

EXECUTIVE COUNCIL

CONFIDENTIAL

Title of Report: Import Substitution – FIDC Access to and use of Allocated Funding

Paper No: 169/11

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Report of: FIDC GM – David Waugh

1.0 Purpose

1.1 The purpose of this Paper is to seek the approval of the Executive Council (ExCo) to grant FIDC the funding allocated by FIG for Import Substitution for distribution to rural businesses, to encourage the import substitution of fruit, vegetables and chicken eggs, as per the strategic direction advised by Members of Legislative Assembly (MLAs).

2.0 Recommendations

2.1 ExCo is recommended to approve the following;

- i. Grant the funds allocated for Import Substitution to FIDC *using a method to be agreed by the Financial Secretary and General Manager, FIDC;*
- ii. *The distribution and administration of the funding for Import Substitution using the Funding Framework described in Section 5;*
- iii. Leasing of appropriate parts of Beckside Farm to private sector operators who in turn could apply for funding under the proposed Import Substitution Funding Framework;
- iv. To disband the Import Substitution Task and Finish Group *and to delegate to FIDC's loan committee (to include the Senior Agricultural Advisor and the RDS Co-Ordinator) the administration of the loans.*

3.0 Summary of Financial Implications

3.1 The financial implication of this Paper is the distribution of the Import Substitution Budget of £250,000 to rural businesses, in order to encourage import substitution.

	2011/12 (£)
<u>Import Substitution Budget</u>	250,000

3.2 FIG is to grant the £250,000 allocated for Import Substitution to FIDC to distribute and administer. Similar to previous schemes and arrangements between FIG and

FIDC, all proceeds generated from this fund (e.g. repayments and interest payments) are to be kept by FIDC. Any remaining grant funds, after the deadline for applications has passed, are to be returned to FIG.

- 3.3 As described in Section 5, two different funding options would be made available to applicants. Under the first option, a funding ratio of 70% debt, 20% grant and 10% equity (applicant funds) has been proposed as part of the Funding Framework. This would mean if the entire budget was distributed, £194,000 (70%) - not excluding the interest payments - of the budget would be recovered in loan repayments and £56,000 would be unrecoverable in grants.
- 3.4 Under the second option a funding ratio of 80% equity and 20% grant is being proposed. A lower take up of this second funding option is anticipated due to the additional cash requirements from the applicants. However, if the entire import substitution budget was distributed using the second funding ratio none of the funds distributed would be recoverable.

4.0 Background

- 4.1 Approximately 319mt of fresh vegetables and fruit was imported into the Falkland Islands by air or sea in 2009/2010, a reduction of 104mt from 2007/2008 imports. It has been estimated that 203mt (64%) of the 2009/2010 imports can be grown in the Falkland Islands, either in a field (152mt) or in a polytunnel/greenhouse (51mt). Also, approximately 12,000 eggs are imported into the Falkland Islands, via the LAN flight, every fortnight.
- 4.2 The amount of fruit and vegetables imported into the Falkland Islands is partly dependent on the quality of the Falkland Islands growing season in any given year. A good and long summer would reduce imports; however this could vary greatly from year to year.
- 4.3 Since the restart of hydrocarbons exploration in the waters surrounding the Falkland Islands, the Government of Argentina has increased its protestations and actions against British sovereignty over the Islands and the surrounding waters and is attempting a form of economic blockade. This has severely affected the commercial shipping link to and from the Islands – which ceased operations in June 2011.
- 4.4 The potential for further disruption of future shipping links and the added possibility of disruption of the air links, both of which are heavily relied on for the importation of fresh produce between South America and the Falkland Islands, has created genuine concern from the Falkland Islands Government (FIG) and MLAs. Based on this concern, FIG and MLAs established a Task and Finish Group to consider and progress the import substitution of fresh produce and other products that could be grown or produced domestically. The ultimate aim is for the Falklands to become self-sufficient and less susceptible to external pressure, with regards to fresh produce.
- 4.5 In May 2011 an Information Paper was presented to MLAs in an informal meeting with respect to the way forward for the implementation of import substitution and the use of the proposed funding. This was also discussed at the Falkland Islands Development Corporation Board (FIDB).

- 4.6 The MLAs discussed that the objectives would be best fulfilled by FIDC utilising the available funding to encourage and support the development and growth of existing or embryonic horticulture and egg activities of rural businesses (businesses external to the Stanley boundary). The MLAs also discussed that appropriate parts of Beckside Farm should be leased to the private-sector and the successful bidder would be eligible to apply for financing from this particular fund.
- 4.7 The purpose of leasing appropriate parts of Beckside Farm instead of the entire site under one lease is to ensure the most effective and efficient use of the land and its buildings. Appropriate parts of Beckside Farm, such as the chicken shed, the paddocks and other areas of land, could be individually leased for their most appropriate activity, ensuring effective use of the land. It could be seen as an inefficient use of 1,100 acres of land if a business leased the whole of Beckside Farm just for egg production.

