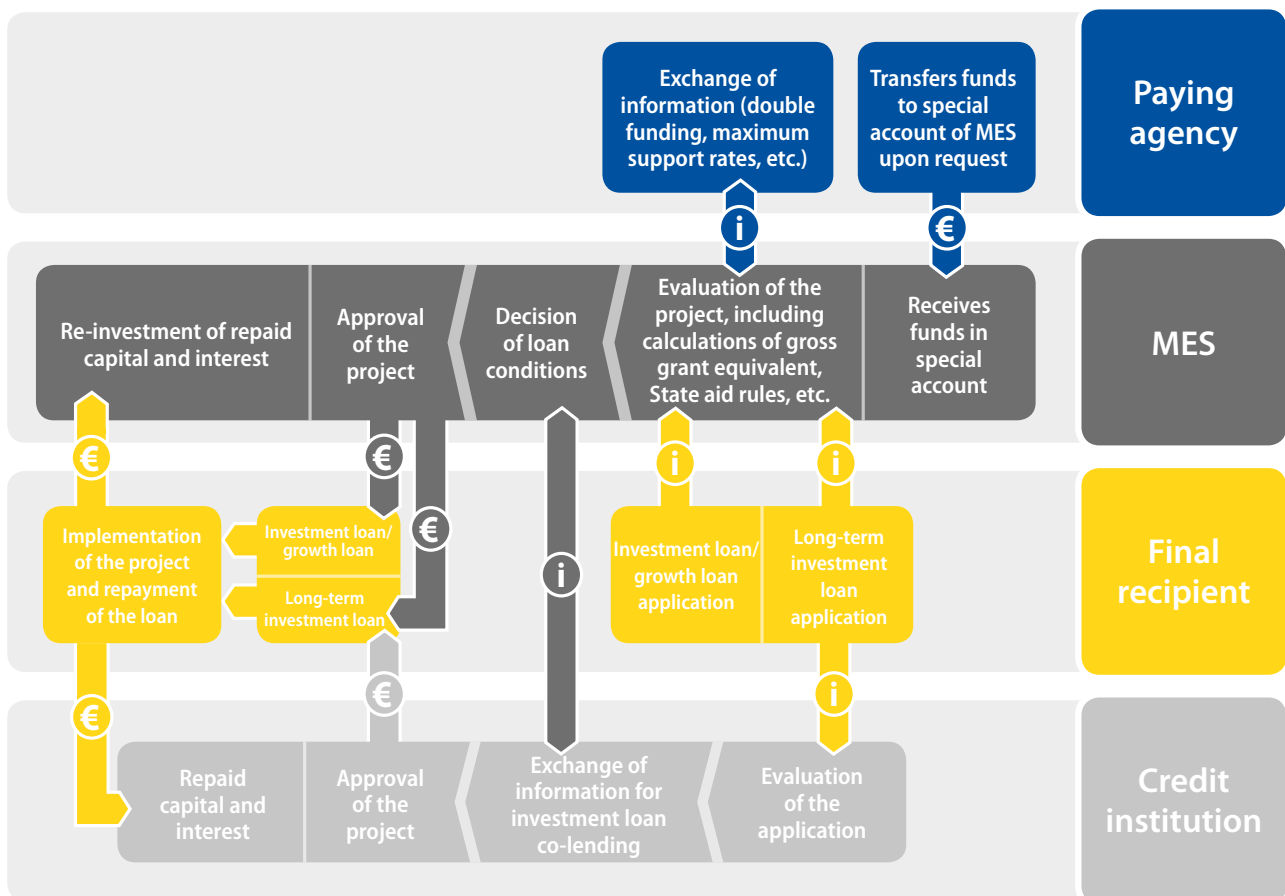
The final recipient could submit their loan application either electronically or by post to MES, who would check whether the applicant and project meet the requirements set out in the funding agreement. Most applications are submitted electronically. MES consults with the paying agency to check for any double funding and to ensure compliance with maximum support rates and State aid requirements.

