



Financial Instruments, EIB lending and the 2019 Initiative for young farmers

CDG Horticulture, Olives and Spirits

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Objectives in the CAP communication related to Financial Instruments:

- **Income**
 - to address the current investment gap in food & farming sector
- **Generation renewal:**
 - support to farm investments and working capital / higher risk profiles of young farmers
- **Risk management:**
 - to overcome temporary cash flow difficulties of viable businesses (price volatility)
- **Rural development / smart villages:**
 - to leverage additional support to be invested in rural areas



Economic and Budgetary context

- **Estimate of financing gap (2020)**

⇒ € 19.8 – 46.6 billion for agriculture

⇒ up to € 12.8 billion for agro-food

[Impact of Covid-19 crisis not covered]

- **Doing more with less**

⇒ More investment projects with less CAP budget

⇒ Re-paid CAP support can be used for further support to farmers

EU Banks and finance from agriculture:

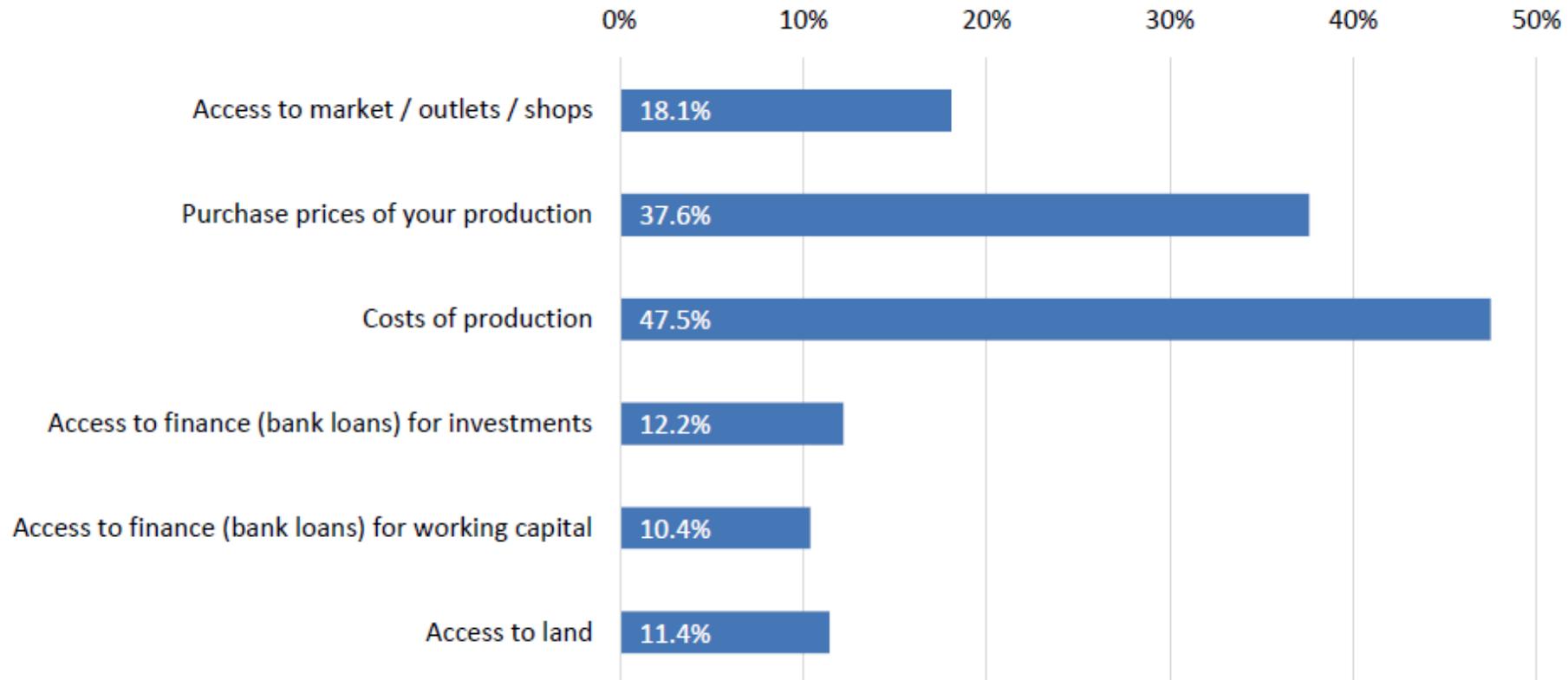
- 73% of all banks expect the demand for finance to increase in the coming years
- 86% of all banks confirmed that demand had already increased in 2015-2017

