Survey on financial needs and access to finance of EU agricultural enterprises

European Commission

European Investment Bank The EU bank

DISCLAIMER

This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union or the European Investment Bank. Sole responsibility for the views, interpretations or conclusions contained in this document lies with the authors. No representation or warranty express or implied is given and no liability or responsibility is or will be accepted by the European Investment Bank or the European Commission or the managing authorities of Structural Funds Operational Programmes in relation to the accuracy or completeness of the information contained in this document and any such liability or responsibility is expressly excluded. This document is provided for information only. Financial data given in this document has not been audited, the business plans examined for the selected case studies have not been checked and the financial model used for simulations has not been audited. The case studies and financial simulations are purely for theoretical and explanatory illustration purposes.

The case projects can in no way be taken to reflect projects that will actually be financed using financial instruments. Neither the European Investment Bank nor the European Commission gives any undertaking to provide any additional information on this document or correct any inaccuracies contained therein.

This document has been prepared with the support of a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

Glossary and definitions

Abbreviation	Full name
CAP	Common Agricultural Policy
CATI	Computer-Assisted Telephone Interviewing
DG AGRI	Directorate-General for Agriculture and Rural Development
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EIF	European Investment Fund
EU	European Union
EU-24	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden
FAO	Food and Agriculture Organisation of the United Nations
NACE	Nomenclature statistique des Activités économiques dans la Communauté Européenne
SAFE	Survey on the Access to Finance of Enterprises
SMEs	Small and medium-sized enterprises
UAA	Utilised Agricultural Area

Table of Contents

Glossary and definitions **2**

1. INTRODUCTION **4**

2. KEY FARM CHARACTERISTICS **7**

3. THE FINANCIAL NEEDS OF AGRICULTURAL ENTERPRISES **13**

3.1 Performance and difficulties in the previous year 14

3.2 The demand for financing 21

4. THE FUTURE EXPECTATIONS OF THE AGRICULTURAL BUSINESSES **35**

4.1 Farms' future financial needs 35

4.2 Interest in a financial instrument with flexible conditions 37

5. FINANCIAL NEEDS BY CATEGORY OF AGRICULTURAL ENTERPRISE **39**

5.1 By owner age 40

5.2 By farm size 45

6. CONCLUSIONS AND RECOMMENDATIONS **53**

ANNEX I – STRUCTURE OF THE INTERVIEWS AND THE SURVEY **57**

ANNEX II – METHODOLOGY **64**

ANNEX III – STATISTICS BY COUNTRY **69**

1. INTRODUCTION

This report reviews the financial needs of EU agricultural enterprises using in-depth data from a Computer-Assisted Telephone Interviewing survey (CATI) based on a questionnaire developed by the Directorate-General for Agriculture and Rural Development (DG AGRI) and the European Investment Bank (EIB) in the context of the *fi-compass* technical assistance platform. The questionnaire was completed by more than 7 600 farmers across 24 EU Member States (EU-24): Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

While previous reports on the use and interest in flexible loans[1] and in guarantee and counter-guarantee instruments[2] investigated the supply side of the EU financial market for agriculture, this analysis is the first to focus on the demand side. It completes the series of *fi-compass* studies on the financial needs of EU agriculture, which started in 2017 with a preliminary estimation of the financial gap at EU and Member State levels.[3] This report is also the first to fill the information gap about farmers' financial needs as there are currently no detailed European databases on access to finance for farmers. The Survey on the Access to Finance of Enterprises (SAFE)[4] is a primary statistical tool launched in 2008 by the European Commission (EC) and the European Central Bank (ECB) which covers EU enterprises in almost all sectors, apart from agriculture.[5] However, when feasible, SAFE statistics are used as benchmarks to help understand the results of the agricultural enterprise survey presented in this report in relation to other business areas.

Agriculture in the EU is fundamental for the European economy. There are more than 10.2 million enterprises[6] in the sector which accounts for 4.4% of total EU employment.[7] In some Member States such as Romania, Bulgaria, Greece and Poland, more than 10% of employment is in agriculture. Most European farmers operate in a favourable climatic environment to produce a wide range of high-value foods and high-quality products.[8] EU agricultural production and farming is highly diversified and many farmers operate in innovative food chains with diverse structures, technologies and products. All this assists their response to changing market and consumer demand. The success of EU agriculture is also shown by its record export performance, which in 2016 reached EUR 131 billion. This led to a positive agri-food trade balance (EUR 19 billion in 2016), reversing a deficit at the beginning of the current decade.

European farms are also experiencing important structural change.[9]

The number of farms in the EU fell by more than a quarter in less than a decade while their standard output[10] increased by almost 56%. Moreover, the average size of farms in the EU-28 increased considerably, from 11.9 hectares in 2005 to 16.1 hectares in 2013 and farm productivity has significantly increased.

1 *fi-compass* (2018), Flexible financial products for the agricultural sector in the EU.
2 *fi-compass* (2019), Debt finance and use of credit guarantee instruments for agricultural enterprises in the EU.
3 *fi-compass* (2018), Financial gap in the EU agricultural sector.
4 EC (2017), Survey on the access to finance of enterprises (SAFE) – Analytical Report 2017, November 2017.
5 According to the NACE Rev.2 classification of economic activities the following are excluded from the SAFE sample: agriculture, forestry and fishing (A), financial and insurance activities (K), public administration and defence, compulsory social security (O), education (P), human health and social work activities (Q), activities of households as employers; undifferentiated goods and service producing activities of households for own use (T), activities of extra-territorial organisations and bodies (U), holding companies (NACE 64.20) and private non-profit institutions. See EC (2017), Survey on the access to finance of enterprises (SAFE) – Analytical Report 2017, November 2017.
6 According to the most recent statistics provided by Eurostat referring to 2016.
7 Eurostat (2017), Farmers in the EU - Statistics, August 2017.
8 European Commission (2017), Modernising and simplifying the CAP - Economic challenges facing EU agriculture, pp.3-4, DG Agri, December.
9 Eurostat (2016), Small and large farms in the EU - statistics from the farm structure survey, October.
10 The standard output of an agricultural product (crop or livestock) is the average monetary value of the agricultural output at farm-gate price, in euro per hectare or per head of livestock. It excludes direct payments and includes the production costs. See Eurostat 'Glossary: Standard output - Statistics Explained'.

However, there are still significant bottlenecks and weaknesses in European agricultural development.[11] **Income is generally low** and huge differences in income persist between regions, size classes and sectors. The EU's **farm population is also ageing as new entrants find it difficult to access capital and land**. Prospects for reversing this trend are not promising given demographic trends in the EU. The sector is still dominated by many **very small farms**. These are primarily run part-time, often by **elderly farmers** and the large majority of agricultural labour is provided by **family members**. In addition, investments in research and development are still low, leading to **sub-optimal productivity growth**. EU agricultural productivity growth is slowing, averaging 0.8% annually in 2005-2015 compared with 1% per year in 1995-2005.

EU production costs are high in some sectors, due particularly to high labour and land costs as well as environmental and sanitary standards. **EU farmers face higher costs compared to competitors** from third countries **for compliance with legislation** covering the environment, animal welfare and food safety. Even though this makes up a small part of the total production cost, it still affects farmer profitability. Competitiveness on the world market can also be heavily influenced by other factors such as energy prices (or more broadly, input costs), infrastructure and exchange rates. The sector is also threatened by **high price volatility** stemming from world prices and **market uncertainty**.[12]

These important factors together with the underlying challenges call for a deep understanding of the financial needs of European farmers, who still suffer from significant financial constraints. A recent *fi-compass* report[13] estimated a financial gap of between EUR 7.06 billion and EUR 18.60 billion, including EUR 1.56 billion to EUR 4.12 billion for short-term loans and EUR 5.50 billion to EUR 14.48 billion for medium and long-term loans. Against this backdrop, this report provides a first glance into the financial needs of EU agricultural enterprises.

The report is structured as follows:

- Chapter 1 (this section) is the introduction;
- Chapter 2 analyses key variables such as type of production, farm size, owner age, turnover and employment;
- Chapter 3 focuses on agricultural financial needs, investigating key difficulties of the previous year, the type of financing applied for, reasons for not applying for finance, what the finance was used for, key reasons banks refused applications and possibilities to negotiate financing conditions. The chapter also analyses risk mitigation measures adopted by banks;
- Chapter 4 shortly assesses future expectations of financial needs for farms;
- Chapter 5 compares key statistics based on farm manager age (under or over 40 years old) and on farm size, considering the Utilised Agricultural Area (UAA) and distinguishing between small farms (< 20 hectares), medium farms (20 to 100 hectares) and large farms (>100 hectares);
- Chapter 6 offers conclusions;
- Annex I shows the questionnaire used for the CATI survey;
- Annex II describes the methodology applied to obtain the statistics; and
- Annex III contains the statistics by country and in comparison with the EU average.

11 European Commission (2017), Modernising and simplifying the CAP - Economic challenges facing EU agriculture, pp.4-8, Directorate-General for Agriculture and Rural Development, December.

12 European Commission (2017), Modernising and simplifying the CAP - Economic challenges facing EU agriculture, p.15, Directorate-General for Agriculture and Rural Development, December.

13 *fi-compass* (2018), Financial gap in the EU agricultural sector.

Box 1.1: Methodological notes

This report is based on 7 659 respondents from 24 EU Member States (EU-24) with normally more than 300 completed questionnaires for each country. Potential respondents were selected where possible based on the distribution of farms (NUTS2), sector and farm area. Of course, responses strictly depended on the willingness of people to participate in the survey.

For each country, the answers have been weighted to reflect the overall population of farms for the purpose of representation. Weightings represent the distribution of farms according to land size (in terms of UAA) for which Eurostat provides data and class sizes. Annex II details the methodology and provides additional information on the steps to obtain the weights. Statistics in the report at European level (EU-24) are therefore weighted based on land size classes within each country and the share of each country in the EU-24 total farm population.

2. KEY FARM CHARACTERISTICS

This chapter analyses the farm structures, including sub-sectors of activity, the legal status of the enterprise, owner age and economic aspects such as turnover and employment (number of employees).

Key findings

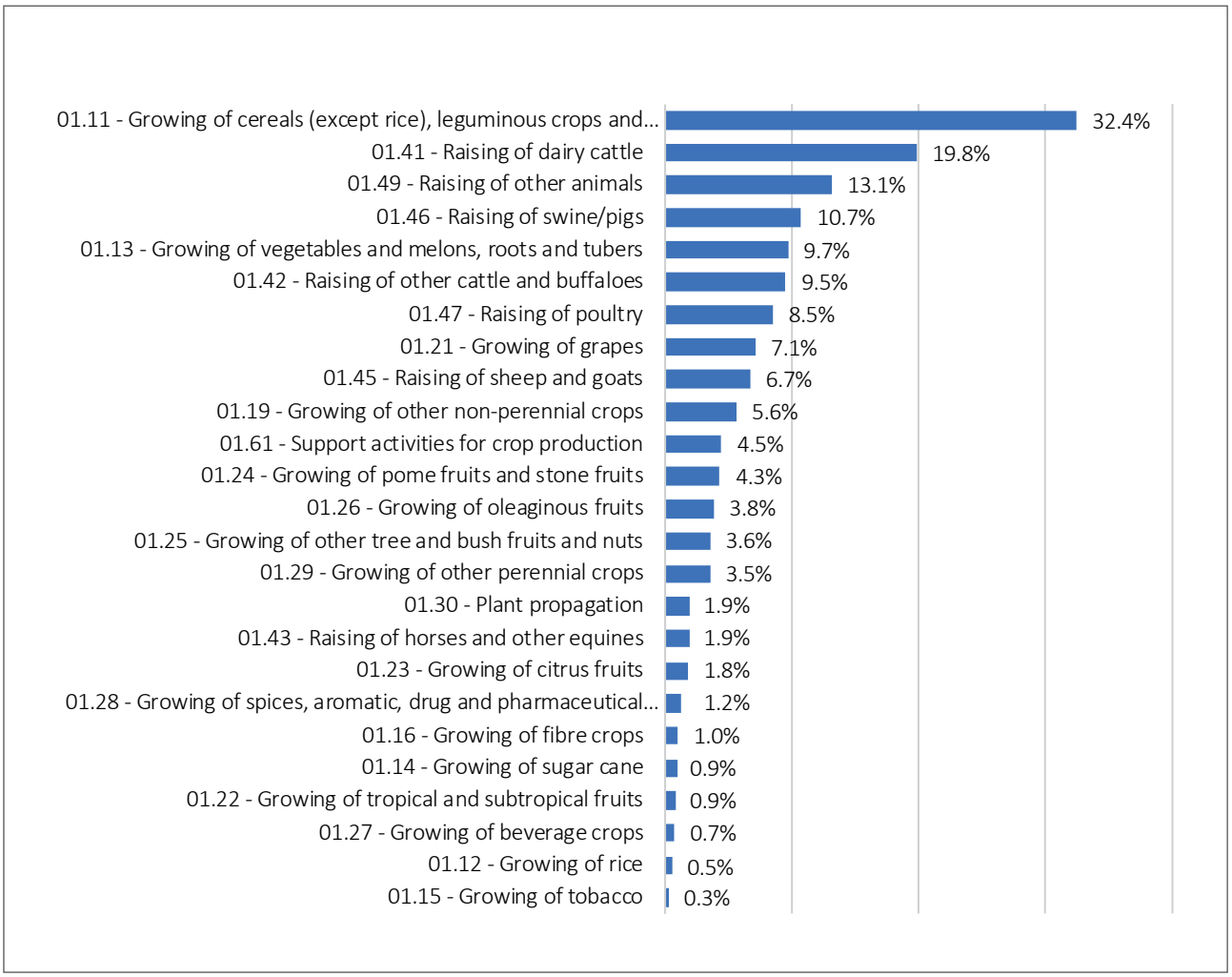
- Most agricultural enterprises concentrate on producing cereals, followed by dairy and livestock.
- Farms generally do not process their agricultural products.
- For the majority of farms, the legal status is a 'family farm'.
- Young farmers (under 35 years old) make up some 5% of farm managers, while 48% of farmers are over 55.
- Nearly 40% of the farms have an annual turnover below EUR 25 000.
- The vast majority of the enterprises (94%) are micro enterprises (i.e. with less than 10 people permanently employed), 5.2% are small enterprises, 0.7% are medium, and only 0.1% are large enterprises.

The main activity of the farms is classified using the Statistical Classification of Economic Activities in the European Community (NACE).[14] Nearly one third of farms (**32.4%**) **concentrate on *Growing of cereals*** (Figure 2.1) followed by *Raising of dairy* cattle with nearly 20%. Nearly half of the surveyed EU farms specialise in producing some form of crop. These results confirm previous findings by Eurostat statistics, according to which, in 2013, 49% of holdings in the EU-28 specialise in crops, 27% in livestock and 23% were mixed-farms.[15] The EU is a leading cereal producer in the world, producing around 301 million tonnes of cereals (including rice) in 2016, about 12% of global cereal production.[16] The EU is also the largest bovine product exporter (e.g. dairy, meat and live animals), with about half of global exports.[17] In some EU countries most agriculture enterprises are involved in this sector.[18]

A large majority of respondents (77%)[19] **declared that their farm activity is dedicated to primary production and they do not directly process agricultural products**.

14 European Commission (2008), NACE Rev.2 - Statistical classification of economic activities in the European Community, Eurostat Methodologies and Working Papers.
15 Data refer to 2013, see Eurostat 'Agri-environmental indicator - specialisation', Eurostat Statistics Explained; 1% could not be classified.
16 Eurostat (2018), Agricultural production - Crops, Statistical Explained, p.8. France (18%), Germany (15%), Poland (10%) and Spain (8%) together contributed to more than 50% of the EU total.
17 European Parliament (2017), Research for Agri Committee - The EU cattle sector: challenges and opportunities - Milk and meat, p.47.
18 For example, in some Spanish and French regions and in Luxembourg, the bovine sector accounts for more than 75% of all farms; in France, Germany, northern Spain and Scandinavian Member States more than half of commercial farms are in the bovine sector. Furthermore, in Lithuania, Latvia, Belgium, Austria, Slovenia and Ireland bovine meat and/or milk is produced by more than half the farms.
19 Based on question S.3, see Annex I.

Figure 2.1: Main activity (class sectors according to NACE Rev.2)[20]



Source: Based on question S.0, see Annex I; farmers indicating sector 01.50 - Mixed farming (43% of respondents) have been asked to indicate the major sectors comprising it.

The majority of the surveyed farms (almost 75%)[21] defined themselves as **'family farms'**[22], while the remainder are legal entities (such as JSC[23] or Ltd.). **The most common age group of farmer managers**[24] (i.e. owner) **is those over 55 (nearly 48%**, Figure 2.2), followed by some 47% of owners between 35 and 54 years. Only 5.4% of the farmers are below 35 (see Annex II for additional detail).[25] According to the EC (2017)[26] younger farmers are on average better qualified, with high net investments and below-average liabilities (see Box 2.1).

20 Based on 'Section A - Agriculture, forestry and fishing', of the NACE Rev.2, see European Commission (2008) 'NACE Rev.2 - Statistical classification of economic activities in the European Community, Eurostat Methodologies and Working Papers, p.61. Class sector '01.7 - Hunting, trapping and related service activities', divisions '02 - Forestry and logging' and '03 - Fishing and aquaculture' have not been covered by the survey.

21 Based on question S.2, see Annex I.

22 According to FAO, 'a family farm is an agricultural holding which is managed and operated by a household and where farm labour is largely supplied by that household', see 2014 IYSS FAO Concept Note. See also Jan Douwe van der Ploeg (2016), Family farming in Europe and Central Asia: history, characteristics, threats and potentials, International Policy Centre for Inclusive Growth (IPC-IG) Working Paper No. 153, FAO and UNDP, and European Commission (2014), Family Farming in Europe: Challenges and Prospects, DG for Internal Policy.

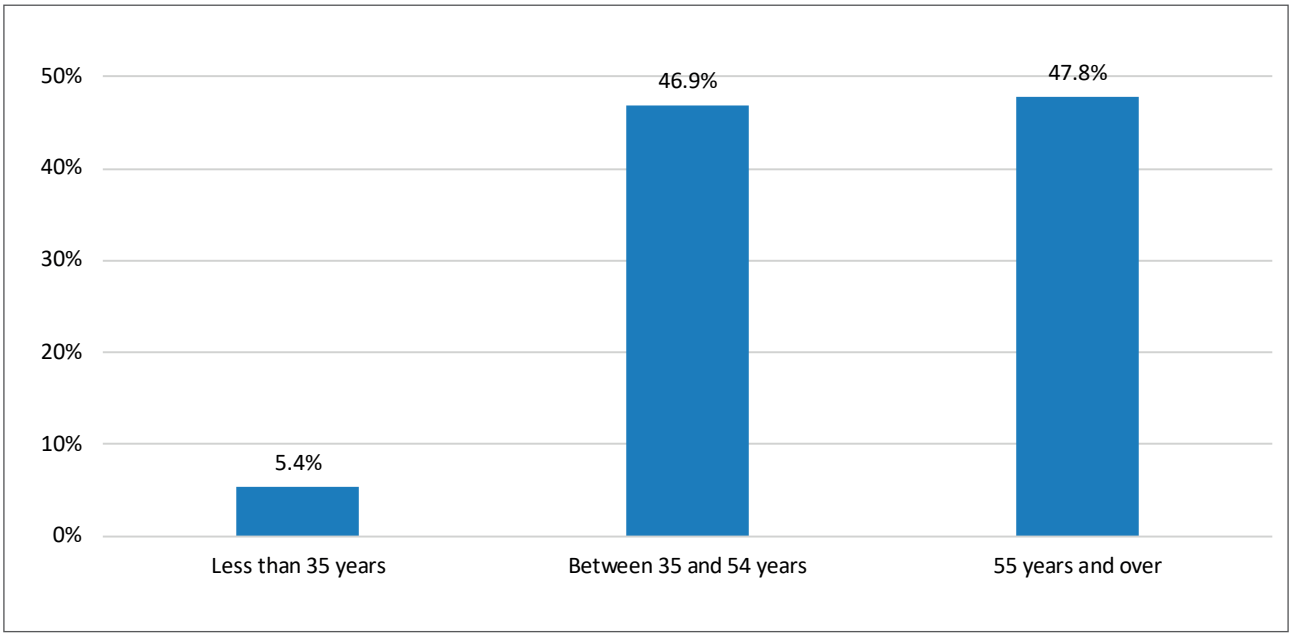
23 Joint-stock company.

24 According to the three class sizes used by Eurostat, see Annex II for detail.

25 This distribution appears in line with data provided by Eurostat for 2013 with a significant imbalance towards older farmers. After the finalisation of this report, Eurostat published updated data for 2016 on farmers' age providing also the age class below 40 years. In this survey 14% of farms are owned by mangers below 40 years against 10.2% in Eurostat 2016.

26 European Commission (2017), Young farmers in the EU - Structural and economic characteristics, EU Agricultural and Farm Economic Briefs No 15, October.

Figure 2.2: Farm manager age (excluding Croatia, Poland and Romania)



Source: Based on question S.8, see Annex I. Note: results exclude Croatia, Romania, Poland to obtain a reliable comparison with Eurostat data. Croatia was not covered by Eurostat in 2013. For this country the interview sample is composed of 14% of respondents below 35 years and 36.3% over 55 years. Romania and Poland have been excluded since the CATI methodology used in this analysis produces a strong overrepresentation of farmers below 35 years compared to Eurostat structural data. This might be due to difficulties in accessing older respondents (unavailability or limited access to landline telephones in certain areas) or greater unwillingness to provide feedback from older respondents compared to younger ones in these two countries (see Annex II for detail). For Romania the interview sample is composed of 23.4% of respondents below 35 years and 24.3% over 55 years; in Poland the percentages are 29.4% and 30% respectively.

Box 2.1: Key characteristics of EU young farmers[27]

Young farmers in the EU are characterised by:

- a low proportion of total farms, agricultural land and standard output;
- medium-sized farms;
- higher professional qualifications;
- below-average income, low capital stocks and land ownership;
- high net investments, below-average liabilities and average debt-to-asset ratios; and
- high returns on assets.

At the beginning of their farming careers, they are positioning their farms for the future **but may be constrained by lack of access to land and credit**. In many cases, farms are transferred from one generation to the next within the same family. The official transfer of this responsibility often only happens when the parent retires or passes away – by which time the successor may already be older than 35 and may have worked on the farm, or have been involved in its management, for a number of years or even more than a decade. The low proportion of young farmers should thus be seen in this intergenerational context.

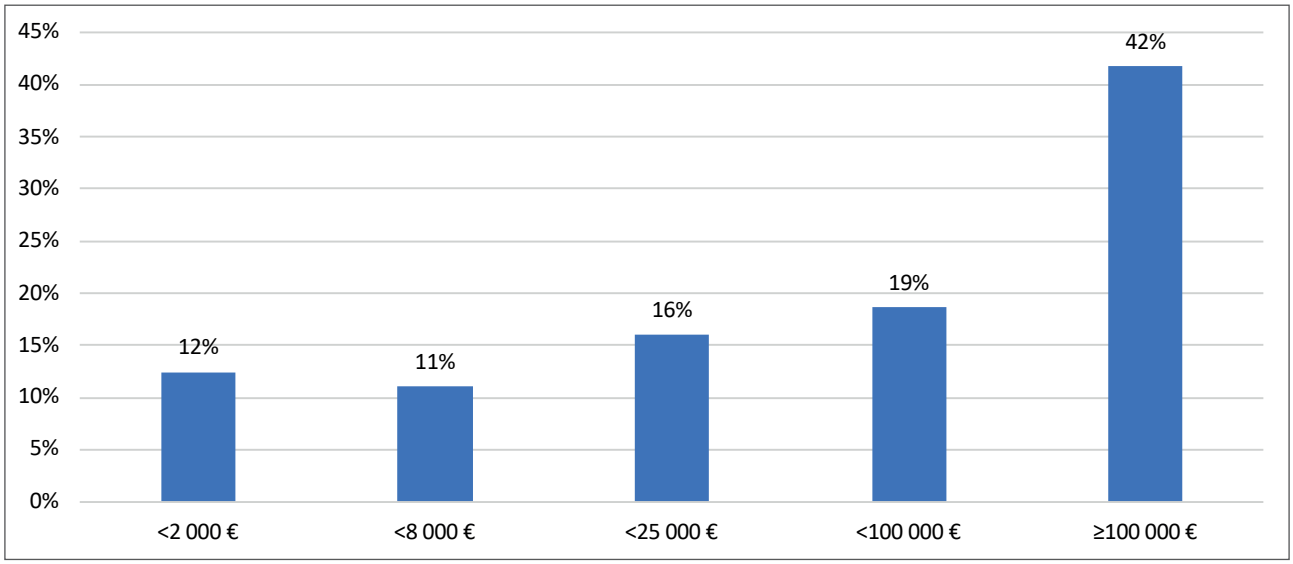
The figures in the report refer to the person who is legally and financially responsible for the farm.