¹¹ The first payment to the financial instrument was made in 2017 (EUR 2.8 million).

After that, the MES credit committee decides on the loan and pays out to successful applicants. MES is responsible for verifying implementation of the project and takes the necessary steps to recover funds if the applicant does not fulfil its obligations. Interest received and repaid capital are to be reused in the financial instrument.

For a long-term investment loan involving co-lending from a bank, the applicant could take an offer from a bank and MES would proceed with the loan application for the remainder of the loan. Conditions and interest rates differ between funding from the bank and from MES. Without bank co-lending, there is no loan from the financial instrument, but the enterprise can still apply for a grant under the OP for the same investment.

Figure 3.2: Financial flow and project appraisal.



3.3 Investment strategy

The ex-ante assessment recommended implementing an EMFF financial instrument in Estonia as a complement to EMFF grants, rather than replacing them. The financial instrument was seen as a way to extend the support available, since the budget for grants was limited. Private co-investment from banks has multiplied the amount of money reaching the sector.



Fishing is a capital-intensive industry and needs large investments to develop, expand and modernise to remain competitive. This has required a targeted financial product. Based on the ex-ante assessment, target final recipients have been aquaculture producers and fish processors, especially micro, small and growing enterprises who are sustainable in the long term and who intend to increase their production or expand, but with limited access to capital.

Due to the production methods, aquaculture enterprises tend to have long production periods, which means the return on investment takes longer. An fisheries and aquaculture focused financial instrument should provide longer loan repayment periods. As the ex-ante assessment concluded, Estonian banks have lacked sector-specific knowledge and there was no alternative financial market (e.g. risk capital). That is also why Estonia decided to provide the financial instrument through an intermediary that had previous experience with financial instrument implementation (financed from the national budget, EFF 2007-2013 and from EAFRD 2014-2020) and that understood the needs of fisheries, aquaculture, agricultural and rural entrepreneurs, including their cash-flow requirements.

3.4 Governance

Under the funding agreement signed between EMoRA and MES in January 2017¹², MES is responsible for processing loan applications, assessing the creditworthiness of applicants and issuing loans, as well as monitoring and evaluating implementation of the loans. The funding agreement has defined the budget for the financial instrument and specified the financial products to be provided. Other products could be added if required during implementation. MES reports annually, analysing performance and financial aspects of the financial instrument. The managing authority presents this report to the programme monitoring committee. MES also reports to the paying agency on the expected pay-outs.