24 EU country reports with gap estimates from 2020 available at: <https://www.fi-compass.eu/publication/brochures/survey-financial-needs-and-access-finance-eu-agricultural-enterprises>

Market challenges



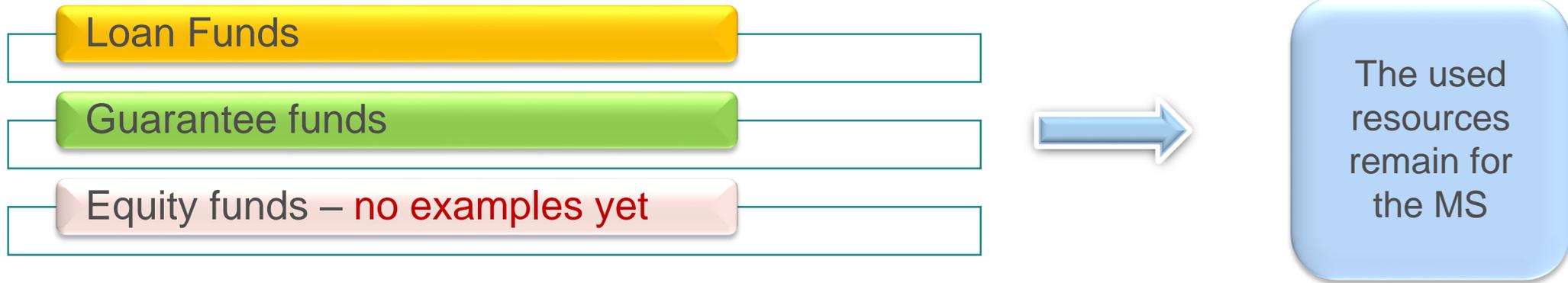
Share of farms experiencing difficulties in the previous year (2018 survey)



Farmers have more difficulties in accessing finance for investment than SMEs in other sectors: 12% against 7%