In relation to economic indicators, the first variable analysed is the average turnover in 2017 (Figure 2.3). According to the answers, 42% of farms have an annual turnover of more than EUR 100 000, followed by 19% with a turnover between EUR 25 000 and EUR 100 000. **Importantly, nearly 40% of the farms had a turnover below EUR 25 000**.

27 Reproduced from European Commission (2017), Young farmers in the EU - Structural and economic characteristics, EU Agricultural and Farm Economic Briefs No 15, October, p.1.

According to this data, all the respondents were SMEs.[28] It should be noted however, that less than 50% replied to this question, probably interviewees were less confident in sharing this kind of information. In the two countries with the most farms, Romania and Poland (see Figure A.1 in Annex II), only 10% and 22% respectively of interviewees responded. Of those not providing an answer to this question, nearly half had less than 20 hectares (see Annex II for detail).

Figure 2.3: Average approximate agricultural enterprise turnover in 2017 (EUR)



Source: Based on question S.9, see Annex I. Rate of answers: 50%.

A more precise classification of enterprises according to economic size can use the number of employees, both permanent and seasonal workers (Figure 2.4 and 2.5). The EC defines SMEs[29] - without distinguishing agricultural enterprises from other sectors - in terms of the number of employees as follows:

1. Firms with 0 to 9 employees — micro enterprises;
2. 10 to 49 employees — small enterprises;
3. 50 to 249 employees — medium enterprises;
4. More than 250 employees — large enterprises.

By using this definition and considering the number of people permanently employed (Figure 2.4), **the vast majority of surveyed enterprises are micro enterprises (94%), 5.2% are small enterprises, 0.7% are medium, and only 0.1% are classified as large enterprises**. A very similar distribution is obtained by looking at seasonal workers (Figure 2.5).

The highest share of micro enterprises based on permanent employees (Figure 2.6) are in Italy, Romania, Finland and Belgium (around 99%) as well as in Denmark, France, Sweden and Poland (96%). The Czech Republic, Ireland, Bulgaria, Hungary, and Germany have the highest percentage of medium-sized enterprises compared to the EU-24 average. The highest shares of large enterprises are noticed in Ireland (1%), Croatia, the Czech Republic and Portugal (0.5%).

28 See European Commission (2016), User guide to the SME definition. An SME is a company with an annual turnover below EUR 50 million.

29 As defined in Commission Recommendation 2003/361/EC (1): a micro enterprise employs less than 10 people and has an annual turnover of up to EUR 10 million, or a balance sheet total of no more than EUR 2 million; a small enterprise employs 10-49 people and has an annual turnover higher than EUR 10 million and up to EUR 50 million, or a balance sheet higher than EUR 2 million and up to EUR 10 million; a medium enterprise employs 50-249 people and has an annual turnover higher than EUR 50 million and up to EUR 250 million, or a balance sheet higher than EUR 10 million and up to EUR 43 million; a large enterprise is above these thresholds.

Figure 2.4: Number of people permanently employed

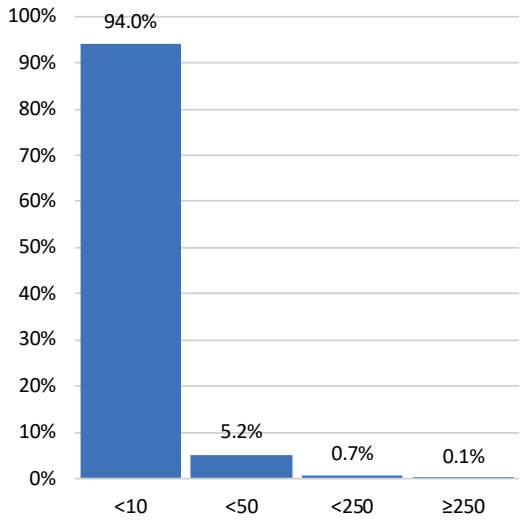
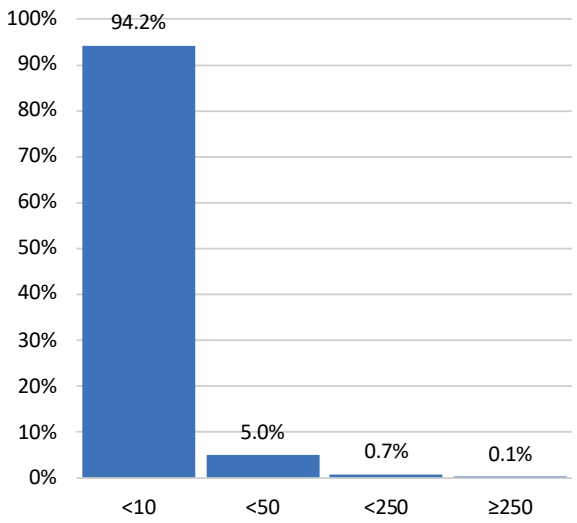
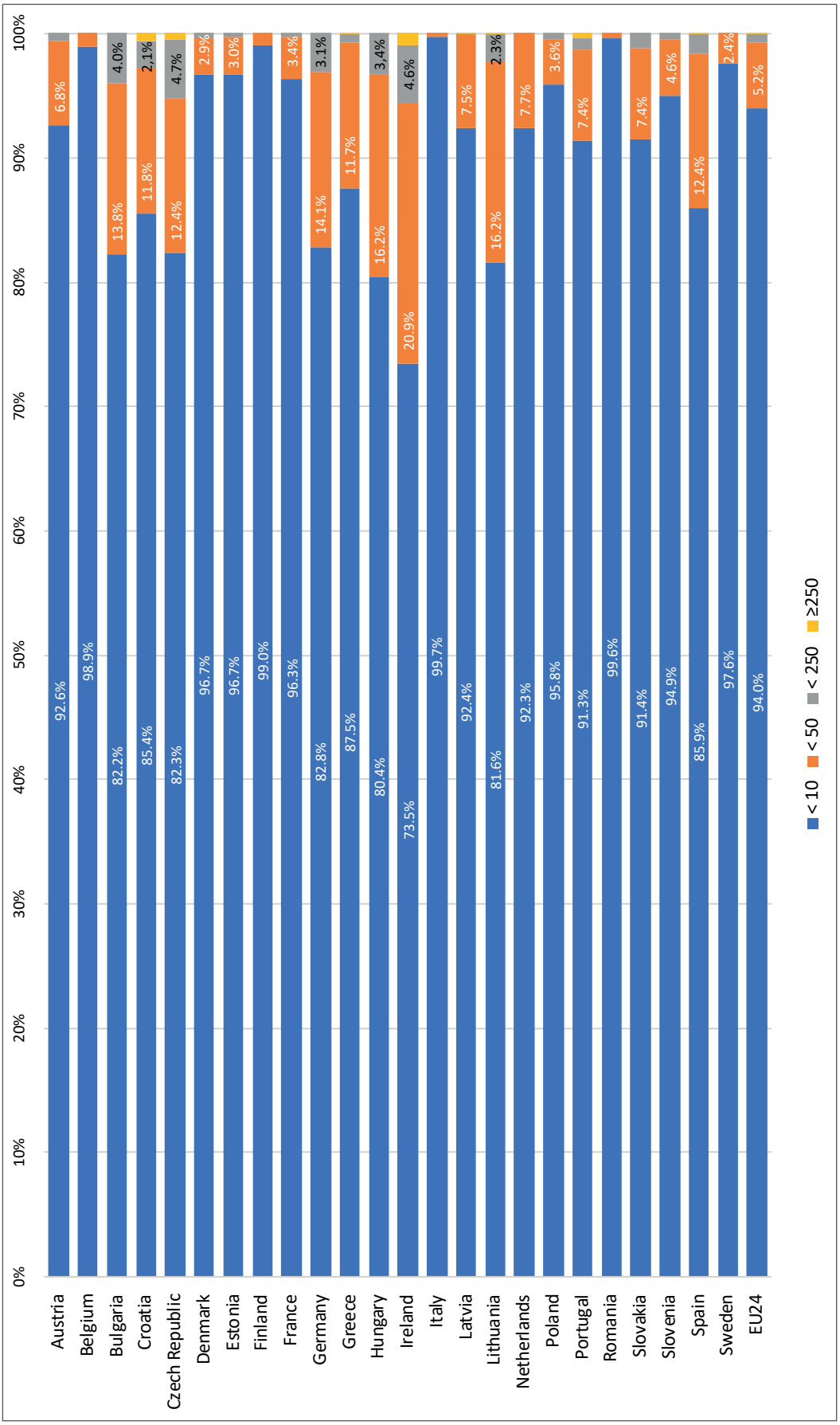


Figure 2.5: Number of seasonal workers



Source: Based on question S.5 and S.6, see Annex I.

Figure 2.6: Number of people permanently employed



Source: Based on question S.5 and S.6, see Annex I.

3. THE FINANCIAL NEEDS OF AGRICULTURAL ENTERPRISES

This chapter analyses the financial needs of the agricultural enterprises, focusing on the difficulties experienced by them in the previous year, the type and scope of financing for which they applied, reasons for not applying, the result of the application, reasons provided by banks for refusing applications, as well as the possibility to negotiate important financing conditions (such as interest rate, re-payments, etc.). This chapter also analyses the risk mitigation measures adopted by banks providing finance to agricultural enterprises.

Key findings

Performance and difficulties in the previous year:

- 18% of the farmers increased their farm size (land or number of animals, or both) and nearly 10% decreased; 16% declared increased turnover and nearly 23% decreased turnover.
- Employment was more stable, with around 92% of farms more or less not changing their labour.
- 58% of the farms had increased production costs and this appeared to be the main difficulty for farms in the previous year.
- 12.2% of farms said that access to finance for investment was difficult in the previous year and 10.4% had difficulties in accessing finance for working capital.

Demand for financing:

- In 2017, nearly 30% of the agricultural enterprises applied for financing.
- 16.7% of farms applied for bank finance in the previous year. Regarding banks loan products, 6.2% asked for medium-term investment loans, 5.9% for long-term loans and 5.3% for short-term loans.
- 14.8% of farms requested resources from other private individuals (e.g. relative and friends).
- The average request was for EUR 35 400 (with an average interest rate of 4.76%) for short-term loans and EUR 118 000 (3.40% average interest rate) for long-term loans.
- The main reason for not applying for financing in 2017 was sufficient internal/own funds; but for around 10% of farms the key reason was a fear of possible rejection, a higher share than for SMEs in other sectors.
- Most applications for bank loans received the requested amount: 71.4% for long-term loans and 76.1% for short-term loans.
- About 15.6% of applications for short and long-term loans were rejected, as were 14% for medium-term loans, which also saw more farms refusing the interest rate or costs offered by banks, because they were seen as too high (3.3%).
- The main reason given by banks for refusing farm applications was the high level of risk of the proposed investment, followed by the banks' policies (e.g. limits on lending to farmers) and a lack of appropriate immovable collateral.
- A consistent share of applicants (from 37% for credit lines to 52% for investment medium-term loans) could negotiate the interest rate; more applicants (from 44% for credit lines to 57% for short-term loans) could negotiate the repayment frequency and, a quarter to one-third of the farmers (26% for short-term loans and 32% for credit lines) have difficulties with repayments.

- In terms of purpose for the finance, nearly two thirds of the agricultural enterprises used the bank loan for new machinery, equipment or facilities followed by working capital expenditure.

Agricultural enterprises and risk mitigation:

- The value of guarantees requested by banks was above 100% of the loan amount for 50% of farmers requesting a credit line, followed by medium-term loans (for 47% of farmers), short-term loans (for 32% of farmers) and long-term loans (for 31% of farmers).
- For most farms, the type of guarantee requested was personal (collateral), especially for long-term loans; a public guarantee was required more for medium-term loans.

3.1 Performance and difficulties in the previous year

The starting point for this analysis is to understand how key farm performance indicators changed during the previous year.

The first interesting aspects emerge from Figure 3.1. The two **indicators that increased the most are farm size (for land or number of animals, or both) and turnover**. This seems to confirm the consolidation of EU farms noted by Eurostat. **Employment is stable and for 92% of farms it was more or less unchanged**. As a result, average labour productivity (turnover per worker) has increased for many farms.

Despite this trend, many enterprises reported turnover difficulties, with nearly **23% signalling a decrease in turnover over the previous year and a sub-group of 7% experiencing a significant decrease**. Farms in Greece and Italy (Figure 3.2) have particular issues and 43% of the enterprises recorded a decrease in turnover (of which 25% and 14% recorded a significant decrease). Belgium and France saw more than one-third of their farms with a decrease. On the contrary, a higher share of enterprises had (moderate and significant) turnover growth in Estonia, Portugal, and Latvia. The situation seems to be more stable in Denmark, Slovakia, Sweden, Ireland and Poland, where the largest share of farms reports unchanged turnover, with a maximum in Poland (87%).

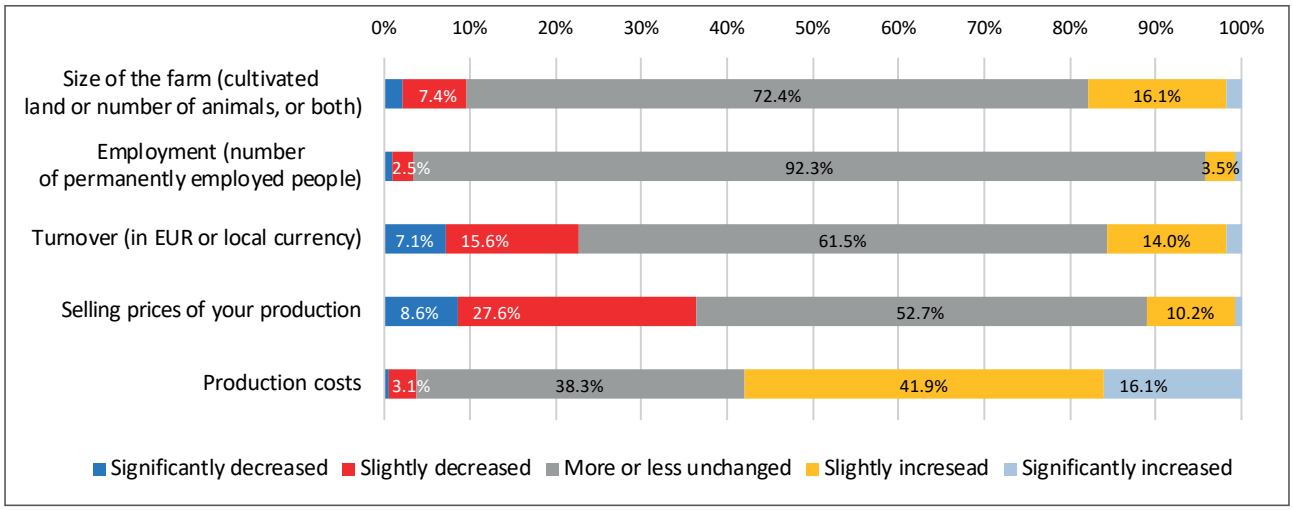
The most important challenges for the agricultural enterprises seem to be the price of output and the cost of production. The selling price of farm production decreased for more than 36% of the enterprises (8.6% even experienced a significant decrease), while only 11% saw a slight increase. Production costs were down for only 4% of the surveyed farms, **with 58% seeing increased production costs compared to the previous year** and 16% faced a significant increase. Less than 4% had lower production costs. High production costs are a significant challenge for competitiveness, as evidenced in a recent report published by the EC (see Box 3.1 for further detail). Farms which saw an increase in production costs (Figure 3.3) are in Hungary, Austria, Finland, Greece, Latvia, Romania and Portugal (around 70% of all farms) while in Greece nearly half the farms experienced a significant increase. On the other hand, Estonia, Germany, Spain and in particular Slovenia had a higher share of farms with decreased production costs compared to the EU-24 average. In Slovenia more than one fifth of farms report a significant decrease and more than one third a slight decrease. Regarding the selling prices of production (Figure 3.4) most increases were in the Netherlands (for nearly one third of farms) and Estonia, Latvia, Hungary, Czech Republic and Austria (more than 20% of farms). On the other hand, in Romania, Greece, Belgium, Italy, and Finland over 40% of farms saw a (significant or slight) decrease in their selling prices.

Box 3.1: Production costs in the EU agricultural sector

EU agriculture production costs are relatively high - especially owing to higher labour and land costs as well as environmental and sanitary standards. The total costs of production increased by 13% in real terms between 2000-2002 and 2013-2015.[30] Compared to most producers in third countries, EU farmers face higher costs for compliance with legislation concerning the environment, animal welfare and food safety. Even though only a small part of total production cost, this still affects farmers' profitability. Animal farms face the highest costs, with pig and poultry farms paying 5 to 10% of production costs for compliance. Dairy, beef and sheep meat producers allocate 2% and 3% respectively and crop farms pay between 1% and 3.5% of their production costs for legislative compliance. EU average production costs for wheat and beef across all types of farms, including size, location and productivity, tend to be higher than for other world regions. For example, wheat costs are lower in Argentina, Canada, Russia and Ukraine, whereas those in the US and Brazil are similar to EU levels. Beef producers in the Americas prove to be more cost efficient, enabling them to dominate world markets. Also, for sheep, poultry, milk and maize EU production costs tend to be higher.

Source: Reproduced from European Commission (2017), Modernising & simplifying the CAP - Economic challenges facing EU agriculture, December.

Figure 3.1: Changes in key indicators in the previous year



Source: Based on question Q.2, see Annex I.

30 European Commission (2017), Modernising & simplifying the CAP - Economic challenges facing EU agriculture, December, p.17.

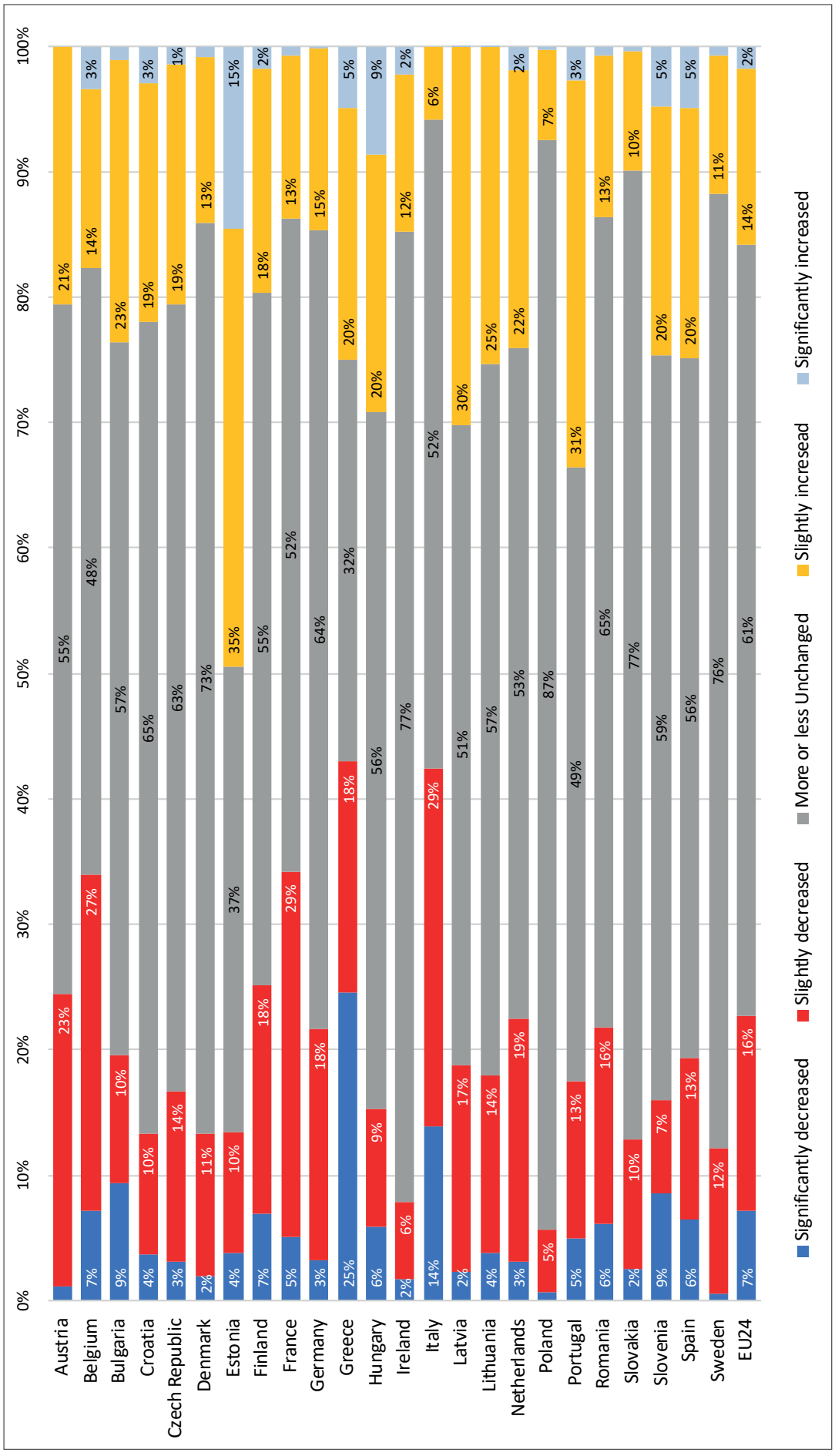


Figure 3.2: Changes in key indicators in the previous year: turnover

Source: Based on question Q.2, see Annex I.

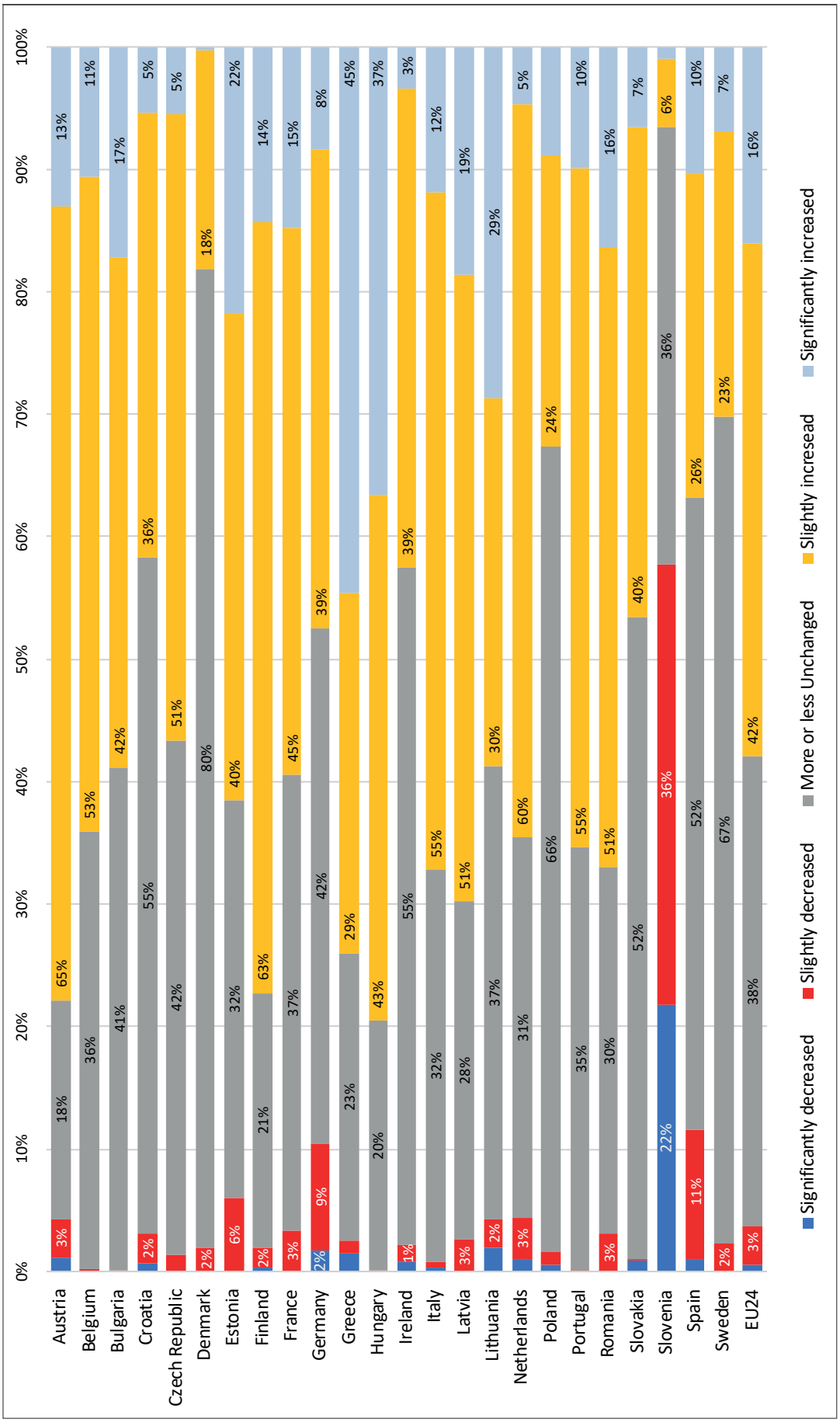


Figure 3.3: Changes in key indicators in the previous year: cost of production

Source: Based on question Q.2, see Annex I.