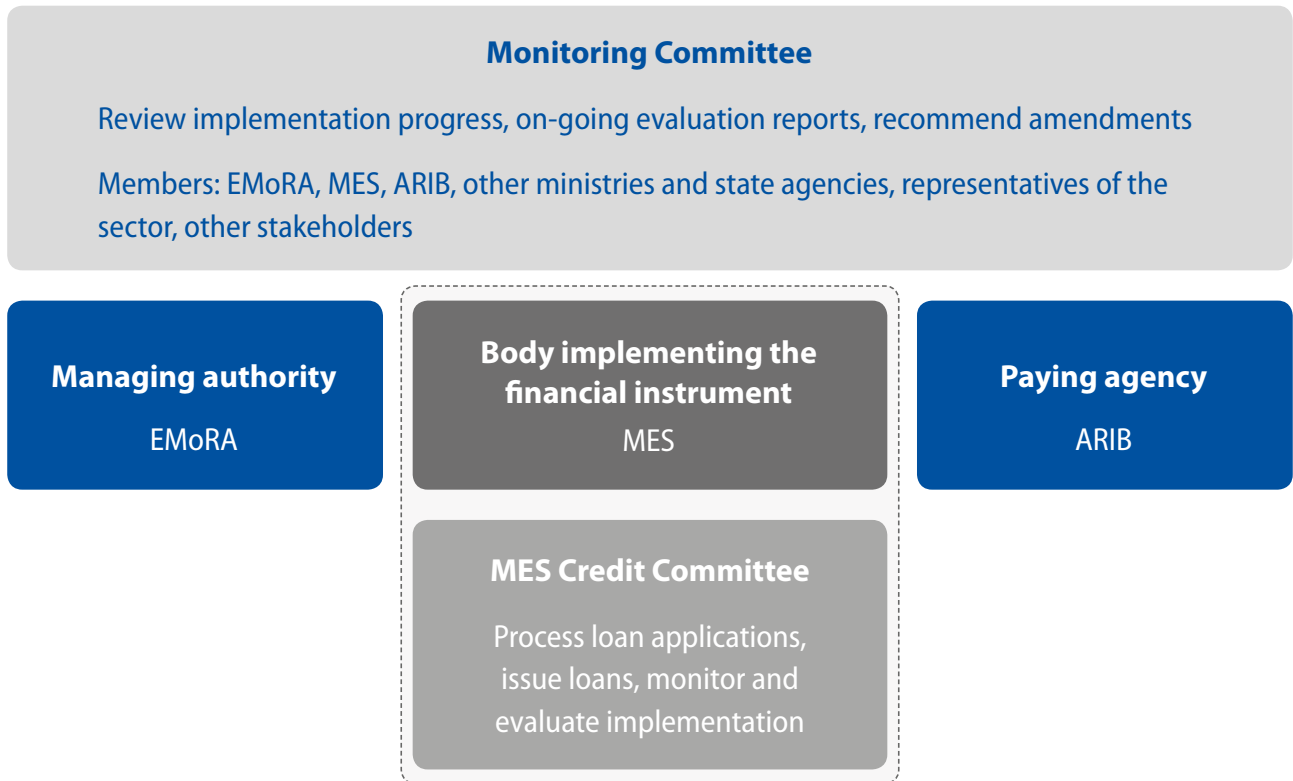
Funds repaid, interest and other income (including fees for amending contracts) shall be reinvested through the financial instrument. A credit committee established within MES makes all decisions on individual loans. MES exchanges information with the paying agency to keep records of maximum support rates and any cumulation of aid. MES also exchanges information with co-lending banks.

Management costs and fees for MES include a fee based on payments from the OP budget, plus a performance fee based on loans disbursed. After 1 January 2024 there will only be a performance fee, on the same basis.

MES must consult the managing authority on general aspects of the implementation. The programme monitoring committee, established by the managing authority, consists of members from EMoRA, MES, the paying agency, other ministries and state agencies, experts and representatives of the fisheries and aquaculture sector and other stakeholders. The committee is responsible for reviewing progress and on-going evaluation reports as well as other issues related to implementation. It also could recommend amendments, if needed.

¹² An amendment to the funding agreement was signed in June 2017, adding conditions of the investment loan for aquaculture development.

Figure 3.3: Governance structure of Estonian EMFF financial instrument.





4 Implementation

The EMFF financial instrument opened for applications at the end of January 2017 and initially only provided loans for fish processors. The first disbursement to final recipients was made in May 2017.

In June 2017, the funding agreement was changed and investment loans for aquaculture development were added to the financial instrument. The reason for this was the longer period needed to develop the conditions and requirements of this product, including finding consent with the sectors about the scope and requirements of the product.

The eligibility period for financing under the financial instrument is up to December 2023 (Figure 4.1).

Figure 4.1: Timeline for the financial instrument.

Period	Action taken
October 2013 to November 2013	Public procurement procedure to select external provider to conduct the ex-ante assessment
December 2013 to December 2014	Ex-ante assessment preparation
January 2015 to September 2016	Preliminary work on the set-up of the instrument and preliminary negotiations with the potential body implementing the financial instrument
October 2016 to December 2016	Selection of the body implementing the financial instrument
January 2017	Funding agreement signed between the managing authority and MES
End of January 2017	Availability of the product for final recipients ¹³
End of March 2017	First loan application received
May 2017	First disbursement to final recipients
December 2023	End of the financing eligibility period

13 Applications for investment loans for aquaculture development were possible from July 2017.

4.1 State aid

State aid and *de minimis* aid rules with regard to support provided through the EMFF are applied according to the Fisheries Market Organisation Act, Regulation (EU) No. 717/2014 and Regulation (EU) No. 1388/2014. If State aid or *de minimis* aid is applied, financed activities must be in line with the eligible costs of the State aid rules, and aid must have the incentive effect required by the State aid rules. Public investments under this financial instrument do not involve *de minimis* aid.