Types of FIs supported by the EAFRD

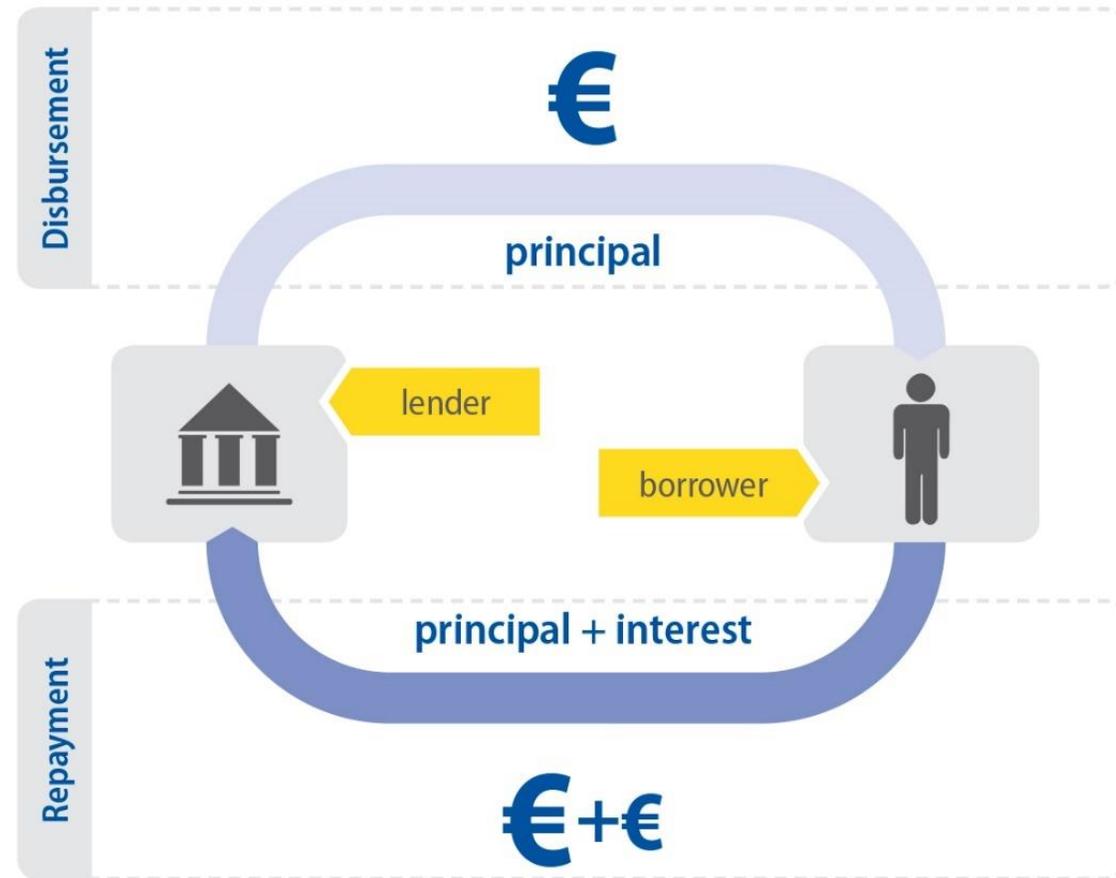


- **Agriculture always covered**
- **Combination with grants (additionality)**
- **Attraction of private capital (leverage)**

Advantages for farmers when using FIs

EAFRD FIs can offer, among others:

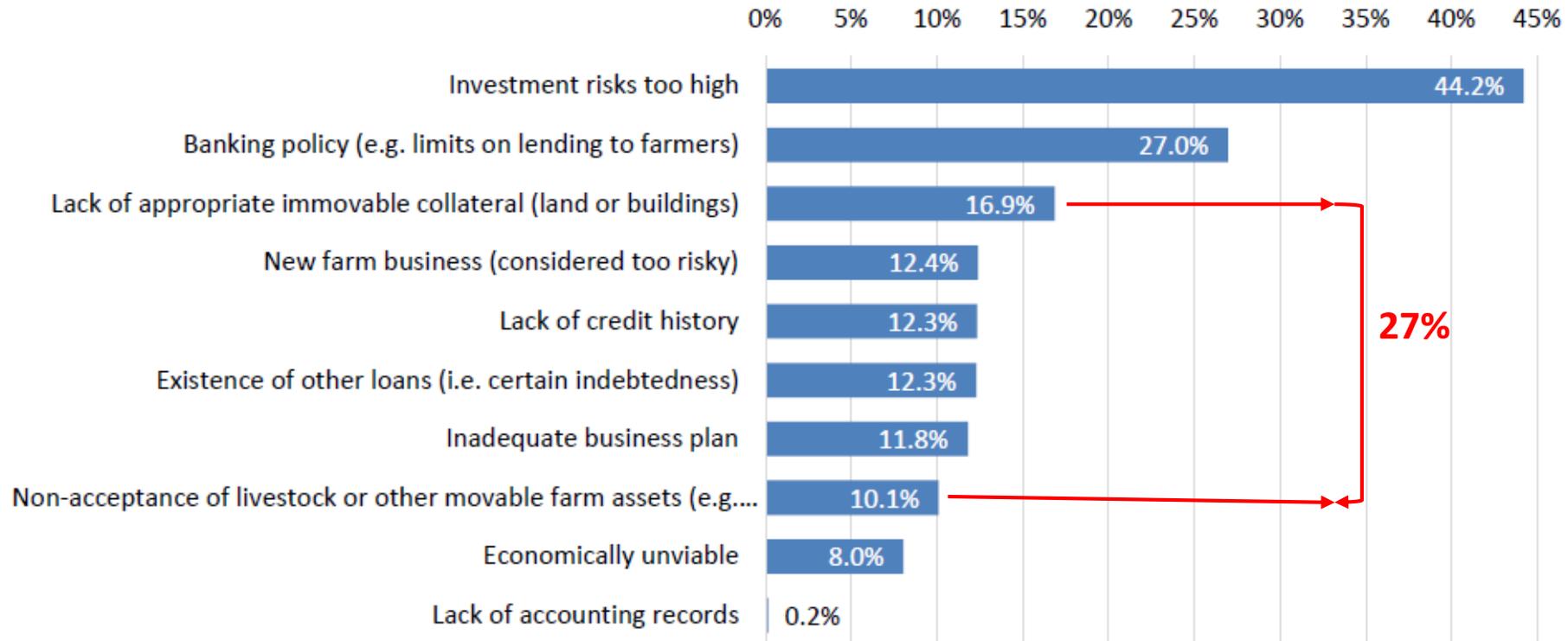
- **lower** than market **interest rates**
- **longer** repayment **periods** (incl. grace periods)
- **reduced** collateral requirements
- **working capital** finance



Why are loan applications refused?



