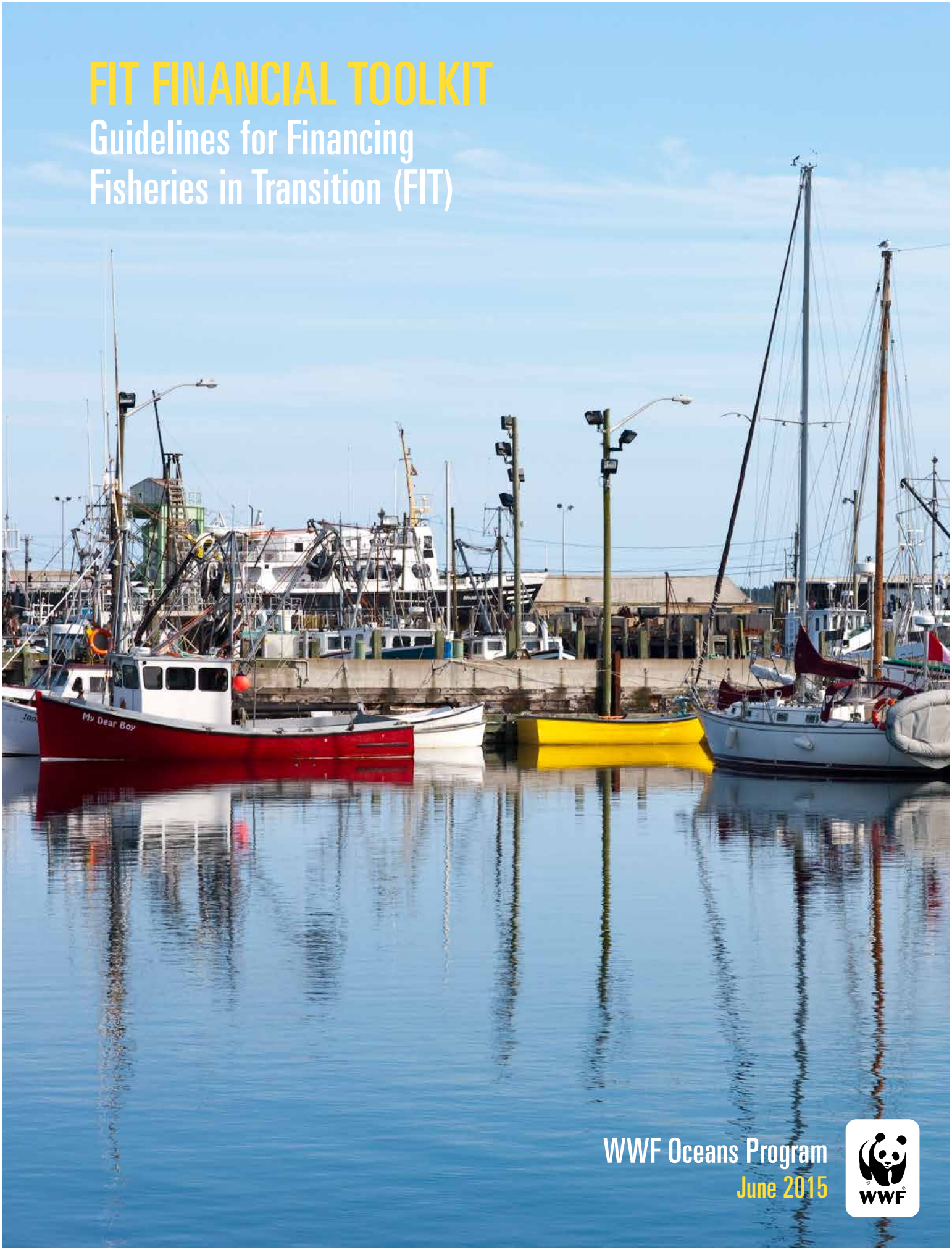
FIT FINANCIAL TOOLKIT

Guidelines for Financing Fisheries in Transition (FIT)



WWF Oceans Program

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Executive Summary

The WWF Fisheries in Transition (FIT) Financial Toolkit is a comprehensive handbook providing guidance about financing mechanisms to those interested in developing and implementing FITs (i.e., fishery conservation projects or fishery improvement projects). The Toolkit is a companion guide to the WWF FIP Handbook.

As the demand for FITs increases, due to growing environmental pressures and consumer demand, identifying long-term scalable funding is essential. This Toolkit is designed to help stakeholders identify mechanisms with which to finance FITs regardless of the fishery location, size, or structure.

This Toolkit was developed considering an audience of: WWF and other Non-Governmental Organizations (NGOs) that support FITs, stakeholders in existing FITs or those seeking to develop a new project, and people or organizations interested in supporting FITs or further developing funding structures.

For the purposes of this Toolkit, FIT stakeholders are understood as the fishers, the local community of the fishery, the national and local government, NGOs, and the fishery supply chain.

While fisheries vary by their location, size, fish product, and structure, understanding the supply chain is key to leveraging models contained within this Toolkit.

"The ultimate goal of a FIP is to create measurable change… and to ensure the long-term sustainability of a fishery." — WWF FIP Handbook

How to Use this Toolkit

Navigating the Decision Matrix

The decision matrix pairs all tools with applicable fishery characteristics in order to allow stakeholders to match their fishery with the best financial models. The characteristics are as follows.

Scale of Fishery

- Large-scale fisheries
- Small-scale fisheries

Political Economy

- **Open and developed capital markets**—Assess feasibility of investment given the country's political and economic climate.
- **Government support**—Gauge potential for government involvement in terms of policy, regulation, and enforcement.

Product

- **Niche or specialized product**—Determine whether the product can gain market access or claim price premium in certain markets.
- **Possible ecosystem impacts**—Represent the severity of the environmental threat. Fisheries facing more dire circumstances are more likely to incite industry or government action.