The aid provided by the financial instrument and the total gross grant equivalent of grants under the EMFF may not exceed the thresholds laid down in the EU State aid rules.

4.2 Financial products and terms

As of June 2018, the 2014-2020 EMFF financial instrument for fisheries and aquaculture provides three financial products: investment loans for aquaculture development, long-term investment loans for fish processors and growth loans for fish processors, as detailed in the Figure 4.2 below:

Figure 4.2: Financial products.

	Investment loans for aquaculture development	Long-term investment loans for fish processors	Growth loans for fish processors
Target group	micro/small/medium enterprises (aquaculture)	micro/small/medium enterprises	micro and small enterprises
Amount	EUR 10 000 – 400 000 direct loan or co-lending	EUR 100 000 – 500 000 (EUR 100 000 – 500 000 per member of producer organisation) co-lending with banks of at least 30%	EUR 10 000 – 100 000 direct loan or co-lending
Duration	up to 15 years (including up to five years grace period)	up to 15 years (including up to five years grace period)	up to 5 years (including up to two years grace period)
Collateral	at least 50%	at least 80%	at least 50%
Interest rates and other conditions	market conditions or lower than the market: <ul style="list-style-type: none"> • 6% + ECB¹⁴ refinancing rate (collateral at least 50%), • 4% + ECB (collateral at least 60%), • 2% + ECB (collateral at least 80%) 	market conditions	market conditions or lower than the market: <ul style="list-style-type: none"> • 6% + ECB refinancing rate (collateral at least 50%), • 4% + ECB (collateral at least 60%), • 2% + ECB (collateral at least 80%)



Loans can be provided at market conditions or with a lower interest rate compared to market conditions, which is treated as State aid. A loan provided under market conditions has a standard bank interest rate (with co-lending) or according to the Commission Communication on the method for setting the reference and discount rates¹⁵ (as a direct loan). Decisions on loans being granted on market conditions or as State aid is taken by the MES credit committee and depend on the creditworthiness (including the value of collateral) and other specificities of the applicant. MES, consulting with the paying agency, checks compliance with State aid. The approval process normally takes two to three weeks.

Investment loans may be used for investments in aquaculture, including diversification of production and increasing the quality and added value of products, as well as for the reconstruction of production units and for investments in animal health and welfare. Growth loans and long-term investment loans are for fixed asset investments, e.g. establishing or renovating processing units, expanding or changing technological systems, increasing efficiency, bringing new or significantly improved products to market or introducing new or significantly improved technological processes.

The eligible investments under the financial instrument shall contribute to EMFF OP priorities 2 'Fostering environmentally sustainable, resource efficient, innovative, competitive and knowledge-based aquaculture' and 5 'Fostering marketing and processing'.

The possibility to invest in the most suitable equipment (including used equipment) is up to the final recipient and is more flexible compared to grants where requirements are strictly framed.

The financial instrument is set-up as a complementary measure to other support provided under the EMFF OP for fisheries and aquaculture. In accordance with national and European rules, loans under the financial instrument cannot be used to refinance existing loans, to pre-finance a grant or for investments fully implemented before the decision to grant the loan.

