



MARITIME FORUM

Investment platform recommendation

Published on: Wed, 03/10/2018 - 06:38

provided by contractors as part of market study for blue investment

This report was produced as part of a study undertaken by contractors [2]

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Executive Summary

The European Commission adopted the Blue Growth Strategy in 2012 in order to harness the potential of Europe's oceans, seas and coasts for growth and jobs. Since the adoption of the strategy, the Blue Economy has become a driver for Europe's welfare and prosperity. Europe's maritime economy is expected to become an even more significant source of jobs and growth in the years to come. However, despite concerted efforts by the European Union to increase funding for Blue Economy actors, access to funding with acceptable terms remains a key obstacle for innovative businesses. **This study addresses the funding gap for innovative and sustainable business sectors in a Blue Economy that makes up 5% of the EU's GDP.** The European Union has increasingly been working with partners such as the EIB Group to look into ways to stimulate investment in the Blue Economy, but despite the progress achieved, there is still room for improvement in financial support for Blue Economy actors.

This report makes recommendations on closing the remaining funding gaps through a Blue Economy Investment Platform (BEIP). With the implementation of such a BEIP, access to funds for companies working in under-funded areas of the Blue Economy should be improved. Funding gaps for sustainable businesses that provide inclusive growth and employment was therefore given particular attention. The recommendations made in the report seek to contribute directly to the implementation phase of the European Commission's mobilisation of funds in a way that leverages additional investment from the public and private sectors. An analysis of the existing requirements of market participants through direct engagement and a careful evaluation of possible options are at the core of this recommendation paper.

Our recommendations are based on strong engagement with the maritime SME community and a detailed analysis of the funding needs of maritime SMEs. This was carried out by the Acacia team of SME Finance Experts during the first half of 2018. The project team was tasked with the development of a Blue Economy pipeline of companies and projects, which led to the identification of 400

companies based on a database compiled by DG Mare and EASME and additional research by the team. **The team elaborated a longlist of 100 eligible companies of the sector which was then further filtered down to a series of 35 Investment Dossiers which showcased some of the most promising companies.** With the help of information directly from market participants on funding gaps, the team was able to draw overall conclusions and come up with recommendations for the BEIP. Although not part of the main activity, a number of funding actors considered as particularly important were also consulted within the framework of the project.

A wide desk-based survey of existing financing platforms has made it possible to paint a clear and representative picture of the existing financing platforms in the Blue Economy Sector.

115 relevant existing financing platforms were identified, out of which 72 organisations were classified as being relevant for the Blue Economy (i.e. assessed as high or medium relevance). A significant number of those existing platforms were included in the study through active outreach, interviews, attendance and organisation of workshops and conferences. This interaction allowed the team to build up clear picture of financing gaps and opportunities to be addressed by the BEIP. The existing financing platforms relevant for the Blue Economy were broken down to eight categories: Investment Fund Managers, investment platforms, commercial banks, public banks, accelerators, crowdfunding platforms, EU Financial Institutions, and other. The analysis revealed that the largest share of identified financing platforms (43%) are investment fund managers. Although very heterogeneous in their sectoral focus (and often not dedicated to the Blue Economy), the form of funding provided by fund managers is typically equity investment with amounts varying widely from EUR 0.2 to EUR 60 million. EU financial institutions and associated mechanisms make up the second largest identified groups with 17%. Public banks (13%) also play an active role, particularly in catalysing more investment from the private sector within high growth potential SMEs.

