

A photograph of a fisherman in a conical hat standing in shallow water, holding a large fishing net. The sun is low on the horizon, creating a warm, golden glow across the sky and water. The net is spread out, and the fisherman is silhouetted against the bright light.

FINANCING SUSTAINABLE SEAFOOD

A Baseline Study on Sustainable Seafood Finance
in China

Executive Summary

THIS REPORT
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WITH:

 IIGF 中央财经大学绿色金融国际研究院
INTERNATIONAL INSTITUTE OF GREEN FINANCE

 ONE PLANET
一个地球

Front cover

Fishermen gathering seafood on the beach when the tide is out at Rudong County, Jiangsu Province © He Yonghua

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EXECUTIVE SUMMARY

As an important agricultural sector in China, the seafood industry (including capture fishery, aquaculture, and processing) is closely connected to the natural environment and food security. On the one hand, aquatic products are an important source of protein for the people of China and the world, and the construction of China's "blue granary (蓝色粮仓)" is of strategic importance. On the other hand, the seafood industry not only relies heavily on a healthy natural environment, can have a profound impact on the ecosystem which it interacts with. Historically, the sector lacked environmental consideration, so fishery resource depletion, water pollution, environmental degradation and other issues have become prominent. Coupled with external factors such as climate change, the stability of the seafood industry is under significant threat. The sustainable development of the seafood industry is therefore critical in order to mitigate environmental damage and build resilience for the industry, which is key to the national economy and peoples' livelihoods. It is also consistent with China's strategies for the development of the seafood industry.

Finance is an important tool to promote sustainable development of the seafood industry¹. Against the backdrop of rapid development of green finance, and increased attention towards ocean-related industries, "blue finance" has become an emerging field. Blue finance can include supporting the environmental and social improvement of ocean-related industries with innovative financial tools like blue bonds as well as incorporating important social and environmental metrics into seafood-related lending and investing. However, neither green finance nor blue finance have been applied through in-depth, practical engagement with the seafood industry. The potential of the financial sector in supporting the sustainable development of seafood is still an area open for future exploration. This report approaches the issue from the **industrial finance perspective to explore how financial products and services provided to the seafood industry, i.e. "seafood finance", can contribute to its sustainable development.** This study examines the current landscape

of seafood finance through a literature analysis, expert discussions, and stakeholder interviews. Based on the research above, this report develops a roadmap which provides guidance on financial support for sustainable development of the seafood industry.

This report focuses on three specific key sub-industries: **capture fishery, aquaculture (primary industries), and processing (secondary industry)**. Since the financial activities arising from the seafood industry are relatively limited and mainly include financing and insurance, this report focuses on two specific financial services: loans and insurance. In addition, due to the high dependence of the seafood industry on the natural environment, this report mainly looks at the environmental dimension of sustainable development.

1. Special Note: There are significant differences between the term "fishery" in Chinese and English. The term "fishery" in the Chinese context includes "capture fishery, aquaculture (salt and freshwater), and processing fishing, and aquatic processing", while the term "fishery" usually refers to "capture fishery" in the English context. According to Turning the Tide: How to Finance a Sustainable Ocean Recovery developed by UNEP FI, the seafood sector includes "the production, processing, distribution and retail of fish, crusta-ceans, molluscs and other aquatic animals". So in this executive summary, we use "seafood finance" and "seafood industry" to generally describe the sector "capture fishery, aquaculture (salt and freshwater), and processing fishing, and aquatic processing".

Overview of China's Seafood Sector

Through analysis of potential sustainable development goals for China's seafood industry, it is concluded that the economic growth and sustainable development of seafood should go hand in hand and are mutually supportive. The combination of these two notions is consistent with the notion of "high-quality development" (高质量发展) in China. Therefore, these two pillars should become the guiding principles of how finance could support the industry. Furthermore, adequate financial support for the economic growth of the industry creates a stronger basis for promoting the sustainable transition of the industry.

Currently, China's seafood industry mainly consists of "small and scattered" small-scale entities. Most of these entities are engaged in the production activities of the primary industry. Main characteristics of small-holder entities in China includes diverse production patterns, strong regional differences, poor information availability, and difficulties in supervision. Most of the larger enterprises in the industry are engaged in processing, feed production, and other more modernized primary production activities. Financial services for the seafood industry in China have certain key characteristics, including high exposure to environmental risk, market risk, policy risk, management and operational risk. Some of the challenges for the development of financial services increased in the seafood industry include difficulties in fisheries and aquaculture asset valuation and financialization, strong regional differences in production, and high professional barriers for financial institutions².

