



European  
Commission



# Financial Instruments under IPARD III?

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## WHY

- Access to finance in the Western Balkans
- Big needs for investment
- Increasingly limited resources, achieving higher levels of investment
- Smaller risk of market distortion
- Grants – limited to the areas with EU level added value (environment, innovation, restructuring)
- Should be significantly easier and more flexible than using grants

## **SITUATION IN THE WESTERN BALKANS (2014)**

- Total direct investments in the agro-food sector: ranges from 3.3 billion EUR in Serbia to 30 million in Montenegro. EUR 466 from IPARD (6 years)
- Share of agricultural sector lending of the total bank's portfolio is low. Few banks specialising/interested in agricultural lending
- High interest rates (5-30%)
- Average maturity – rarely longer than 5 years
- Lack of collateral

## **SITUATION IN THE WESTERN BALKANS (2014)**

- Grants and subsidies - dominant
- Credit lines with subsidised interest rates – not common
- Few credit guarantee facilities

**Not only a problem in the Western Balkans**

## Financial gap for agriculture (2017) – Total by MS

The estimated EU agricultural sector's financial gap is:

- for short-term loans

**EUR 1.56 bn - EUR 4.12 bn**

- for medium/long-term loans

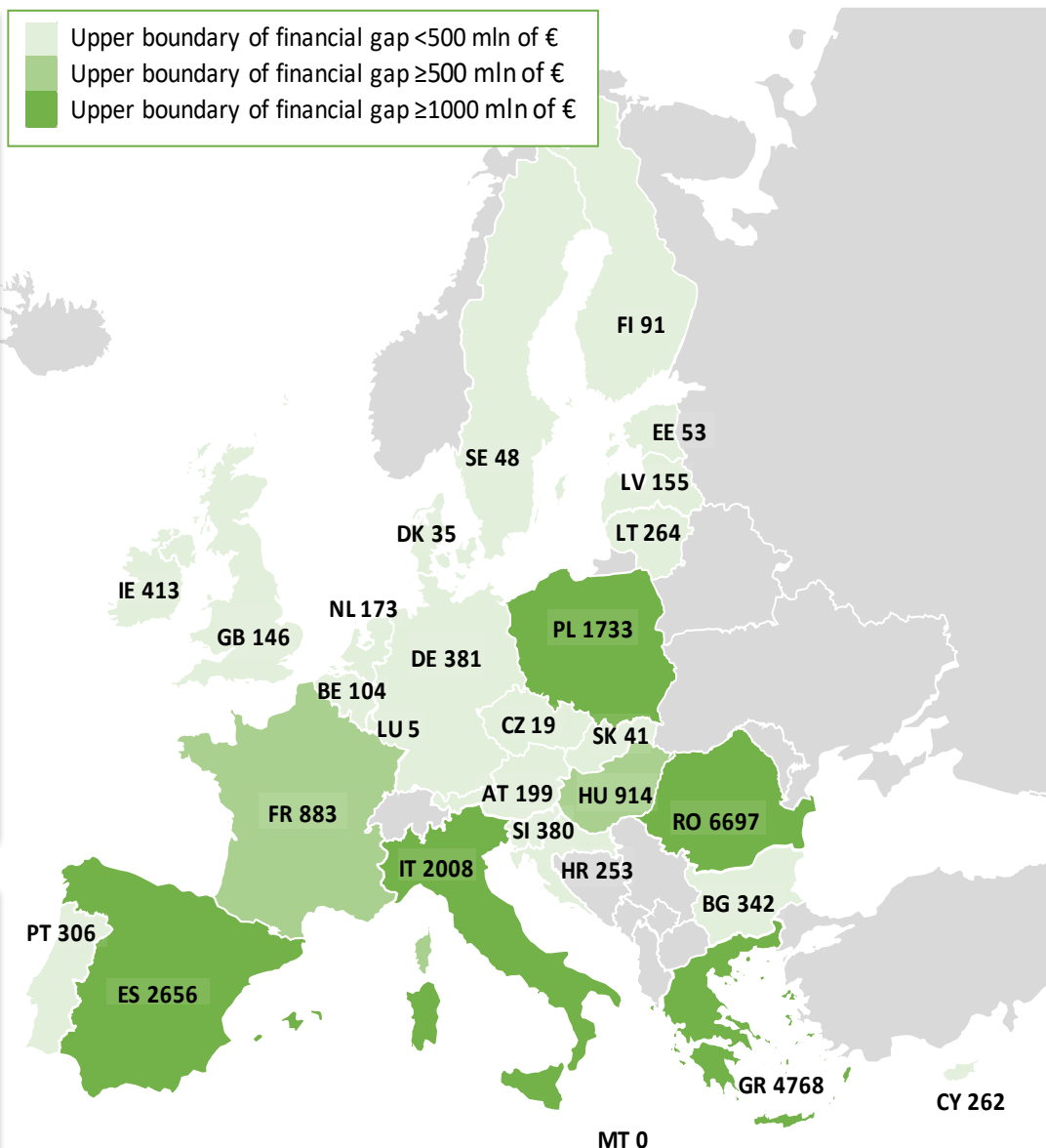
**EUR 5.50 bn - EUR 14.48 bn**

The total financial gap, therefore, is between:

**EUR 7.06 bn - EUR 18.60 bn**

**(doubled since 2013)**

Launched a new evaluation of the financial gap in each MS for agriculture and food industry – the results are expected at end 2019/beginning 2020



## Not fully functioning financial market for agriculture

### □ Survey of EU banks:

- Available credit history – crucial for the evaluation of farmers' loan applications
- Higher level of collateral from farmers that lack credit history (e.g. start-ups/ young farmers) – asked by 60% of banks, i.e. significant marked failure

### □ Survey of EU farmers' access to finance:

- Farmers apply less for bank finance than other SMEs (17% vs 26%)
- Higher rate of “discouraged” farm enterprises (9% vs 5%)
- Reliance on resources provided by friends/relatives (15%) – farmers look for other sources for helping them

## Example - Key financial characteristics of EU young farmers

### Disadvantages:

- ❑ Low capital stock
- ❑ Below-average income

### However:

- ❑ Higher net investment - invest more
- ❑ Higher returns on assets
- ❑ Below-average liabilities - less debts
- ❑ Beneficial debt-to-asset ratio



**Higher  
qualification**

Therefore - excellent conditions for lending

## Investment behaviour of young farmers in the EU (2017)

### Similar to older farmers:

- ❑ 62% invest in machinery
- ❑ 40% receive working capital loans
- ❑ 11% purchase land

### However:

- ❑ Young farmers prefer loans with flexible conditions:

- Payment modalities
- Price fluctuations & payment flexibility
- Grace periods

.....but not so many offers with flexibility.....