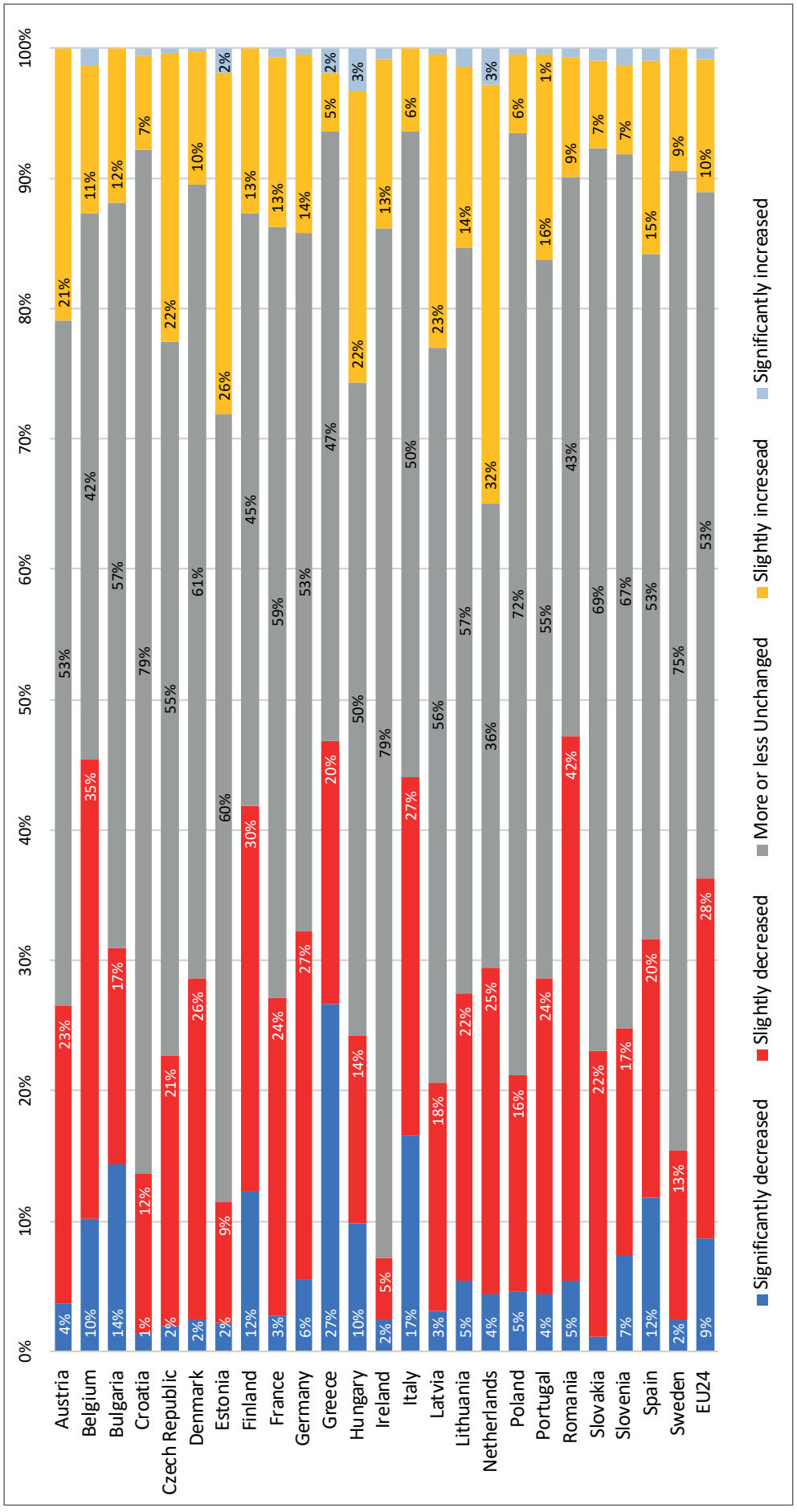


Figure 3.4: Changes in key indicators in the previous year: selling prices of production

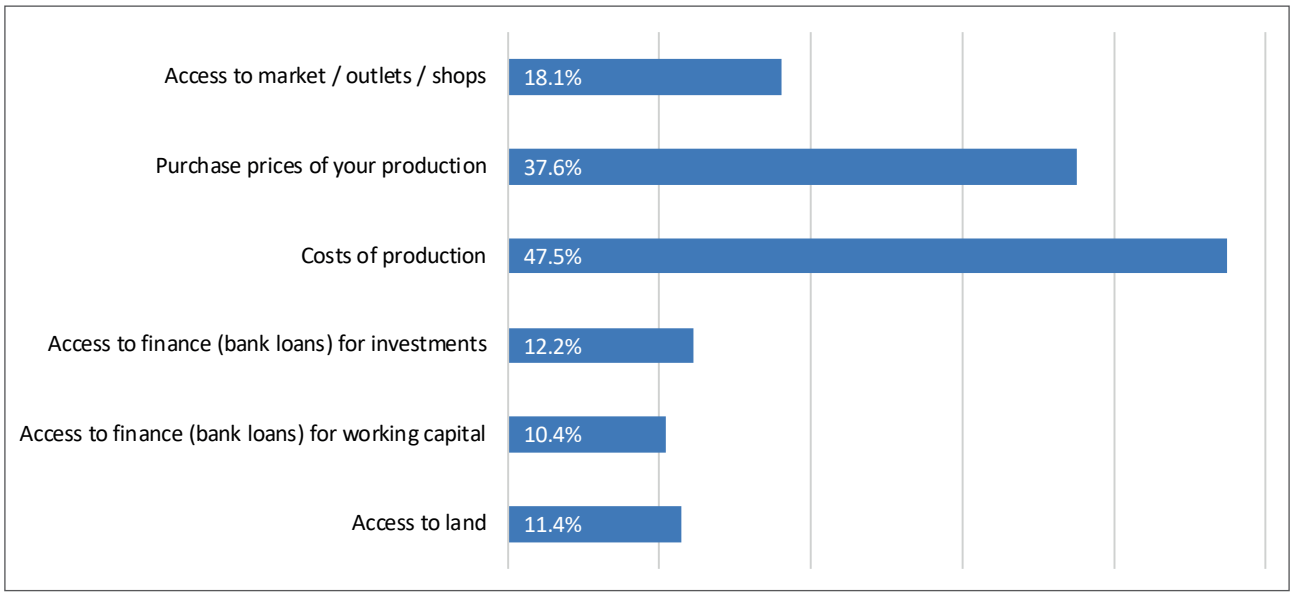
Source: Based on question Q.2, see Annex I.

Consistent with the above results, production costs and sales prices were the main concern for many farmers in the previous year (Figure 3.5) as they seem to have been affected by rising production cost (47.5% of respondents) with Finland, Greece, Italy, Portugal and Hungary most affected (Figure 3.6). **Selling prices were critical for 37.6% of EU agricultural enterprises in the previous year**. Difficulties related to access to markets/outlets/shops are reported by 18% of the enterprises. Access to land seems to be less problematic (11.4%), but with important differences among EU Member States. This problem seems important in the Czech Republic, Greece, Estonia, Germany and Finland (Figure 3.6).

Access to finance, especially bank loans, was critical for 12.2% of all farmers using them for investment finance and 10.4% for working capital. Here again there were important differences between Member States. Access to finance was particularly difficult in Greece (more than half of farms experienced difficulties in accessing finance in 2017) and in Estonia, Hungary, Lithuania, Bulgaria and Portugal. For farms in Poland, Sweden, Italy and Austria, access to finance was less problematic than for the EU-24, on average.

However, the SAFE survey[31] indicates that accessing finance was an issue in the last year for around 7% of SMEs, which implies that agricultural enterprises have more difficulties than SMEs in other sectors.

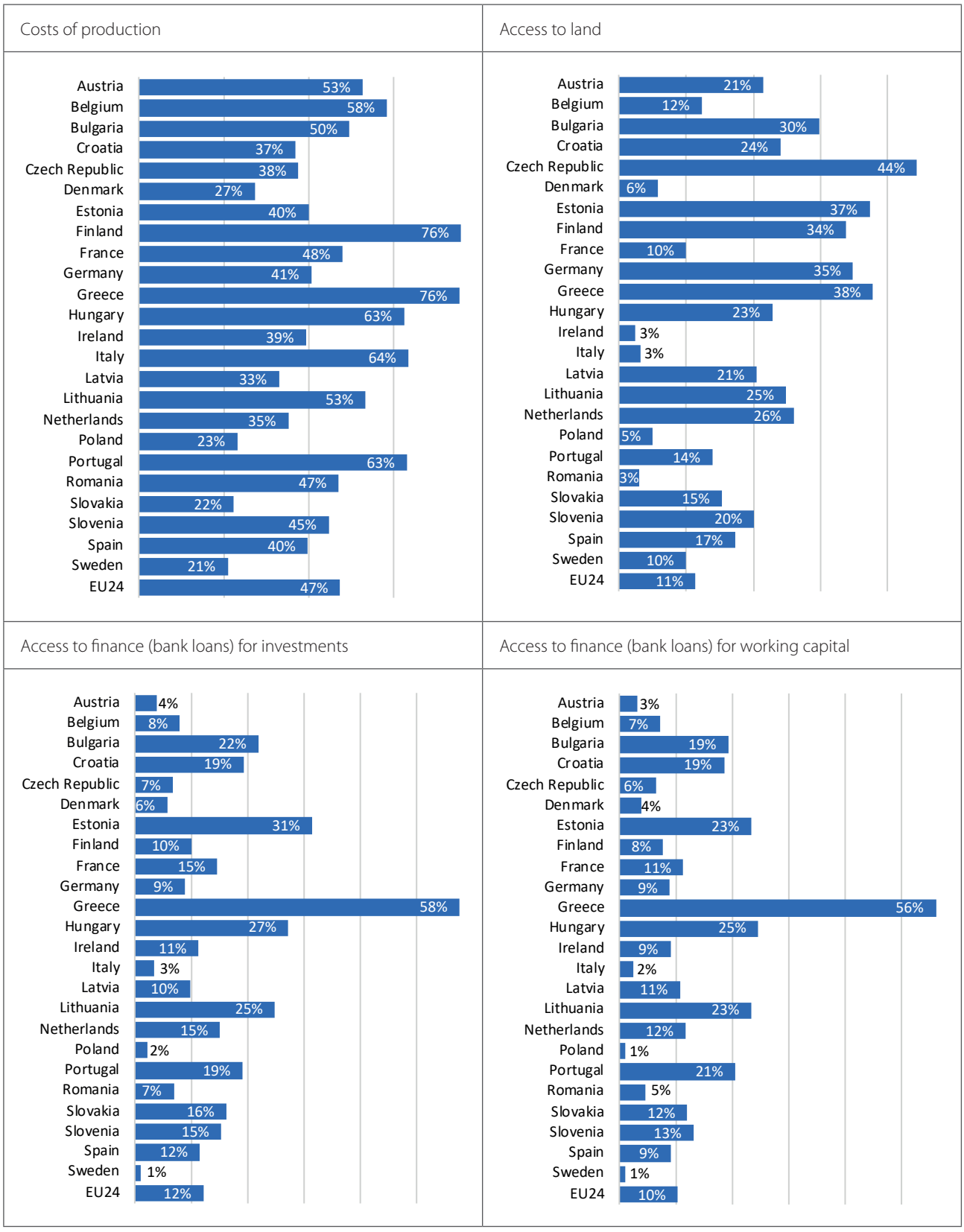
Figure 3.5: Share of farms experiencing difficulties in the previous year



Source: Based on question Q.1, see Annex I.

31 European Commission (2017), Survey on the access to finance of enterprises (SAFE) - Analytical report 2017, November, p. 136. This analysis is not completely comparable with SAFE. The SAFE survey contains the same question but refers to the last 6 months instead of the last year as in this analysis.

Figure 3.6: Share of farms experiencing difficulties in the previous year, by country



Source: Based on question Q.1, see Annex I.

Concerning the application of accountancy in running farms (Figure 3.7), only half the farms have fully-fledged bookkeeping (double-entry) or an expert accountant; 35% have simple accounting for the main data while 15% have no accounts. Moreover, farmers seem to be generally disinclined to accept any increased burden to their accounting, even if this could favour their access to credit (Figure 3.8).

Figure 3.7: Do you apply accountancy in running your business?

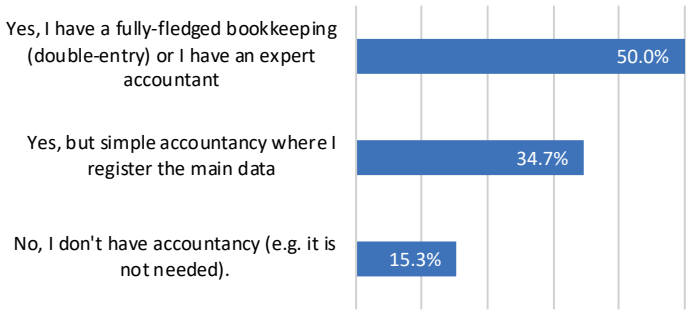
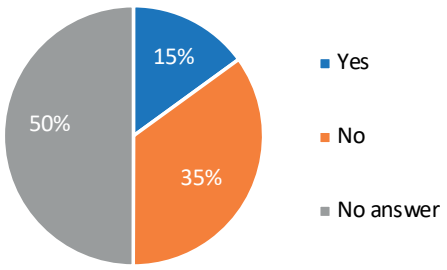


Figure 3.8: Would you consider improving your accountancy if a bank asks?



Source: Based on question Q.3 and Q.4, see Annex I.

3.2 The demand for financing

In 2017, nearly 30% of the agricultural enterprises tried to obtain financial resources from at least one of the sources considered in the survey.[32] **The most requested source of financing was from banks** (Figure 3.10) with nearly 16.7% of all farms applying for at least one of the four bank products in the previous year.[33] More specifically, as shown in Figure 3.9, **6.2% of the farmers asked for an investment medium-term loan, followed by long-term loans (5.9%), credit lines (just under 5.5%) and short-term loans (5.3%)**. Bank finance is especially significant in France, asked for by 44.5% of farmers, Denmark (38.7%), Belgium (30.1%), Czech Republic (29%), Finland (28.7%) and Spain (27.5%).

Agricultural enterprises seem to apply for bank finance much less than SMEs in other sectors. According to the SAFE survey, around 26% of SMEs applied for bank loans[34] against 16.7% of agricultural enterprises in this survey.

This is clearly linked to the fact that **private resources (provided by friends or relatives) remain an important source of finance for agricultural enterprises, with around 15% requesting this type of finance in the last year** (Figure 3.9). Only for a limited share of these enterprises does private finance seem to be complementary to bank finance (3.4% tried to access both sources), while 11.4% of the agricultural enterprises applied for finance only from other individuals (see Figure 3.10).

Resources from private individuals are almost as important as bank finance for the agricultural enterprises. This may imply a relevant market failure, because a considerable number of agricultural businesses are excluded from the formal financial market. The information collected through this survey is not sufficient to analyse any market failure in detail and further analysis would be needed to fully understand its nature and determinants.

The situation varies significantly between Member States (Figure 3.10). Finance from private individuals plays a marginal role in almost all the Western and Scandinavian countries as well as in Poland, Slovakia, the Czech Republic and Slovenia. Its role seems, instead, to be very important in Eastern and Baltic Member States: Hungary, Greece and

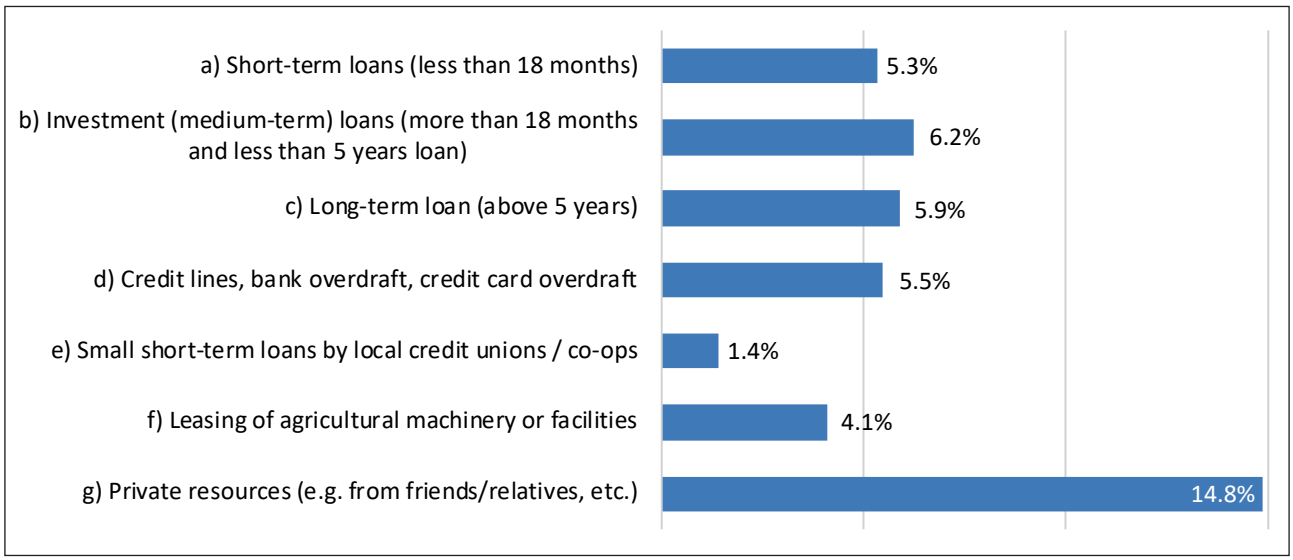
32 Based on question Q.5, see Annex I, covering the number of interviewees applying for at least one type of financing in the last year.

33 According to respondents, 2 287 of the 7 659 farmers interviewed applied for at least one of the four bank products. Weighting these gives 16.7%, as small farms tend to apply less than larger ones (see Section 5.2). According to respondents, 2 287 of the 7 659 farmers interviewed applied for at least one of the four bank products. Weighting these gives 16.7%, as small farms tend to apply less than larger ones (see Section 5.2).

34 European Commission (2017), Survey on the access to finance of enterprises (SAFE), November, p. 40. The SAFE statistic refers to applications in the last 6 months, while the survey analysed in this report refers to the last year. In addition, the SAFE indicator refers only to loan products (excluding overdrafts and credit lines) which were included in this survey. These elements suggest that the difference in applications for bank finance between agricultural enterprises and SMEs in other sectors might be even higher.

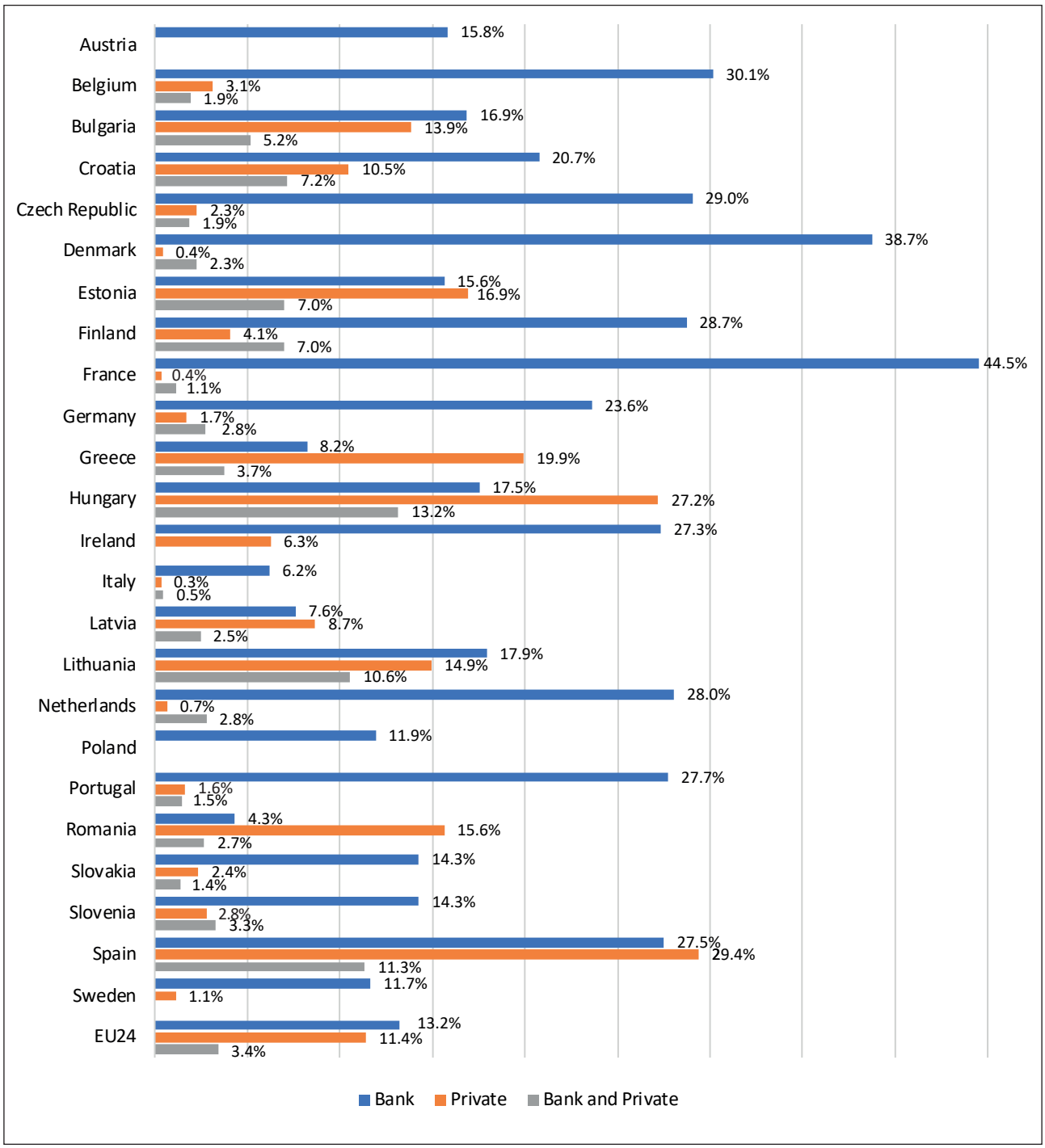
Romania in particular, where resources from private individuals are by far the most important source of finance. The latter applies equally to Bulgaria, Croatia, Estonia, Latvia, and Lithuania. In Spain, access to external finance is much higher than in any other Member State (almost 70% of the enterprises tried to access some type of finance in the last year). These very high needs are covered equally by banks and private individuals. Further analysis through a different study may provide more insight into the reasons behind these differences.

Figure 3.9: Percentage of farms applying for finance in the previous year (i.e. since beginning of 2017), by product type (multiple answers allowed)



Source: Based on question Q.5, see Annex I.