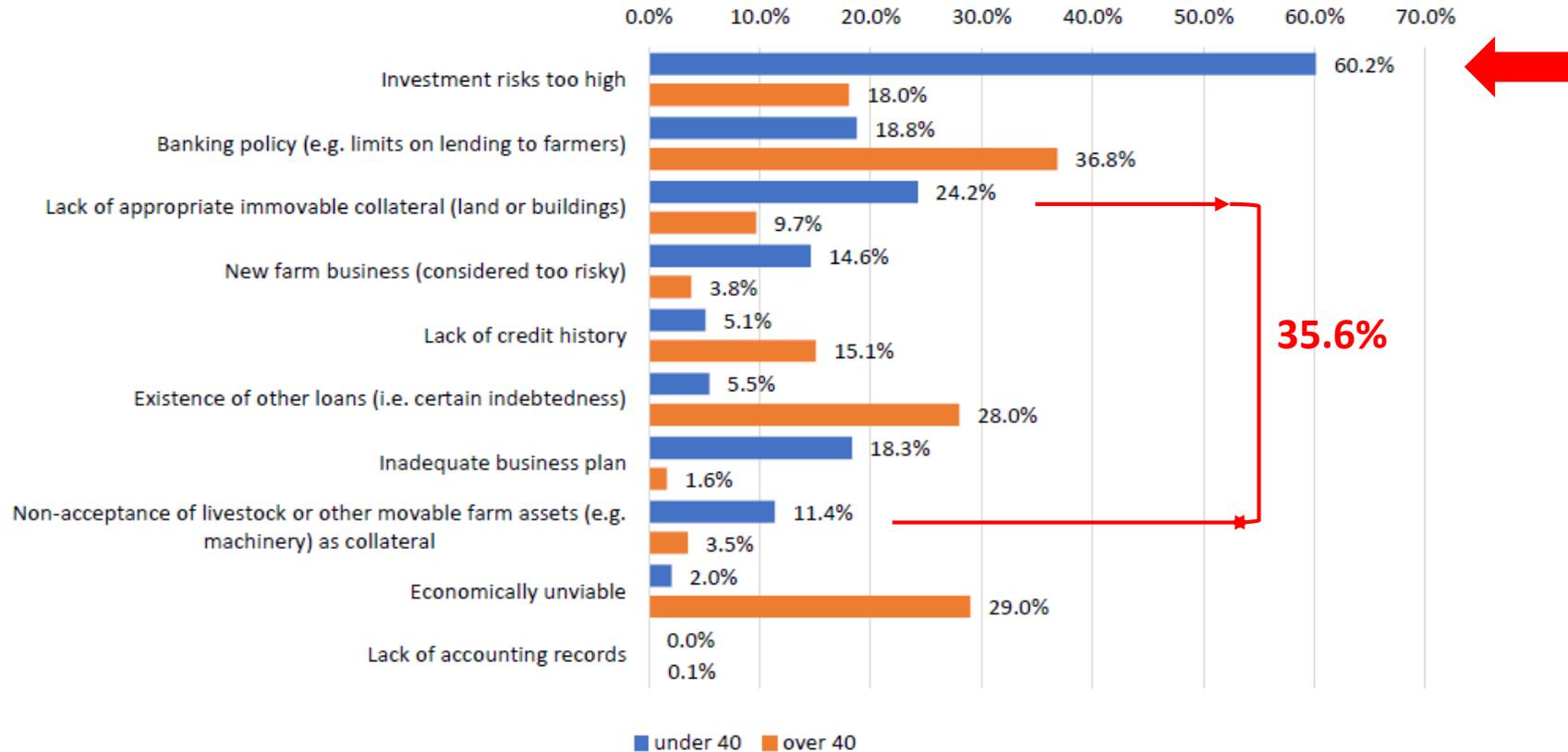
Key reasons given by banks for refusing applications (multiple answers allowed)



What about Young Farmers?