Management System Structure

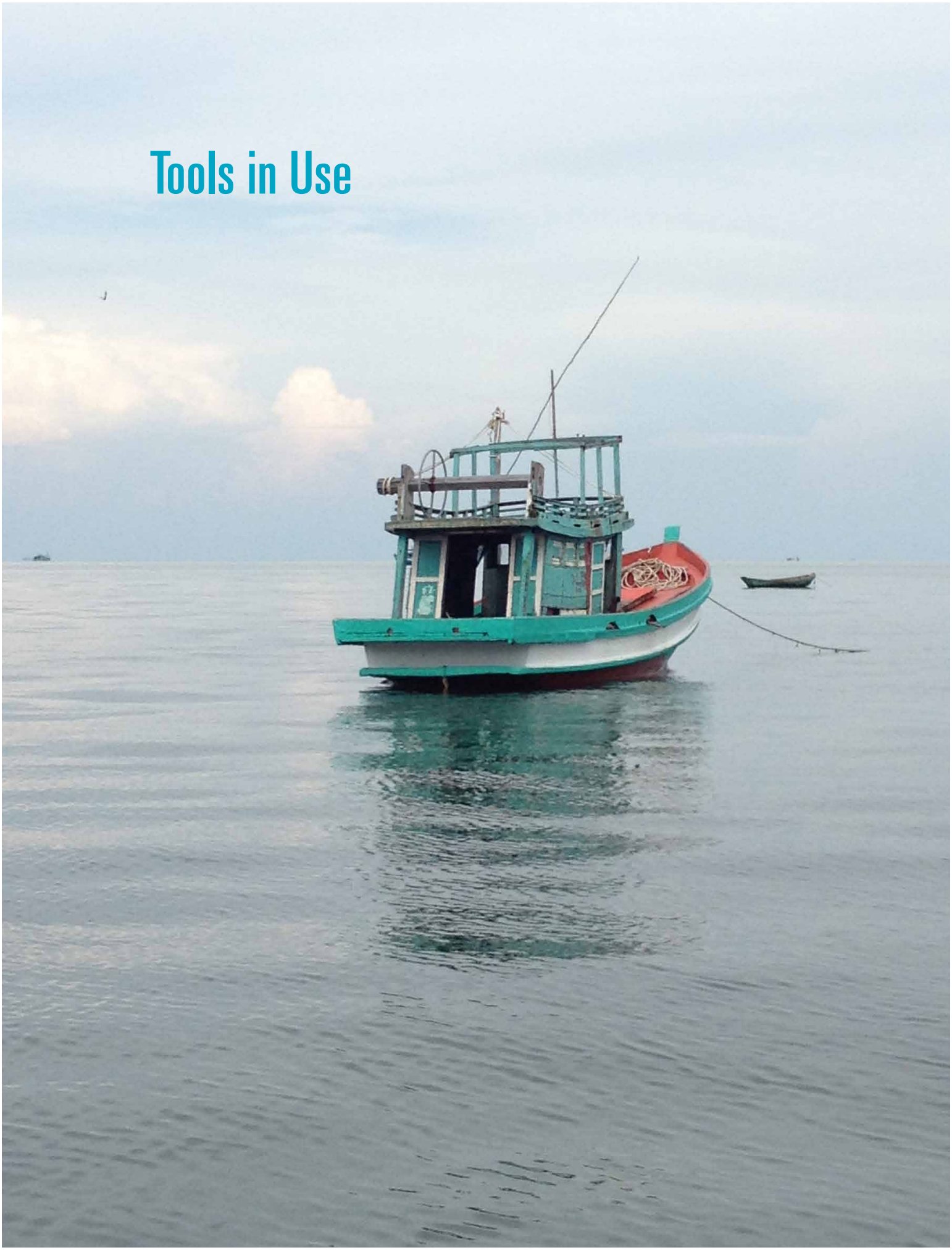
- **Defined ownership system**—Describe the ownership of the fishery, either through quota cap or others. Without ownership, many investment and business-oriented practices are not feasible.
- **Developed management system**—Put mechanisms in place to ensure accountability in management of the project.
- **Trade association**—Establish an organized industry or stakeholder group for one species and/or fishery.

- **Responsible financial management**—Develop an understanding of financial systems and processes, with well defined responsibility and mechanisms for insuring investments.

Supply Chain Structure

- **Transparent supply chain**—Ensure a clear supply chain with chain of custody.
- **Export to US/European markets**—Recognize that these markets have distinct consumer awareness of sustainable seafood.
- **Market pressure**— Confirm that there is pressure at the retailer level to comply with sustainability standards.

Tools in Use



Decision Matrix: Tools in Use

Decision Matrix	Scale of Fishery		Polictical Economy		Product		Management System Structure				Supply Chain Structure		
	Small-scale	Large-scale	Open Developed Capital Market	Govt Support	Niche Species	Possible Species Collapse	Defined Owner	Developed Management System	Trade Association	Responsible Financial Management	Transparent Supply Chain	Export to US and Europe	Market Pressure
NGO/ Foundation	✓	✓				✓							
Corporation Donation	✓	✓			✓							✓	✓
NGO/Public-Private	✓	✓			✓	✓						✓	✓
Industry Elected Premium	✓	✓			✓				✓		✓	✓	
Quota Ownership	✓	✓	✓	✓			✓		✓	✓			
Suppy Chain Efficiencies	✓				✓	✓					✓	✓	✓
Selling Fish Futures	✓	✓			✓			✓		✓		✓	✓
Export Duties	✓	✓		✓	✓					✓		✓	
“Smart Gear” Premiums	✓	✓	✓		✓								
Community-Supported Fisheries					✓								
Crowdfunding	✓	✓								✓			✓

Non-Profit/Foundation Support

Financing Methodology

In this model, a FIT receives its primary funding through non-profit donations. Fisheries and their stakeholders work with the non-profit to obtain funding and to initiate a Marine Stewardship Council (MSC) pre-assessment, develop an Action Plan, and institute a project. Most commonly, non-profits receive the funding from foundations, which in turn is used to fund FIT activities (as well as the non-profit's operations). As a direct stakeholder in the FIT, non-profits often play an important role in managing or overseeing the enactment of the Action Plan and financing decisions, and in leveraging outside funding.

Best Practices

- This financing model works most effectively with strong government buy-in.

Benefits

- This is the most commonly used and currently applicable form of financing; stakeholders understand the process.
- This type of financing is typically more available compared to other forms of funding.
- Partnering financially with non-profit organizations and foundations can increase a FIT's credibility with other stakeholders.

Drawbacks

- Funding is often on an annual basis, and must be renewed each year.
- Short-term funding may inhibit full commitment of resources by stakeholders, as they could be concerned that the process will not continue if funding is stopped.

Corporate Donations

Financing Methodology

In this model, a FIT derives its funding directly from corporate donations. Fisheries and their stakeholders (often including some private sector partners) traditionally work with a non-profit organization to initiate an MSC pre-assessment and develop an Action Plan. Corporate stakeholders that have vested interests in some aspect of the fishery value chain, have related interests (e.g., located close to fishery), or are otherwise identified as targets for fishery funding, are pursued as initial FIT stakeholders or are approached for funding after the FIT has begun. In some instances, private sector stakeholders are the primary initiators of a FIT.

Best Practices

- The corporation sees value/benefit in investing in a fishery without expecting any return.
- This financing approach includes trustworthy fishery-level partners with mechanisms for responsibly utilizing donations.
- This model works best with strong government buy-in.