Figure 3.10: Percentage of farms that applied only for bank finance, only for private resources, and for both in the previous year (i.e. since beginning of 2017), by country



Source: For bank finance, percentages are based on respondents indicating 'yes' in at least one bank product category (short-term, medium-term, long-term loans, and credit lines) in question Q.5, see Annex I. If a farm applied for more than one type of bank finance it has been counted only once.

The average amount requested by a farm was between EUR 35 363 (at an interest rate of 4.76%) for short-term loans and EUR 117 775 (at 3.50%) for long-term loans (Table 3.1). Of course, these results should be treated with caution, since the response rate was low, particularly in some countries (see Figure A.1 in Annex II and statistics by country displayed in Annex III).

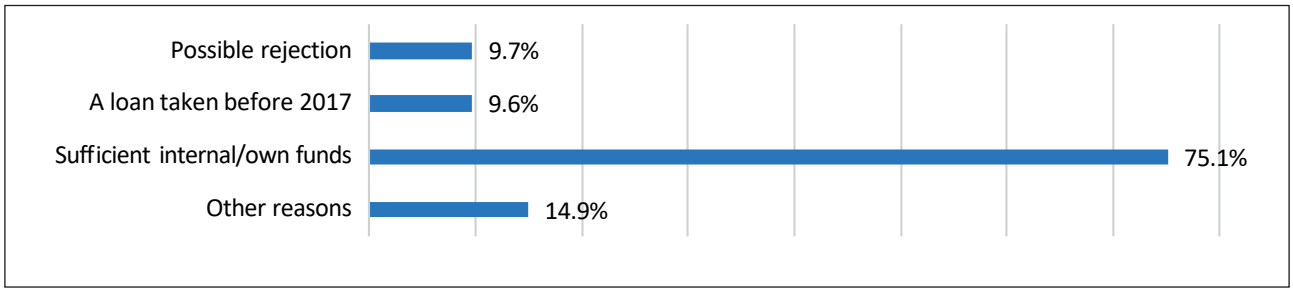
Table 3.1: Amount and interest rate of financial products applied for (EU-24)

a) Short-term loans (less than 18 months)		b) Investment (medium-term) loans (more than 18 months and less than 5 years)		c) Long-term loan (above 5 years)		d) Credit lines, bank overdraft, credit card overdraft	
Amount (median, EUR)	Interest rate (average)	Amount (median, EUR)	Interest rate (average)	Amount (median, EUR)	Interest rate (average)	Amount (median, EUR)	Interest rate (average)
35 363	4.76%	45 430	5.11%	117 775	3.4%	33 993	6.22%

Source: Based on question Q.9, see Annex I. Response rate: 67% for loan amount and 56% for the interest rate (see Figure A.1 in Annex II).

Our survey finds that the main reason for not applying for financing in 2017 (Figure 3.11) was because farmers had sufficient internal/own funds. For nearly 10% of the farms, loans taken out before 2017 were still sufficient. **For another 10% of the respondents, the key reason for not applying for bank finance was the fear of rejection. This signals a considerable group of 'discouraged' enterprises**, which may need financial resources but do not approach banks due to a lack of knowledge of the financial system. It is important to note that, although the results are not perfectly comparable, the share of discouraged enterprises in agriculture seems to be higher compared to SMEs in other sectors. According to the SAFE survey, 5% of SMEs do not apply for a bank loan because of fear of rejection.[35] Among 'other reasons', indicated by nearly 15% of farms, the main ones are the state of uncertainty (the farm is going to close), difficulties to pay the instalments, or the high costs and high interest rate imposed by the banks.

Figure 3.11: Key reasons for no application (multiple answers allowed)

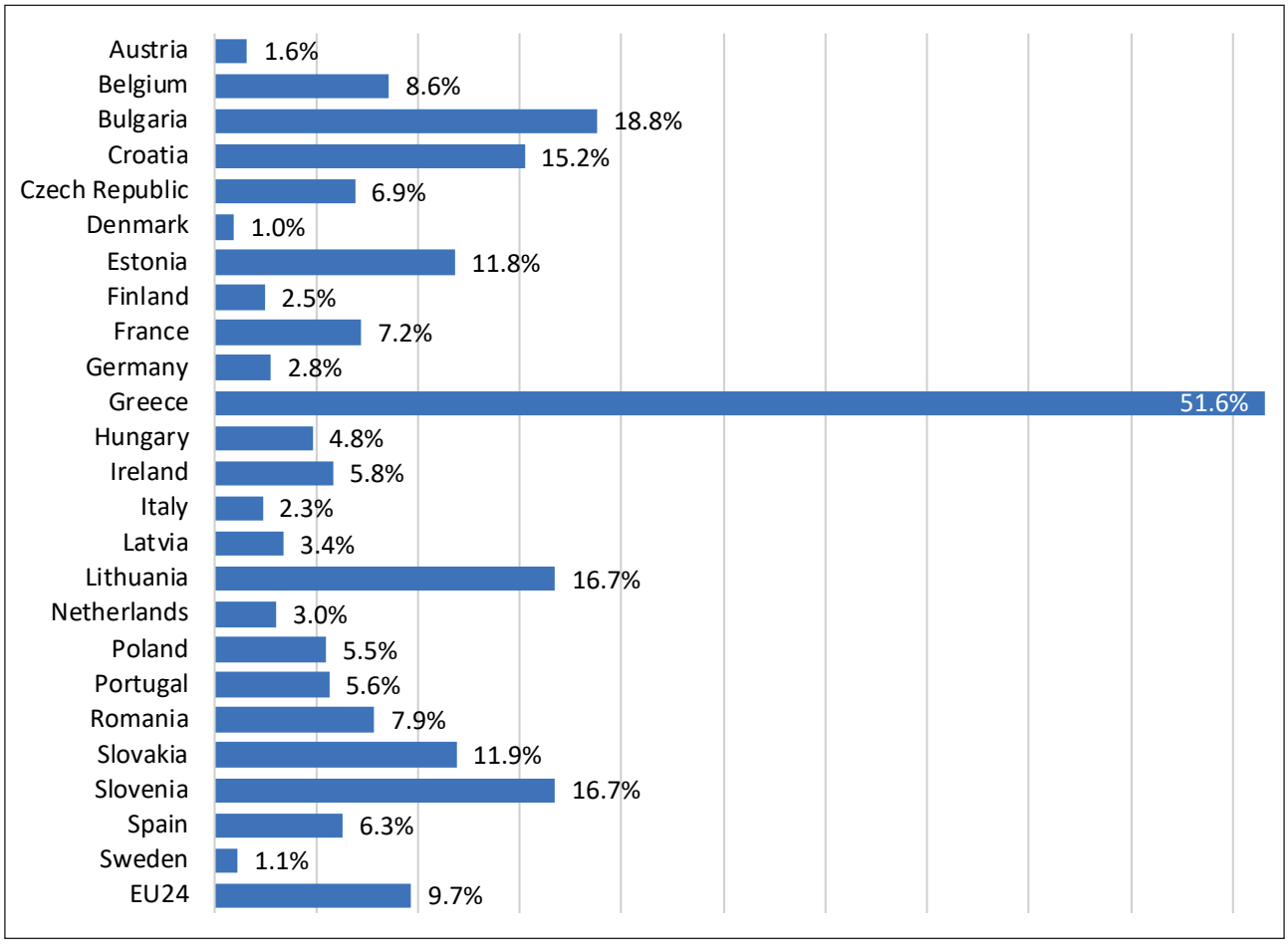


Source: Based on question Q.6, see Annex I.

This fear of rejection is particularly high in Greece (with more than half the farms not applying for any of the four bank products), followed by Bulgaria, Slovenia, Lithuania and Croatia with more than 15% of farms (Figure 3.12). Farmers seem to be much more confident in Sweden and Denmark (with just around 1% of farms not applying because fear of possible rejection) and in Austria, Italy, Finland, Germany and the Netherlands (less than 3% of the farms).

35 European Commission (2017), Survey on the access to finance of enterprises (SAFE), November, p. 40. The SAFE survey calculates 5% of respondents (who did not apply plus those who applied), while the 10% in this report covers enterprises which did not apply only. By applying the same criterion, the result for agricultural enterprises in this survey would be 9.1% for all four products. Other differences with SAFE have to be considered. The question in this report allows for multiple answers, unlike SAFE (so this report could slightly overestimate compared to SAFE) and SAFE questions refer to the last 6 months while in this report all questions refer to the last year.

Figure 3.12: Percentage of farms not applying for fear of rejection (by country), total for short-term, medium-term, long-term loans, and credit lines.



Source: Based on question Q.6, see Annex I.

Looking at loans in 2017 (Figure 3.13), around 79% of farms obtained at least part of the amount requested in their application (**76.1% obtained the full requested amount** and 2.8% had their request partially accepted). Not surprisingly the percentage of applications approved for the full amount is higher for credit lines (83.7%) and short-term loans (76%), but slightly lower for long-term loans (71.4%) and medium-term loans (74%).

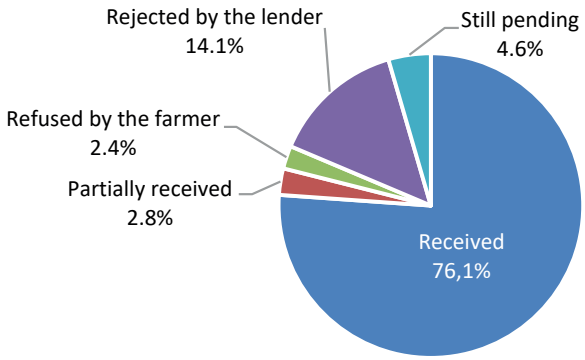
The success rate seems to be lower for agricultural enterprises than for SMEs in other sectors, where around 84% received at least part of the amount requested in their applications. Farms are also more likely to see their application directly rejected by the bank or to refuse the loan because the cost is too high.[36] Looking by country (Figure 3.14) there was more success for the farmers (received plus partially received) in Portugal, Latvia, France, Denmark, Belgium, Sweden and Finland (more than 90% of applicants). The rejection by the lender or rejection by the farmer due to an unfavourable offer was higher in Lithuania[37] (65%), Greece (50%), Slovakia (40%) and Romania, Estonia and Hungary (more than 20% of applicants).

36 European Commission (2017), Survey on the access to finance of enterprises (SAFE), November, p. 40. Note that SAFE questions refer to the last 6 months while this survey refers to the last year. Although SMEs in other sectors receiving the entire requested amount was a bit lower (73%) with respect to farms (76%), a much larger share of them had their request partially accepted (11% against 2,8%). Direct rejection from banks accounts for 14% against 5% for SMEs in other sectors, while 2.4% of farms refused the loan because interest was too high against 1% of SMEs in other sectors. The remaining difference between the two statistics is because around 8% of the loan applications were still pending at the moment of the SAFE survey, while 4% were pending for enterprises in this report.

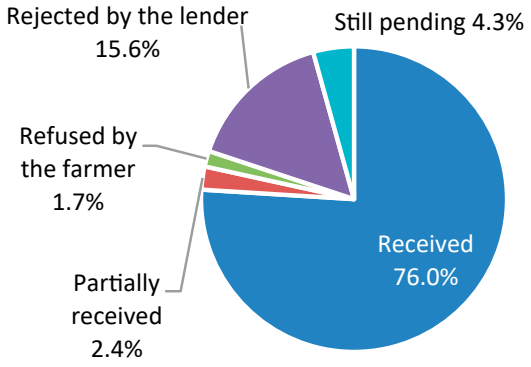
37 According to the SAFE survey, Lithuania had the highest rate of rejection also for SMEs, for 24% of applications (of which 17% by the lender), followed by Greece and Estonia (21%), Romania (18%) and Slovakia (16%).

Figure 3.13: Percentage of farms applying for finance and result of the application

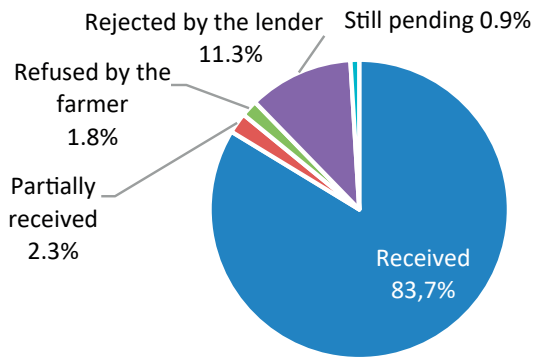
Total (short-term, medium-term, long-term loans and credit lines)*



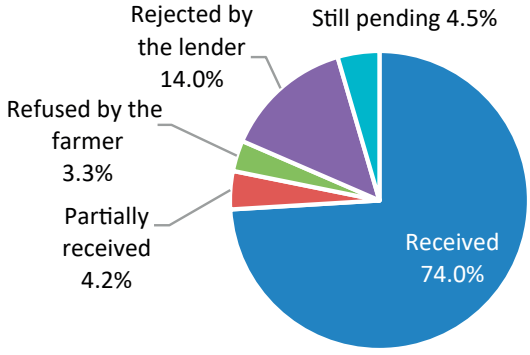
Short-term loans (less than 18 months)



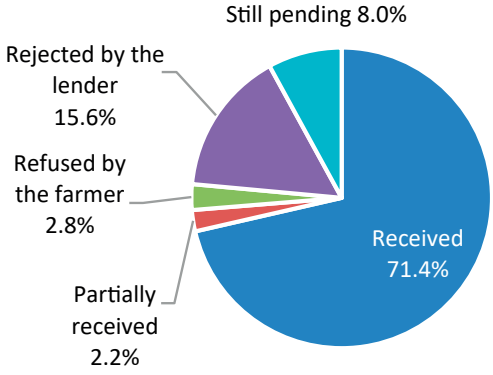
Credit lines, bank overdraft, credit card overdraft



Investment (medium-term) loans (more than 18 months and less than 5 years loan)

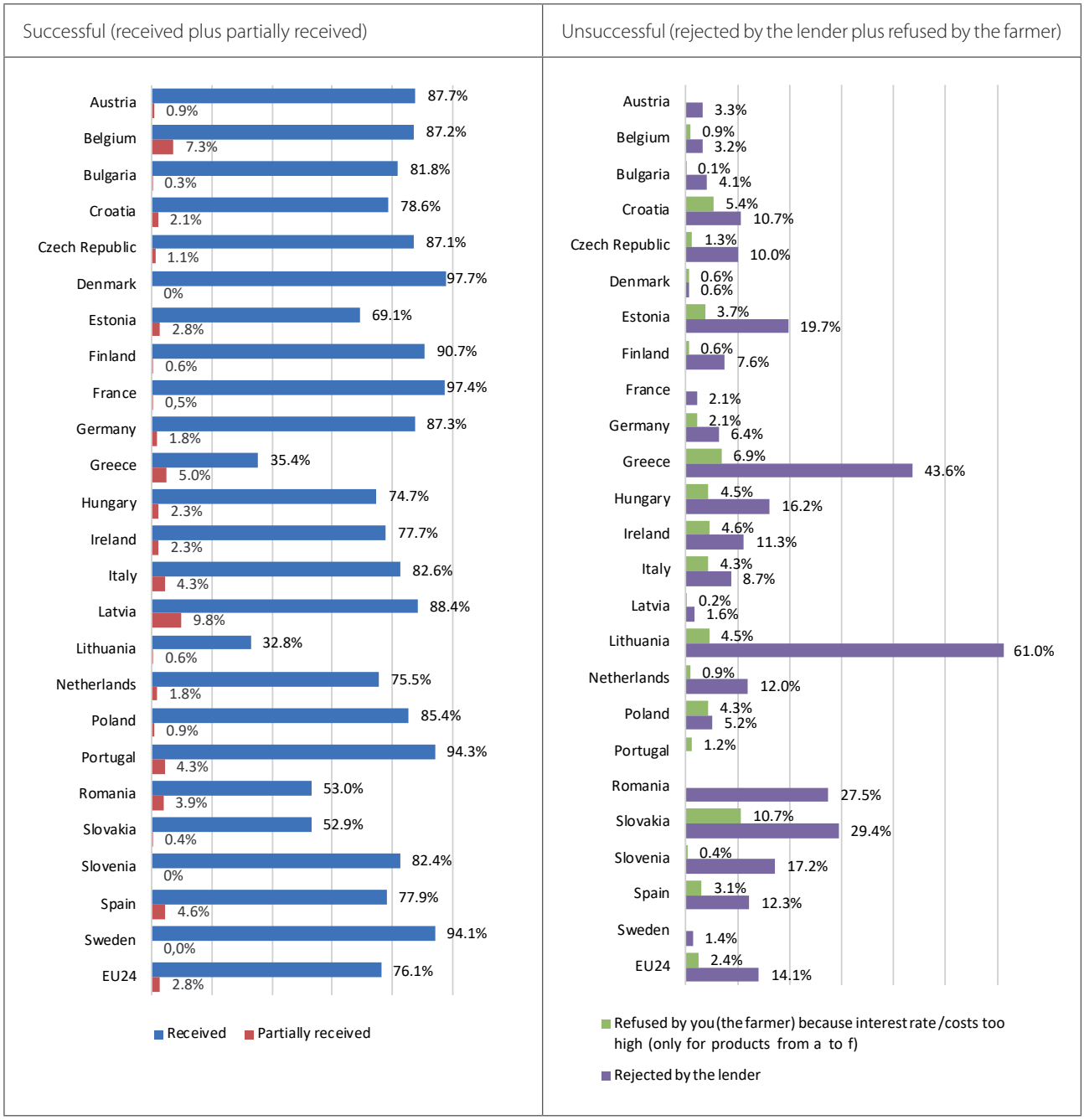


Long-term loan (above 5 years)



*Source: Based on question Q.5 and Q.7, see Annex I. * = based on total applications, 3 175, from 2 287 farmers (respondents) applying for one product, 496 for two, 148 for three and 32 for four.*

Figure 3.14: Result of the application for bank finance, by country (total short-term, medium-term, long-term loans and credit lines)



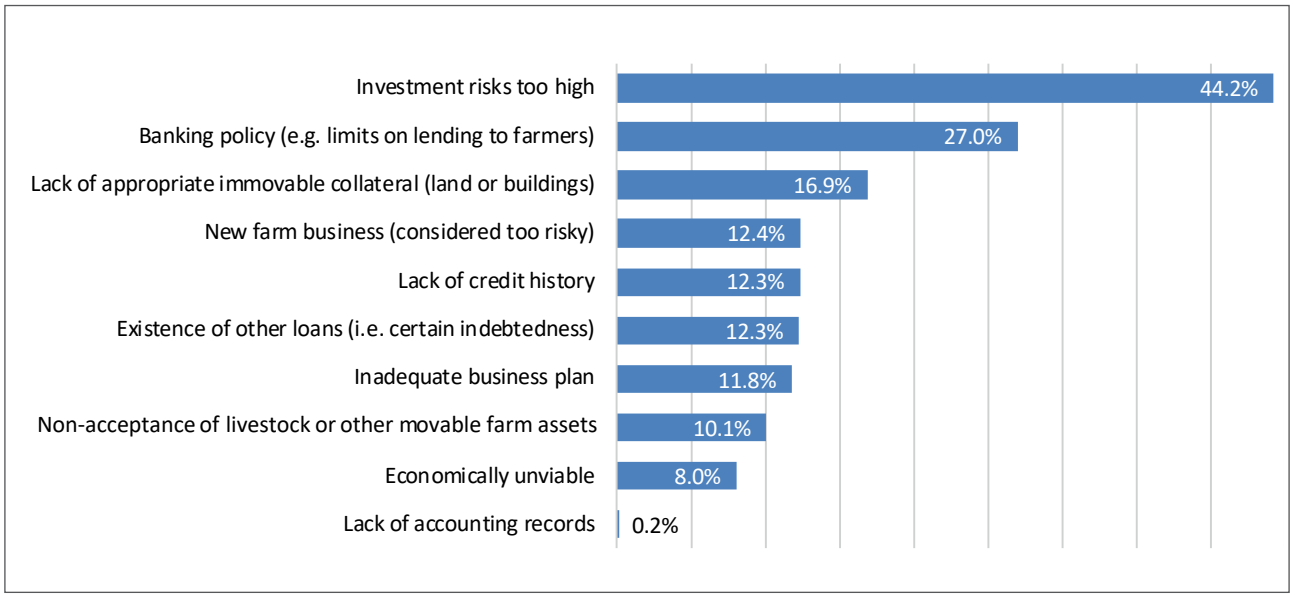
Source: Based on question Q.7, see Annex I. Based on total applications, 3 175, from 2 287 farmers (respondents) applying for one product, 496 for two, 148 for three and 32 for four.

The key reason given by banks for refusing farm applications is the perceived risk of the proposed investment (44.2%, Figure 3.15). If this is added to new farm businesses considered too risky by the banks (12.4%), then the banks' **risk aversion is a reason for more than half of the refusals**. This confirms recent findings by *fi-compass* (2018)[38], in which the high-risk profile of a potential borrower and the riskiness of the investment were primary reasons for rejecting loan applications. About 8% of loan applications were rejected by the banks due to a perceived lack of economic viability of the business plans/cases.

38 See figure 4.14 in *fi-compass* (2019), Debt finance and use of credit guarantee instruments for agricultural enterprises in the EU. See also *fi-compass* (2018), Flexible financial products for the agricultural sector in the EU.

In fact, more than one fourth of the EU24 farms report the banks' policies as a key reason for rejection. The lack of appropriate immovable collateral was cited by nearly 17% and non-acceptance of livestock or other movable farm assets as collateral by more than 10% of farms. Considering the two reasons together, **the absence of acceptable collateral is the second key reason for refusing applications** (27%). Lack of potential borrower credit history, existing debt, as well as an inadequate business plan, are less frequently used reasons for rejecting loan applications.

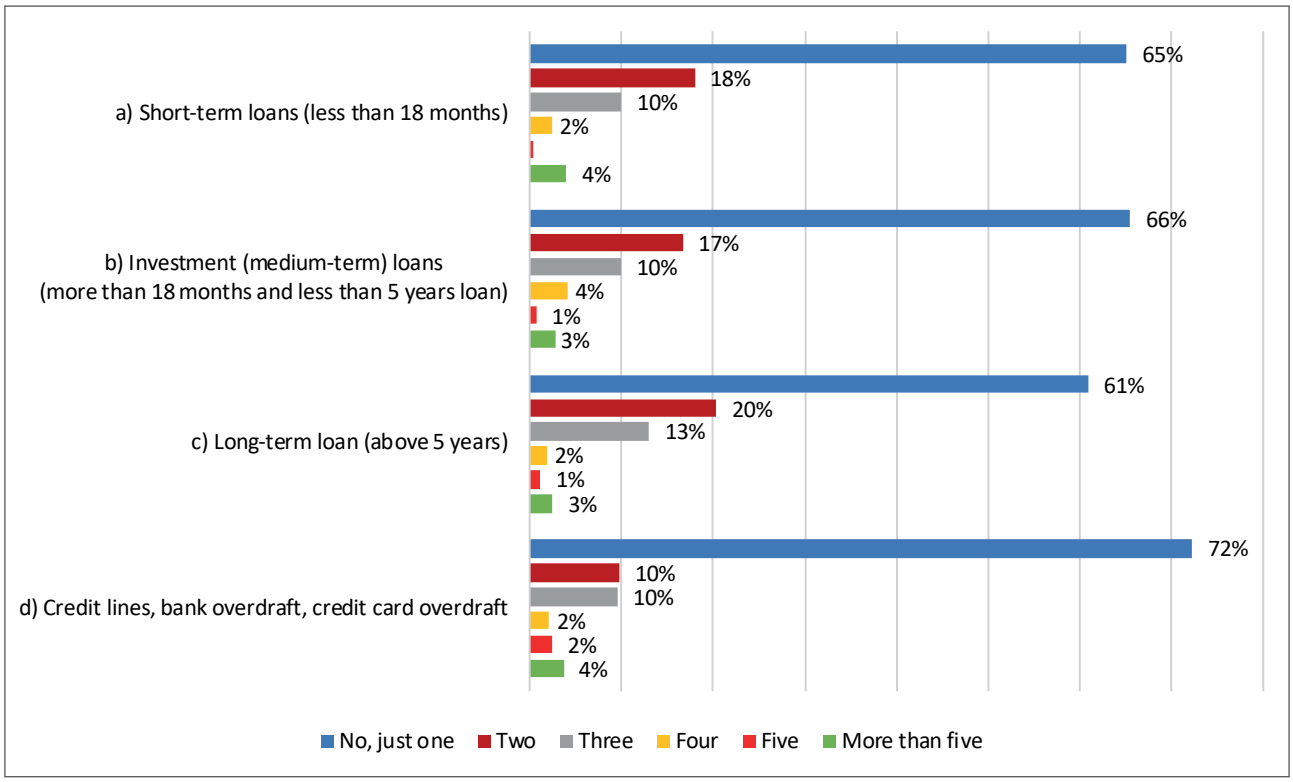
Figure 3.15: Key reasons given by banks for refusing applications (multiple answers allowed)



Source: Based on question Q.17, see Annex I.