- ❑ Young farmers clearly prefer medium- to long-term loans

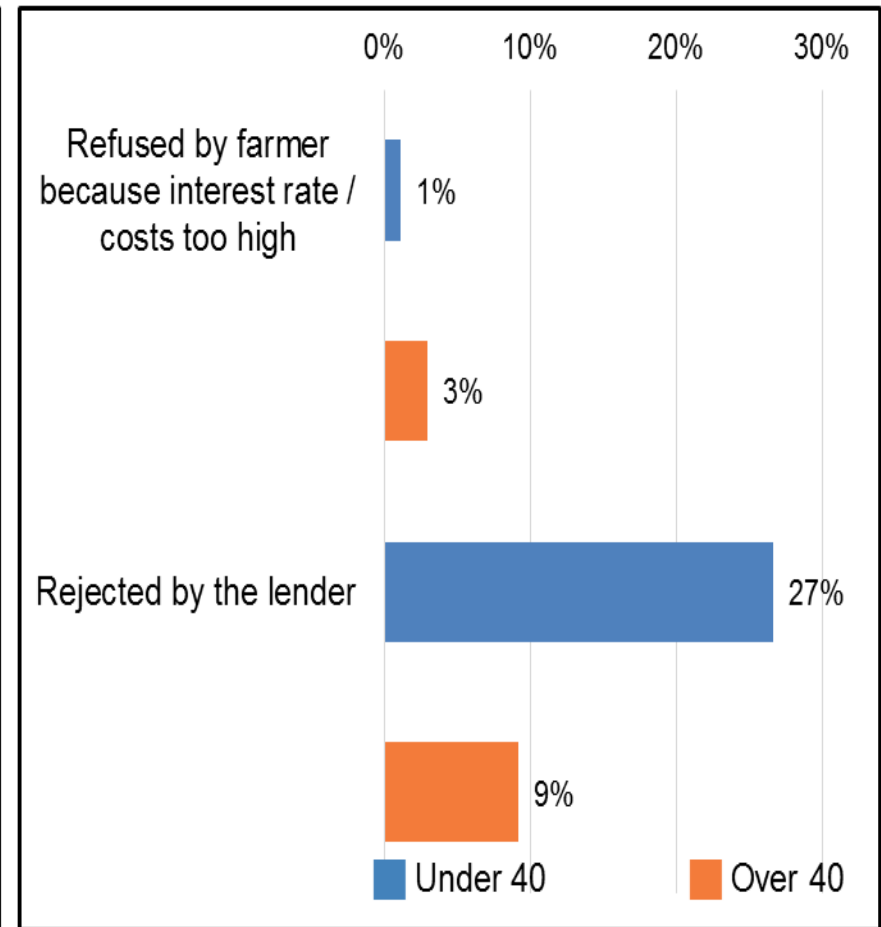
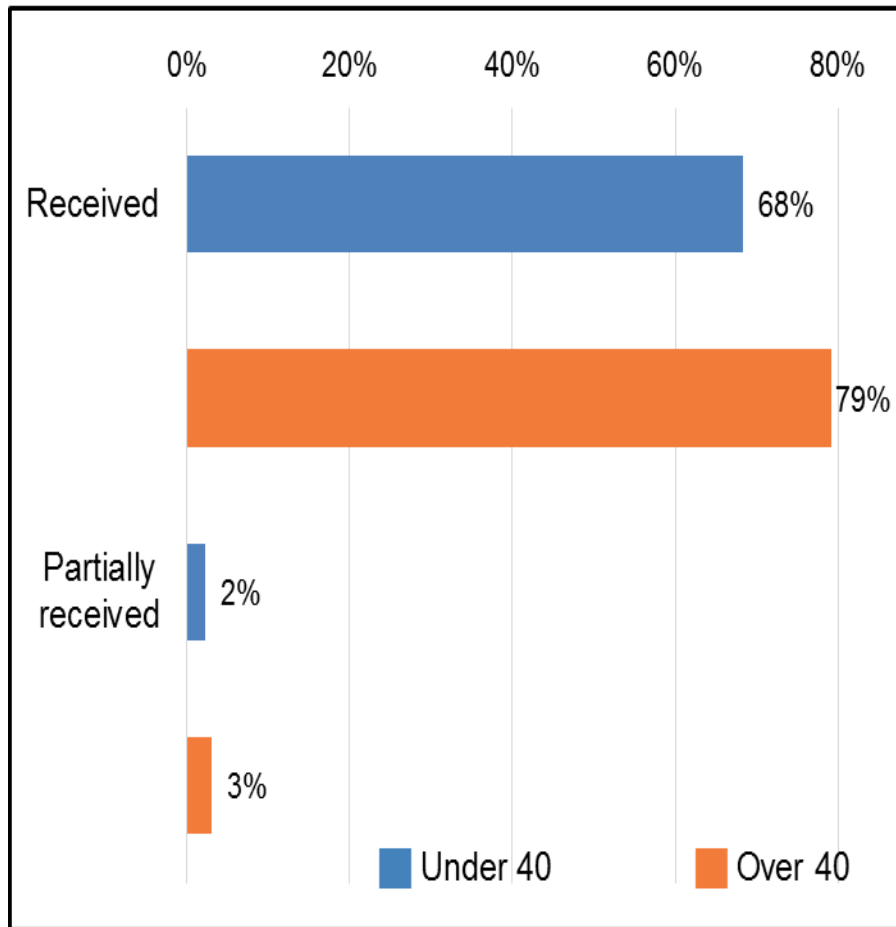


