When we launched the California Fisheries Fund in 2008, it was unique and untested—a public-private partnership with the mission to make capital available to a growing, sustainable commercial fishing industry. In these pages, as well as through the three-part video series available on our website, we describe our experience establishing and managing a revolving loan fund. By sharing our story we aim to provide helpful insight to others considering establishing similar funds to achieve their goals. Through sharing both our successes and our challenges, we hope to highlight meaningful details, make helpful suggestions and contribute to a rich dialogue about the potential for new financing mechanisms to make our oceans more healthy and productive.

What is the California Fisheries Fund?

The California Fisheries Fund (CFF) is a revolving capital investment tool aimed at supporting the transition to more stable and profitable fisheries. EDF developed the concept for the fund because we found, particularly in California, that fishermen's lack of access to ready capital was a significant impediment to reforming failing fisheries.

For years, mainstream financial institutions—banks and credit unions—have been mostly unwilling to extend loans to commercial fishermen because traditional fisheries management generated marginal profits and unpredictable results.

CFF’s initial business model proposed that loans would be made to associations of fishermen who would conduct research and planning to develop better fisheries management structures. However, such associations did not develop as quickly as anticipated, and CFF sought out alternate borrowers. Lending to fishermen who are affected by regulatory change, and assisting them through the transition, was feasible and worthwhile, because it helps ensure the durability of sustainable fishing practices.

The Pacific groundfish fishery provides an example of this; for several years, EDF worked closely with the fishing community and managers at the Pacific Fishery Management Council to help design a catch share program that would enable the fishery to recover and give fishermen the opportunity to become more profitable. When the program launched in 2011, fishermen received a share of the total catch, known as an individual fishing quota (IFQ). They could use that quota to collateralize loans. The IFQ gives fishermen a critical leg up—both environmentally and financially. Direct access to fishing rights helps fishermen plan for their fishing season, and develop a business plan based on a more predictable annual fish harvest. It also encourages them to reduce discards (fish thrown back into the sea), and being accountable for each pound caught means they have a substantially reduced environmental impact.

Since launching in 2008, CFF has made 28 loans—ranging from $50,000 to $350,000—totaling more than $3.3 million.
Why a loan fund?

Establishing a revolving loan fund is one way to accomplish an organization’s mission. Under the right circumstances it can be a useful tool, but it is important to take time to evaluate the pros and cons of establishing one before jumping in.

It is imperative to spend some time exploring whether loans are the right solution. Do you intend to solve a problem that can be addressed through lending directly to individuals, organizations, or associations; for-profit or nonprofit; government or private? Do the types of borrowers you hope to have actually exist and do you know how to reach them? And if so, why would they borrow from your fund? Do they already have access to other sources of capital? At what rates and terms?

We have found that great ideas and business plans abound, but often these ideas lack leaders to execute the plan. For example, there are a lot of great ideas floating around about how to help fishermen improve the quality and value of their catch through improved processing, traceability and branding, but there are few businesspersons willing to take the helm of such a business, and provide the leadership and direction necessary to make a financial investment pay off.

Best practices

It is important to understand the size of the need you propose to address. We knew there were fishermen who would need access to capital up and down the West Coast; we held focus group meetings with fishermen before launching CFF. In practice, however, we have found that about ten loan prospects contact us for every one who eventually takes out a loan.

Second, it is important to have relationships with your target market of borrowers. CFF has become deeply integrated into the fishing community—building trust relationships with fishermen, seafood processors and distributors, harbormasters, policy makers, lenders and other NGOs—up and down the West Coast. We regularly engage with this community about how to achieve sustainability for Pacific fisheries, and we are uniquely positioned to finance creative new approaches to help make sustainable fishing a reality.

Finally, measuring progress toward environmental, social and financial goals is essential for a mission-based fund. This is challenging for many reasons, especially since data collection from fishing is already limited. Our early proposed metrics primarily sought to understand the extent to which our loans spurred reforms in the management of the fisheries and behaviors of fishermen. However, as our strategy shifted, and it became clear that CFF loans would not directly spur regulatory change, we instead looked to our metrics to measure the financial, social and environmental impacts of each loan and borrower, as well as our portfolio as a whole.