Question - Key reasons given by the bank for refusing the application



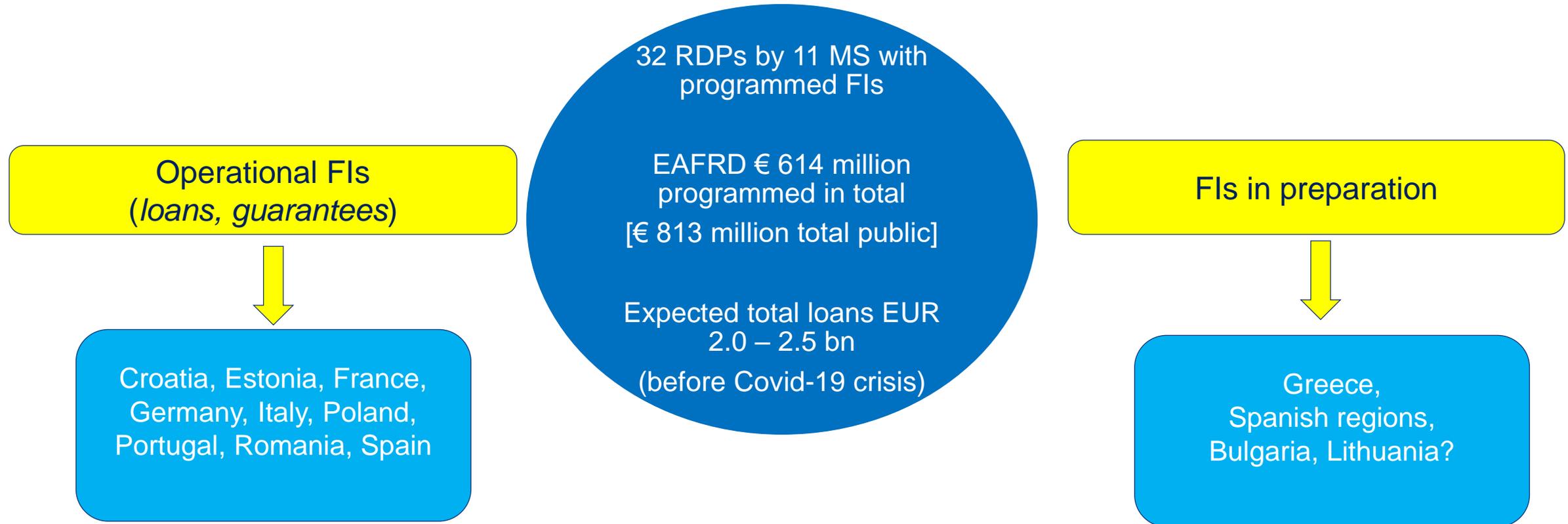
27% of applications from young farmers rejected vs 9% of older farmers



Financial Instruments 2014-20

Main challenge: need of time (6 to 24 months) for ex-ante assessments and setting up the FIs  based on MS and Fund managers' way of working