Benefits

- Corporations typically have high levels of resources and greater flexibility to give multi-year donations.
- Large corporations may have greater ability to lobby for influence on government involvement/regulations.

Drawbacks

- The presence of one company may cause competitors to cease involvement or purchasing from a fishery.
- Funding from one company runs the risk of the FIT becoming focused on retaining company contributions and lose focus on FIT goals.
- Funding is often on an annual basis and needs to be renewed each year.

Industry-Elected Premium

Financing Methodology

Industry stakeholders, usually on the same level of the value chain, pay a self-imposed premium per unit of raw material passing through that level (e.g., buyer, processor, seller). Typically, those invested in initiating FITs are incentivized by a threat to their business, such as drop in raw material stocks and/or decrease in unit size; the reversal of which would increase profitability. To support the FIT, industry peers form a trade association as a third party to act as convener and designate a payee for the premium. The association then funds FIT activities based on needs outlined in in the work plans and budgets.

Best Practices

- The trade association receives a self-imposed premium.
- Members pay a premium to trade association annually.
- FITs present work plans and budget proposals to association to secure funding as needed throughout project.
- Engage organizations to provide scientific data to support the FIT; business models do not consider sustainability, so having data to support activities helps bridge that gap.
- FITs should have work plan and trackable progress with milestones and deadlines.

Benefits

- This model offers a sustainable source of funding.
- Association members have a clear economic incentive to see the FIT succeed and, thus, continue to contribute funds.
- The trade association is the industry lead for all FITs being implemented for that species and can thus leverage their presence to affect change with local governments, etc.

Drawbacks

- There is limited traceability in the premium payments; each member is responsible for paying what it owes per unit. There is no way to confirm that each member pays the correct amount.
- The incentive to engage in a FIT can weaken at the fisher level where the economic incentives may not be similar to the trade association, so it may be challenging to gain their compliance.

FIT CASE STUDY

Blue Swimming Crab

In the 1990s, US buyers of blue swimming crab noted a decrease in unit size that they were importing, as well as a decrease in the blue swimming crab population. For the buyers, the decrease in unit size meant smaller profits and the decrease in the number of blue swimming crab threatened the existence of their business overall. Motivated to save their business as well as their profit margins, the US buyers founded a trade association under the umbrella of the The National Fisheries Institute (NFI) — the NFI Crab Council — so that they could address the problem together.

To solve these problems, the Crab Council supports numerous blue swimming crab fishery improvement projects (FIPs). They fund the FIPs with a self-imposed tax of $0.015 per pound of raw material imported to the US. The money is paid annually to the Crab Council, who then provides funding to the FIPs based on the needs of their work plan or budget proposal.

In addition to providing funding, the Crab Council can use its industry leverage as a major buyer of blue swimming crab to affect change with other stakeholders, such as government, as necessary. The Crab Council model provides a sustainable source of funding for blue swimming crab FIPs.

Quota Ownership

Financing Methodology

In this model, a fund is established to hold fishing quota rights within an individual fishery. The governing body setting up and overseeing the fund can be a local fishing association, an NGO, or any organization interested in environmental and/or economic sustainability of a fishery. The fund is used to purchase outstanding quota rights as they come up for sale from fishers retiring or moving out of the fishing industry.

Once acquired, the fund will hold the quotas and may either lease them out to new fishers who abide by strict environmental standards (as well as other social or community goals) or keep them unused to allow for habitat recovery. It is important that the fund build strong relationships with the stakeholders within the fisher community to ensure trust among all parties.

The initial funds to capitalize the fund are raised through either grants or lines of credit. Grant funding from foundations and philanthropies with an interest in the fishery or the community should be considered the most important source of funding. Quotas can then be leased out to new fishers at below market rates with this type of funding. In exchange for a better price on quota, the fund can put in place environmental protections on potential lessees.

In addition to grant funding, acquiring a line of credit from a traditional bank can be very useful in situations where cash needs to be raised quickly to take advantage of a potential quota purchases. Over time as leases are acquired, lease payment cash flows from fishers should be able to help acquire additional quotas and cover the administrative costs of running the fund, such as collecting and managing lease payments, negotiating with sellers, and communicating with any private or public sector partners.

Best Practices

- This financing methodology involves the cooperation of all fishery stakeholders.
- A quota system must be in place.
- This model requires a strong local fishery association.

Benefits of Financing Option

- Centralized ownership of fishing rights by an environmentally conscious organization can ensure environmental goals are reached.
- There are strong economic and social benefits for the fishery community.

Drawbacks of Financing Option

- This model is only possible in fisheries that have effectively regulated quota systems.
- Asset ownership and trading of fishing rights can be outside the skill or scope of institutions interested in sustainability.
- This model requires a very long-term commitment and high upfront costs.

FIT CASE STUDY

Cape Cod Fisheries Trust

Due to overfishing and the failure of past regulation, a new quota share system was designed in Cape Cod, Massachusetts for scallop and groundfish species. To support Cape Cod's small-scale fishing community, the Cape Cod Fisheries Trust was established in 2005 by the Cape Cod Commercial Hook Fishermen's Association to ensure community ownership and management of the new quotas. The most important role of the Trust is to buy out fishing quotas from retiring fishers and then lease out these quotas to other small fishers in the community. The goal is to ensure that quotas remain local with none sold by the local fleet to non-Cape Cod fishing companies. Local ownership also keeps fishing profits local, which is an economic boon to the rest of the Cape Cod community.

The Trust was able to make early speculative permit purchases while the prices were low and the specifics around the new quota system were still in question. With the quota system fully in place, fishing permit prices have risen and it is possible that Cape Cod would be overtaken by commercial fishing operations without the help of the Trust. The Trust stabilizes the cost of access to quota amounts for fishing rights for local fishers by leasing at below market-value levels. To obtain access to quota for below market prices, the fisher must follow a strict set of guidelines related to business plans, local residencies, crew compensation, and sustainability practices. The Trust attempts to diversify its portfolio of lessees as much as possible as long as they fulfill all criteria to ensure confidence within the fishing community.

In addition to quota management, the Trust provides revolving loans for fishers to obtain quota in the scallop and groundfish fisheries, as traditional financial institutions will not provide financing as they do not accept quota as collateral. Trust representatives also assist local fishers in putting together viable business plans to ensure these fishers are granted access to both the quota leasing and lending programs.

The Trust is uniquely financed from multiple different sources of capital. Due to the nature of quota trading, the Trust needs to have cash available to make purchases when quotas are up for sale. After establishment, it first attracted grant capital from local philanthropists and foundations interested in the Cape Cod community. With cash available as collateral from philanthropic grants, the Trust was able to secure lines of credit from local banks. The lines of credit have allowed the Trust to better manage their incoming cash flows and purchases of new quotas.