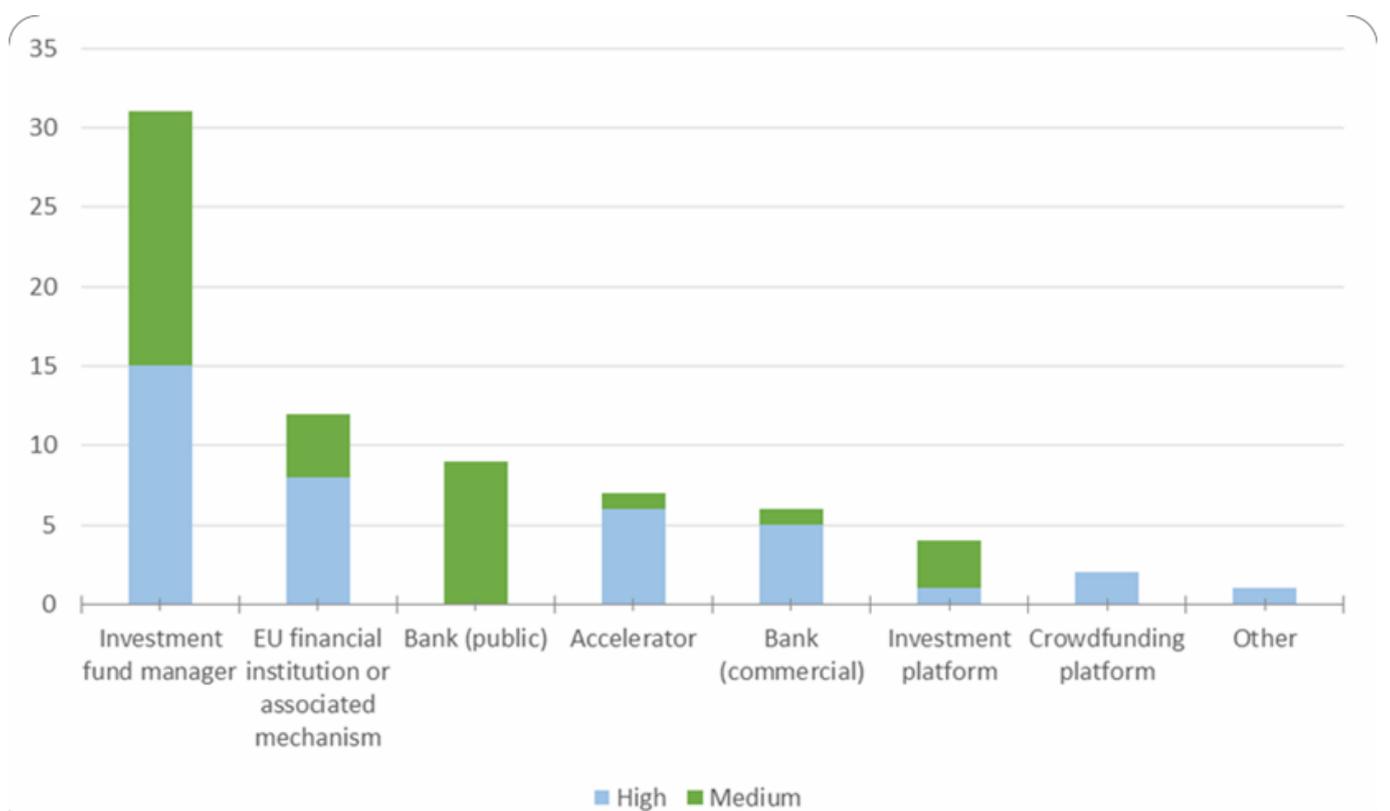
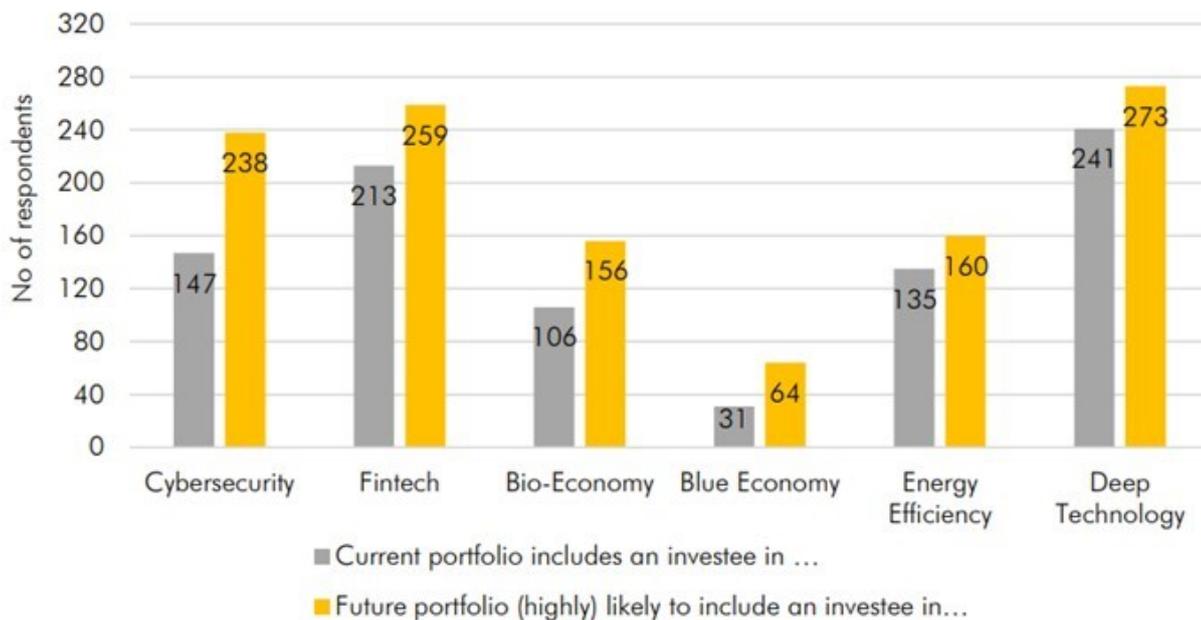