EAFRD FIs: Current state of play



Leverage – higher than initially programmed in 66% of the reported cases

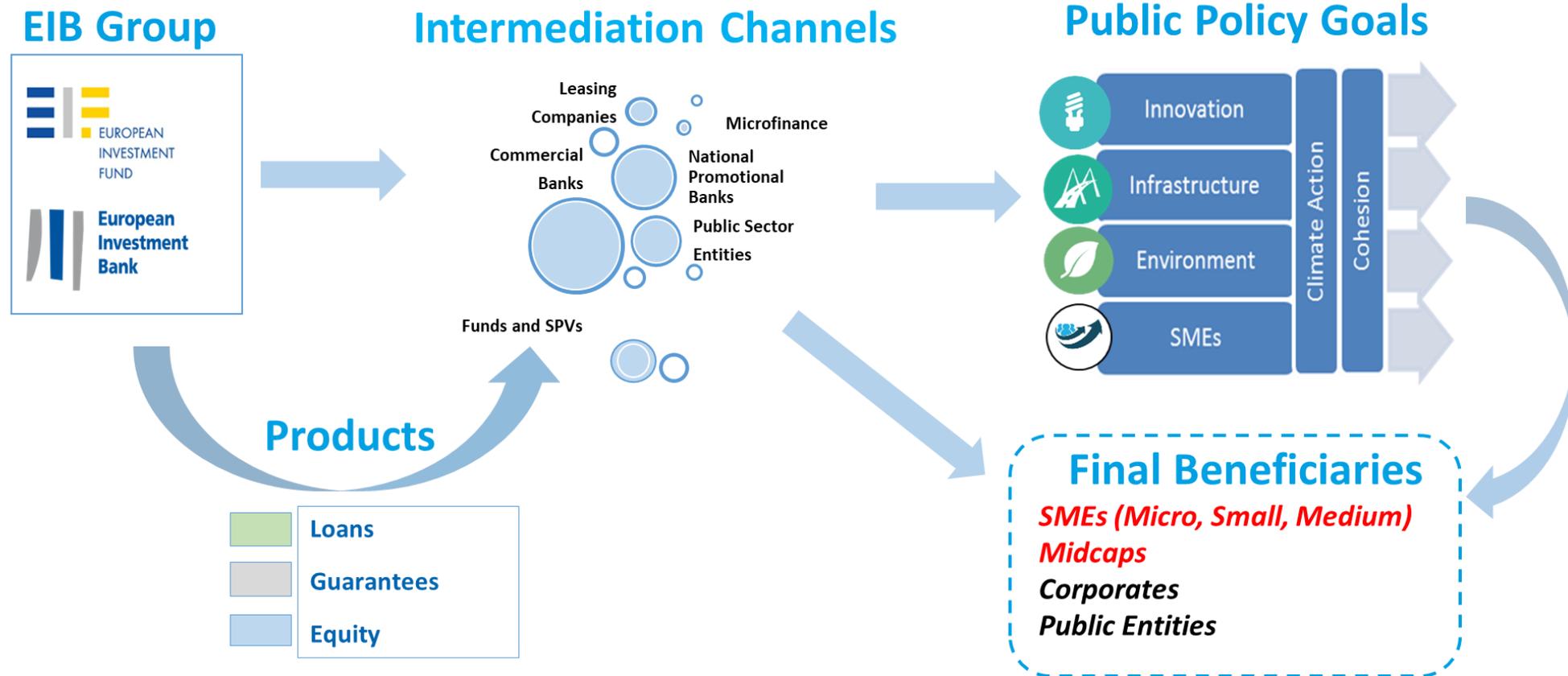
Financial instruments post-2020

- **MS level FIs – CPR and CAP Strategic plan regulations:**
 - **Voluntary choice** adjustable to any national or regional market situation
 - A single set of rules with **minimum eligibility restrictions**
 - **Working capital** financing
 - **Combination** with grants
 - Land purchase for **young farmers**
- **EU level FIs – InvestEU regulation:**
 - Potential **CAP plans** contributions implemented under **InvestEU rules**

EIB lending

DG AGRI - EIB cooperation resulted into increased EIB activity and financing of agriculture/bio-economy

EIB Intermediated model of financing



The co-operation with the EIB

- **EU level**
- Joint co-operation with the EIB (Memorandum of Understanding)
 - *EIF models of AGRI FIs*
 - *Various Initiatives*
 - *EIB Advisory service*
- **MS level**
- EIB/DG AGRI technical assistance
 - *coaching/training of EAFRD MAs (33 MAs, more than 500 staff)*
 - *18 Conferences*
 - *Studies, economic analysis, market gap assessment)*

EUR 11 million
for Technical assistance on EAFRD FIs
with EIB in 2014-2020

<https://www.fi-compass.eu/esif/eafrd>

Recent DG AGRI – EIB Joint Initiatives

EAFRD – EFSI combination for FIs

- ✓ 5 RDPs with running (or ready) FIs [France, Portugal, Greece]

Young Farmers' Initiative

- ✓ EIB stand-alone loan for YF [EUR 1 bn]
- ✓ TA for FI & grant combination [upon MS request]

Rural infrastructure Initiative

- ✓ Targeted coaching on how to set up FIs [if MS request]
- ✓ TA for document & project management [if MS request]
- ✓ EIB study on infrastructure in 5 MS [renewables, water, energy, waste, etc.]

