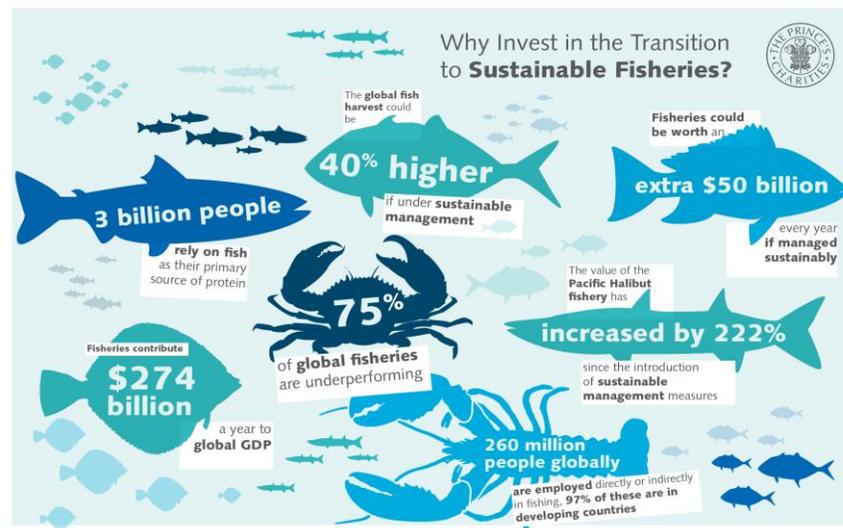


Investment in Fisheries: Financing the Transition to Sustainability

Restoring Thriving Oceans: A Framework for Investing

As the world's population grows to 9 billion, we must find a way to survive and thrive on the sustainable dividends that natural resources provide and to move away from current practices that deplete or undermine their resiliency. There is a strong body of good practice that shows how abundant and healthy fish populations support greater social and economic benefits for society. However, one key constraint to recovering fisheries at the pace and scale required has been a lack of capital to finance their transition to sustainability.



With the Prince of Wales' International Sustainability Unit (ISU), Environmental Defense Fund (EDF) developed a report which provides a set of tools for designing sustainable fisheries projects in a way that will attract investment from government, philanthropic and private investors—giving fishermen, communities, and small businesses the support and resources they need to make a smooth transition to sustainability. Developed in collaboration with 50in10- a cross sector network of organizations working to ensure that 50% of the world's fish are caught under sustainable management, the report, *Towards investment in sustainable fisheries: A framework for financing the transition*, is intended as a discussion document to encourage investors, nonprofits, fishermen and other fishery stakeholders to keep contributing to a rich dialogue about the policies, tools and financing needed to make our oceans more healthy and productive for future generations.

EDF is a leading U.S.-headquartered non-profit with offices in China and Mexico and partnerships in Brazil, India, Russia and other countries.

ENABLERS & DRIVERS OF SUSTAINABLE & PROFITABLE FISHERIES

Many fisheries are not achieving their full or even a fraction of their potential. Many could generate significantly more economic value, along with significant social and environmental benefits. First and foremost, fisheries must be managed in a way that ensures environmental sustainability which will in turn allow them to meet social and economic goals. Research and experience highlight three key elements that must be in place to ensure fisheries are well-managed and structured to be profitable. Highlighted in our report, these **three enablers of sustainable and profitable fisheries** are:

- **Secure tenure** aligns the incentives and empowers the fishing industry to pursue sustainable use of the resource and is a vital first step in the transition

- **Sustainable harvests** determine how much fish can be caught sustainably and enable the creation of both management and investment frameworks

- **Monitoring and enforcement** provide assurance that fishers will comply with sustainable management and reduce the chance of illegal activity that could undermine the transition

These conditions, particularly establishing secure tenure, provide the platform for unlocking greater social, economic and environmental value in fisheries and are vital to investment activities. With the conditions described above in place, investment can be channeled towards the **three key drivers of increased fisheries value**:

- Improving **stock health** leads to higher long-term yields and makes fish less costly to find and catch

- Increasing **operational efficiency** reduces fishing and delivery-related costs, improving profit margins and thus improving the returns from fishing as a whole

- Increasing **market value** through improved market access, certification, branding and long-term partnerships returns more value to fishers