Farmers tend not to actively search for financing, which makes it difficult for them to obtain better conditions or easier access to financing. As indicated in Figure 3.16, though there is a significant difference between applications for short-term loans and medium/long-term loans, **the large majority of farms applied only to one bank**. This could be explained by the fact that farmers may favour relations with a single bank or that local competition between banks may be limited.

Figure 3.16: Did you apply to more than one bank for the same project / proposal? If yes, how many?



Source: Based on question Q.8, see Annex I.

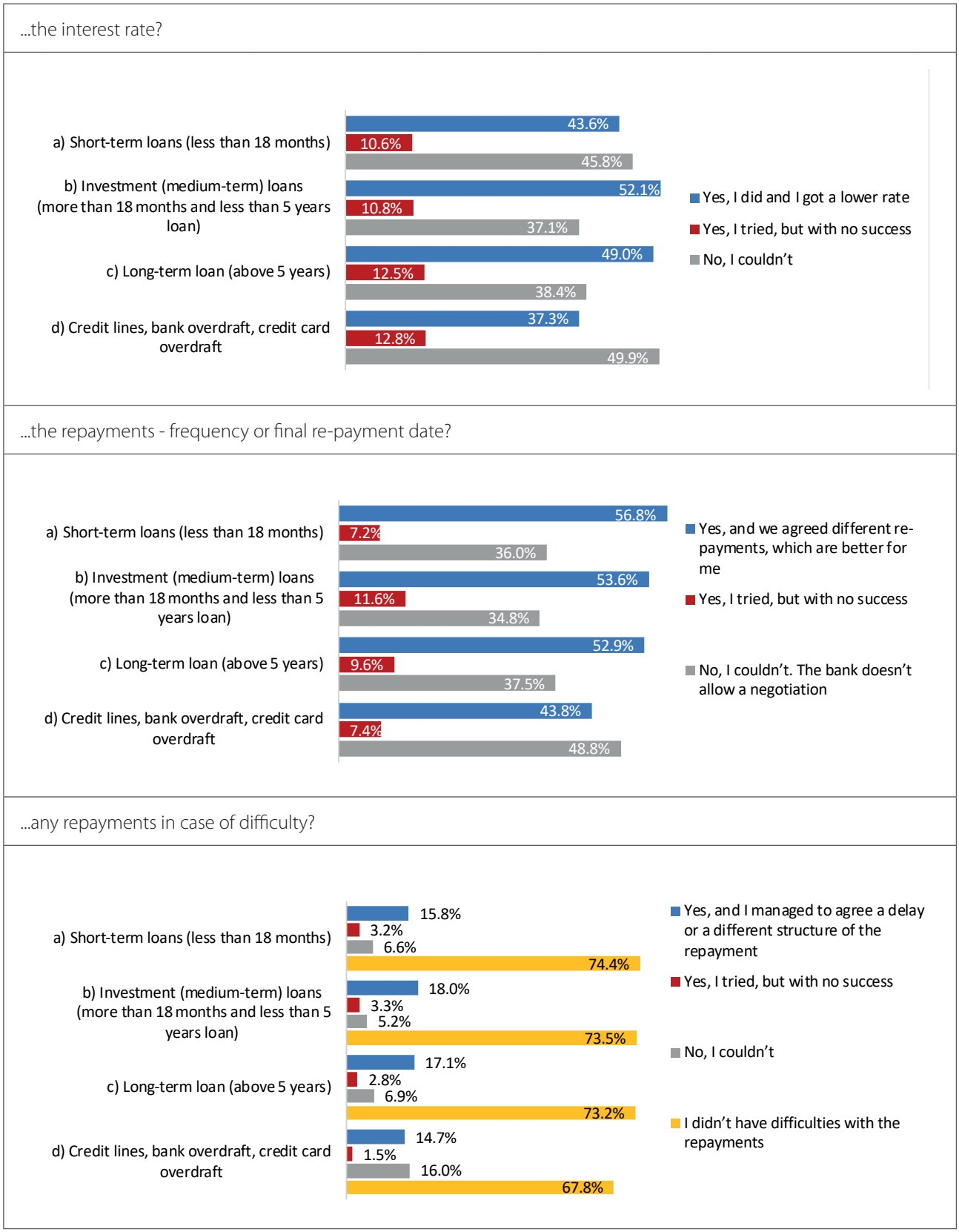
Figure 3.17 illustrates the extent it is possible for farmers to negotiate lending conditions offered by the bank, including the interest rate, the frequency and final date of repayments as well as flexibility in the timing or amount of repayments. **A consistent share of applicants could negotiate the interest rate and obtained a lower rate**. The lowest share concerns credit lines, while for other products this oscillates between 44% for short-term loans and 52% for medium-term loans.

The frequency of repayments was successfully negotiated by more than half of farms in all three loan categories, but for credit-lines this falls to 44%. A vast majority of farms did not experience difficulties with the loan repayments. From those that faced difficulties, most obtained some flexibility after negotiations.

These results, although derived from the demand side, confirm the findings of the *fi-compass* study on flexible financial instruments[39], where the large majority of financial intermediaries interviewed offer repayment based on seasonality (i.e. production cycle) and longer maturity periods. Moreover, some banks offer agricultural enterprises financial products with elements of flexibility that can be activated on request by farmers.

39 *fi-compass* (2018) Flexible financial products for the agricultural sector in the EU.

Figure 3.17: Could you negotiate...

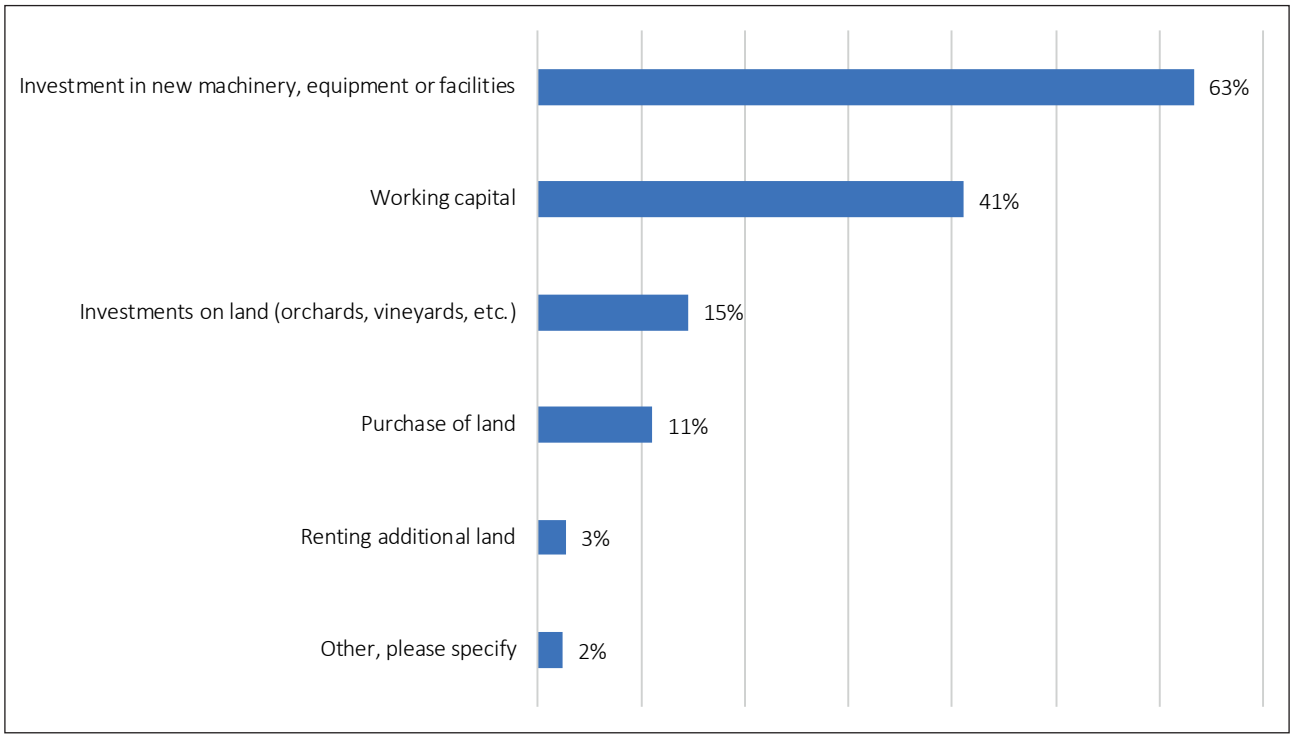


Source: Based on question Q.10, Q.12, and Q.13 see Annex I.

The purpose of the loan (Figure 3.18) **for 63% of the agricultural enterprises was to invest in new machinery, equipment or facilities**. This is followed by working capital (41%), and land (15%). Looking at the purposes by country (Figure 3.19), farms in the Czech Republic, Italy, Sweden, Belgium, Poland, France and Slovenia use the financing in particular for investment in new machinery, equipment or facilities (more than 70%).

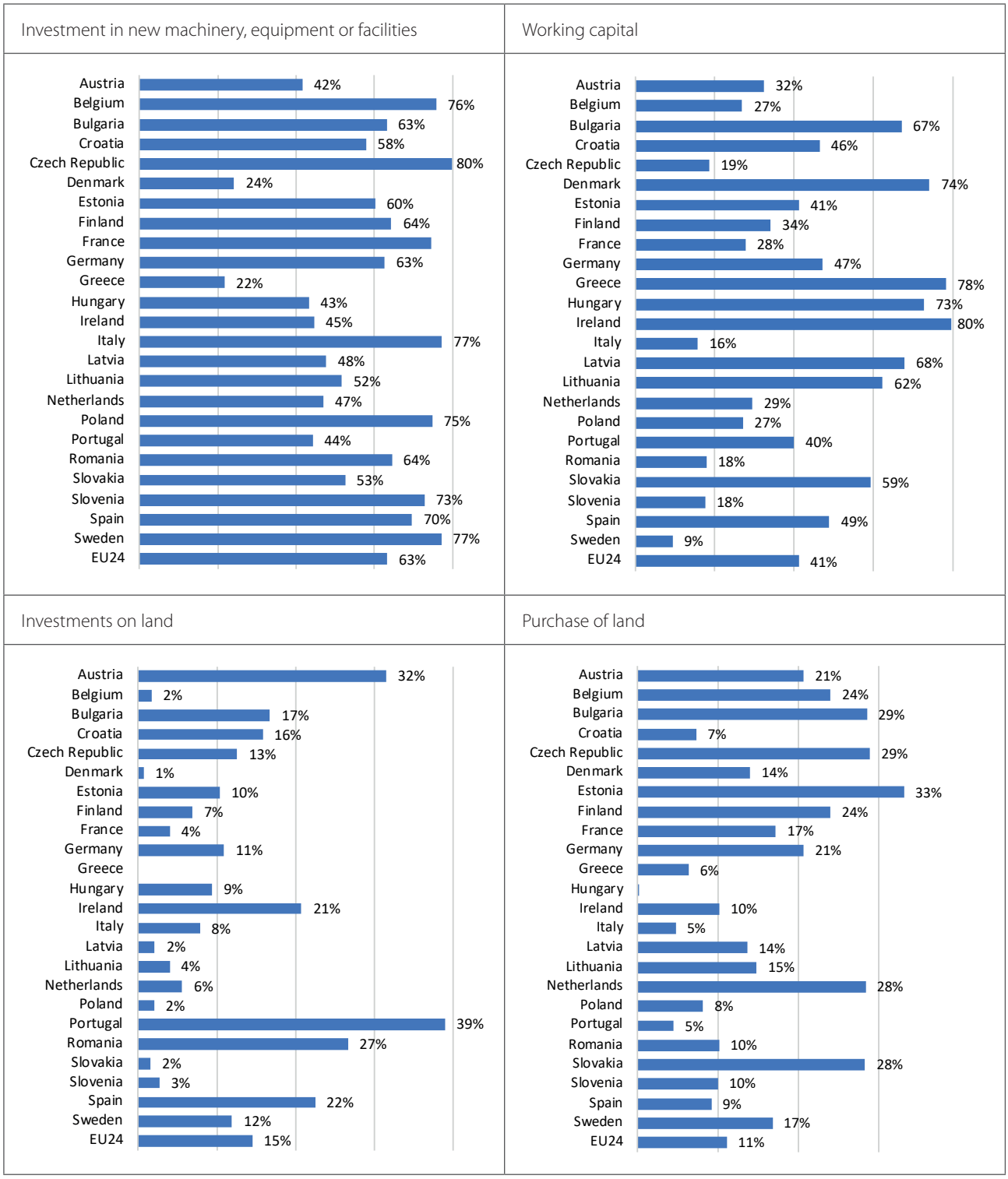
Farms in Ireland, Greece, Denmark and Hungary tend to use the financing more for **working capital** (over 70%). **Purchase of land** is a main focus for more than 25% of farms in Estonia, the Czech Republic, Bulgaria, the Netherlands and Slovakia. Finally, more than 20% of the farms in Portugal, Austria, Romania, Spain and Ireland tend to use financing more for **investments in land**.

Figure 3.18: In case of the loan received and/or partially received, which is/are the purpose of the bank loan and how it has been used? (multiple answers allowed)



Source: Based on question Q.16, see Annex I.

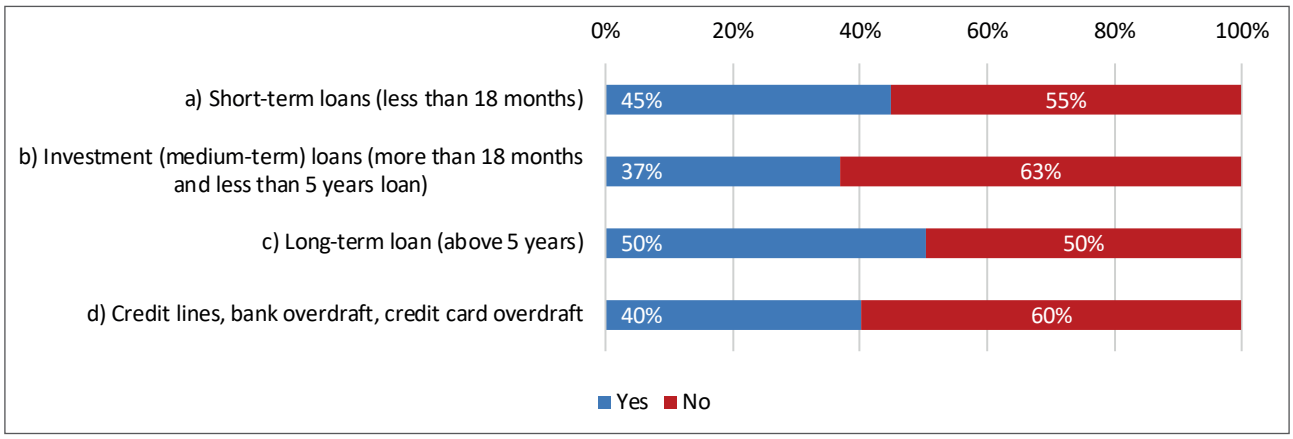
Figure 3.19: In case of the loan received and/or partially received, which is/are the purpose of the bank loan and how it has been used? By country (multiple answers allowed).



Source: Based on question Q.16, see Annex I.

According to Figure 3.20 **a significant percentage of farms need to have a guarantee for the loan, in particular for long-term investment loans (50%).**[40] For credit lines, 40% of farms must provide a guarantee.

Figure 3.20: Did the bank ask for any guarantee?

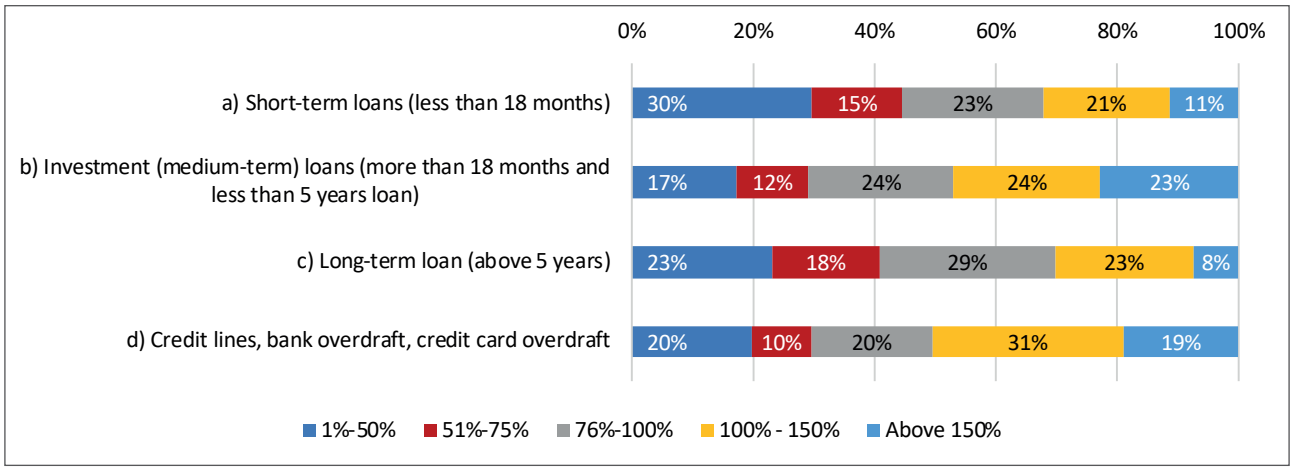


Source: Based on question Q.14, see Annex I.

The provision of high collateral remains a problem and a typical feature for many farms receiving loans, depending on the type of bank product. The value of the guarantee, as a percentage of the requested amount was, in fact, above 100% (Figure 3.21) for half of the farmers requesting a credit line, followed by medium-term loans (47%), short-term loans (32%) and long-term loans (31%). Importantly, about a quarter of the farms receiving medium-term loans (up to 5 years) had to provide a guarantee equalling 150% or more of the requested amount and 8% of approved applicants for long-term loans had to provide the same level of guarantee. Moreover, the lack of negotiation power as shown in Figure 3.23 further complicates the situation, with more than half of those being required to provide collateral not being able to negotiate the type and amount of the collateral.

The large majority of farms need to provide a personal guarantee (collateral), especially for long-term loans (Figure 3.22). **The use of public guarantees is more relevant for medium-term loans (10% of farms) while for short-term loans 15% of agricultural enterprises use a guarantee from a corporate guarantee provider**.

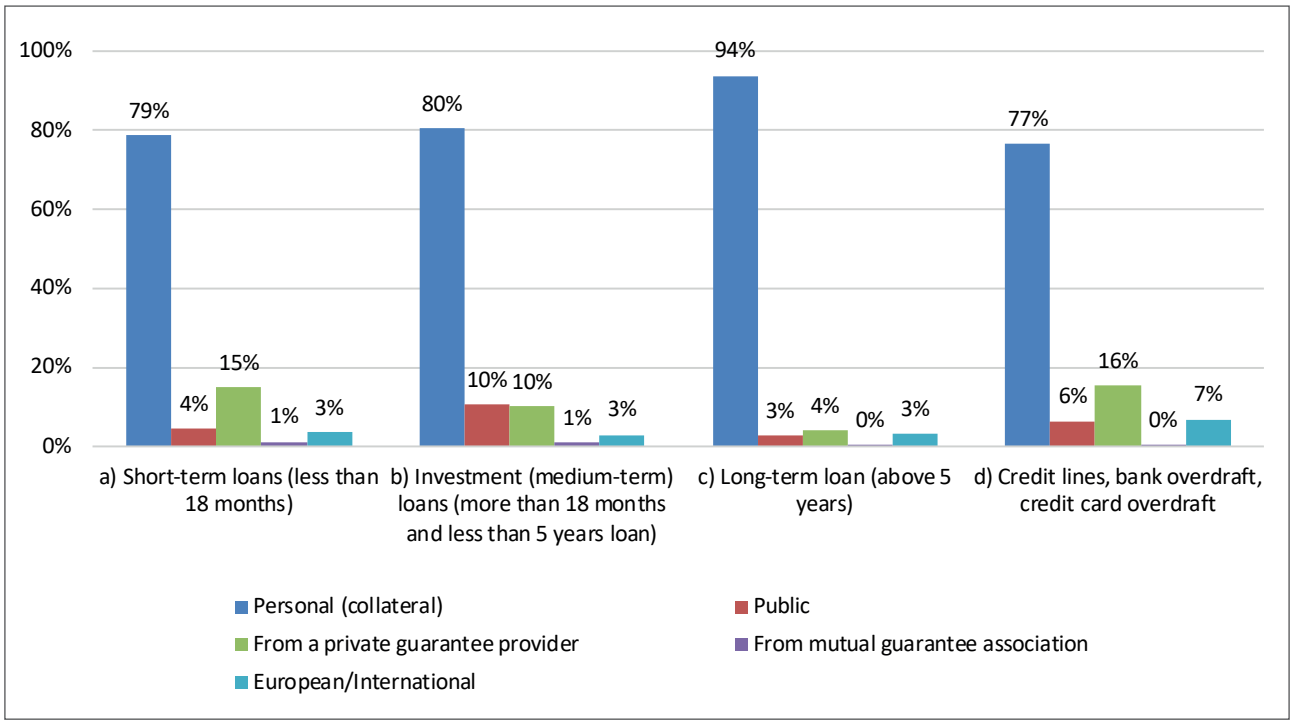
Figure 3.21: Value of the guarantee, as a percentage of the loan amount



Source: Based on question Q.14bis, see Annex I.

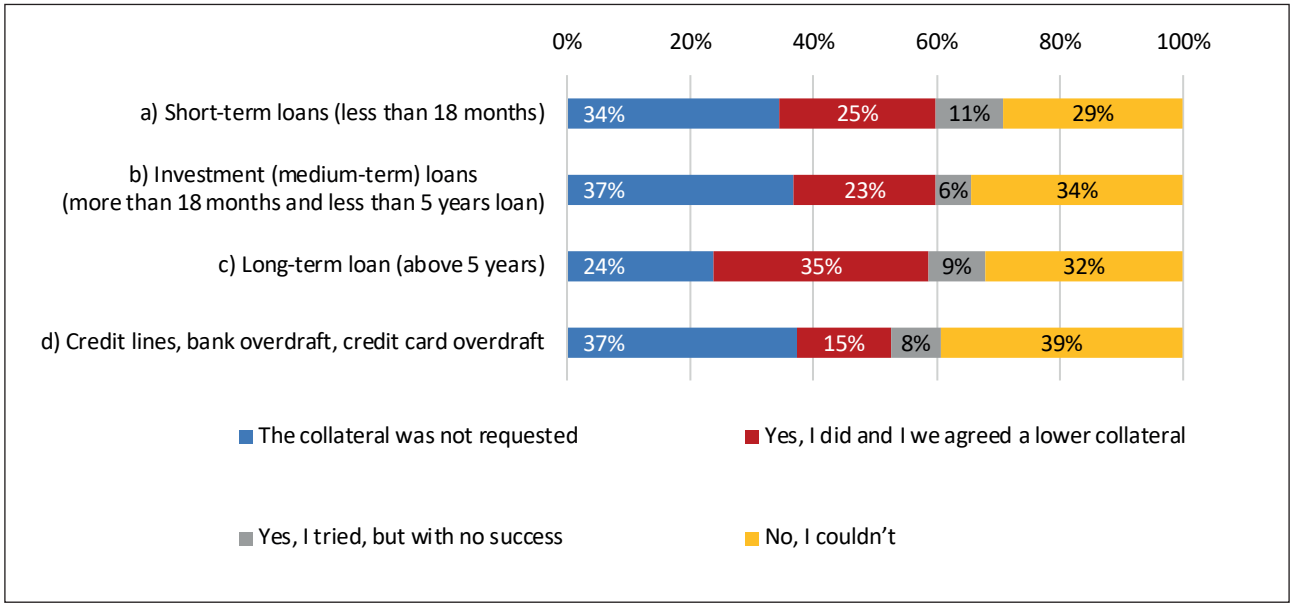
40 The percentage of respondents who report not to being asked to provide a guarantee seems very high considering normal banking practice. There is no obvious explanation for this, which would require further analysis. One explanation could be that a substantial part of lending to agricultural enterprises is in the form of personal/consumer loans not requiring guarantees. The result might also be the consequence of incorrect understanding of the question. For these reasons, results referred to figures 3.20, 3.21 and 3.22 (Questions Q14, Q14bis and Q15) should be treated with caution.