DG AGRI - EIB Initiative for young farmers (2019)

Two independent streams:

- EIB programme loan of about € 1 billion
- Option for combining EAFRD grants with EAFRD Fis, EIB lending and EIB Advisory in one operation

EIB Agriculture Program Loan for SMEs & Midcaps

Description

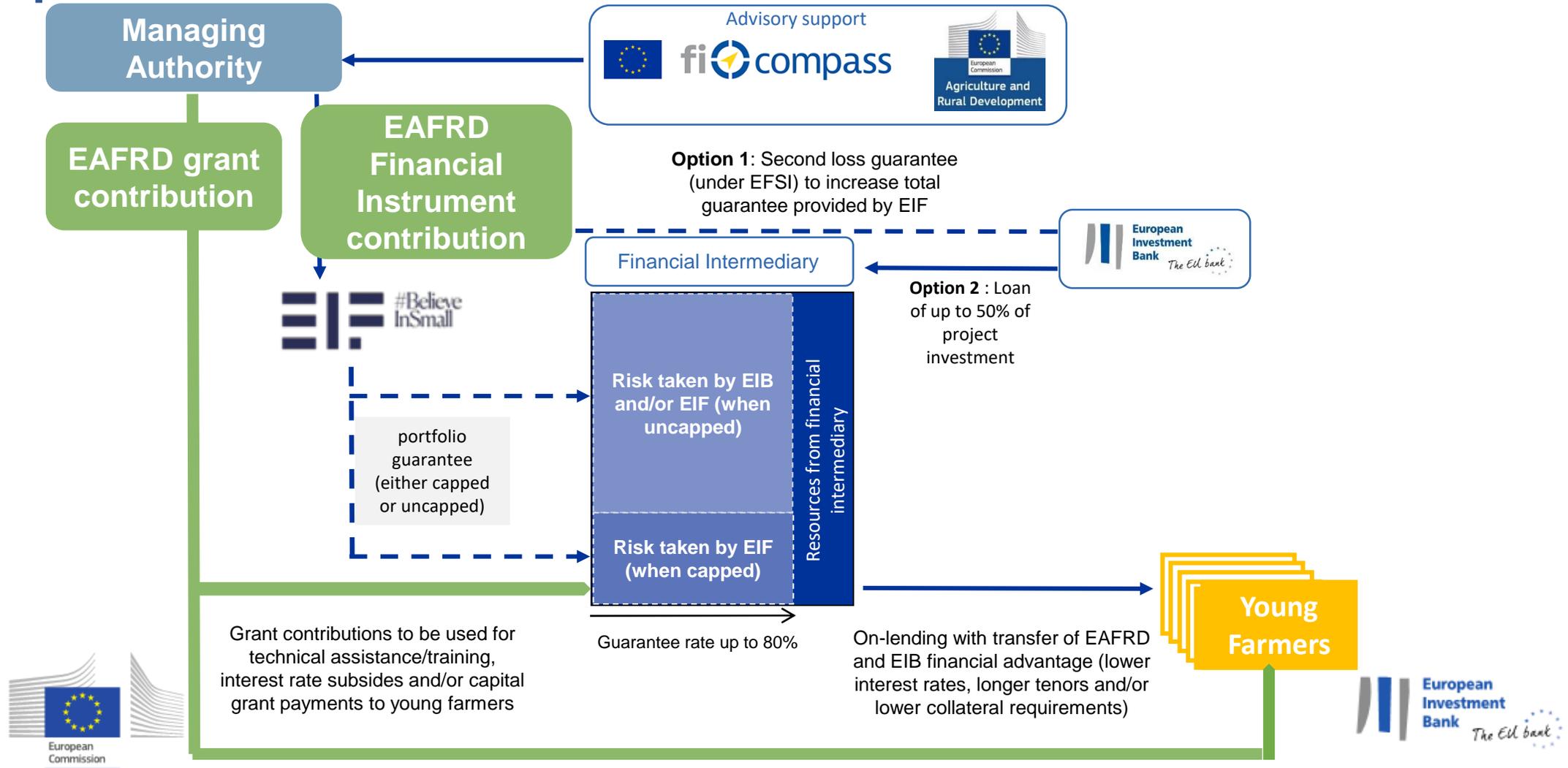
- Program Loan (PL) amounting to EUR 700m supporting agriculture-related SMEs and Midcaps active in Agriculture and Bio-economy in the EU countries.
- Sub-operations would be standard Loans for SMEs and Midcaps through acceptable intermediaries for up to EUR 100m (in any 12 months period).
- The PL includes a Young Farmer (YF) window of at least 10% of the loan amount.
 - (i) Enables focus on the sector
 - (ii) Targets small projects (investment cost up to EUR 25 million) and EIB support to YF
 - (iii) Streamlined approval process within the EIB
- In parallel to the Programme, two pilot operations have been launched in France with Crédit Agricole overall amounting to EUR 275 million, with a dedicated tranche to YF of EUR 75 million.
- The dedicated windows for YF will have a tenor of up to 15 years and a grace period of up to 5 years to be flexible and accommodate the needs of YF (including working capital facilities).