Non-Profit and Public/Private Partnerships

Financing Methodology

In this model, FITs derive their funding through a mix of private (corporate), public (government), and non-profit sources. Fisheries and their stakeholders work with a non-profit and/ or a foundation to initiate an MSC pre-assessment, develop an Action Plan, and institute FITs. The non-profit organization allocates money toward funding FITs, and then works with stakeholders to identify and pursue companies, governments, and/ or foundations that will match their initial funding.

These matching funds may include in-kind and pro bono services for activities identified in the Action Plan (e.g., government enforcement of illegal, unreported, and unregulated (IUU) or donation of consulting services). This method uses the non-profit's organization commitment of funding and endorsement of FITs to multiply its initial investment and create financial buy-in from additional stakeholders.

Best Practices

- A committed non-profit organization drives project creation and fundraising efforts.
- Considerable fundraising effort is required in order to secure additional partnership funders up front.
- FITs must have mechanisms in place to manage funds (e.g., accountants, bank accounts), if not managed directly by the non-profit organization.
- Initial partners sign on prior to establishment of the project, but further fundraising to leverage initial partnership will continue throughout the life of the project.

Benefits

- This is an increasingly common funding mechanism.
- Financial commitment of multiple stakeholders from the beginning adds momentum for activities and creates larger network of involved/interested parties.
- A broad network of invested stakeholders can lend a more powerful voice when addressing additional stakeholders or outside interests (e.g., lobbying for required government legislation or action).

Drawbacks

- This model requires existing solid partnerships/ networks to identify and leverage funding.
- It may also require more reporting to meet specific requirements of multiple funders.

FIT CASE STUDY

Morro Bay Buy-Out

The Central Coast of California has had a thriving fishing community with the Pacific Groundfish fishery as its backbone. The area traditionally had been fished by bottom trawlers, which use large weighted nets that scoop the ocean floor for seafood. This method has damaging side effects such as seafloor habitat destruction and high volumes of bycatch. In addition to this destruction, decades of overfishing caught up to the fishery. In 2000, the West Coast Groundfish fishery collapsed and the Secretary of Commerce deemed it a federal disaster area. In addition, the National Oceanic and Atmospheric Administration declared six separate groundfish species to be “depleted”. Economically, the damage reduced landings revenues from $110 million in 1987 to a mere $35 million in 2003.

In 2003, The Nature Conservancy (TNC) stepped in with efforts to save the habitat and rebuild the fishery. TNC and its partners struck a deal with federal and state officials to declare 3.8 million acres of ocean habitat as off-limits to bottom trawling in exchange for TNC purchasing all existing fishing quotas and trawling boats from struggling fishers in the area. This allowed fishers to settle outstanding debt obligations that had forced them to continue fishing.

Quota and vessel buybacks were financed with private grant funding, as traditional financing would not work due to high uncertainty of the project’s outcome. Also, the buyouts were conditional on the legal establishment of no trawl zones, which made grants from interested environmental philanthropies a more realistic option.

Another impediment to traditional financing was the lack of a time frame for the project, as well as environmental goals that were incompatible with financial returns.

With ownership of the fishing quotas, TNC hopes to eventually sell or transfer quotas back out to fishers with more stringent gear and area restrictions and an environmentally focused management system. Fifty percent of permits are being leased back to fishers with information gathering requirements and gear restrictions. This income stream is to cover some of the costs of sustainability efforts such as data gathering as TNC determines the best method to divest ownership while also guaranteeing permanent sustainability. TNC has recently engaged the Morro Bay Community Quota Fund as a partner to ensure long term local stewardship of the fishery.

Supply Chain Efficiencies

Financing Methodology

Fisheries are often plagued by inefficiencies in production, particularly in small-scale, artisanal fisheries. Outdated fishing gear and gas-guzzling boats—these inefficiencies offer improvement opportunities that increase margins at the fishery level and have positive environmental impacts. NGOs and/or government agencies can educate fisheries on how to change practices and update gear at low cost. At times, the NGO or governmental body may also provide access to capital, providing either a low-interest loan or grant to facilitate purchases of more new, and ultimately more profitable and sustainable equipment.

Best Practices

- This financing methodology applies to any size fishery.
- The fishery must have production inefficiencies that can be improved with the purchase of newer, more sustainable equipment.
- The fishery must have cooperation amongst the fishers in order to maximize the impact of this method, both economically and environmentally.

Benefits

- The model ties sustainability to financial benefits and align production efficiencies with environmental objectives.
- Short-term benefits encourage further improvement and incentivize cooperation with fishery improvement.
- Improvements can result in a higher quality product that commands better pricing.
- Results can also include increased producer power and increased bargaining power.
- Fishers retain and strengthen their control of the fishery.

Drawbacks

- Not all improvements in supply chain efficiency are directly tied to sustainability.
- For more capital-intensive improvements, NGOs, government agencies or industry interests will have to fund the improvements or facilitate the access to capital necessary.
- Longer-term improvements may take longer to yield economic and environmental benefits, which may affect participation and cooperation amongst the fishery stakeholders.

Selling Fish Futures

Financing Methodology

When selling fish futures, the stakeholder agrees to purchase a pre-determined amount of raw material at a negotiated price. The price includes a premium that the fishery will use to fund activities in the Action Plan. In most cases, a portion of the money should be transferred before receipt of the raw material so the fishery can initiate the improvements.

This tool has been a fairly common industry practice, with examples from ANOVA, Fishin' Co. and Orca Bay. Some merely use this tool to ensure the fishery is outfitted at the beginning of a season, while others are specifically for completing activities in the Action Plan.

Best Practices

- The contracted amount should be either a pre-set amount or a percentage of total catch, whichever is the lower amount, in order to disincentivize overfishing and to prevent large penalties if the FIP project itself drops production.
- The fishers are incentivized through guaranteed purchases at a locked in rate.
- The spending of the premium must be transparent; actual spending on projects should be communicated and tracked.
- This model works best in a developed fishery with good reporting mechanism.

Benefits

- Selling futures provides upfront funding for the fishery to improve sustainability.
- This financing methodology ensures a sustainable source of funding.
- It can reduce variation in the business from exchange rate and catch market values.
- It can also help reduce overfishing/pushback against fishery improvements.

Drawbacks

- Without clear tracking of landed catch, the needed trust in the system fails.
- Buy-in is needed from all stakeholders.
- This model needs strong relationships between buyers and sellers.

Export Duty

Financing Methodology

In this model, FITs derive their funding through direct government contributions. This funding is generally a portion of the amount received from a tax on products or a duty levied on exported products. Because of the funding source, fisheries and their stakeholders work closely with the government throughout the project management process.