BUILDING A BUSINESS CASE FOR SUSTAINABLE FISHERIES

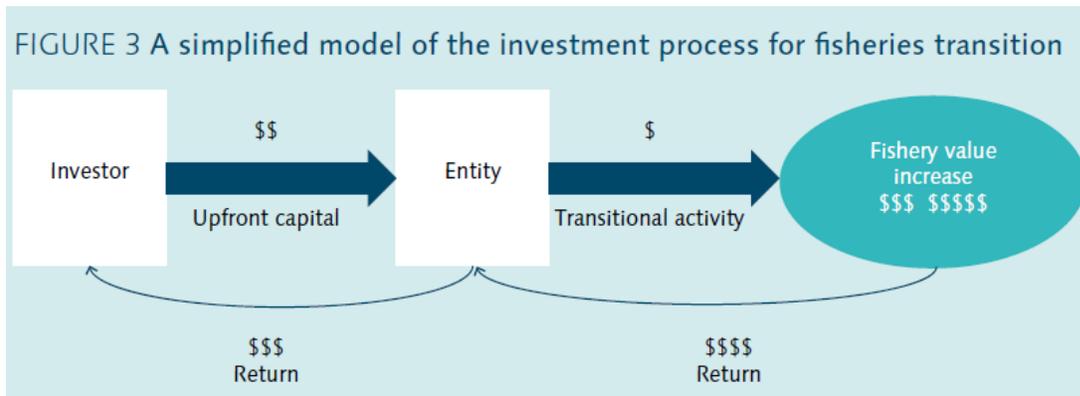
There are several elements needed to build the financial case and transform fisheries into investable propositions. In order to attract appropriate investment, project developers must address the following key requirements:

- **A clear business case for the transition** that includes a contextual analysis of the project that determines the scope of the project, key actors, the current management systems and levels of stakeholder engagement. Project developers can develop a bio-economic and financial analysis of the transition in order to show the following:

- The status of the fishery in terms of its biological, social and economic functions
- The activities – related to stock recovery, operational efficiency and market gain – required to effect the transition to sustainability, including their cost
- The time-scale over which the fishery project will generate returns, and the actors who will be likely to receive returns
- Key risks associated with the project and how they affect the returns
- Based on the above, the best financial structure and investment strategy to achieve the desired outcomes the returns

•**Investable entities** to act as counterparty to the investment; these can be existing, modified, or newly created entities. Any investment requires a counterparty to receive the funding, manage the transition to sustainability and have a structure in place to repay the investment.

•**Mechanisms for capturing** return from the beneficiaries of the transition to share the upside of a transitioned fishery with the investor, such as dividends, taxes, or fees. As visualized in figure 3 below, a successful investment in the transition of a fishery is predicated on the ability to capture and return a portion of the resultant cash flow of a reformed fishery to the stakeholders involved.



•**Risk management** through appropriate identification and articulation of risks, as well as efforts to mitigate or manage risk. Investors carefully consider the risks of any project and calculate risk-adjusted returns, where a project’s returns are discounted by the profitability of under-performance. Fisheries have five broad categories of risks that should be considered:

- **Project execution risk** – any risk that directly impacts the successful completion of the project. In the context of fishery projects, key considerations include lack of data; stakeholder disengagement by fishers, communities or governments; lack of compliance with a reform plan; and lack of capacity and expertise to undertake a multi-disciplinary, multi-stakeholder project
- **Environmental risk** – includes risks associated with the ability of stocks to recover; natural (but extreme) fluctuations in stocks; natural disasters and impacts from climate change and ocean acidification
- **Market risk** – includes risks related to the ability of seafood products to achieve expected prices, including premiums, as well as shifts in seafood market dynamics due to competition (including that from the aquaculture sector) or changes in buyer behavior
- **Political risk** – includes the risks associated with political change and lack of political will or buy-in to a transition pathway. Crucially, investors will have higher perceived risk if there are limited mechanisms for transparency or rule of law
- **Country risk** – refers to the risk associated with macroeconomic conditions in the ‘host’ country, including credit ratings, exchange rate fluctuations, currency devaluation and other issues that relate to the investability of a country

STRUCTURING THE INVESTMENT

Structuring the investment to align and coordinate sources of capital can create a financially sustainable transition and match investors to the financial, environmental and social returns that fisheries provide. Project developers can consider two key points:

- **Sources of capital**, or investors, fall along a spectrum based on, among other things, target returns, type of investment and target terms. Traditionally, fishery transitions have been funded by ‘impact-only’ investors who expect no return or little financial return. However, there is both a need and an opportunity to structure projects so that they can attract a broader range of investors. As figure four suggests, governments or public funding can and does play a role at multiple points on the investor spectrum.
- **Combining capital** to sequence, blend or layer investment structures can effectively reduce and spread risk, while leveraging larger pools of capital. Including different types of investors will ultimately unlock the resources needed to start to address the scale of the challenge that lies ahead

BRIDGING THE INVESTMENT GAP FOR HEALTHIER OCEANS

An important barrier to unlocking much bigger flows of capital for the oceans — that will, in turn, provide significant benefits — is an information gap. Investors aren’t aware of the potential, and those working on fisheries are not experts in structuring reforms to attract investors.

Our study aims to close this gap by developing conservation projects in a way that attract and leverage global capital to provide more fish in the water, more food on the plate and more prosperous communities. We encourage project developers to view their initiatives from a finance perspective, using this framework to create financially attractive investment opportunities that engage and inspire investors.

We encourage all sectors involved to keep contributing to a rich dialogue about the policies, tools and financing needed to make our oceans more healthy and productive for future generations to come.