

**Subject: EAFRD financial instruments**

## **1. DESCRIPTION OF ISSUE**

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### *Types of FIs and general aspects*

Support from the European Agricultural Fund for Rural Development (EAFRD) can be provided through grants and, increasingly, through financial instruments. Financial instruments (FIs) can take the form of loan, guarantee and/or equity funds and in the context of the CAP could be created under, and co-funded, by the EAFRD. In 2007-2013 only new investments in enterprises had been eligible. In 2014-2020 their scope has been widened significantly by covering all types of investments (including infrastructure) by all potential types of EAFRD beneficiaries (including public bodies).

FIs cannot be used as working capital funds<sup>1</sup> and are not to be mistaken with futures markets or export credit subsidies. Importantly, supported projects have to be viable and generate income so that the loaned resources can be paid back.

FIs are considered by the Commission as a sustainable and efficient way for investing EU resources in the growth and development of businesses, human capital, agriculture and forestry sectors as well as in the rural economy. They can support a broad range of development objectives to the benefit of a wide range of recipients with the potential for funds to be reused for further investments. In 2014-2020 they have become the key policy instrument for channelling and attracting fresh resources into the EU economy, although proportionally grants continue to dominate the EU / CAP spending.

### *Main features of FIs*

Financial instruments (FI) are a type of support provided by European Structural and Investment Funds (ESI Funds include EAFRD) alongside with grants, repayable assistance, prizes, etc. They are suitable for financially viable projects, i.e. those which are expected to generate enough income or savings to pay back the support received. Financial instruments must address an identified market failure, e.g. where banks are unwilling to lend and/or where the private sector is unwilling to invest, or sub-optimal market condition (e.g. lending possible against very high collateral, abnormal interest rates offered to potential final recipients, etc.).

The demand for financial instrument co-funded by the EAFRD has been increasing since 2007, and in particular following the financial and economic crisis which reduced available budgets for rural areas and agriculture. Financial instruments under the EAFRD are available to all potential recipients in agriculture, forestry and in the rural areas that are undertaking financially viable investment projects.

Financial instruments:

- are expected to be repaid;
- are revolving, i.e. with funds repaid being used again in the same programme area and for the same purpose for which the FI has been created;

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<sup>1</sup> The capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

- are suitable for financially viable projects, i.e. those which are expected to generate enough income or savings to pay back the support received;
- are designed to attract co-investment from other sources, including private investment, to increase the amount of funds available in particular in sectors/areas where there are problems with access to finance;
- can also support supply-side development, by contributing to development of the market and can have various design;
- can be used in a complementary way with grants;
- may be managed by national or regional banks, international organisations such as the European Investment Bank (EIB) or the European Investment Fund (EIF), by financial intermediaries, and (for loans and guarantees only) by managing authorities.

### *Implementation aspects*

Before contributing EAFRD resources to a financial instrument, the EAFRD managing authority must undertake an ex-ante assessment to assess the presence of a market failure or sub-optimal investment situation that can be addressed by such a financial instrument. The decisions on the creation, programming, implementation and closure of FI are fully in the competence of Member States.

## **2. HISTORY OF REGULATION/LEGISLATION**

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Financial instruments are known to rural development for more than 20 years.

In the period 2014-2020 the relevant rules for the creation and implementation of financial instruments are laid down in Title IV of the Common Provisions Regulation (CPR) (Regulation (EU) No 1303/2013) and related secondary legislation (delegated and implementing acts). When EAFRD managing authorities contribute EAFRD resources to FIs, the EAFRD rules (Regulation (EU) No 1305/2013) have also to be respected and the instruments have to be programmed in the relevant rural development programme. In addition, the Commission has created a number of models of different FIs, which are also made available to Member States (Regulation (EU) No 964/2014).

In programming period 2007-2013, the rules for using EAFRD resources in financial instruments were described in Articles 50-52 of Regulation (EU) No 1974/2006.

The legal basis for FIs in the years before 2006 has had important limitations.

## **3. CURRENT STATE OF PLAY**

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### **3.1. Assistance by the EIB group to Member States for developing EAFRD Financial instruments**

The EIB group (EIB/EIF) can support the setting up and implementation of EAFRD FIs in several ways:

- Target coaching by EIB (fi-compass) for building capacity paid by the Technical Assistance budget of DG AGRI – 3 pilot cases already are up and running (BG, UK Wales, IT Veneto);
- Undertaking ex-ante assessments for FIs;

- Managing EAFRD FIs under funding agreements to be signed between EIF/EIB and the managing authority;
- Advising on the process of using FIs.

There are already several Member States that have taken contact with EIB/EIF on this.

In addition, and under the July 2014 Memorandum of Understanding (MoU) between EC (DG AGRI) and the EIB, three models of FIs are being developed by the EIB Group for EAFRD purposes:

- Guarantee scheme for agriculture;
- Risk sharing loan scheme for agriculture;
- FI for forestry.

The first two of these could also be extended to agro-food and/or non-agricultural business support.

### **3.2. EAFRD budget planned for investments and FIs in 2014-2020**

In total, the planned EAFRD investment volume for 2014-2020 is estimated to be EUR 49.8 billion. Data from the System for Fund Management in the European Commission<sup>2</sup> shows the rough distribution of the EAFRD budget allocated to investments in the following way:

- Agriculture – 22.6 billion euro
- Rural businesses and farm diversification – 7.5 billion euro
- Forestry – 4.6 billion euro
- Rural services and infrastructure – 6.6 billion euro
- Co-operation measure – 1.8 billion euro
- LEADER – 6.7 billion euro

### **3.3. Awareness raising activities**

Following the MoU and the first *fi-compass* conferences on FI under EAFRD in Dublin and Vienna, the Riga event closed the EAFRD-specific events in 2015. These will be followed by a further set of events in 2016, scheduled in capitals of the EU (Madrid, London, Paris, Rome, Warsaw and Brussels).

At present, while there is participation from EIB (*fi-compass*) and EIF side, there is no matching by the EIB of the Commissioner's participation.

## **4. RELEVANT POLICY QUESTIONS**

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1. How can Member States be encouraged to shift attention from grants to FI in view of strengthening the competitiveness of EU agriculture and agro-food sectors?

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<sup>2</sup> <http://ec.europa.eu/sfc/en/2014>

2. Will a design of EAFRD FI covering loan repayment schemes reflecting market price developments allow farmers to act in line with open market development?

## **5. READING LIST**

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Extensive reading material on EAFRD financial instruments can be downloaded from the technical assistance platform *Fi-compass* of the ESIF Directorate-Generals at: <https://www.fi-compass.eu/home>

DG AGRI webpage on EAFRD Financial instruments: [http://ec.europa.eu/agriculture/rural-development-2014-2020/financial-instruments/index\\_en.htm](http://ec.europa.eu/agriculture/rural-development-2014-2020/financial-instruments/index_en.htm)

ECA Report No 05/2015 on the use of EAFRD financial instruments in 2007-2013: [http://www.eca.europa.eu/Lists/ECADocuments/SR15\\_05/SR15\\_05\\_EN.pdf](http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/SR15_05_EN.pdf)