## **Lending characteristics of young farmers in the EU: clear need of properly designed financial instruments**

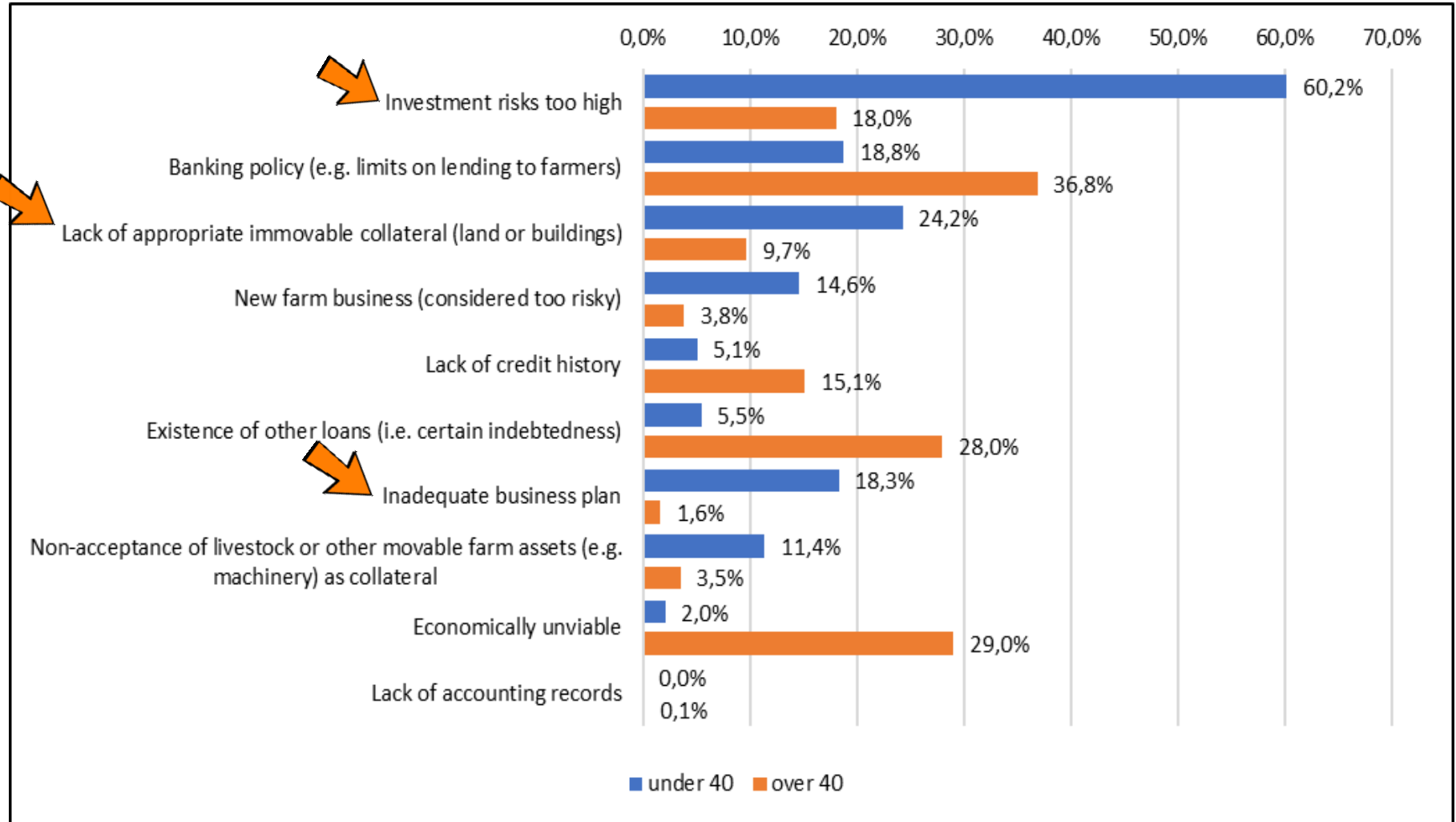
- 23% of YF are afraid to apply for a loan, as they may be rejected
- 35% of YF have no movable or immovable assets for collateral – unfavourable conditions
- YF use more financing from private sources

