

# EMFF OP Monitoring Committee 23 May 2017

## Ex-ante assessment by Indecon on Use of Financial Instruments within EMFF OP

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# Contract

- ❑ Joint contract with RDP
- ❑ Purpose of Assessment is to determine if there are market failures in investment in the aquaculture and processors sectors, and if so, what if any financial instruments are recommended.
- ❑ For seafood sector, Assessment to focus on aquaculture and seafood processing investment.
- ❑ Assessment to be conducted in accordance with the Regulatory requirements under CPR (1303/2013) and with General Methodology set out in guidance from the Commission and EIB.
- ❑ RFT published 28 June 2016
- ❑ Contract awarded to Indecon
- ❑ Indecon Report received 16 May 2017

# Conclusions

- ❑ Indecon's analysis indicates that there is a market failure in the credit market for ..... seafood enterprises in Ireland which merits the introduction of an appropriately designed Financial Instrument.
- ❑ Indecon notes that the challenges faced by agri and seafood enterprises are more complex than simply the access or cost of finance and wider measures including advice are needed. However, there is a need to enhance the availability of capital for viable projects on competitive terms.
- ❑ Likely to be related to the capital constraints facing the Irish banking sector following the financial crisis which occurred in the Irish economy and international banking markets;

# Conclusions cont.

- “Survey evidence suggests that a significant reason for banks refusing loan applications was a lack of borrower credit history. This represents an information asymmetry between the potential borrower and the lender”
- “The absence of sufficient collateral by SMEs in the ..... seafood sectors is likely to impact on the willingness of institutions to lend to these enterprises”.
- “There is evidence of a higher interest rates faced by enterprises in ..... seafood sectors relative to those charged to enterprises in other sectors of the Irish economy. Irish enterprises in these sectors also face higher interest rates relative to the prevailing rates in other EU Member States”

# Recommended Strategy

- “In order to incentivise investment, a combination of grants, partial loan guarantees and interest subsidies should be provided”.
- “A partial loan guarantee aims to overcome the lack of sufficient collateral and to increase the supply of funds for viable projects”.
- “Given the relatively high cost of funding in the sectors, an explicit interest rate subsidy provides a targeted policy tool to lower borrowing costs”.
- “Indecon believes it is important that any financial instrument reduces the interest rate so as to ensure that .... seafood businesses are the beneficiaries of any such initiatives”.

# Key points

- Single financial instrument for agriculture and seafood sectors.
- Loan fund of €100m
- Loans guaranteed to 70% (risk sharing)
- Loans for start ups guaranteed to 80%
- Overall portfolio guaranteed to 15%
- Interest rate subsidy 1 to 2%.
- To be delivered through banks
- Estimated cost to EMFF €4m.

# Next Steps

- ❑ Study of report by DAFM and BIM
- ❑ Programme amendment
- ❑ Identification of intermediary to manage FI
- ❑ Design of FI
- ❑ Roll out