Current Status of Seafood Finance in China

Consequently, endogenous characteristics of seafood finance such as high risk and difficulty in providing financial services are the major challenges for the future development of the seafood financial services. Influenced by aforementioned characteristics, financial institutions' seafood financing operations display three major characteristics:

- 1) prone to policy influence;**
- 2) significant conflict between supply and demand; and**
- 3) limited integration of sustainability.**

In practice, in terms of financing, banks (including rural credit cooperatives) mainly provide loans³, especially in the form of mortgage loans, to the seafood industry. The current practice of mortgage loans provided to the industry displays the following features.

- Firstly, due to the fragility of the industry, financial services are prone to policy influence.**

2. this refers to the lack of sufficient understanding of the seafood industry as a basis for good design of financial services, which is a challenge for the financial institutions and requires high investments in expertise.

3. Loans are usually made against fixed assets, mainly homes and production equipments.

This is reflected in the fact that financial institutions providing services to the seafood industry are mainly consisted of policy banks, state-owned commercial banks, rural commercial banks and rural credit cooperatives. The way these banks support the industry is also mainly determined by the relevant industrial policies and their own policy-based mandates.

- Secondly, the provided loans fail to satisfy the demand.** Because of factors such as the high-risk nature, difficulties in the valuation of seafood -related assets, and limited understanding of the industry by financial institutions, there is a lack of incentive for providing financial services to the industry, resulting in the limited overall loans provided. Within the limited support, the financial service supply does not sufficiently cover demands from the industrial players - banks are prone to provide loans to larger enterprises, and there is insufficient support for small-scale entities.
- Thirdly, there is limited integration of the sustainability in financial services provided by financial institutions.** Because of the lack of relevant policy tools and limited understanding of the industry by financial institutions, there is still much room for financial institutions to develop in promoting seafood -related green financing. The existing decisions made by banks focus mainly on the financial condition of the entities receiving the loan. There is a lack of proactive and systematic examination of the environmental performance of the receiving entity.

In terms of insurance, both the Fishery Mutual Insurance Association (which is planned to later transform into a formal financial institution) and commercial insurance institutions provide seafood insurance services. There are three main categories of insurance services, including mutual insurance, policy insurance (excluding mutual insurance), and commercial insurance. The seafood insurance practice has three main characteristics.

- Firstly, seafood insurance is highly influenced by policy.** From the insurance supplier's view, due to the high-risk nature of seafood production, it is more difficult for commercial insurance institutions to make profits. From the insured party's view, high risk means high premiums. Because of factors such as difficulties in the valuation of assets, the provision of seafood insurance relies heavily on policy support, including premium subsidies, seafood insurance pilots, etc. Thus, seafood insurance services are mainly provided in forms of mutual insurance and policy insurance products facilitated by policies.
- Secondly, seafood insurance supply currently does not meet the demand.** Seafood insurance coverage fall short of comprehensiveness and evenness in coverage of industry players and types of assets. When

it comes to risks arising in production, the insurance coverage of capture fisheries is high in terms of clients and subjects of insurance, while there is little coverage for aquaculture production. Overall, the existing insurance services lack diversity, which cannot meet the needs of protecting managing diversified risk in seafood production. Furthermore, the provision of aquaculture insurance is relatively limited to more modernized approaches such as industrial aquaculture, but less available for traditional aquaculture, and therefore small-scale entities. In terms of insurance for market risks, especially products that are directed towards raw material price volatility are still under development, and only limited insurance products are available. Overall, the existing insurance services are limited in coverage and fail to meet the diversified needs of seafood production risks management.

- **Thirdly, there is limited integration of sustainability in the provision of seafood insurance.** On one hand, due to the low availability of information and the lack of sustainability assessment tools, insurance institutions lack the proper entry point to engage with seafood production. As a result, environmental performance of seafood production is not incorporated in the terms and conditions of insurance services. On the other hand, insurance institutions rarely develop insurance products which could provide risk management services for sustainable seafood production activities.