Figure 3.22: Type of guarantee used (multiple answers allowed)



Source: Based on question Q.15, see Annex I.

Figure 3.23: Could you negotiate the type and amount of collateral?



Source: Based on question Q.11 see Annex I

4. THE FUTURE EXPECTATIONS OF THE AGRICULTURAL BUSINESSES

This chapter displays the expectations of the surveyed farmers concerning their future financial needs, important product types, as well as their interest in potential flexible financial instruments.

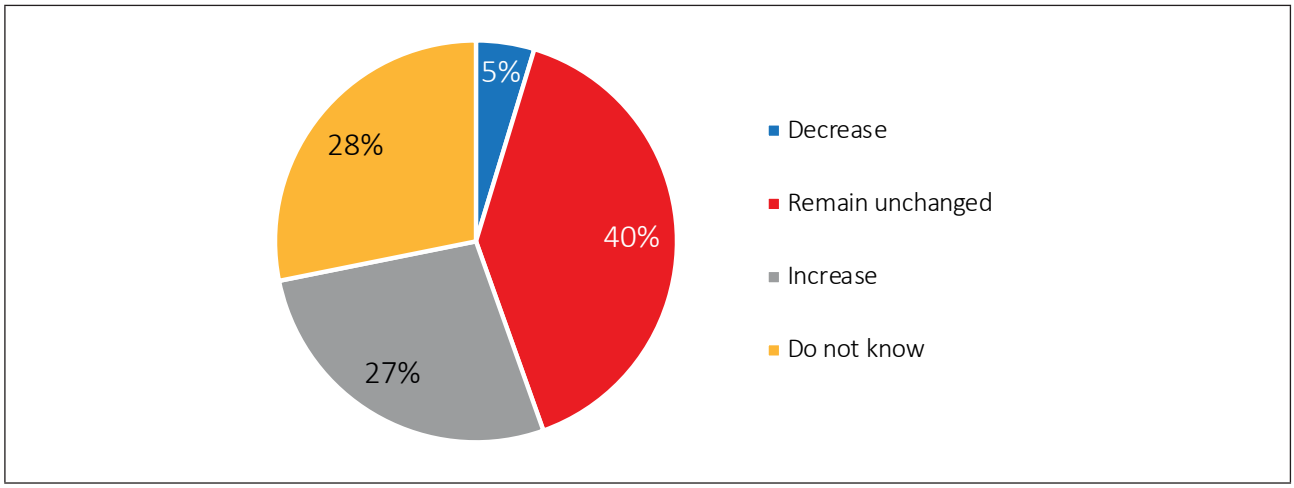
Key findings

- 40% of respondents think their financial needs will remain unchanged in the next 2-3 years; for 27%, however, the needs may increase.
- The preferences for bank products in the future are almost the same as at present, all classified as being of medium importance, with a slightly higher preference for long-term investment loans, followed by short-term working capital and medium-to-long term loans.
- 14% of agricultural enterprises said they would definitely apply for funding from a financial instrument with flexible conditions, if such an instrument is operating on their territory. An additional 33% are interested in receiving information and could apply, depending on the conditions.

4.1 Farms' future financial needs

A final set of questions focuses on farmer expectations for the coming years. In the context of their **future financial needs, 40% of the enterprises think these will remain unchanged in the next 2-3 years** (Figure 4.1). **For 27% however, the financial needs will increase**. A decrease is expected by only 5%. This shows that the sector keeps developing and that the appetite for financing will be higher in future. These results complement similar findings regarding the perception of financial intermediaries and guarantee institutions - analysed in the *fi-compass* study report (2019) on 'Debt finance and use of credit guarantee instruments for agricultural enterprises in the EU' - which expect more demand for finance in agriculture in the next three years.

Figure 4.1: Expectations about farms' financial needs in the next 2-3 years

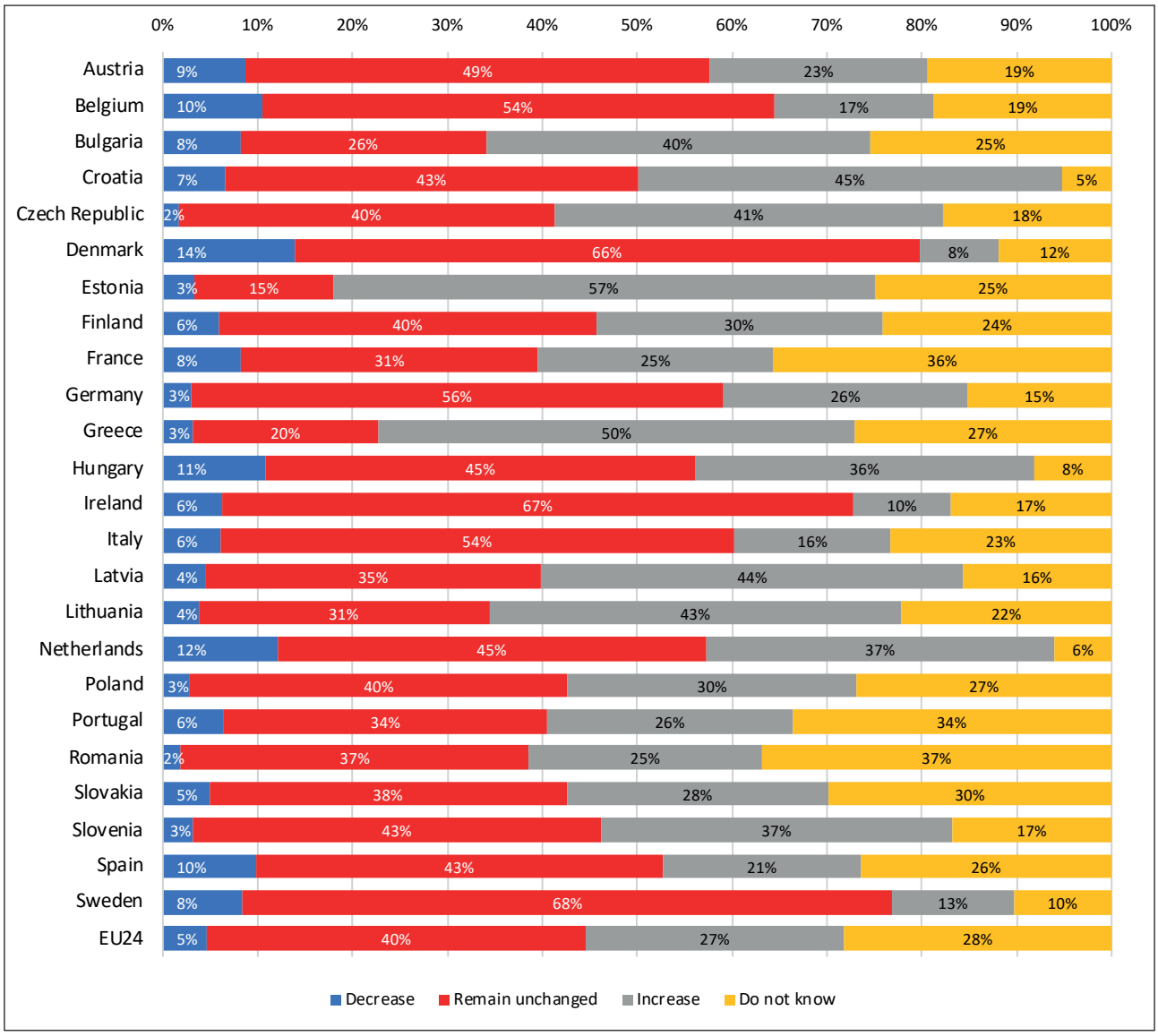


Source: Based on question Q.18, see Annex I.

By country (Figure 4.2), the expectations for increased financial needs are higher in Estonia and Greece (with more than half of the respondents), Croatia, Latvia, Lithuania, the Czech Republic, and Bulgaria (more than 40%). Estonia and Greece were also among the top countries experiencing difficulties in accessing finance in the previous year (see

Figure 3.6). On the other hand, the expectation that future financial needs will fall is most common in Denmark, the Netherlands, Hungary, Belgium and Spain (more than 10%).

Figure 4.2: Expectations about farm financial needs in the next 2-3 years, by country

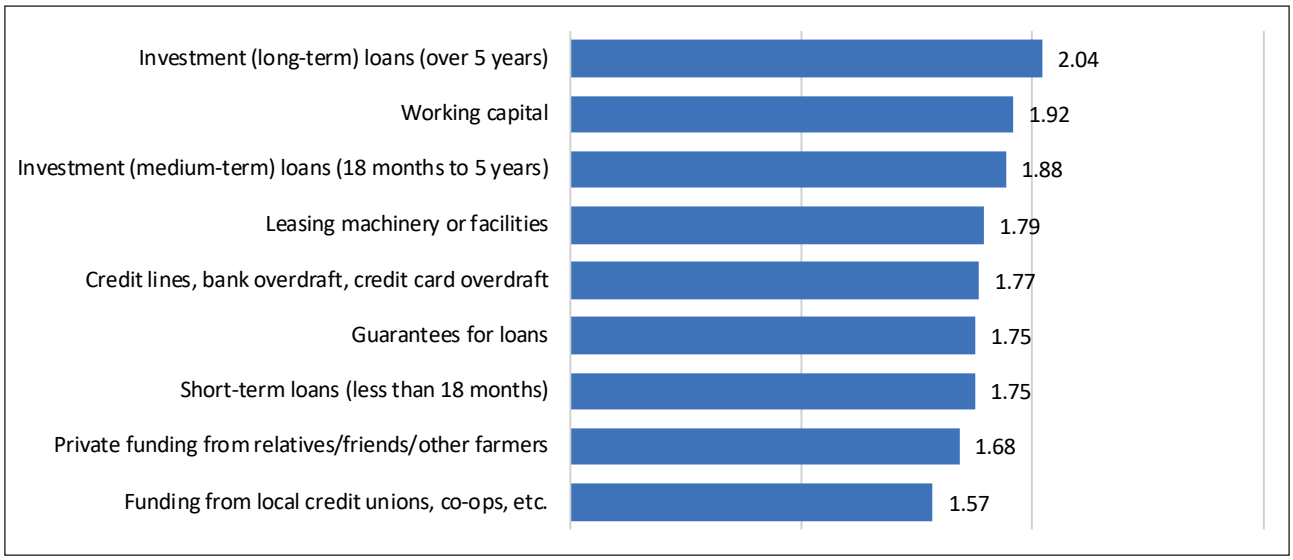


Source: Based on question Q.18, see Annex I.

For the coming years farmers tend to consider **all four bank products equally important, with a small preference for long-term investment loans, followed by short-term working capital and medium-to-long-term loans**. This is consistent with a recent *fi-compass* study[41], which indicates that the demand for agricultural finance tends to concentrate in the two extremes of banks' product range - long-term loans and short-term loans for working capital.

41 According to *fi-compass* (2019), Debt finance and use of credit guarantee instruments for agricultural enterprises in the EU, financial intermediaries see major demand from farmers for long-term/ investment loans (>5 years) and short-term/working capital loans (<12-24 months), indicated by 73% and 64% of respondents respectively. Medium-term investment loans are indicated by 50% of respondents.

Figure 4.3: How important are each of the following for your enterprise's future financing? (1=low; 4=high)



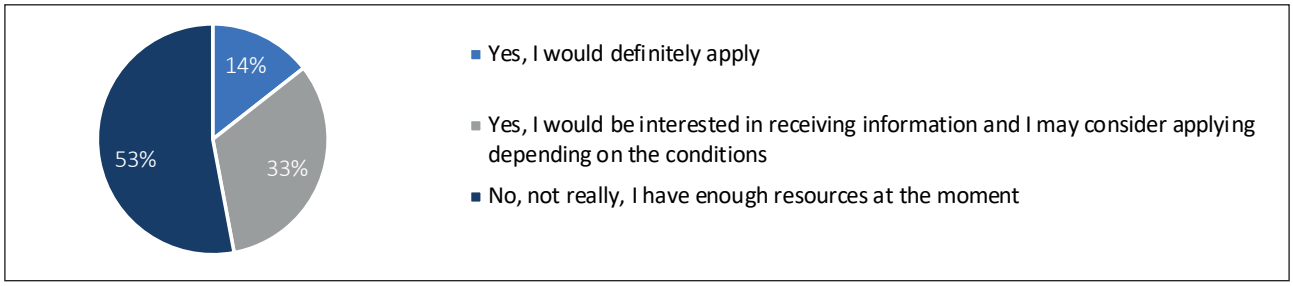
Source: Based on question Q.19, see Annex I.

4.2 Interest in a financial instrument with flexible conditions

The last survey question concerns farmers' **interest in a potential financial instrument with flexible conditions**, such as an interest rate or repayment schedule adjusted to the business cycle or the farm's cash flow (Figure 4.4). The current products offered to agriculture by EU banks, defined as flexible financial products, were recently analysed in a report by *fi-compass* (2018).[42] This report underlines that most financial intermediaries recognise the need for flexible products to better match farmers' financial needs, and some are already offering flexible loans.

The survey shows that around half of the farmers (47%) are interested in financial instruments with flexible conditions (14% would definitely apply). This interest is particularly evident in Croatia, Greece, and Bulgaria, where more than 30% would definitely apply, but also in Finland, Lithuania, Estonia, Portugal, Slovakia, and Spain, where more than half would apply depending on the conditions (Figure 4.5). There is least interest in Italy, Germany, Sweden and Denmark, for more than 70% of respondents which could be linked with good bank products and access to finance.

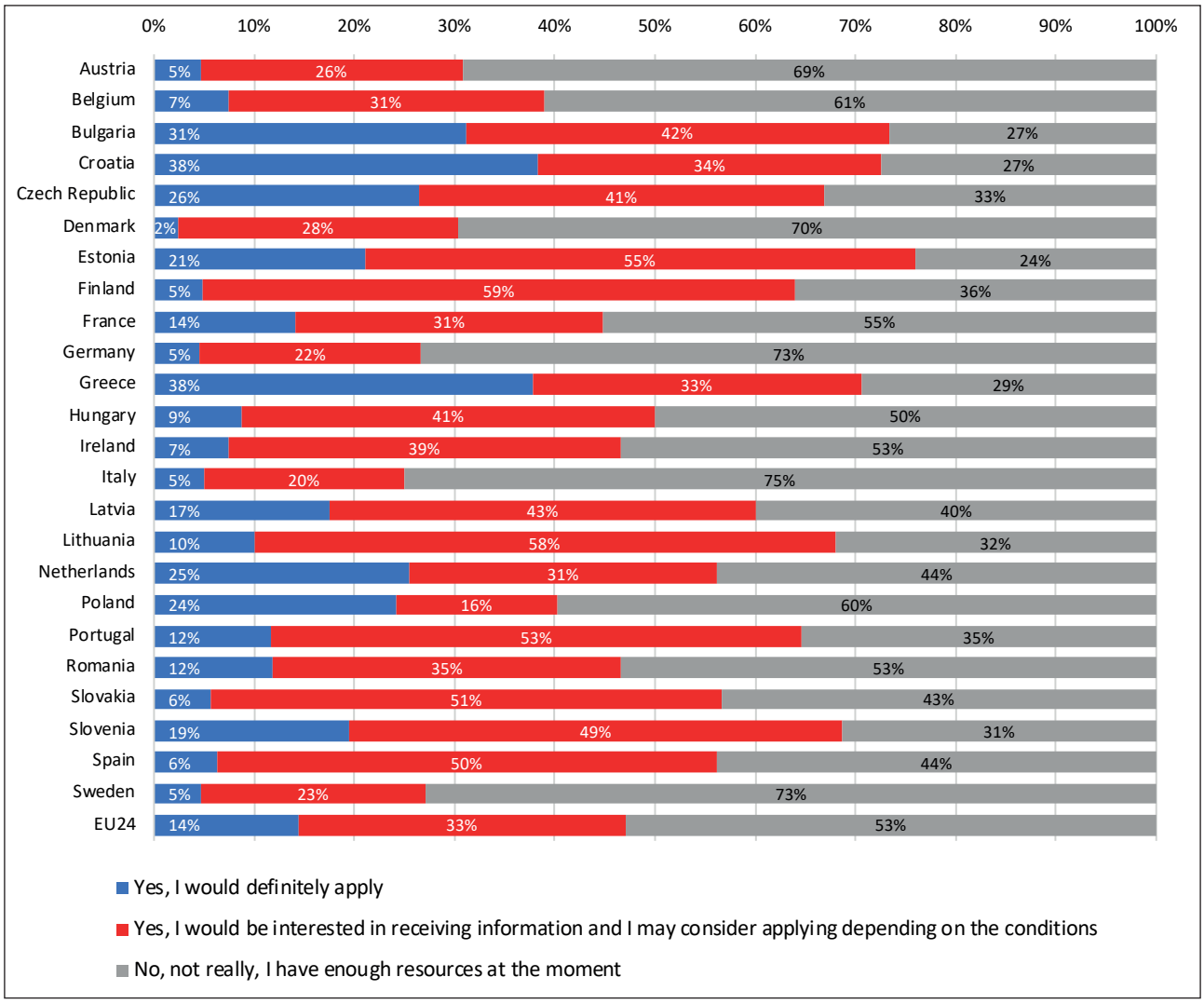
Figure 4.4: If you are offered a credit / loan with a lower interest rate or adjusted repayments based on your business cycle and cash flow, would you be interested in applying?



Source: Based on question Q.20, see Annex I.

42 *fi-compass* (2018), Flexible financial products for the agricultural sector in the EU.

Figure 4.5: If you are offered a credit / loan with a lower interest rate or adjusted repayments based on your business cycle and cash flow, would you be interested in applying? By country



Source: Based on question Q.20, see Annex I.

5. FINANCIAL NEEDS BY CATEGORY OF AGRICULTURAL ENTERPRISE

This chapter compares answers from different agricultural enterprise groups based on:

- enterprise manager age, younger or older than 40; and
- enterprise size in terms of UAA (small: 0 – 20 hectares; medium: 20 – 100 hectares; large: > 100 hectares).

Key findings

By owner age:

- The same share of young farmers (below 40) applied for finance in the previous year as older farmers. They also applied for almost the same types of financial products.
- Young farmers tend to rely more on resources provided by relatives and friends.
- Young farmers are less confident in approaching the banking system.
- Agricultural enterprises run by young managers have less success in obtaining the requested finance, in particular short-term or long-term loans and the rejection rate is also higher for the young farmers.
- Young farmers tend to invest more in new machinery, equipment or facilities, as well as in working capital; older managers use the financing more for investments related to the land.
- Loan applications by young farmers are rejected mostly for the high risk associated with the new business; they also seem to suffer more from a lack of appropriate collateral (both immovable and movable) as well as from inadequate business plans.
- Young farmers are much more interested in a potential financial instrument which includes flexible conditions, such as an interest rates or a repayment schedule adjusted to the business cycle or cash flow.

By enterprise age:

- Large enterprises experienced more problems with production costs and purchase prices compared to smaller farms; access to land affects more medium-sized farms than the other two farm groups.
- Small farms seem to have more difficulties in accessing finance for working capital compared to large farms; they have also more obstacles than medium and large farms for accessing markets/outlets/shops.
- Large enterprises applied more for bank finance compared to smaller farms.
- Small farms applied least for bank finance, also due to the higher fear of rejection or the nature of their business case; therefore, they make more use of private resources.
- Small farms also are rejected more by lenders in all the product categories. Interestingly, small farms refuse medium-term and long-term loan financing more often because of high interest rates/costs.
- Large enterprises are the least rejected and the most accepted among all farms when applying for loans.
- Small farms tend to lend more for working capital needs, while large farms tend to use finance more for investing in new machinery, equipment and/or facilities.

- For rejected applications, requests by large farms could be turned down mostly because of banks' limits on lending to farmers; small farm applications are rejected more because of lenders' risk aversion, or insufficient collateral, both immovable and movable.
- Other loans (i.e. indebtedness) are the main key reason for refusing medium-sized farm applications.
- Large farms are more interested in a potential financial instrument with flexible conditions than smaller farms.

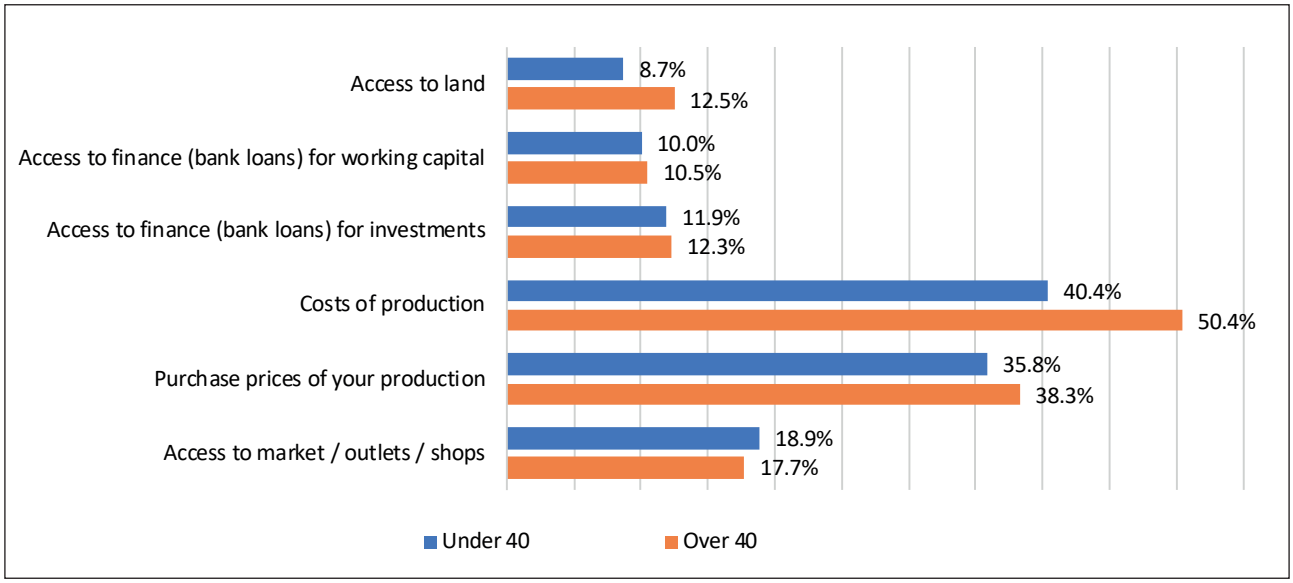
5.1 By owner age

This section compares agricultural enterprises based on the manager's age, dividing the respondents between managers below 40[43] (i.e. young farmers) and above 40 years old (i.e. older farmers). As already underlined, the ageing population of farm owners is a major challenge for EU agriculture, so analysing these two categories can provide useful insights into the different financial needs of farms based on their owner's age.

As shown in Figure 5.1, the two groups had similar difficulties in the previous year. The only remarkable gap is in the costs of production, **where farms with older farmers had more difficulties** (50.4% versus 40.4% of younger farmers).

There are no significant differences in the rate of farmers applying for finance in the previous year (30.1% of older farmers versus 29.4% of young farmers, Figure 5.2). Among those who applied for finance, young farmers ask more for medium and long-term loans. Older farmers apply more for short-term (working capital) loans. Young farmers tend to rely more on financial resources from relatives or friends.