Best Practices

- This financing methodology requires strong local and national government interest and involvement.
- It works best with industry buy-in (e.g., purchasers, exporters).
- The fishery must be located where there is a functioning, stable government capable of creating and enforcing the necessary laws/regulations.
- This approach requires a non-commoditized catch.

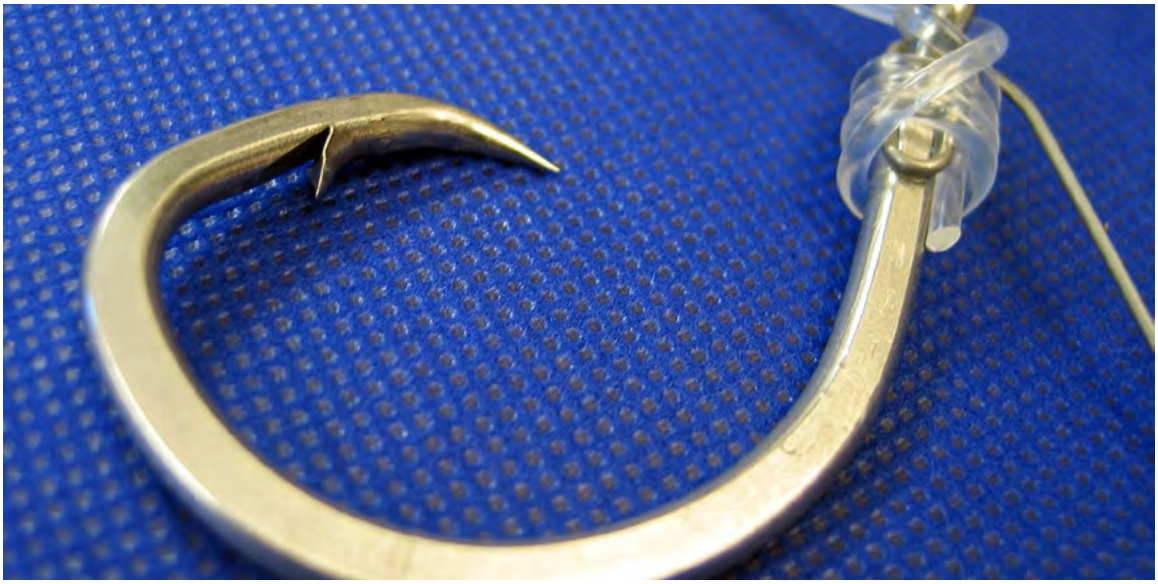
Benefits

- Government partners help enact necessary governmental and regulatory changes required in the Action Plan.
- A portion of the proceeds from the tax may fund government activities vital for project success (e.g., enforcement of IUU).
- Tax/duty provides regular, dependable income to fund project activities, as long as fishing stocks are sustained.

Drawbacks

- If premium on final product is passed on to the consumer, it may reduce demand.
- If consumers are unwilling to absorb premium on pricing, others within the value chain (e.g., retailers, buyers) will have to bear the burden and this may reduce their demand for the product.
- The process is highly dependent on government staff involved in the project, which may be affected if those staff move to another position.

"Smart Gear" Premiums



Financing Methodology

There are several cases where re-purposed non-traditional/newly designed, or "smart gear", can lead to increased sustainability as well as reduced fishing costs, higher quality/live catches, and reduced bycatch. There are two primary methods to fund fishery gear switches. The first is extending a loan to purchase the new gear. There are several funds that offer competitive rates over a short- to medium-term duration for these methods. The second is working with the stakeholders to have small premiums for fish sourced using "smart gear".

Best Practices

- There must be a proven "smart gear" available for the intended species.
- Fishers should be economically incentivized to switch to gear through potential outcomes like cheaper operation, better catches, or through market premiums.
- Fishers are provided access to capital at highly competitive rates.
- Fishers must be able to implement new gear in existing fishery.

Benefits

- Investors have a clear economic incentive to fund appropriate gear in order to achieve repayment.
- Stakeholders can work towards a stable input.
- This methodology reduces costs for the catch and causes less environmental harm.

Drawbacks

- Some "smart gear" does not provide economic incentive; for example, it may yield less raw material.
- Capital markets/inventory supply chain must be developed enough to accurately identify loan risk and ability to supply the fishers with their new equipment.
- Fishers must be open to change, and all stakeholders must participate.
- Typically new gear costs are not large drivers of the overall cost of FITs.

FIT CASE STUDY

California Fisheries Fund

The California Fisheries Fund (CFF) is a revolving loan fund that lends money across the seafood supply chain in California, Washington, and Oregon to make sustainability improvements for recipients who do not have sufficient access to commercial banking. The Fund makes term loans and extends lines of credit to fishers, processors, distributors, ports, communities, and non-profit organizations that have an interest in fishery sustainability initiatives. These include gear purchases, vessel investments, and permit/quota purchases. For example, a fisher could use the loan to fund a transition from trawls to selective trap gear that provides higher quality catch and less bycatch.

The CFF believes one of its competitive advantages is in its knowledge of the seafood space and its ability to value seafood assets, knowledge that commercial banks do not possess. It thus elects to make loans to underserved businesses within the seafood supply chain. The loan approval process has two steps: the fund advisory committee and the fund credit committee. The fund advisory committee is made up of scientists and other local seafood stakeholders that evaluate the social and environmental merits of the loan. Once passed, the fund credit committee evaluates potential borrowers, much as a financial institution would evaluate a commercial loan candidate.

The Environmental Defense Fund (EDF) developed the idea and the fund. In 2006, the CFF received $5 million in donations, $3 million from the state of California and $2 million from private foundations, with a goal to raise approximately $15 million. The Fund was conceived around the idea that quota-based fisheries management is the best way to align economic and environmental goals. The CFF would then fund new management systems and businesses in California once rights-based systems were instituted. Desktop research indicates that this proved to be problematic for the CFF as typically new businesses and startups are funded with equity instead of loans due to the high uncertainty of repayment and lack of identifiable cash flow and collateral. The CFF has since shifted towards their current model of funding loans to support sustainability initiatives.

To date, the Fund has loaned $3 million across 25 transactions (~80% term, 20% lines of credit). The terms of loans made are very comparable to commercial market loans, with similar interest rates; however, the difference lies in CFF's ability to loan to customers with no access to credit.

There has not been a single default within the CFF portfolio, and the biggest issue remains a scarcity of investable deals for the fund to make.

Community-Supported Fisheries (CSF)

Financing Methodology

Similar to the community-supported agriculture (CSA) model, consumers pre-pay local producers for regular deliveries of product during a particular season. Local fishers interested in more sustainable fishing that bring higher-quality, higher-priced product to the market, attract consumers looking for the same product with an interest in supporting their local fishing community.