4.3 Final recipients targeted

This financial instrument for the fisheries and aquaculture sectors targets micro, small and medium-sized enterprises dealing with (or starting) production of aquaculture products and fish processing, who need additional capital but who have difficulties in obtaining a bank loan. Borrowing may be a problem because they are start-ups whose revenue and cash flows are not large or reliable enough for banks. Some of the companies may be moving from a different activity into fishing, starting their activities from scratch. Often companies are not able to provide the collateral (of at least 100%), which is usually required by credit or financial institutions. A loan may help, for example, a fisherman who wants to diversify activities and start small-scale fish processing, giving added value to production and creating an opportunity for additional income.

¹⁵ Communication from the Commission on the revision of the method for setting the reference and discount rates (2008/C 14/02).



Long-term investment loans are aimed at enterprises who generally need loans to make larger investments, but whose cash flows are not sufficient or who do not have sufficient collateral. Banks offer bigger loans, but the loan periods are often too short and collateral requirements too demanding. For cooperatives it is especially difficult to get a bank loan to invest in large joint projects as they often have no fixed assets and not enough equity. Thus, the main advantage of this EMFF financial instrument for final recipients are longer repayment periods and lower collateral compared to market conditions.

Final recipients need to:

- be registered in the Commercial Register of the Republic of Estonia;
- be a micro or small and medium enterprise, not operating in any restricted sector within the meaning of Implementing Regulation (EU) No. 964/2014;
- not be in difficulty within the meaning of European Commission Regulation (EU) No. 651/2014;
- have equity capital that complies with the requirements of the Commercial Code¹⁶;
- not have a State tax debt, or State tax debt that is rescheduled;
- have reliable and competent members and owners of the management body(s) of the enterprise;
- comply with EU State aid rules, in particular the requirements laid down in Regulations (EU) No. 717/2014 and 1388/2014.

MES promotes the financial instrument together with other products and assists potential applicants including by explaining the conditions, procedure and documents needed and by helping to fill in the loan application. The managing authority has made special promotions of the financial instrument including to the fisheries council and the monitoring committee. During information days for target groups, details of the financial instrument have been given alongside the corresponding OP measures. Several news articles and press releases, including local newspaper articles, have introduced and explained the financial instruments.

With a long track-record of issuing guarantees and loans to farmers and other entrepreneurs in Estonian rural areas, MES and its services are generally well-known to potential applicants. However, the financial instrument for this current programming period was launched and available to final recipients only from early 2017, so dissemination of information is important to introduce the financial instrument to enterprises in the sector.

¹⁶ Equity capital requirements are laid down in national Commercial Code, <https://www.riigiteataja.ee/en/eli/519122017001/consolide>.



5 Achievements

Since the financial instrument was open for applications at the end of January 2017, as of June 2018, there have been:

- 16 applications submitted;
- 11 approved applications (for about EUR 1.71 million, or 11.4% of the EUR 15 million allocation), six for growth loans for fish processors (about EUR 430 000) and five for long-term investment loans for fish processors (about EUR 1 280 000);
- no applications so far for aquaculture development investment loans;
- EUR 438 592 of private co-investment.

In addition, one application for EUR 1.5 million was about to be approved.

Stonefish – fish shop ‘Fish and Net’ supported by the financial instrument

Stonefish is a private limited company, based on the island of Hiiumaa. This fishing enterprise also processes fish on a small-scale and prepares and sells fishing and boat gear.

Stonefish recently opened a fish shop offering fresh fish and its own processed fish products (fish fillets, smoked fish, dried fish), along with fishing gear and boat accessories. The facility also includes a small processing unit and fishing net workshop. Under the financial instrument, a EUR 80 000 growth loan to build the fish shop has a maturity of five years (including 12 months grace period) and a 4% interest rate.



The total investment was approximately EUR 400 000, in addition to the financial instrument loan, EMFF grants through four different projects have been used for investments (planning and building the fish shop with equipment for fish processing and fishing net workshop), for a total of EUR 227 000. The remainder was covered by the owners.

Company tried to obtain a bank loan at first, but the conditions were too onerous, especially for collateral. The Fisheries Local Action Group¹⁷ recommended getting in touch with MES. Conditions provided by MES were much better and the application process, with the help of MES, was smooth. The loan was disbursed very quickly.