Figure 1 Relevance of the identified existing financing platforms

Figure 1: Relevance of the identified existing financing platforms

Source: Study team, own considerations

The analysis of existing platforms led to the interesting observation that 65% of highly relevant investors for the Blue Economy were only established within the past five years and 35% were only created within the past three years. This observation underlines the relative immaturity of the financing landscape, but the rapid growth also illustrates the perceived attractiveness of the Blue Economy sectors over the last few years. Recently established funds, however, will not show clear portfolio performance for another 5-8 years. **Hence, the study shows that the finance sector relevant for the Blue Economy is still emerging and lacks the maturity of more established sectors.** This trend is also confirmed by a recent EIF VC Survey 2018¹, showing that a substantial number of financing platforms are not specifically dedicated to the Blue Economy, but cover a broad range of sectors, including components of the Blue Economy. Furthermore, the actual scale of investment into the Blue Economy sectors remains somewhat unclear, due to a shortage of data.



Note:

Cybersecurity: Cybersecurity, space and/or dual use (civil/defence) technologies.

Bio-economy: Bio-economy/Agriculture.

Blue-economy: Blue economy/Sustainable use of maritime resources.

Energy efficiency: Energy efficiency/Renewable energy.

Q. Does your current investment portfolio include an investee in the area of ...

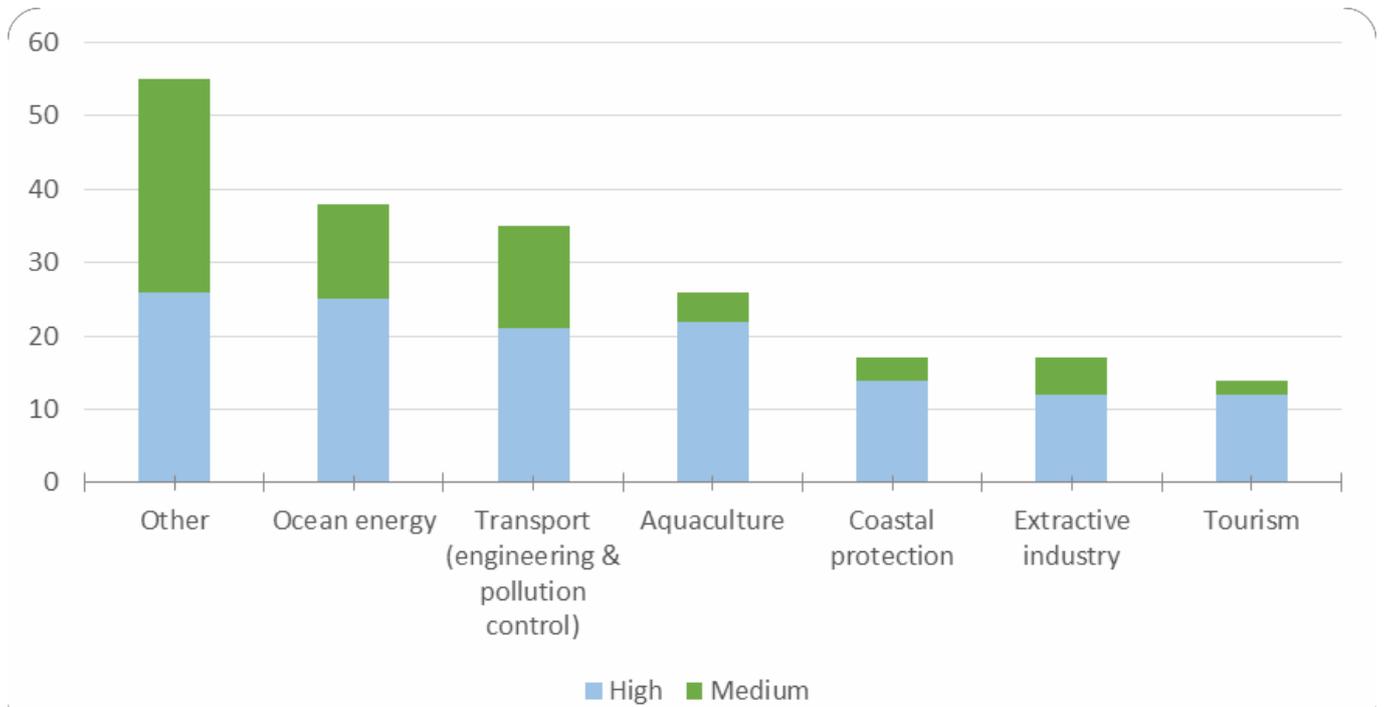
Q. How likely do you consider it that your final portfolio will include an investee in the area of ...