## Access to finance: Young farmers vs other farmers

### Result of applications for bank finance based on farmer's age



## Key reasons for banks to refuse loan applications by farmers



## EAFRD FIs: state of play

### Operational FIs

- 10 programmes [1 DE, EE, 1 ES, 3 FR, HR, 2 IT, RO]
- Guarantee and loan funds only - no equity funds

### Signed Funding agreements, not yet running

- 8 IT programmes [under the IT AGRI-guarantee platform]
- 3 FR programmes [Nouvelle-Aquitaine region, EAFRD – EFSI Initiative]

### FIs in preparation

- 3 national/regional programmes [1 ES, LT, PL]
- 5 programmes under the EAFRD – EFSI Initiative [EL, SI, SK, 1 ES, PT]

**29 programmes**  
**13 Member States**

**Expected loans**  
**EUR 2.0 – 2.5 bn**

**EUR 600 mln**  
**EAFRD**

## **Why would a farmer choose a FI?**

- Quick and permanent access to funds
- Standard application and fast evaluation
- All funds received before investing
- Independent decision making
- Favourable loan conditions
- No control of final recipient
- No reporting back to MA
- Less or no administrative burden
- Fewer restrictions
- Combination with grants

## WHAT

- Short-term loans
- Long-term loans
- Guarantee facilities
- Subsidy of the interest rate

## Financial instruments for young farmers

### □ Simplified rules

- ✓ Elimination of eligibility conditions on investments, except purchase of land & irrigation
- ✓ No eligibility restrictions in post-2020

### □ Loans for working capital via FIs

- ✓ Now possible, if the farmer receives an investment grant within the same project
- ✓ Stand-alone working capital FIs, with no grants involved, possible in post-2020

### □ Revolving resources

- ✓ EAFRD resources in FIs remain for the MS after they have been rolled-out at least once

## Examples of approaches supporting young farmers in the current EAFRD financial instruments

- YF pay an interest rate fixed at 2% + ECB rate, which is lower than that charged for other businesses under an EAFRD FI [*Estonia*]
- Financial intermediaries are incentivised - through a management fee mechanism - to provide (more) funding to young farmers from the allocated EAFRD resources to the EAFRD FI [*Romania*]
- Earmarked support for YF' investments in their agricultural holdings - in the FI [*Portugal*]



# DG AGRI/fi-compass EAFRD studies – last two years

Taking stock and exploring new opportunities for EAFRD FIs

## Analysis of the financial gap in agri-sector

- ▶ Estimate of EU agricultural sector financial gap, based on SMEi methodology
- ▶ S/t loans  
EUR 1.5bn - EUR 4bn;
- ▶ Medium and l/t loans  
EUR 5.5bn - EUR 14.5bn.
- ▶ **Total financial gap: EUR 7bn - EUR 18.6bn.**



Published

## Programming study of FIs in RDPs

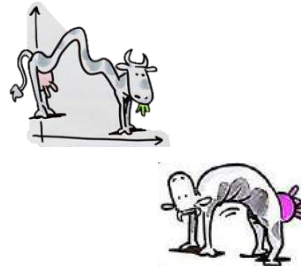
- ▶ Implementation of the EAFRD through financial instruments - based on experience and the difficulties in MSs during the current programming period – **served for the Omnibus**



Published

## Report: flexibility of banks' loans in cases of price volatility

- ▶ 216 banks approached (17 MS); 47 of them – with agricultural portfolio - were interviewed
- ▶ 15 of them propose "flexibility" in case of price volatility (e.g. flexible repayment schedule) - analysis of possible public support
- ▶ **To be presented on 29 April - conference**



Published (Feb)

## Guarantees & counter-guarantees

- ▶ Analysis/survey in 13 guarantee institutions – **confirmed that the demand for such products/schemes will increase**



Finalised

## Work on the use of FIs for agri & rural infrastructure

- ▶ **Currently assessing** how financial instruments might help to increase the EAFRD impact on infrastructure investment



Almost finalised

## **DISCUSSION TODAY**

### Assessment of the situation:

- Market failures
- Sub-optimal investment situations
- Investment needs – investment gap analysis
- Possible private sector participation
- Resulting value added of a FI