Although not all the projects related to grants are fully finalised yet, the shop, processing unit and fishing net workshop are fully functioning, and the enterprise hired five people. Before, there were no other employees.

17 Fisheries Local Action Groups represent local fisheries and aquaculture sectors which are working out the community-led local development strategies in order to develop the economic sustainability of fisheries-related areas and implement the objectives of the Common Fisheries Policy.

6 Lessons learned

In the first months of implementation of the Estonian financial instrument for fisheries and aquaculture 2014-2020 there was interest from final recipients, although the number of applications was not very high. However as at June 2018, MES as the body implementing the financial instrument and EMoRA as managing authority have been satisfied with the process and do not see any major obstacles or need to improve the national framework for implementation of the financial instrument.

6.1 Main success factors

Proper organisation and the implementing body's previous experience with similar instruments was a very good starting point for setting-up and launching the financial instrument. In addition, MES and its services are well known and trusted by Estonian entrepreneurs.

A key success factor for the financial instrument is its reduced administrative burden compared to grants. Entrepreneurs apply for loans using the intermediaries' standard procedures. This is a much quicker way to obtain funding compared to grant applications which are often very lengthy, complex and with limited budgets. Financial instruments are more flexible and there is less bureaucracy. Financial instruments give businesses more freedom of choice as investments made with the loans have considerably fewer constraints compared to grant schemes. Still, the loans must be used for investments.

The financial instrument provides better loan conditions for final recipients, through longer repayment periods or less collateral and this makes it attractive for the sector. At the same time, loan applicants take responsibility, which ensures a high quality of their projects. This increases efficiency as applicants have to very carefully think through their investment needs, objectives and business plan.

The revolving effect and leverage of the financial instrument are also benefits from using the EMFF financial instrument to provide better credit conditions for enterprises willing to invest in fisheries and aquaculture.

6.2 Main challenges

The grant system is well known and much more popular in the fisheries and aquaculture sectors than financial instruments. The challenge is to raise awareness about the benefits of financial instruments and emphasise that from a taxpayer point of view, financial instruments are much more favourable and sustainable for the state budget. It is difficult to convince the sector to use financial instruments, if it is possible to use grants for investments.

However, financial instruments are not replacing grants, on the contrary, they can be combined with grants reaching to more beneficiaries (and larger amounts of assistance) than providing only grants. EMFF financial instruments may not be suitable for all OP activities (e.g. non-productive investments) and their potential for 'doing more with less' remains most relevant for revenue generating investments in the fishery and aquaculture sectors.



6.3 Outlook

This financial instrument's first year of implementation showed that final recipients from fisheries and aquaculture sectors could clearly benefit from such financial products that complement grant financing. The conditions are generally suitable for entrepreneurs helping to overcome the existing market gap and enabling them to make needed investments.

The number of entrepreneurs interested in the financial instrument is significantly higher than the number of applicants. They are familiar with the conditions and need time to think about investment needs and business plans to make a prudent decision.

Based on the progress of implementation, as at June 2018 MES had a positive outlook for deployment of the resources earmarked for the remainder of 2018 and beyond. According to the pipeline of projects, MES should provide EUR 0.5 million of growth loans for fish processors, EUR 1 million for long-term investment loans for fish processors and EUR 1 million for investment loans for aquaculture development.

Furthermore, representatives from the managing authority and MES established good working relations to ensure the smooth and successful implementation of the financial instrument, including regular meetings and exchanges. Lessons learned and positive experience with similar instruments funded by the national budget, as well as with EFF investment loans during the 2007-2013 programming period facilitated the set-up and roll-out of the 2014-2020 EMFF instrument. According to data provided by the managing authority, repayment of resources channelled through the 2007-2013 EFF financial instrument had started and up until the end of August 2018, EUR 754 665 have been paid back. Decisions related to the re-use of repaid resources were due to be taken later based on the performance and needs of the fisheries and aquaculture sectors.

