

# CALIFORNIA OCEAN PROTECTION COUNCIL

Staff Recommendation  
September 23, 2005

## Sustainable Fisheries Revolving Loan Fund Planning Project

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**RECOMMENDED ACTION:** Consideration of the Sustainable Fisheries Revolving Loan Fund Planning Project for possible determination that it is a high priority project and authorization for the Council's Secretary to take actions needed to provide up to \$101,300 for its implementation.

**NEAREST OCEAN or COASTAL LOCATION:** Statewide

**AGENCY OR ENTITY RECOMMENDING PROJECT:** State Coastal Conservancy and Environmental Defense

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### EXHIBITS

Exhibit 1: Backgrounder on Financing Sustainable Development

Exhibit 2: Example of a Fisheries RLF Potential Investment

Exhibit 3: Letters of Support

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### **RESOLUTION:**

"The Ocean Protection Council finds pursuant to Sections 35600 *et seq.* of the Public Resources Code that the Sustainable Fisheries Revolving Loan Fund Planning Project, as herein described, is of high priority for ocean conservation and authorizes the Secretary to take actions necessary for its implementation."

### **PROJECT DESCRIPTION:**

The proposed project involves the preparation of a concept paper and business plan for a Sustainable Fisheries Revolving Loan Fund ("Fund" or "RLF"). The Fund would offer loans to California fishing communities, groups and associations to assist them with a transition to more environmentally and economically sustainable fishing practices, where investment capital or loans from traditional financial institutions are not available. The Fund would provide loans for projects that: promote the transition to gear types that have less impact on bottom habitats and reduced bycatch rates; reduce fishing capacity in overcapitalized fisheries; create sustainable seafood products that qualify for certification; or publicize and promote sustainable seafood products.

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The Fisheries Revolving Loan Fund concept was developed in response to the lack of capital available for financing improvements in fishery management, processing, and marketing that could enhance both conservation and profitability, and the health of fishing communities.

Conventional sources of financing have not filled this gap for several reasons, including a lack of fisheries expertise, a lack of information to evaluate risk, and regulatory change. The Fisheries Revolving Loan Fund would provide a model for investment in California's fisheries, generate information that could be used to develop more robust analyses of cash-flow under various kinds of management regimes, produce data that could be used to assess risk and potential returns, and rationalize fishery management to stabilize the supply of seafood, all of which are essential attributes of an investment opportunity that could attract private capital. With its cabinet-level membership and broad ocean conservation mandate, the California Ocean Protection Council is the most appropriate entity for promoting initiatives such as this Fund. In addition, the California Ocean Protection Act specifically authorized use of trust funds for "the creation of revolving loan programs for the purpose of implementing sustainable fishery projects." [Public Resources Code §35650(b)(2)(B)]

After planning for the Fund is completed, it is anticipated that a seed investment of \$2 million could be leveraged into a much larger loan fund over several years, using public and private sources of capital, so that it could pay its own administrative costs while continuing to invest in fisheries. Smaller loan funds would probably not be sustainable, and could not revolve because most or all of their capital would be tied up in a few investments. Mechanisms like the Fisheries Revolving Loan Fund will help address the scale of available financial resources to more closely match the scale of ocean management and conservation problems. A description of community development financial institutions, including revolving loan funds and their financial structures is provided in Exhibit 1. An example of potential fisheries revolving loan fund investments is provided in Exhibit 2.

### California Commercial Fishing – Regulatory and Economic Context

Commercial fishing has been an important part of California's history, economy and culture, and continues to supply seafood to the state, to the nation, and to the world. However, many fisheries have suffered from boom-and-bust cycles or steady declines in fish landings, revenue, and employment. While some fisheries have flourished, overall commercial fishing in California has suffered a severe decline over the last 30 years due to a variety of regulatory and economic changes.