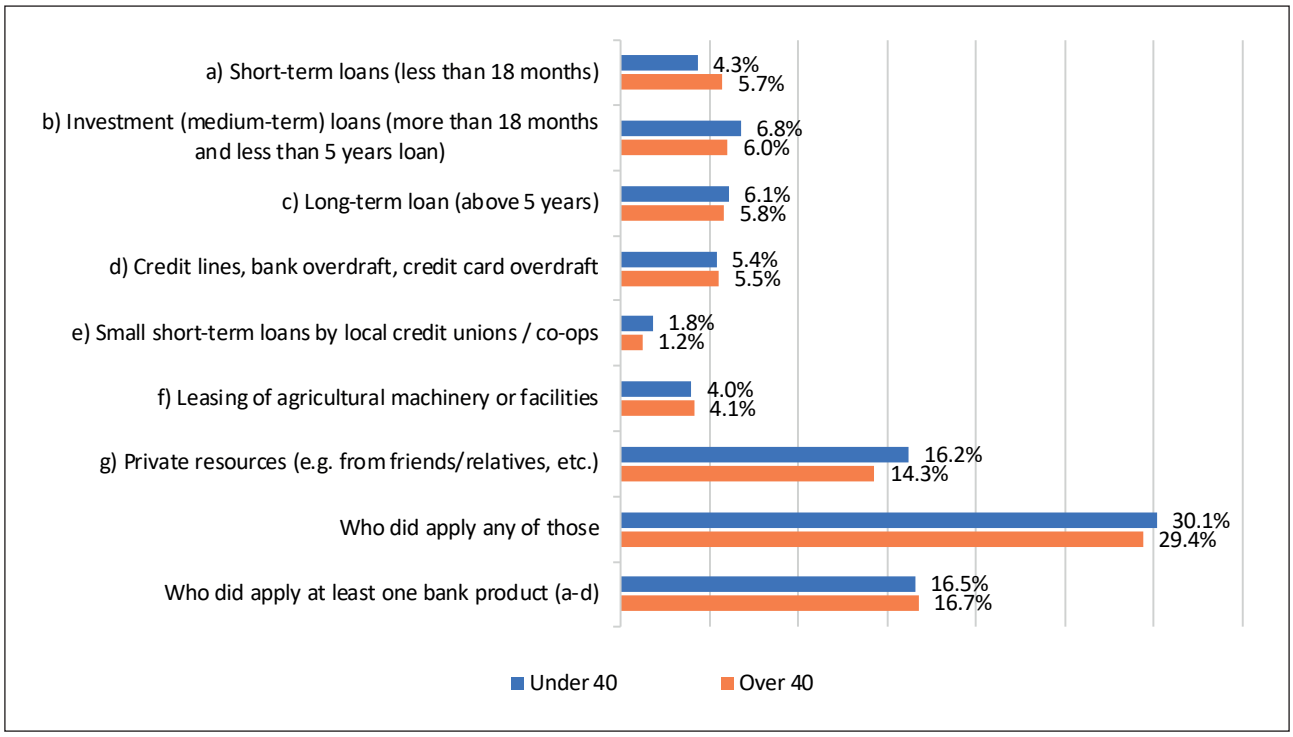
Figure 5.1: Difficulties experienced in the previous year (% of yes)



Source: Based on questions S.8 and Q.1, see Annex I.

43 Young farmers for the purpose of this analysis are defined by their age. This may not comply with all the criteria under Reg (EU) 1305/2013, in particular 'setting up for the first time in an agricultural holding as head of that holding'.

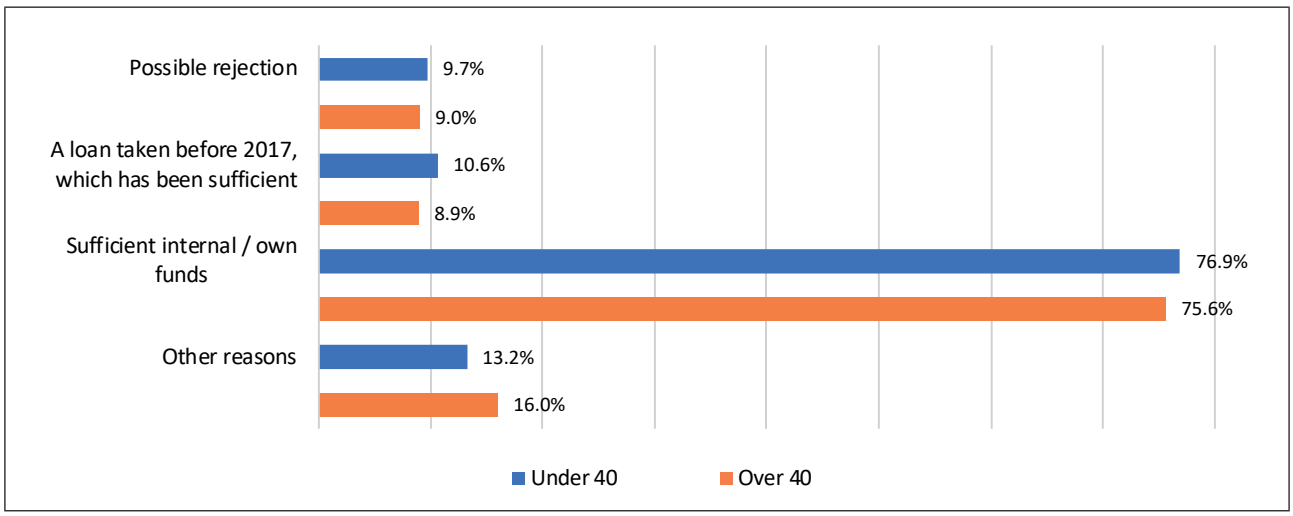
Figure 5.2: Share of young and old farmers applying for financing in the previous year (i.e. since beginning of 2017)



Source: Based on questions S.8 and Q.5, see Annex I.

Young farmers seem to be less confident in approaching banks. They are less likely to apply for finance as they fear rejection (Figure 5.3). **They are more 'discouraged' to apply for all the financial products considered in the analysis**.

Figure 5.3: Key reasons for no application, bank finance (multiple answers allowed)

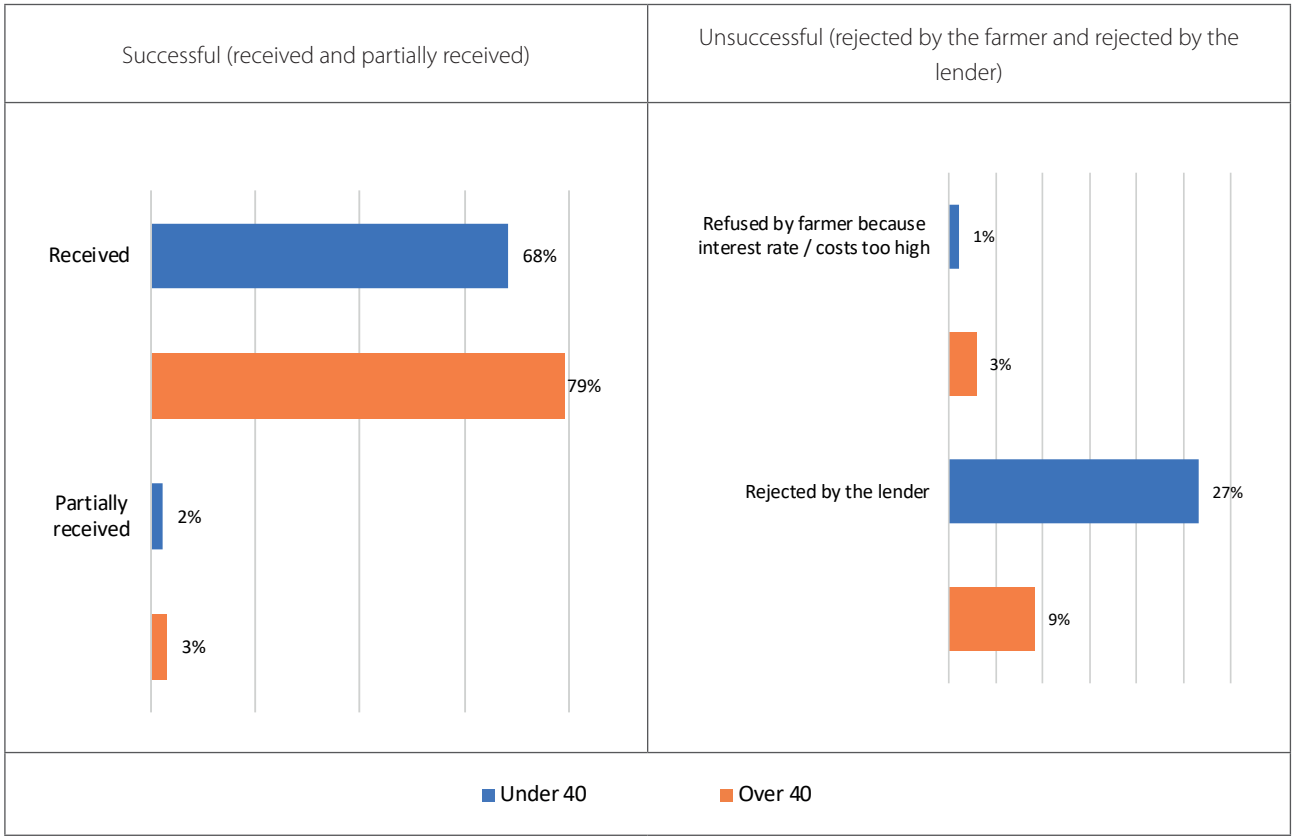


Source: Based on questions S.8 and Q.6, see Annex I.

From the data above, the attitude towards finance of the two age groups seems similar, though the responses from banks were very different (Figure 5.4). **Agricultural enterprises run by young farmers are considerably less successful in obtaining finance for all the financial products** (68% versus 79%). In particular, the difference with older farmers is wider for credit lines (73% versus 88%), short-term loans (67% versus 79%) and long-term loans (63%

versus 75%). This is largely due to young farmers being two to three times more likely to have their loan application rejected. Older farmers refuse loans slightly more because of their high cost.

Figure 5.4: Result of the application, bank finance

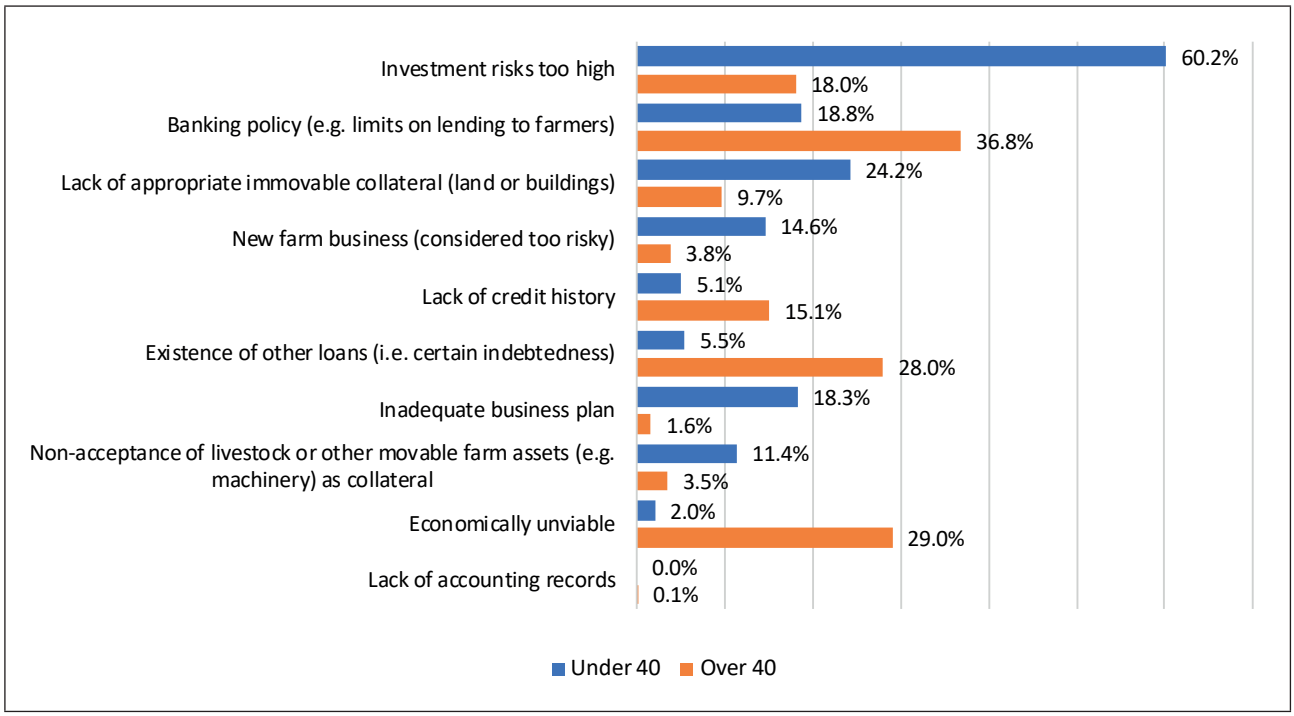


Source: Based on questions S.8 and Q.7, see Annex I.

This seems to reflect the reasons given by banks to refuse loan applications (Figure 5.5), confirming a specific risk aversion towards young farmers. More than 60% of applications from young farmers do not receive funds because of the perceived riskiness of the investment (against 18% for older farmers). There is a more specific justification that risk is too high for new businesses (14.6%). Lack of movable or immovable assets to be used as collateral also seems to be a much bigger issue for young farmers (more than 35%) than for old ones (13%).

Farmers over 40 years old normally have applications rejected due to restrictions in bank policy (i.e. limitations in lending to the specific sector), viability of the investment or previous indebtedness of the farm they have taken over.

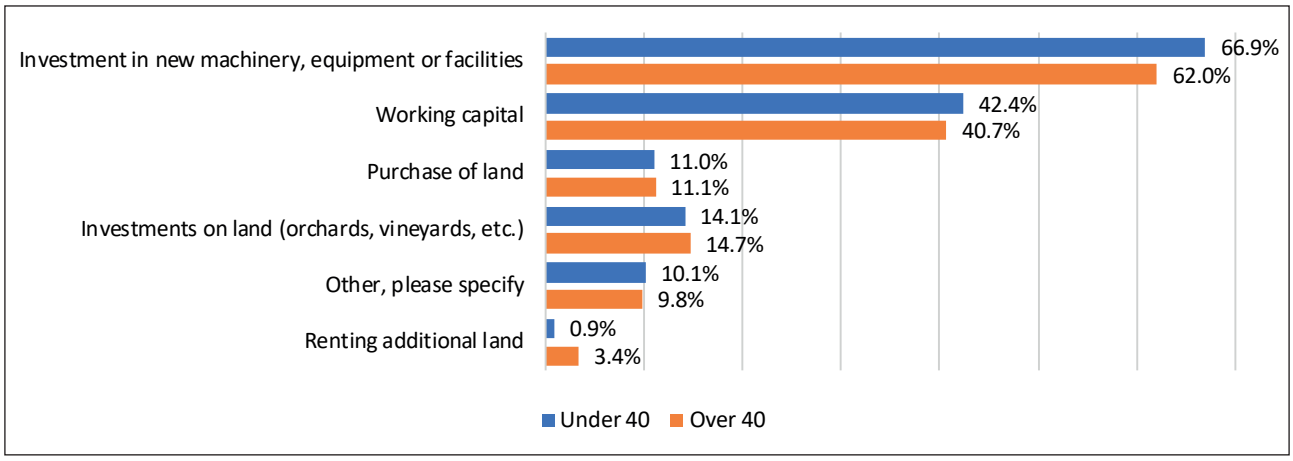
Figure 5.5: Key reasons given by the bank for refusing the application (multiple answers allowed)



Source: Based on questions S.8 and Q.17, see Annex I.

There are minor differences between the two groups for the purpose of the financing (Figure 5.6). **Young farmers tend to invest more in new machinery, equipment or facilities, as well as in working capital**. Older farmers use the financing more for renting land, though remaining active in modernising their farms.

Figure 5.6: In case of the loan received and/or partially received, which was the purpose of the bank loan and how was it used?

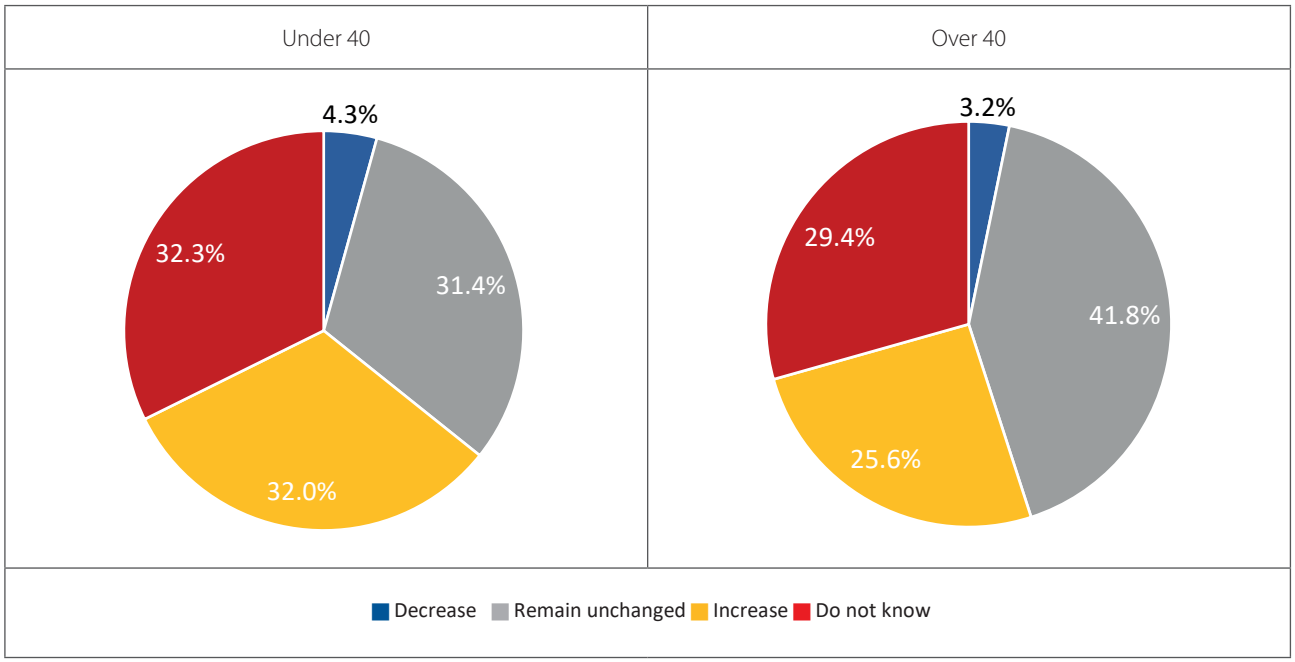


Source: Based on questions S.8 and Q.16, see Annex I.

For expectations about farms' financial needs in the coming years (Figure 5.7), older farmers are more confident about their needs remaining unchanged (41%), while young farmers see increased needs (32% versus 26%). Interestingly, about a third of both groups cannot define how their future will evolve. Importantly, there are very few farmers thinking that their financial needs will decrease (4.3% of young farmers and 3.2% of those over 40). Moreover, both age categories seem to attach similar importance to all the bank financial products, although they are slightly more important for young farmers (Figure 5.8).

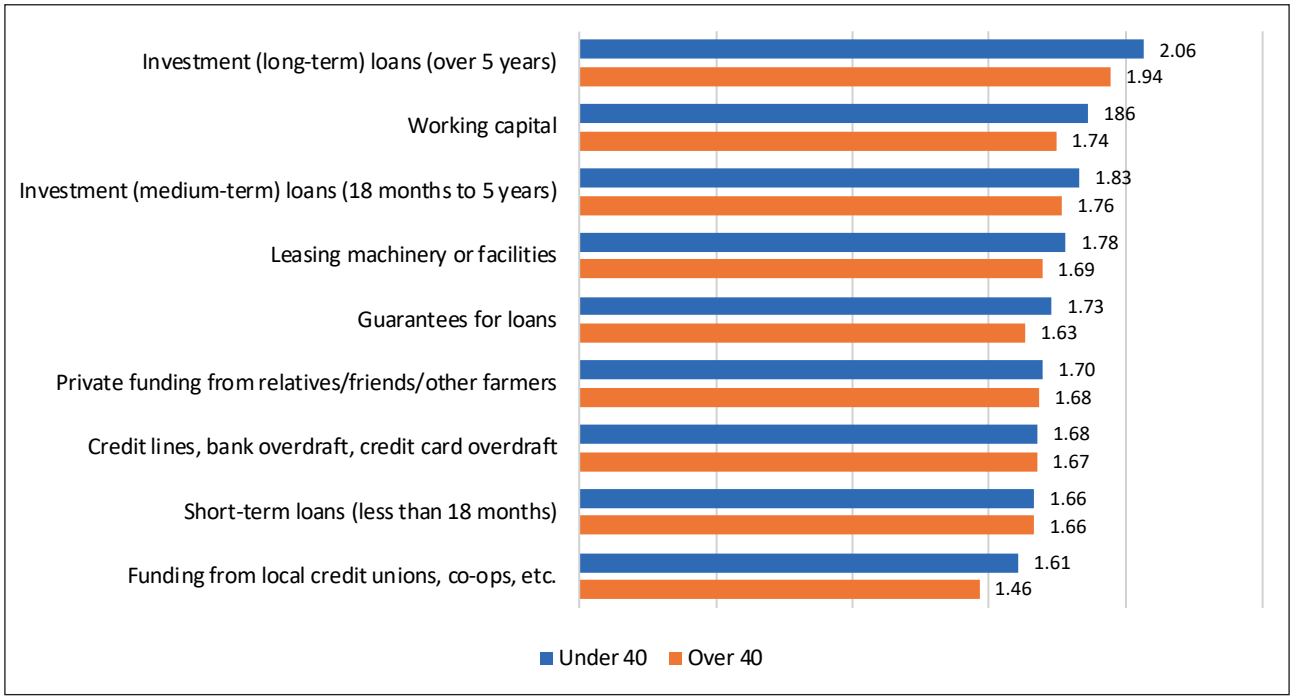
As to the usefulness of a potential financial instrument with flexible conditions, such as loans with an interest rate or a repayment schedule adjusted to the business cycle or cash flow (Figure 5.9), the survey reveals that **young farmers are more interested in such products** (nearly 17%) **than older farmers** (13%) and one-third of them are interested to hear more about such initiatives. Half of the farmers rely on their current financial status and prefer not to engage in additional lending commitments (which does not exclude a potential interest in such schemes if, in the future, they decide to approach the financial market for finance).

Figure 5.7: Expectations about farm financial needs in the next 2-3 years



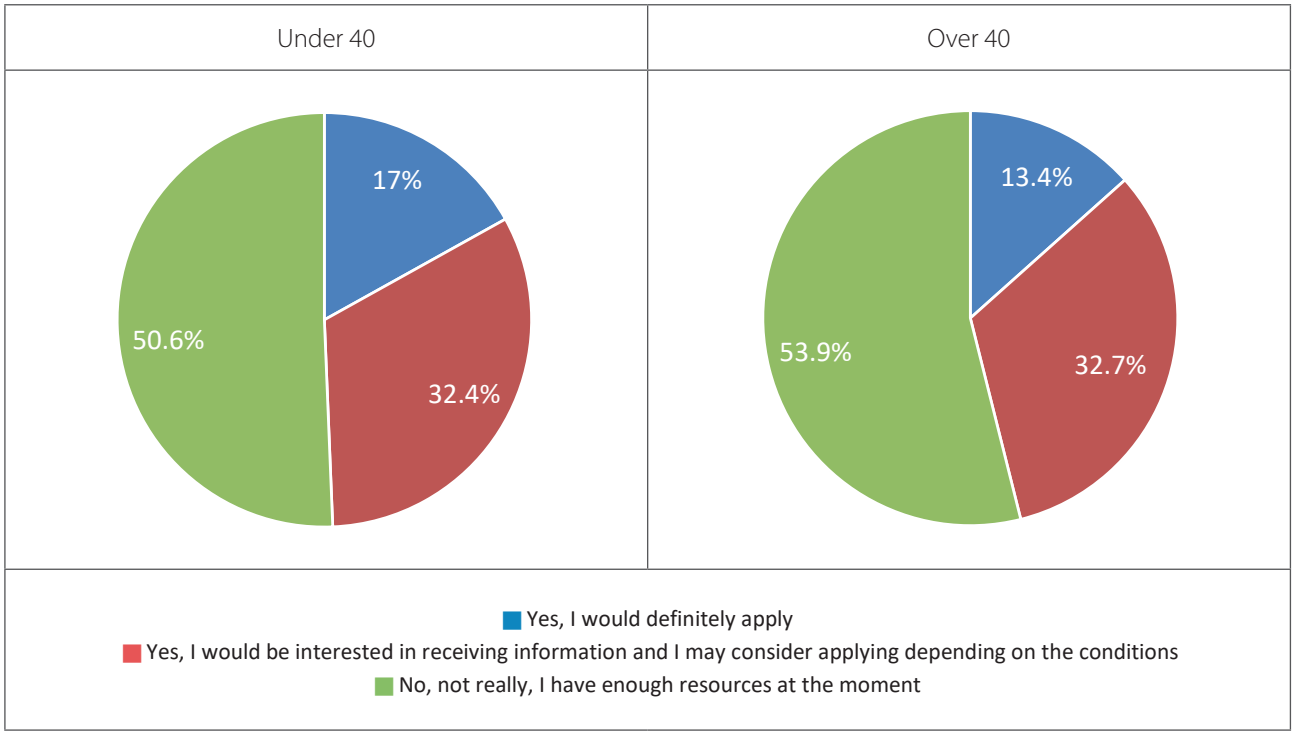
Source: Based on questions S.8 and Q.18, see Annex I.