The five outcomes we measure are:

1. Borrowers operate within sustainably managed fisheries.
2. Loans are provided to help fishing businesses reduce their environmental impact.
3. Borrowers increase the profitability and stability of their businesses by increasing business efficiency.
4. Businesses that would not qualify for a loan from other lending institutions are able to access a loan from CFF.
5. Borrowers increase the diversity, number and stability of employment opportunities in local port communities.

Each loan is tested for its ability to meet these metrics before the loan is ever made. It remains a challenge to ensure accurate and thorough reporting against these metrics throughout the life of each loan.

Case study

Steve Fitz, captain of the F/V Mr. Morgan, will continue his family tradition, operating the only commercial fishing operation in the United States that uses Scottish Seine gear, a selective and eco-friendly way to catch groundfish. Steve’s loan from the CFF helped him buy the Mr. Morgan from his uncle and start up Mr. Morgan Fisheries, a fishing business based in Half Moon Bay, CA, specializing in sustainably harvested groundfish and Dungeness crab.

Mr. Morgan Fisheries is known for its sand dabs, Petrale sole and chile pepper rockfish—all species sustainably managed under a catch share program. Like all other participants in this catch share, Steve receives an individual fishing quota for several groundfish species that may be harvested throughout the year, with requirements for full accountability of every pound of fish harvested, and a human observer on every fishing trip.

Throughout the life of CFF, we have challenged ourselves to measure progress toward achieving our environmental, social, and financial goals.
Where and when to lend

More than any other source of capital, CFF is set up to help the Pacific groundfish fishery through the transition to catch shares. CFF is the first lender to accept Pacific groundfish quota as collateral. For fishermen, this presents a powerful new opportunity to access capital. Traditionally, they have been denied the opportunity to use fishing boats and permits as collateral, and having a new asset that can be securitized is a big step forward.

When CFF first launched, we expected that several of California’s fisheries would begin establishing sustainable management programs, but change has been slower than we anticipated. The most aggressive reform in recent years happened in the California Dungeness crab fishery. New crab pot-limit regulations are the result of years of discussions between fishermen and the State of California Department of Fish and Wildlife via the Dungeness Crab Task Force. The new regulations aim to reduce fishing capacity, decrease on-the-water competition, increase safety and reduce the amount of lost gear in the sea.
Challenges

The goals of CFF have remained the same since its inception—to help finance fisheries reform in order to achieve conservation, economic and social benefits. However, the strategy to achieve these goals has evolved as our understanding of the market for loans has improved and the context for making loans has changed.

A persistent challenge has been the slow pace of reform in California’s fisheries. Many of them are still managed in ways that incentivize waste and depress profits. The one fishery that had implemented a catch share program was the groundfish trawl fishery, but a moratorium on quota transactions prevented fishermen from acquiring quota and permits until 2014. These restrictions meant our lending was limited to vessel acquisition and upgrades, gear switching, loan processing and fish buying.

Another challenge has been to sustain the financial support for our operations, which include significant technical assistance and support for our borrowers, portfolio monitoring, outreach and communications. The relatively modest size of our fund makes our goal of becoming self-sustaining a challenge.

Conclusion

CFF has pioneered a fisheries lending model that demonstrates that the fishing industry can be viable and bankable.

We have provided debt financing to entrepreneurs who would have had a difficult, if not impossible, time obtaining conventional commercial loans.

As the stories in our videos show, CFF financing has helped community fishing businesses grow and become more efficient and profitable. Without CFF financing, some of the more innovative and environmentally friendly fishing businesses on the West Coast might not have succeeded.

CFF has been the first lender to accept Pacific groundfish quota as collateral. For fishermen, using quota as collateral presents a powerful new opportunity to access capital.