Promoting Sustainable Seafood Finance in China

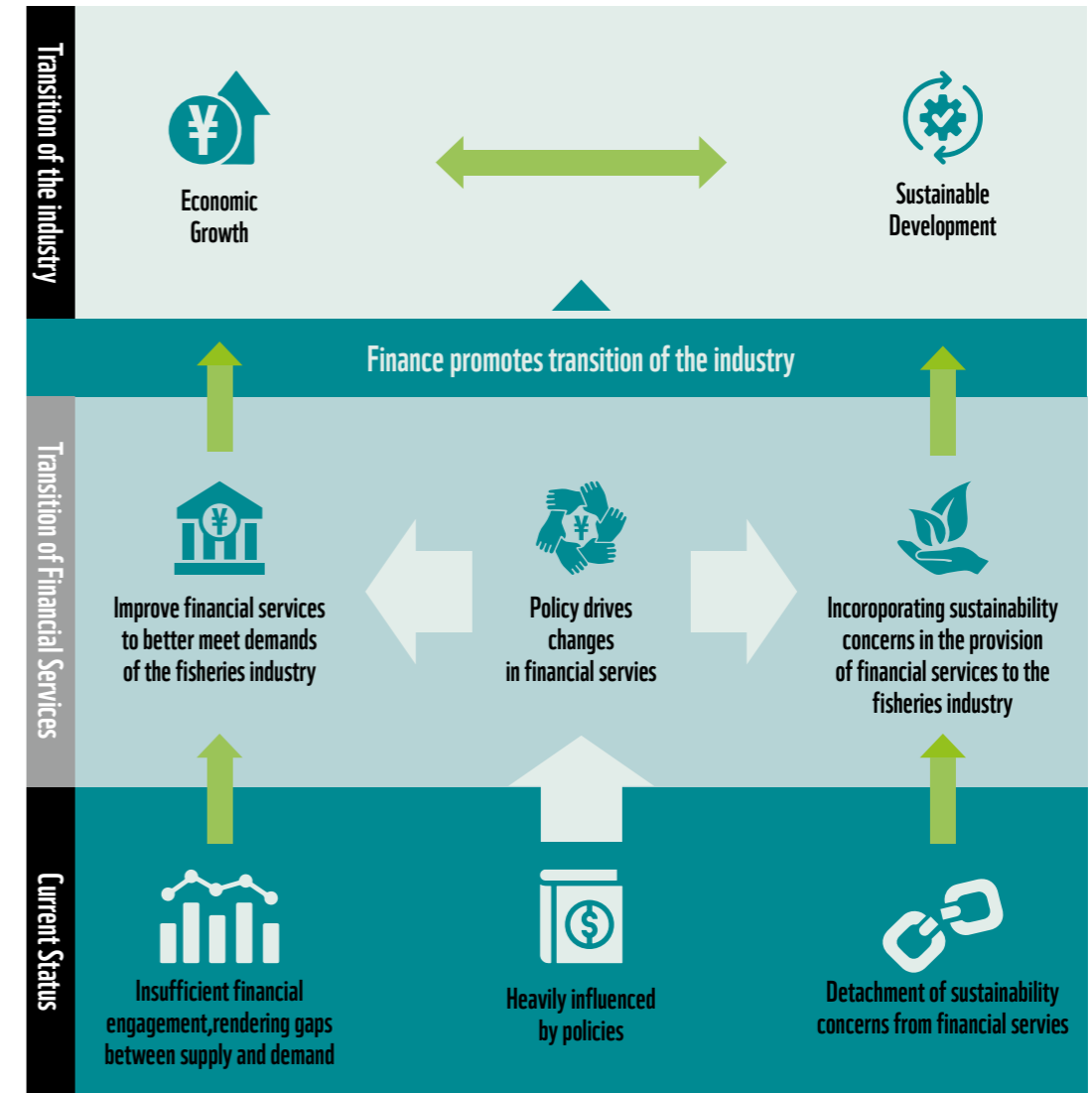
Based on these circumstances, seafood finance is at the very initial stage of engaging with sustainability within the seafood industry. Seafood finance needs continuous innovation in order to promote sustainable development. This should be done in line with the national strategy, which is to support both the economic growth and sustainable development of the industry. This report aspires to contribute to the development of sustainable seafood finance by providing a roadmap (based on multi-stakeholder participation) and by outlining three main recommendations.

- **The first is to promote the process of aggregation and informatization (increased information availability and accessibility) of small-scale entities.** In response to the endogenous characteristics of the industry, with the majority of the producers being "small and scattered" hindering mobilization and accessibility to financial services; limited information availability and accessibility further stifle the development of financial tools.
- **Secondly, the design of seafood financial services need to be more 'fit for purpose'.** This includes promoting the process of seafood asset financialization, mitigating risks of the industry through policy and financial means, optimizing the layout of seafood financial services, and improving seafood financial

services at the product level.

- **Thirdly, financial support for the industry needs to incorporate sustainability concerns.** Specifically, this can be achieved through:
 - 1) "greening" of seafood finance practices - financial institutions need to take the initiative in incorporating sustainability-related standards into the financial services process to promote sustainable seafood operations;
 - 2) seafood finance supporting "green" seafood - seafood finance can provide financial support for green seafood technology and sustainable transformation to close the financial gaps for sustainable projects.

How finance can better promote the sustainable development of the fisheries industry



**OUR MISSION IS TO STOP THE
DEGRADATION OF THE PLANET'S
NATURAL ENVIRONMENT AND
TO BUILD A FUTURE IN WHICH
HUMANS LIVE IN HARMONY
WITH NATURE.**



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