The pre-payments of the Community Support Fishery (CSF) cover working capital costs and guarantee the sales volume. Since fishers sell directly to the consumer and cut out other members of the value chain, such as the processors, they maintain a larger profit for themselves and can use this profit to invest in fishery improvement activities.

Best Practices

- A non-profit CSF should include all fishers in the community interested in engaging in fishery improvement activities.
- There is economic incentive at the fisher level such as depleted stocks.
- This financing methodology involves small-scale fishers.
- There must be interest from the local community to support their fishers and to purchase higher quality products.

Benefits

- Fishers earn the entire profit from the sale of all fish by selling directly to the consumers.
- Fisheries can use advance payments and increased profits to fund fishery improvement activities.
- Fishers know their exact sales volume in advance.

Drawbacks

- As interest increases over a larger area, transportation and storage issues come into play.
- Fishers need to learn about pricing in order to command a profit while still attracting consumers.
- Fishers may need to learn fish handling, processing and packaging techniques as well as invest in equipment.

FIT CASE STUDY

Maine Coast Fishermen's Association (MCFA)

Overfishing led to declining stocks in coastal Maine, which resulted in a limited fishing season and increasing regulations, as well as fishery on the brink of collapse. This limited profits not only due to depleted stocks, primarily of cod and flounder, but also because the fishers sold the fish at auction and couldn't set their own prices to reflect decreased amount of raw material and additional time required to meet demand.

To address the environmental and economic problems, a group of fishers formed the Maine Coast Fishermen's Association in Port Clyde, Maine. After speaking with a university researcher interested in the application of the Community Supported Agriculture (CSA) method to fisheries, the MCFA decided to apply the concept to their fishery. CSAs sell shares of crops directly to the consumer before the season begins. Shares come at regular intervals during the growing season.

The model allows consumers direct access to fresh, and usually sustainably cultivated, produce and the farmers have secured sales for a certain percentage of their crop. For fisheries, the application was similar during open fishing season. Local Port Clyde consumers would receive a portion of whatever fish were caught that week.

This model allowed the fishers to know exactly how much fish to catch as well as fish more plentiful species since the consumer signed up for a share of any fish, not just the favorites that had led to overfishing. Since they were selling directly to the consumer, they could set the price based on the cost of production and received almost twice the dock price paid at auction.

The additional profit allowed the fishers to invest in more sustainable gear such as redesigned nets that trapped only larger fish and let younger, smaller fish swim free.

The CSF model was so successful that interest from local fishers continued to grow, which increased both the direct sales and participation in sustainability efforts.

Crowdfunding

Financing Methodology

In this method, money is donated to FITs by many small funders. Crowdfunding uses online platforms such as standalone websites, mainstream crowdfunding websites, or social media to reach a large group of people (the "crowd") willing to donate small amounts of funding. Crowdfunding has been successfully used to finance many different activities and products including political campaigns, films, business start-ups, and non-profit causes.

Models in the crowdfunding space include donation-, reward-, debt-, and equity-based. Debt and equity based models are geared towards start-ups and businesses where the funders are contracted creditors or owners receiving an equity stake in the project. Donation and reward-based crowdfunding do not have financial incentives attached to the project, but may include non-financial rewards to funders above certain contribution thresholds.

The key to reaching a large crowd is having a compelling story or business plan and the avenues to promote the project and engage the appropriate target audience. Utilizing social media (Facebook, Twitter, Instagram, etc.) offers low cost and high visibility, reaching a large and active group of potential crowdfunders. Building an engaged community committed to the success of FITs is imperative before significant funds can be realized.

Best Practices

- This financing methodology includes any size fishery.
- Using a reputable non-profit crowdfunding platform signals the legitimacy of a project.
- This model offers a supplemental source of funds for any organization developing and implementing FITs.

Benefits

- This model offers a low-cost source of funding if marketed properly.
- It increases the profile of the organization through the campaigns social media presence and providing a sense of ownership to funders.
- This model is applicable to any type of FIT, species, or geographic area.

Drawbacks

- The amount of funds able to be raised is extremely uncertain.
- There is reputational risk stemming from a poorly devised campaign.
- This model requires a significant amount of promotion.

Tools in Development

Decision Matrix: Tools in Development

Decision Matrix	Scale of Fishery		Polictical Economy		Product		Management System Structure				Supply Chain Structure		
	Small-scale	Large-scale	Open Developed Capital Market	Govt Support	Niche Species	Possible Species Collapse	Defined Owner	Developed Management System	Trade Association	Responsible Financial Management	Transparent Supply Chain	Export to US and Europe	Market Pressure
Public-Private Partnership	✓	✓	✓	✓			✓	✓		✓		✓	
Lender Engagement		✓	✓				✓	✓		✓	✓		
Impact Bonds	✓	✓	✓			✓	✓	✓		✓			✓

Public/Private Partnerships

Financing Methodology

Public/Private Partnerships (PPP) are ventures formed between governments, private contractors, and lenders. This model is used quite often in infrastructure projects where government agencies partner with building contractors to construct a public sector asset such as a hospital, road, or other infrastructure asset, and lenders are paid back through revenue generated by the asset (i.e., tolls on a road).

In this model for a fishery, governments are able to raise upfront funds from lenders to engage private consultants in fishery improvement initiatives such as data collection, stock assessments, quota buybacks, or quota system implementations. Governments repay the lenders over a longer time span with a mechanism related to the improvements made such as a commission on pounds of seafood sold or revenues from a new quota system, but may not be on the hook for repayment should the wanted improvements not be realized.

Governments are able to raise upfront funds from lenders to engage private consultants in fishery improvement initiatives.

This model is attractive to impact investing lenders because it could potentially provide less risky financial returns than investments in private fishers or businesses due to government involvement.

Governments may find this model attractive due to the ability to undertake fishery improvement activities without the need for shouldering the upfront costs. After the completion of the PPP, government agencies and consultants can enter into service contracts to ensure the long-term sustainability of the improvements put in place.

Best Practices

- This financing methodology involves large-scale fisheries.
- This model works best if government is involved.

Benefits

- Government involvement increases the likelihood that laws and regulations are being properly enforced.
- Funds are raised at the onset of the project instead of periodically.

Drawbacks

- With this model, there are complex financial transactions involving governments and financial institutions.
- It is not appropriate for many small-scale fisheries.
- There is uncertainty about how appealing the structure is to developing world governments.
- Revenue streams are unclear aside from government backing.

Lender Engagement

Financing Methodology

Built from of a collaborative effort between the financial services sector, NGOs, and the seafood industry, the Sustainable Seafood Finance (SSF) Tool is "a resource for banks, in particular credit lenders, and seafood companies to jointly identify and address the sustainability risks associated with the sector."[1]

The tool allows for proactive risk management for banks and the international seafood sector, while simultaneously improving the corporate social responsibility (CSR) performance of financial institutions.