Many California fisheries, such as the nearshore fishery, urchins and crab have become increasingly constrained in recent years. The precautionary harvest control rules embodied in the Nearshore Fishery Management Plan have reduced allowable catches in the live fish fishery. Very large areas have been closed to rockfishing to help recover these slow-growing stocks. These regulatory changes have made it difficult for many fishermen to make a living, and for ports to maintain revenues needed to support fishing infrastructure. As a result of all these factors and more, the fisheries and working harbors of California have become fragile – their health linked to increasingly stringent and changing fishing regulations, declining or highly variable fish landings, and reduced revenues. These factors in turn tend to discourage new investment and new business initiatives that are related to fisheries.

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Many worthy ocean research, conservation and management projects will require grants, as they cannot generate revenue. However, investments in the state's fisheries tied to changes in management and markets could generate much higher economic returns to the state, while improving the conservation performance of fisheries (e.g., better compliance with allowable catch levels, lower bycatch and waste, reduced impacts on habitats). This conclusion is based on dozens of scientific papers, the local knowledge of experienced fishermen, and empirical evidence from hundreds of fisheries.

The transition to fisheries that generate more revenue, engage in less conflict, and do more to protect ocean habitats and ecosystems will require strategic investments. The capacity to generate more revenue from fisheries as a result of management improvements presents an opportunity for creating a sustainable source of financing for fisheries management. Perhaps most importantly, smart investments in fisheries have the capacity to pay back investors, creating the foundation of a revolving fund that can attract private capital and invest in fishery after fishery. This is a way to greatly leverage a small investment by the state that would be aimed at rewarding and helping fisheries willing to transition and at proving the concept to attract private capital.

### **Scope of Project Work**

The project work includes two principal tasks: production of a concept paper and preparation of a business plan. Through a series of meetings and review of relevant material, a concept paper will be developed that describes the basic parameters, objectives, and desired outcomes of the loan fund. This process will establish the initial parameters for the Fund and the final concept paper document will be used as an informational tool during the business planning process. Preparation of the concept paper will involve:

- ***Research and Analysis:*** Research pertinent California fisheries economic, biological and regulatory information, review academic literature and other fisheries models elsewhere.
- ***Interviews:*** Meet one-on-one with key constituencies to gain an understanding of competing expectations and opportunities for addressing multiple agendas through Fund.
- ***Concept Development:*** Finalize initial concept.
- ***Draft Document:*** Draft concept paper based on results of interviews, research and discussions. Will include broad thinking of options, pros and cons of various options, and recommended next steps.
- ***Presentation:*** Present final concept to Ocean Protection Council staff and council members, Resources Agency, Coastal Conservancy, and others.

The second and final product will be a detailed business plan for launching and operating a fisheries revolving loan fund, which can be completed within 4 months, including:

- ***Establish Initial Broad Objectives and Impacts:*** Confirm the elements of the concept paper and make sure all involved parties are in basic agreement.
- ***Research, Reconnaissance, and Analysis:*** Collect and analyze all available relevant information specific to California fisheries (effort, landings, value, markets, infrastructure, etc). Enter into discussions with key players, including: state and other

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relevant agencies; ports and other relevant local agencies; industry (advocacy groups, fisherman, processors, off-loaders, markets); environmental groups and relevant science-based institutions; and, other special interests. The purpose of these activities is to define *strategic* opportunities that inform the business planning process going forward.

- *Refine Objectives:* Upon completing reconnaissance, refine initial objectives and select specific targets and desired impacts. Reconnect with key parties and get consensus for moving forward.
- *Structure and Administration:* Develop model that will best meet objectives. Includes: Structure; Governance; Management; Operations; Products; Expected Portfolio Profile; and Risk Tolerance.
- *Financial Forecasts:* Develop financial projections for operating costs and portfolio performance.
- *Capitalization Strategy:* Develop an initial and long-term capitalization plan.
- *Implementation Plan and Timeline:* Develop the critical path for implementation and associated timeline. Identify appropriate institution to administer and manage the Fund.
- *Risk Analysis:* Perform a risk analysis on overall plan and develop mitigation strategies.

The proposed planning project is the first phase in the effort to create a Sustainable Fisheries Revolving Loan Fund. Following the completion of the planning project, the findings will be presented to the Ocean Protection Council and authorization will be sought to move to the next phase - capitalization, or identification and cultivation of additional investment and funding sources for the Fund.