Likelihood for portfolio to include an investee in specific industries - current vs. future portfolio

Figure 2 Likelihood for portfolio to include an investee in specific industries - current vs. future portfolio

Source: study team - own considerations

The figure below illustrates the sectoral coverage across the assessed financing platforms:



Sectoral coverage across the assessed financing platforms

Figure 3 Sectoral coverage across the assessed financing platforms

Source: Study team, own considerations

Consultations with investees, investors and fund managers revealed substantial differences in scale and types of investment required by the different sectors of the Blue Economy, which flags the need to develop tailored support mechanisms. **Our analysis of the market need confirms the necessity of the implementation of a BEIP that takes into account the varying Blue Economy sectoral needs, in order to ensure that funds reach the innovative, young businesses contributing to sustainable economic sectors.** In order to satisfy the different investment needs of the Blue Economy sub-sectors, the BEIP should ensure that expert knowledge of Blue Economy technologies and markets is mobilised to make good investment decisions. Some targeted companies were already somewhat or highly successful in attracting external funding. Their success was often the result of a great amount of effort and involved the navigation of a very difficult investment process. The design of a future BEIP should consequently concentrate on the sectors most in need of financial support, namely coastal protection and emerging ocean energy sources (other than wind energy), some parts of the seafood, offshore wind and coastal tourism sectors.

Table 1 Availability of funding across the different sectors

	Notes	Blue Economy sectors						
		Coastal protection	Extractives	Renewable Energy		Seafood	Tourism	Transport
				Offshore Wind	Ocean Energy			
Size of annual investment need	1,2,3,4,5	Medium	Low	Very High	Low	N/A	N/A	Medium
Annual investment need (Range €bn)		3.1 to 7.8	1	22.5 to 30.8	0.8			5
Typical investment need (€bn)		4.7	1	8.3	0.8			5
No of market actors	6	Medium	Medium	High	Low	High	Medium	High
Total actors mapped		17	17	38		26	14	35
Highly relevant actors		14	12	25		22	12	21
Medium relevant actors		3	5	13		4	2	14
General availability of funding	7,8	Limited	Uncertain	Good	Poor	Good	Limited	Good
Total Investment need / market actor (€m)		276	59	218	21	Uncertain	Uncertain	143
Scale of supply deficiency vs investment need	9	High	Low	High	High	Uncertain	Uncertain	Medium
Scale of allocation implied through BEIP	10,11	High	Low	Medium	High	Medium	Medium	Low

Notes: (1) Investment needs defined as Low (1bn or less p.a.); Medium (1-5bn p.a.); High (5-10bn p.a.); Very High (10bn+ p.a.)