EIB Agriculture Program Loan for SMEs & Midcaps

Implementation

- 97% of total financing allocated within six months !
- As of November 2019, 73% of the financing has been approved and 64% signed for bank intermediated lending in Italy (€350 million for four operations) and France (€375 million for three operations).
 - ✓ *At this moment, all budget is approved and signed.*
- In 2020, operations, such as an intermediated loan of €20 million in Croatia, two loans of a total of €200 million in Greece and a loan of €100 million in France, were in the pipeline.
 - ✓ *All have a window of 10 to 30% for young farmers.*
- Total amount signed and dedicated to young farmers as of end 2019 amounted to € 125 million with the obligation of intermediary banks to fund the same amount with their own funds.

Funding combination options



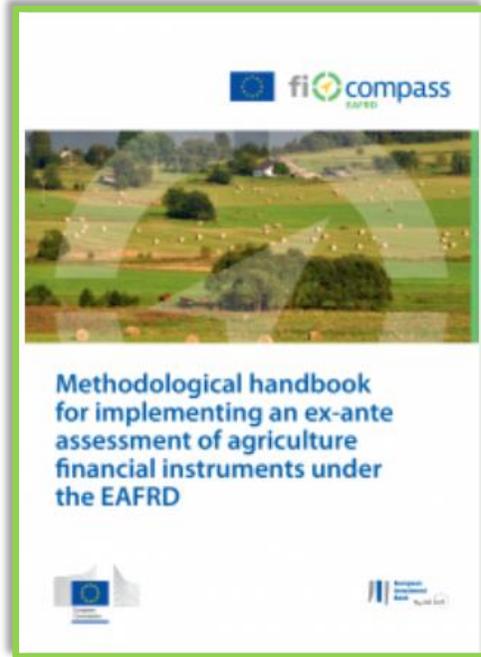
DG AGRI – EIB Initiative for young farmers

Impact

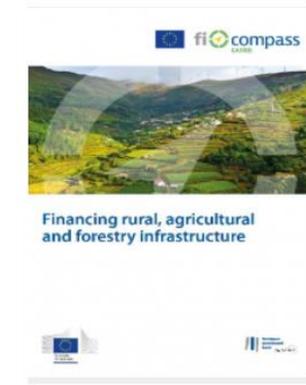
- Overall, under the EIB Agriculture PL and the pilot transactions in France, the EIB would mobilize around EUR 1bn of its own resources with at least EUR 150m dedicated to YF.
- Further impact could be achieved by combining the EIB lending with EAFRD grants, financial instruments and advisory support, to eventually design a more attractive lending product for both banking intermediaries and YF themselves, thereby catalysing more market entries of YF and generational renewal for the years ahead.
- Opportunity for better addressing the needs of young farmers and easing their access to finance

Thank you

fi-compass resources



Study reports



24 MS gap analyses published in 2020



Case studies

- Examples of EAFRD FIs from **Estonia, France, Germany, Italy, Latvia and Romania.**

New case study brochures published in 2020

Factsheets/Brochures



NEW

3 DG AGRI-EIB initiatives launched in 2019!!!

FI post-2020

Building on the 2014-2020 experience

3 possible sources of financing

CAP/EAFRD supported FIs

CAP Contributions to InvestEU

National / Regional FIs *

** No CAP financing involved, but has to be taken into account when assessing the tools to address market gap and access to finance for agriculture and rural areas businesses*

Green deal requires:

1. Developing “green” FIs

- **Eligibility** (*criteria/ sectors/activities*)
- **Proportionality** *administrative burden ⇔ green washing*
- **Method**: *building on approaches under discussion (taxonomy, InvestEU inter-service group, banking sector ...)*

2. Promoting “green deal” FIs

- **To MS/stakeholders**: *fi-compass activities*
- **When preparing CAP plans**: *awarnes raising in GeoHubs, informal discussions, CAP plan adoption*
- **EIB cooperation**: *e.g. combination with lending facilities*