"The tool is structured around two fundamental parameters for sustainable seafood that form the cornerstones of the tool:

- Elimination of any illegal, unreported and unregulated (IUU) fishing practices.
- Encouragement of sustainable fishing practices in accordance with the Marine Stewardship Council's (MSC) environmental standard for sustainable fishing."

Best Practices

- This financing model is most practical in large-scale, industrial, vertically integrated seafood companies.
- Significant change requires adoption from a substantial portion of banks.
- Financial institutions implement policies for seafood corporate sustainability to drive market interest rates, giving the seafood industry clear incentives for improvements.

Benefits

- This model harnesses the immense influence of the financial sector for sustainability while simultaneously mitigating risks of both parties.
- It empowers seafood companies to effectively identify and track necessary sustainability changes.

Drawbacks

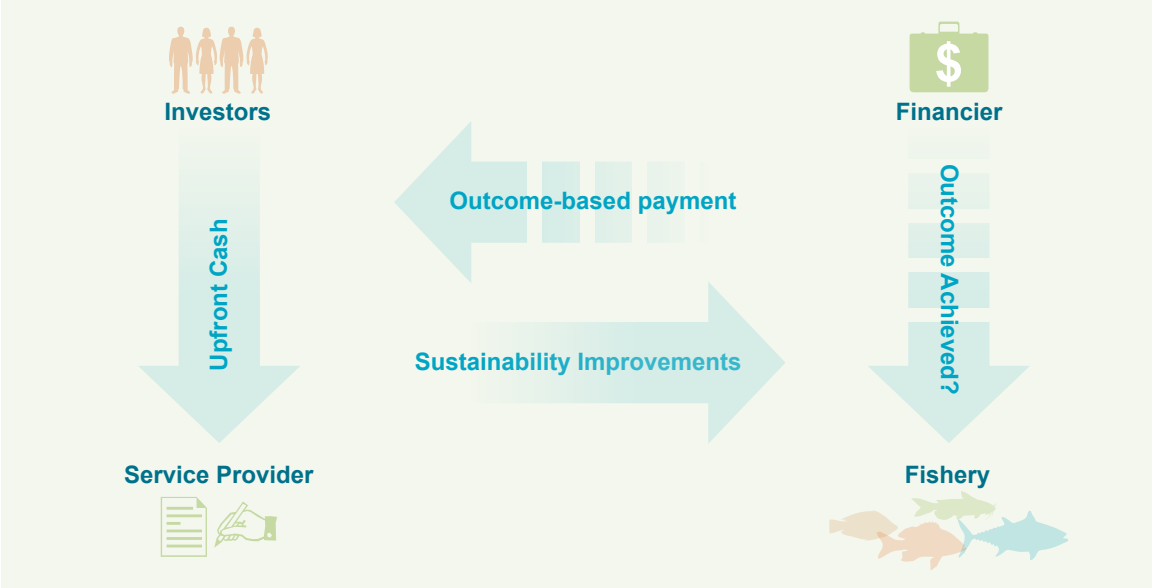
- This model fails to address unsustainable small-scale artisanal fisheries.
- Adjustment to seafood industry operations are time-consuming and costly.

[1]From SSF tool guidelines June 2013 PDF

FIT Impact Bonds

Financing Methodology

Payments made from those financing FITs are results-based and only occur after sustainability improvements are verified. The fishery quantifies financing needed for improvements and then identifies a financier (NGO, Government, Fishery, Industry Buyers, etc.) who will financially incentivize environmentally motivated investors to provide upfront cash for the project. The financier and the investors develop a contract specifying specific outcomes which lead to economic gain. The level of financial return paid to the investors is tied to the completion and success of these outcomes.



Best Practices

- This financing methodology requires detailed economic data quantifying the economic gains from sustainability improvements.
- Early investors will be interested in investing for sustainability in addition to financial gain (double-bottom line, risk tolerant investors).
- There must be economic incentives to fishery and fishers to secure local support.
- This model requires investors experienced in sustainability and FITs, as well as an unbiased coordinator to manage the agreement.
- This model requires government buy-in.