(2) Estimates of investment need were not found for Seafood or Tourism

(3) Total coastal protection investment costs of €100-250bn annualised through to 2050 (from 2018, i.e. 32 years): note will cover much climate resilience rather than pollution control

(4) Total offshore wind investment needs of €90-123bn to €250bn annualised through to 2020 (from 2017, i.e. 4 years including base year)

(5) Total offshore wind investment needs of €9.4bn annualised through to 2030 (from 2018, i.e. 12 years)

(6) No of market actors defined as Low (<10); Medium (10-20); High (>20); Indicative figures for ocean energy funding providers based on market knowledge of study team

(7) General availability of funding based on sectoral overviews in D14 report; Typical fund sizes from mapping are €25m to €100m, but some e.g. for Transport are very large

(8) Indicative figures for ocean energy funding provision based on market knowledge of study team; Seafood: exception is lack of credit finance for aquaculture in Mediterranean countries

(9) Scale of deficiency in supply of finance vs implied need based on alignment of average investment need per typical fund sizes

(10) Scale of allocation implied through BEIP indicates the indicative level of additional funding required based on ability of actors to meet investment needs

(11) New innovations in the offshore wind market such as floating wind implies additional risk capital finance

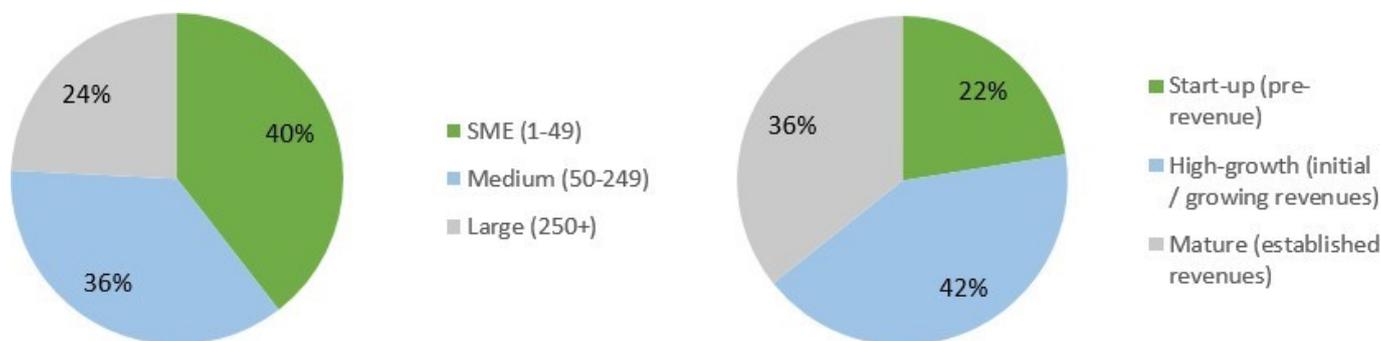
Availability of funding across the different sectors

Our study clearly identifies the funding gap and highlights key causes of companies' inability to raise money. We found that while most companies consulted were able to secure early funding often up to EUR 2-3 million through a mixture of family, friends, business partners, small-scale grants and loans, it is difficult for companies to go beyond the EUR 2-3 million mark to achieve the 'next stage' of business growth. Mainstream later stage investors in mature businesses, of which there are many, are often more interested in funding opportunities with above the EUR 15 million threshold. Hence there is a funding gap for amounts between EUR

3 million and EUR 15 million. As a result, companies need to professionalise their approach, undertake the necessary research, or prepare thoroughly before seeking external investment. Businesses generally welcome EU soft funding, but at the same time, they criticise the lack of flexibility and complexity of rules and regulations that come with it. The analysis demonstrates similarities of financing gap issues between the Blue Economy and mainstream sectors. Note that this study did not include consideration of larger infrastructure projects that would require larger amounts of finance. The needs of such projects are generally addressed by national governments or established infrastructure investors and do not suffer from the same inability to attract investor attention as the smaller companies that have been the focus of this study.

The analysis indicates that it is essential for a BEIP to take into account developments at EU level and contribute to a simplification of the funding landscape. A better combination of public and private funds (including EU financial instruments) could lead to a simplification and reduction of a possible market confusion. InvestEU – although it is not an exclusive Blue Economy tool – already moves in this direction. Stronger visibility, transparency and active engagement with policy-makers dealing with the post 2020 programmes and funding arrangements could further help attract more private funding from businesses and investors by creating more attractive structures.