5.0 Funding Framework

- 5.1 Applications for funding from the Import Substitution budget will follow the standard FIDC loan application process. The FIDC loan application process requires a business plan and detailed application, which is then subject to a thorough and rigorous assessment, before recommendations are made on whether funding should be provided or not.
- 5.2 Two funding ratios have been proposed for rural businesses seeking financing to establish or expand import substitution activities. Any rural businesses or individuals wishing to start or expand a horticulture or egg farm business will be able to apply for funding on the basis of a ratio of 70% debt, 20% grant and 10% equity. Rural businesses with a higher degree of self-funding availability but seeking an incentive and some assistance will be able to apply for and benefit from a 20% grant supported by 80% applicant's funds.
- 5.3 The debt element of the funding would be offered in the form of an unsecured loan. The FIDC loan policy, as approved by the FIDB, provides for an unsecured loan at an interest rate of *1% over the base rate for the first two years of a loan*.
- 5.4 As the initial lead-time for establishing or expanding horticulture and egg farming operations is usually somewhat lengthy, an appropriate repayment holiday, on interest and repayments, will be decided on a case-by-case basis, with a maximum of 12 months. The payback period for the loan will vary depending on its value, however the maximum length would be ten years.
- 5.5 No restrictions will be placed on the maximum amount of each funding application. However, the total debt, grant and equity value of applications under £10k would not be normally considered as amounts below this level will not usually enable a significant-sized operation in order to enjoy economies of scale and make any significant impact in import substitution. The objective is not to attract 'keen gardeners' or hobbyists but to encourage and assist professional, serious, business-minded operators that see this as a real opportunity to establish a sizeable and sustainable commercial operation.

- 5.6 Applications for funding from the Import Substitution budget is strictly limited to operations directly linked to import substitution, specifically horticulture (and more precisely the growing of fruit, salads and vegetables) and chicken egg farming. Examples eligible for potential funding are capital expenditures (e.g. polytunnels or chicken sheds), freight and 'raw materials' such as soil conditioner (e.g. fertilizer), day-old chicks, chicken feed or seeds. Labour costs, as appropriate to the individual application and project, will be eligible for funding under this scheme.
- 5.7 The opportunity to apply for funding from the Import Substitution budget will be open until the 30th June 2012. A further 6 months will then be allowed, until 31st December 2012, to complete the drawdown of funds, as is currently the case with standard FIDC loan facilities. A time limit for applications to be submitted has been set as an attempt to speed up the process of the import substitution of fruit, vegetables, salads and chicken eggs.
- 5.8 Successful applicants will be required to submit their annual accounts and/or sales records to FIDC. This is to ensure the loan and grant funds provided to the applicant are being applied appropriately and effectively.
- 5.9 In order to facilitate and coordinate the supply of products into the main retailers, hotels, fishing vessels, cruise ships, oil support vessels, MoD, hospital, etc, a collection and distribution 'hub' would be highly desirable. This could become an opportunity to be the sole point of contact for producers to deliver their goods to and receive payment from in a timely manner.

6.0 Financial Implications

- 6.1 The financial implication of this Paper is the distribution, through FIDC and its existing administrative structure, of the £250,000 allocated to import substitution by FIG to operators wishing to either establish or expand a horticulture or egg farming operation. The initial funding ratio, as stated in paragraph 5.2, has been proposed, and according to this ratio 70% of the total project cost would be recoverable through loan repayments and 20% of total project costs would be unrecoverable as it would have been distributed in the form of grants. Recovered funds would be used by FIDC to support EDS, RDS and TDS delivery in future years.
- 6.2 If operators exploited the alternative funding ratio of 80% equity and 20% grant stated in 5.2, the entire £250,000 budget would be unrecoverable since it would all be used in the form of a grant and no debt which is to be repaid. The possibility that the entire budget would be distributed in this manner would be unlikely as it would require rural businesses to collectively invest £1m of their own capital into import substitution.

7.0 Legal Implications

- 7.1 None.

8.0 Human Resources Implications

- 8.1 The additional workload generated by the Import Substitution funding scheme could be successfully absorbed by the existing staff at FIDC and more specifically the FIDC Business Advisor. The Business Advisor would be able to adopt the workload generated as it corresponds with the role's Job Description and current body of work. It is estimated on average, if the scheme is fully subscribed over the intended period, only an additional two business loan applications a month would be generated.