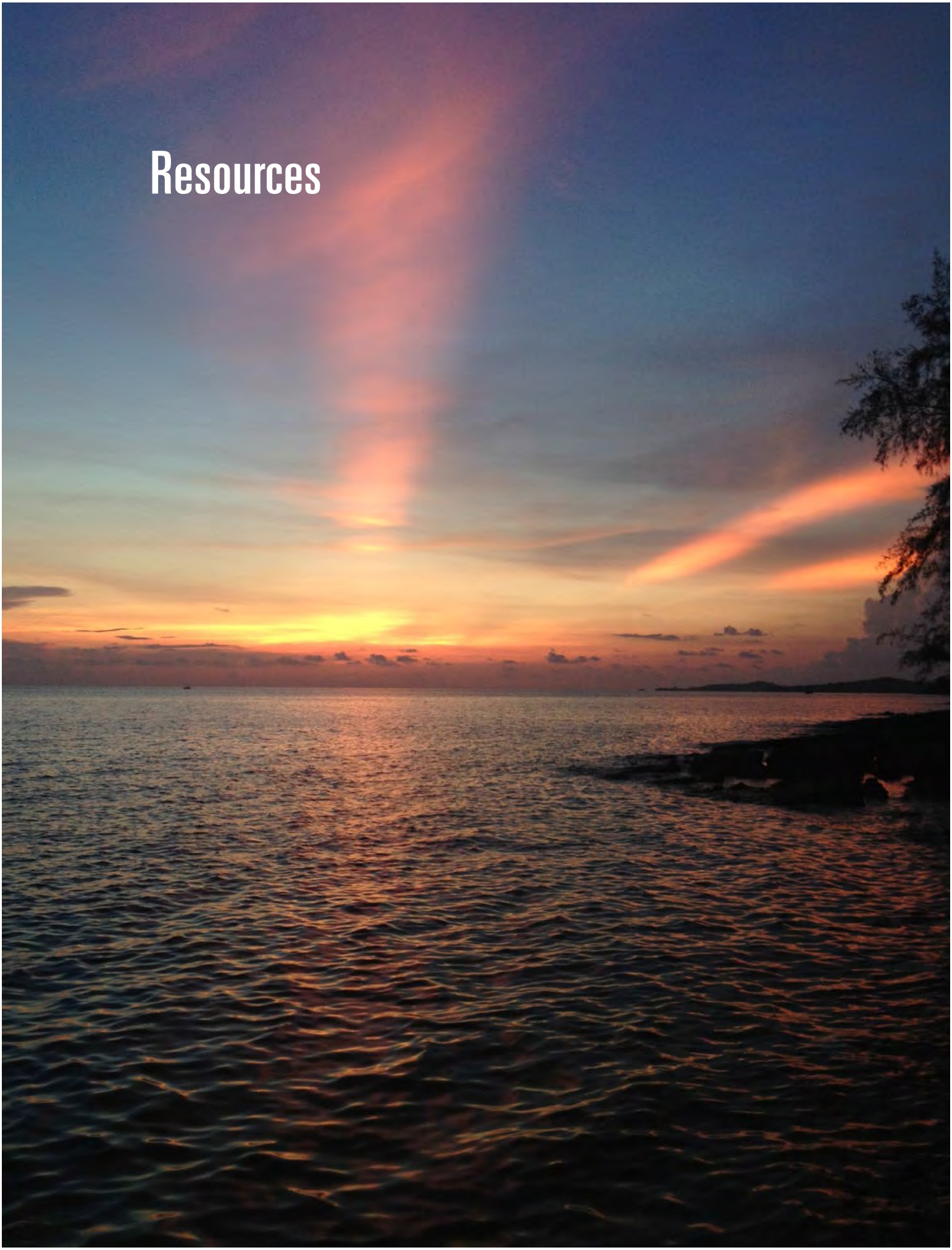
Benefits

- Financiers only pay when desired results are achieved, thus eliminating project outcome risk.
- Investors are given competitive financial returns and have the flexibility in how to achieve improvements.
- Market-based solutions ensure efficiency and innovation for sustainability improvements.

Drawbacks

- Economic gains from certification are variable, spread across multiple parties, and difficult to quantify.

Resources



Organizations

Conservation Alliance for Seafood Solutions
http://www.solutionsforseafood.org/

Environmental Defense Fund, Catch Share Design Center
http://fisherysolutionscenter.edf.org/

International Sustainability Unit: Marine Programme
http://www.pcfisu.org/marine

Marine Stewardship Council
http://www.msc.org

National Fisheries Institute (NFI) Crab Council
http://www.committedtocrab.org/about

Sustainable Fisheries Partnership
http://www.sustainablefish.org

WWF Smart Fishing
http://www.panda.org/what_we_do/footprint/smart_fishing/

50in10
http://www.50in10.org

Further Reading

ANOVA Sustainability Review
www.anovaseafood.com

Blue You Consulting
http://www.blueyou.ch/

California Fisheries Fund
http://www.californiafisheriesfund.org/

Design for Sustainable Futures
http://www.mckinsey.com/client_service/sustainability/latest_thinking/

EKO Asset Management
http://ekoamp.com/our-publications/

Fair Trade Organization
http://fairtradeusa.org/products-partners/seafood

Fish 2.0
http://www.fish20.org/about

Manta Consulting – Financing Fisheries Change
http://www.mantaconsultinginc.com/wp-content/uploads/2011/01/Manta-Consulting- Financing-Fisheries-Change.pdf

Marine Stewardship Council
Get Certified! Fisheries: A Practical Guide to the Marine Stewardship Council's Fishery Certification Process
https://www.msc.org/documents/get-certified/fisheries/MSC_Get-certified_FINAL_lowres.pdf

Morro Bay Community Quota Fund
http://www.morrobaycommunityquotafund.org

New York Times
"For Local Fisheries, A Line of Hope"
http://www.nytimes.com/2012/10/03/dining/a-growing-movement-for-community-supported-fisheries.html?_r=1

Start Some Good
"Easy to use steps to building a successful non-profit crowdfunding campaign"
http://startsomegood.com/

Sustainable Seafood Finance
http://www.sustainableseafoodfinance.org/

Sustainability Incubator Resources
http://www.sustainability-incubator.com/resources/

The World Bank & Food and Agriculture Organization of the United Nations
"The Sunken Billions" http://siteresources.worldbank.org/EXTARD/Resources/336681-1224775570533/SunkenBillionsFinal.pdf

The WWF's Financial Institution for the Recovery of Marine Ecosystems (Currently looking for Pilot Investments)
http://awsassets.panda.org/downloads/fact_sheet_the_firme.pdf

Key Terms

Bond—a debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate; bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities

Capital Costs—fixed one time expenses incurred to complete a project, such as a FIT project

Collateral—an asset pledged as security on a loan in the event of a borrower default

Debt—an amount owed to a person or organization for funds borrowed with set repayment terms and interest requirements

Duties—a tax levied on certain goods, services or transactions. Duties are enforceable by law and are imposed on commodities or financial transactions, instead of individuals

Equity—the residual value or interest of the most junior class of investors in assets, after all liabilities are paid

Fair Trade—an organized social movement that aims to help producers in developing countries to make better trading conditions and promote sustainability

Financing—the act of raising funds for business activities, making purchases or investing. Capital (money) is typically raised by debt or equity offerings

Futures—a financial contract obligating the buyer to purchase goods (or the seller to sell goods), at a predetermined future date and price. Futures contracts typically detail the quality and quantity of the underlying asset

Impact investment—investments meant to generate environmental and/or social benefits in addition to a financial return

Key Terms

Lender—someone who makes funds available to another with the expectation that the funds will be repaid, plus any interest and/or fees

Line of Credit—an arrangement between a financial institution, usually a bank, and a customer that establishes a maximum loan balance that the bank will permit the borrower to maintain; the borrower can draw down on the line of credit at any time, as long as he or she does not exceed the maximum set in the agreement

Profit Margin—a ratio of profitability calculated as profit divided by revenues. It measures how much out of every dollar of sales a company actually keeps in profits

Revenue—the gross income of a company and the amount of money that is brought into a company by its business activities. Revenue is calculated by multiplying the price at which goods or services are sold by the number of units or amount sold

Revolving Loan—similar to a Line of Credit, where the borrower obtains a business or personal loan where the borrower has the flexibility to decide how often they want to withdraw from the loan and at what time intervals but over a fixed time interval of one to 12 months, allows a company to drawdown, repay and re-draw loans advanced to it; considered a flexible financing tool due to its repayment and re-borrowing flexibility

Quota—a rights based management system where a governmental agency will assign or sell portions of the total allocated catch to individuals or corporations; many popular versions include transferable rights, where one can sell or rent their portion of the catch to another entity

Supply chain—an exhaustive list of the production and distribution processes that begin with a commodity and finish with an end product

Trust—a relationship whereby property is held by one party for the benefit of another

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Fishwise
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Conservation Finance Investor
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International Pole & Line Foundation
JPMorgan Chase
Manta Consulting
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Marine Stewardship Council
National Fisheries Institute Crab Council
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