The figures below illustrate the types of businesses targeted by the financing platforms:



Nature of the targeted businesses

Figure 1 Nature of the targeted businesses

Source: study team own considerations

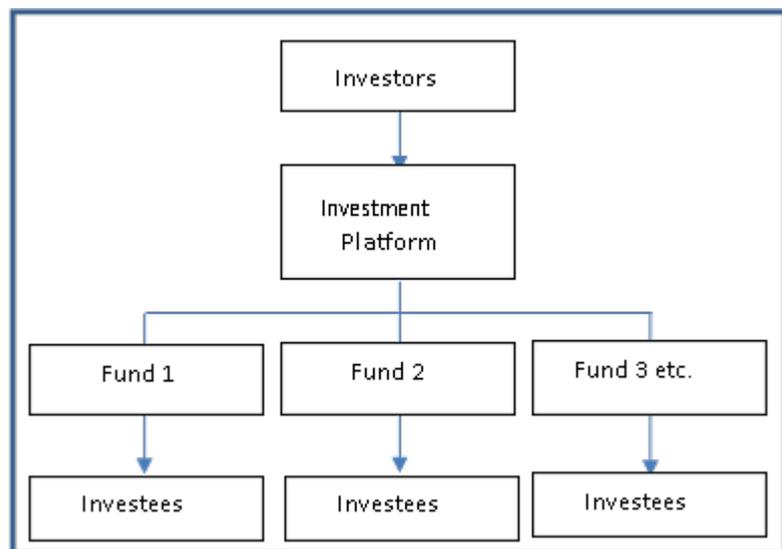
The results of the financing platform mapping identified a large number of financing instruments available to the businesses working in this sector. **A platform focused on the Blue Economy can have a genuinely beneficial role in gathering together funds from public and private sources into a single financing platform.** In order to implement a platform that satisfies the requirements of the Blue Economy sector and ensures facilitation of potential additional investment, the report presents a series of possible structural options for the development of a BEIP in section 5. These proposed generic structures range from direct, to indirect and co- investment structures. A certain number of key objectives need to be taken into account by the financing platform to be put in place. These include a reasonably short implementation time, the possibility to leverage the financial resources of the European Commission, avoidance of duplication and competition with existing players, attractiveness for investors, as well as the right kind of funding for investees.

In addition to the core activity of the BEIP to deploy capital to businesses in the Blue Economy sector, efforts should be made to include technical assistance and/or a grant-funded advocacy function in the BEIP. On the one hand, **a technical assistance facility could strengthen those underlying companies to which the BEIP provided capital (indirectly) and maximise efforts of the fund managers supported by the BEIP.** Technical assistance would positively affect the risk of the underlying portfolio by addressing weaknesses in end recipients of funds. It would also strengthen the capabilities of fund managers selected by the BEIP to operate in the Blue Economy. On the other hand, **advocacy could add value to specific sectors that are still in need of stronger regulation.** The fund manager can play an essential role by building connections with relevant stakeholders that are involved in improving relevant areas such as investment or environmental regulations. It is to be noted that such additional features cannot be financed by the fund manager itself but would have to be financed separately.

The analysis of the market needs led to the conclusion that a Blue Economy Umbrella Fund Structure would be the best way to implement a BEIP, as it will allow optimal allocation to sub-sectors that are most in need of investment during the implementation period. An umbrella fund makes it possible to support generalist Blue Economy investment funds, as well as funds that specialised in particular niches requiring a more in-depth knowledge regarding a sector, or funds focused on particular investment stages or investment instruments. It also enables fund managers best suited to manage the specificities of each sub-sector to be responsible for selecting investments and managing and adding value to their portfolios.

The Umbrella Fund could be set up either as a classical fund of funds structure, or as a virtual fund of funds structure. A Blue Economy Fund of Funds could invest in any funds that are dedicated to the Blue Economy or funds whose strategies simply include one or more sub-sectors of the Blue Economy. A fund of funds can be made up of a single, or of several tranches of different seniorities, which could help

ensure that it is able to attract interest from investors with a range of risk appetites. This financing platform could support existing fund managers as well as make specific public calls for fund managers according to geography, sector or other criteria if there are no existing fund managers addressing the area of interest / funding gap.