### Project Participants

Environmental Defense is a nonprofit organization that has proposed to undertake this project and is well suited to do so. It originated the fisheries revolving loan concept and has conducted extensive research on fisheries management, with a focus on the linkage between economic incentives, financial performance, and conservation performance. Environmental Defense will work jointly with ShoreBank Enterprise Pacific on the Sustainable Fisheries Revolving Loan Fund Planning Project.

ShoreBank Enterprise Pacific is a non-profit community development financial institution that invests in people and their communities to create economic equity and a healthy environment. They have invested over \$30 million in 245 ventures throughout the Pacific Northwest over the last decade. As a coastal-based institution, they have developed extensive expertise and experience with west coast fisheries. Their successful fisheries investments have been aimed at improving both conservation and financial performance through a blend of policy expertise, knowledge of fisheries and markets, and a commitment to the triple bottom line: social equity, economic prosperity, and a healthy environment.

**PROJECT FINANCING**

**Possible Funding Sources:**

Coastal Conservancy	<u>\$101,300</u>
<b>Total Project Cost</b>	<b>\$101,300</b>

Funding for the proposed project would come from an appropriation to the Coastal Conservancy from the Environmental License Plate Fund for ocean protection. Pending Council concurrence, Conservancy staff will recommend a grant of \$101,300 to Environmental Defense for consideration at the Conservancy's next public meeting on October 27, 2005.

**CONSISTENCY WITH CALIFORNIA'S OCEAN ACTION STRATEGY:** The project is consistent with Action Item 10, which states California should "pursue, support, implement and establish long-term funding for coordinated ecosystem management approaches at the federal, state and local levels to guide and improve the stewardship of ocean and coastal resources." It is also consistent with Action Item 13, which states that the State should identify and prioritize issues that may benefit from additional coordination by the California Ocean Council, including issues arising in the context of protection of marine resources and economic uses of the ocean.

**CONSISTENCY WITH OCEAN PROTECTION COUNCIL'S INTERIM PROJECT SELECTION CRITERIA & GUIDELINES:**

**Mandatory Criteria**

**1. Furthers the following statutory purposes and policies of the Ocean Protection Act:**

- **Improves management, conservation, and protection of coastal waters and ocean ecosystems:** This project will support conservation of fish populations and reduction of fishing-related impacts to ocean and nearshore habitat.
- **Encourages those activities and uses that are consistent with sustainable, long-term protection and conservation of ocean and coastal resources:** This project will encourage a long-term environmentally sustainable approach to fishing.
- **Improves the health of fish and fosters sustainable fisheries in ocean and coastal waters:** This project will promote the transition of state fisheries to more sustainable fishing practices.

**2. Consistent with the purposes of the funding source:** See Project Financing Section above.

**3. Has demonstrable support from the public:** This project has support from: the City of Morro Bay Harbor Department, the Morro Bay Commercial Fishermen's Organization, the Pacific Coast Federation of Fishermen's Associations, The Monterey Bay Aquarium's Center for the Future of the Oceans, The Nature Conservancy, and the Sea Change Investment Fund. Letters of support can be found in Exhibit 3.

- 4. Relates directly to the ocean, coast, associated estuaries, and coastal-draining watersheds:** This project will promote conservation of fish populations in state ocean waters, and of anadromous fish populations that use state estuaries and watersheds.
- 5. Has greater-than-local interest:** This project will support creation of a statewide revolving loan fund that will consider loans to all California-based fisheries groups and communities.

**Additional Criteria**

**The project has an element of urgency:** This project will address immediate threats to fish populations from overfishing and fishing-related impacts such as bycatch, as well as support local economies that are dependent on fishing and are impacted by increasing fishing regulation.

**The project helps resolve more than one issue:** This project will attempt to conserve local fish populations and assist the local coastal economies to transition to more environmentally and economically sustainable models.

**The project involves innovation:** This project aims to create a new model for promoting and supporting local and sustainable fishery economies.

**The project is ready to implement:** Environmental Defense and their partner Shorebank Enterprise Pacific are ready to begin planning work as soon as grant funds are available.