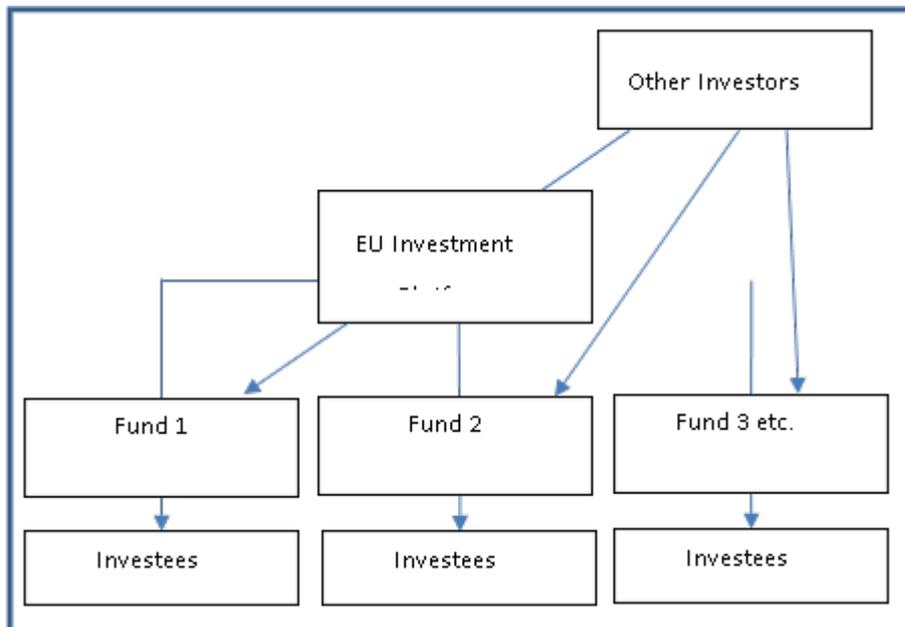
fund of funds

figure 5 fund of funds

Source: Study team, own considerations

A virtual Blue Economy Fund of Funds pursues a similar result, with the difference of achieving advantage of the EU financial resources that are committed on fund-by-fund basis instead of through a single fund of funds vehicle. Financial resources from EU institutions, such as DGs, EFSI, EIF etc. can be collected in the 'European Investment Platform'. Those financial resources are then re-invested in specific funds that oblige each recipient fund manager to raise a certain amount of additional funding from other public or private sources. The virtual fund of funds structure comes with attractive cost characteristics and could be considered as a better fit for public bodies, including the EIF Innovfin platform. Specific legal constraints faced by DG Mare, particularly regarding how available funds can be deployed, will have to be taken into account and might require adjustments to the proposed structures. The recommended size of the BEIP is of the order of EUR180m, which is a target that should be revalidated with prospective managers of the BEIP.





Virtual Blue Economy Fund of funds

figure 6 *Virtual Blue Economy Fund of funds*
source study team own considerations

Together with the selected BEIP fund manager, an investment strategy would have to be agreed upon for the Fund of Funds. The Fund of Funds can therefore be considered a powerful and flexible way to ensure that funding reaches both the most promising recipients as well as areas that the Commission judges to be most in need of additional funding. In the event that it proves impractical to implement the Fund of Funds structure, it is recommended to look at whether funding could be provided via a dedicated Blue Economy finance platform structure, or a co-investment vehicle. These alternatives would also be managed by an independent organisation, with the principal differences being the removal of one layer of intermediation and a corresponding reduction in the ability to apply funds in a targeted way.

The size of the investment gap and the investment dossiers provide ample evidence of the vibrant business environment and the number of innovative businesses in the various Blue Economy sectors. **There is a strong case for investing additional capital into the Blue Economy.** The establishment of a BEIP will be an essential step towards adequate access to funds for companies working in this field. This report does not include strategic, legal or structural aspects of a possible fund of funds structure. It is recommended that DG MARE should engage with the EFSI, the EIB/EIF, public and private investors to ascertain the fit of the Innovfin structure. In parallel, a structured approach to identifying a manager for a classical fund of fund structure should be undertaken. If required, some additional steps to further strengthen the case for investment into the Blue Economy are outlined below.

Table 2. Next steps to further strengthen the Blue Economy sector

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-

- Compiling a list of companies operating in the Blue Economy sector that are already quoted on the European stockexchanges
- Carrying out a simple analysis of the market values to provide ample evidence of the capacity of the sector to support business activity
- Case studies of some of these businesses that have followed a classical innovative business growth trajectory would complement investment dossiers.
- A filter would need to be applied to ensure that the businesses highlighted also satisfy blue growth objectives
-
- A review of successes already achieved by investors in the Blue Economy would be a powerful complement to the Investment Dossiers.
-

This would be done best by addressing the fund manager community and seeking out case studies of companies in which they have invested, and which have subsequently been successfully sold on.

• The fund managers would normally be pleased to support this kind of work because, in the case of successful exits, it would provide them with positive coverage.

Analysis could be fortified with review of M&A and Private Equity activity across Blue Economy sectors

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