Figure 5.8: How important are each of the following for your enterprise's future financing? (1=low; 4=high)



Source: Based on questions S.8 and Q.19, see Annex I.

Figure 5.9: If you are offered a credit / loan with a lower interest rate or adjusted repayments based on your business cycle and cash flow, would you be interested in applying?



Source: Based on questions S.8 and Q.20, see Annex I.

5.2 By farm size

In this section the survey statistics are analysed and compared based on physical farm size in terms of UAA. Small farms are defined as having less than 20 hectares, medium-sized farms from 20 to 100 hectares and large farms have more than 100 hectares. The UAA is used as a proxy of economic size and for Eurostat it is an alternative for the standard output.[44]

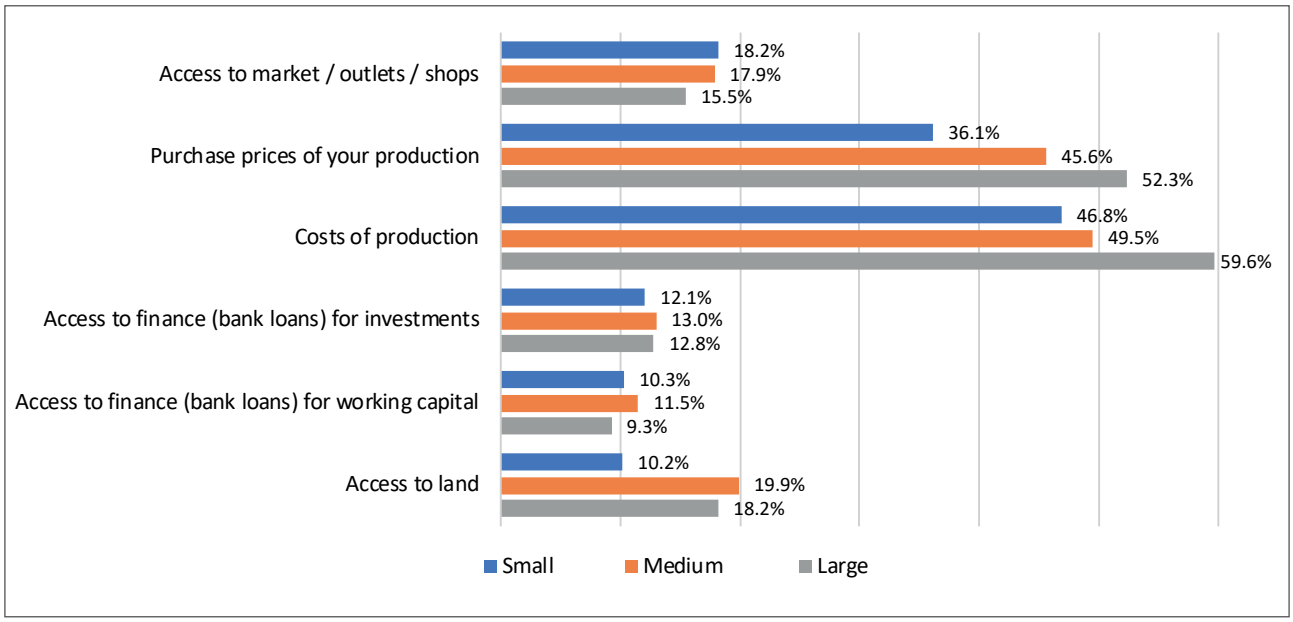
By looking at difficulties in the previous year (Figure 5.10), a higher share of **large farms had problems with profit margins (costs of production and selling prices) compared to small farms, although these were the main difficulty for all three size groups**. This is probably due to large farms being clearly run on a commercial basis, while small farms might include some self-consumption or part-time farming, making market conditions and selling prices less relevant for them. The situation looks similar for access to land, where medium and large farms seem to be more affected, probably because they are more dynamic and more likely to have tried to expand their production assets in the previous year.

The same explanation may be why medium and large farms were slightly more impacted (negatively) in the previous year by access to finance, although the difference between the three size categories is not great. This is confirmed by Figure 5.11, where small farms report less problems because they applied much less for finance. Notably, almost 60% of the large enterprises applied for finance, as opposed to less than 30% of the small farms (for medium enterprises it is around 40%). The gap is wider for bank finance, with less than 14% of small farms applying against nearly 49% of large farms. Moreover, small farms are more likely to request finance from friends and relatives (15% against around 10% for the other two categories).

44 According to Eurostat (see Small and large farms in the EU - Statistics from the farm structure survey, Eurostat Statistics Explained) there is no fixed definition for a 'small' or a 'large' farm. Two criteria that can be used are their standard output or their UAA.

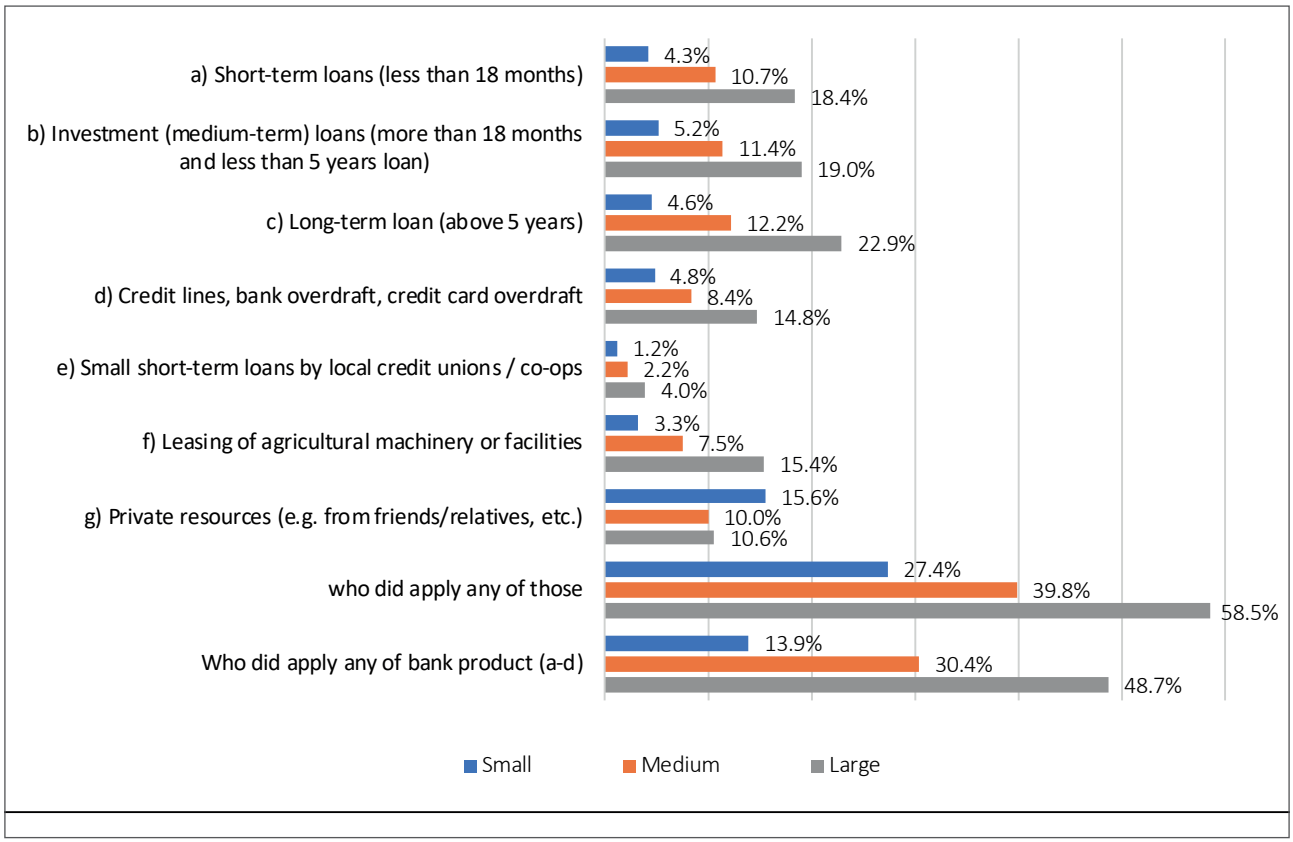
Small farms apply for finance less also because they fear rejection much more, no matter the type of bank product (Figure 5.12). The difference in this perception is particularly wide between the size categories, with a high level of 10.1% for small farms, 7.2% for medium-sized farms and only 3.9% for the large farms. Therefore, there seems to be a clear and strong correlation between the size of the enterprise, the level of confidence in approaching banks and the (success of) applications for finance. These results also clearly show there is a market failure when it comes to small farms and their access to finance.

Figure 5.10: Difficulties experienced in the last year



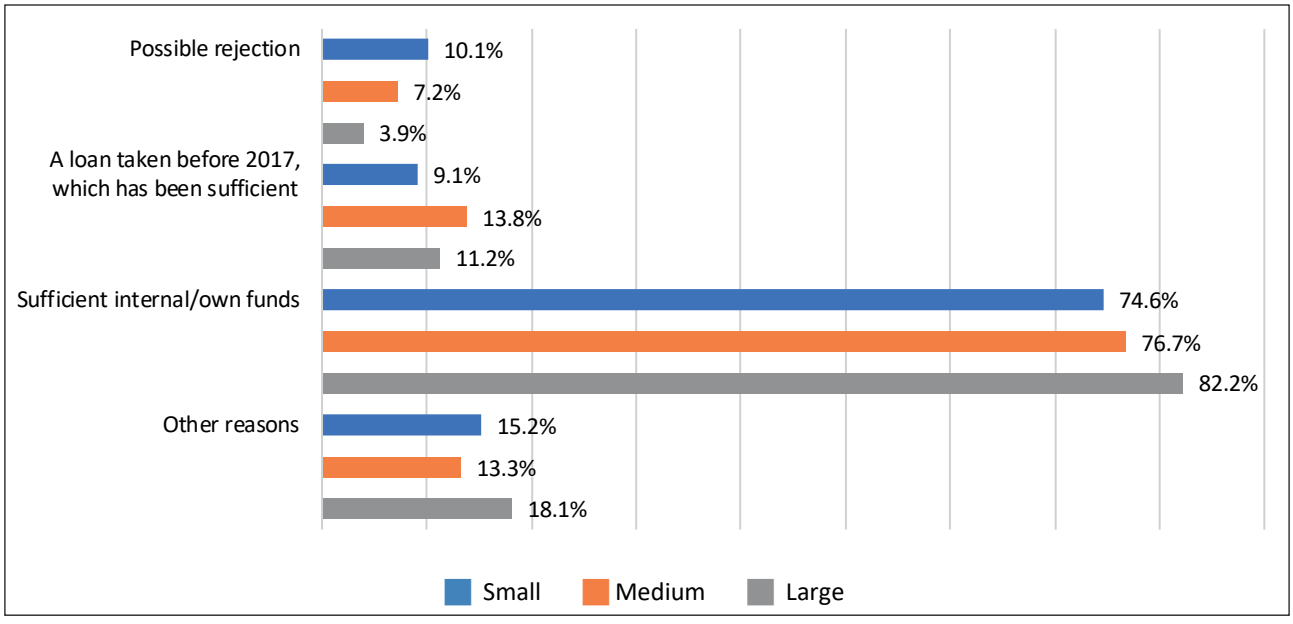
Source: Based on questions S.4 and Q.1, see Annex I.

Figure 5.11: For what kind of financing did you apply in the last year (i.e. since beginning of 2017)?



Source: Based on questions S.4 and Q.5, see Annex I.

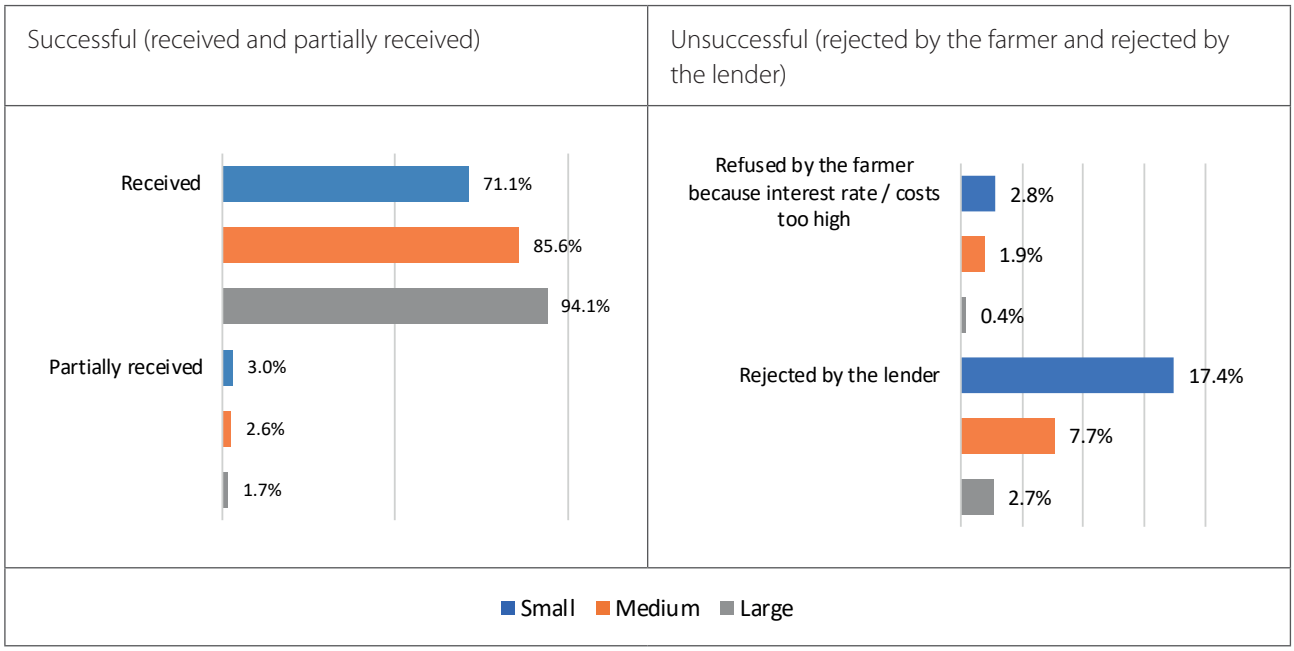
Figure 5.12: Key reasons for no application, bank finance (multiple answers allowed)



Source: Based on questions S.4 and Q.6, see Annex I.

Different levels of confidence among the different groups are clearly justified by the response farmers get from the financial system, where again there is a strong correlation between farm size and the success of the loan application (Figure 5.13). **Small farms have the highest share of applications rejected by the lender for all four bank products (17%, against 8% for medium-size farms and 3% for large farms). They also refuse the financing more, because the interest rate/cost is too high for medium-term and long-term loans**. Large enterprises have more applications fully accepted in all four product categories as well as the fewest rejections.

Figure 5.13: Result of the application, bank finance

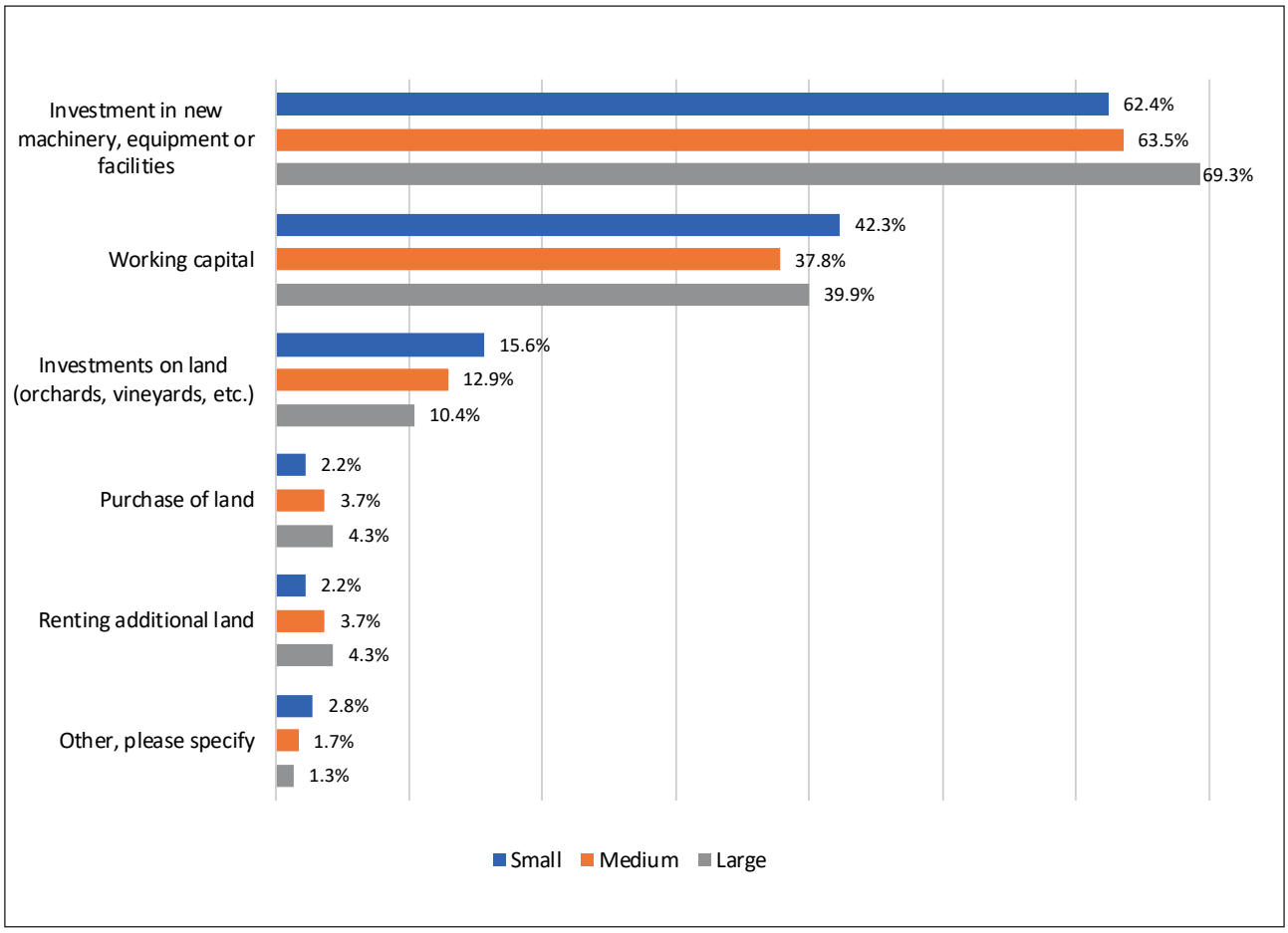


Source: Based on questions S.4 and Q.7, see Annex I.

For the purpose of the bank loan (Figure 5.14), **small farms tend to invest more in working capital than larger farms. Instead, large farms tend to use finance more for investment in new machinery, equipment or facilities**, although margins with the other two groups are low. Small farms use finance also for investments on the land, while large farms invest more in purchasing or renting additional land.

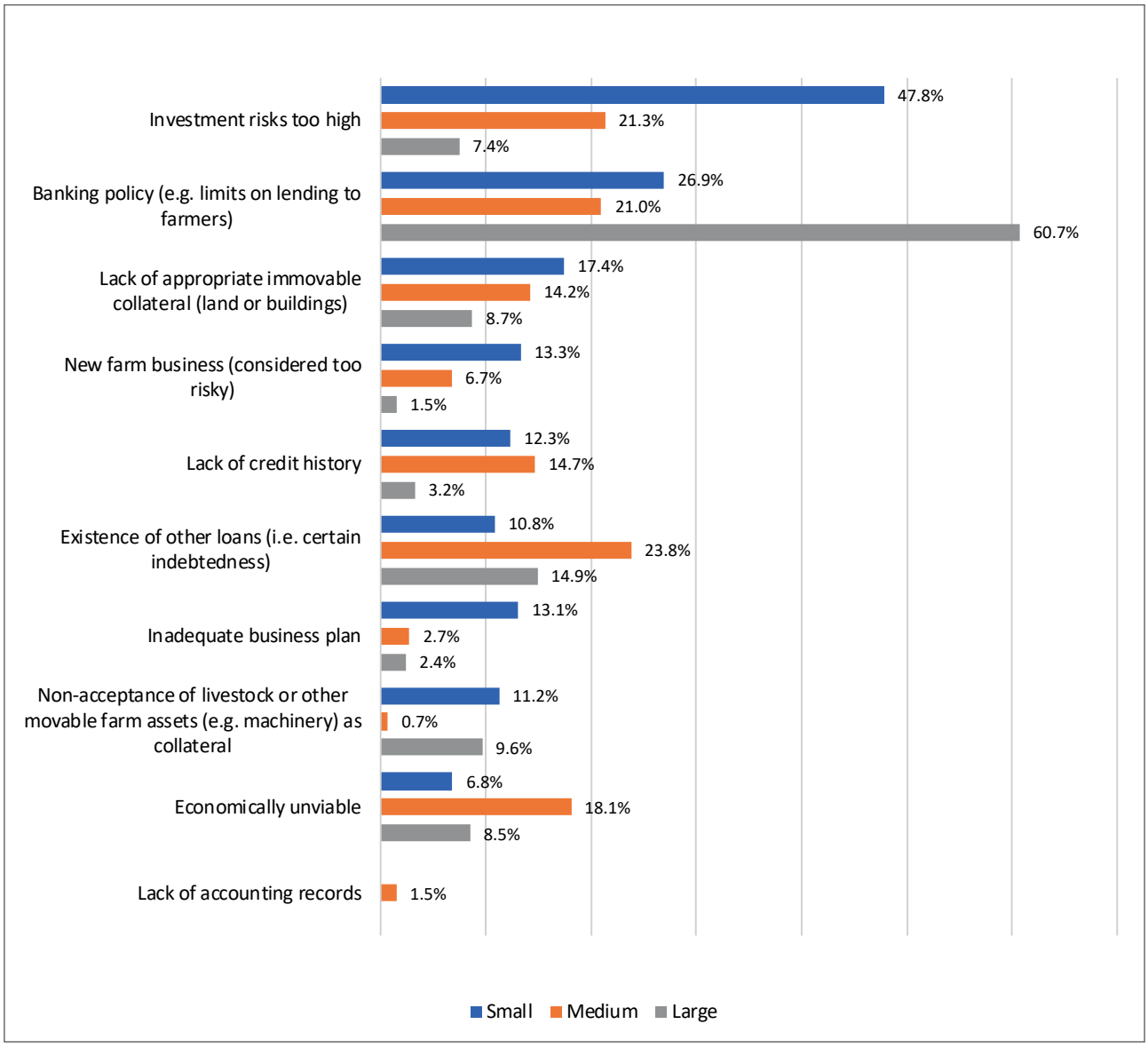
Reasons given by banks for refusing farmers' requests vary (Figure 5.15). **Applications from large farms are more often refused because of bank policy** (i.e. limitations in lending to the specific sector). **Small farm applications are rejected more because of the risk aversion of lenders/banks** (investment risk too high, or new farm business considered too risky). Furthermore, they suffer more compared to larger agricultural enterprises because of inadequate or undeveloped business plans, which banks do not accept. Another reason for rejection given to small farms is the **lack of appropriate collateral, both immovable and movable**.

Figure 5.14: In case of the loan received and/or partially received, which was the purpose of the bank loan and how was it used?



Source: Based on questions S.4 and Q.16, see Annex I.

Figure 5.15: Key reasons given by the bank for refusing the application (multiple answers allowed)

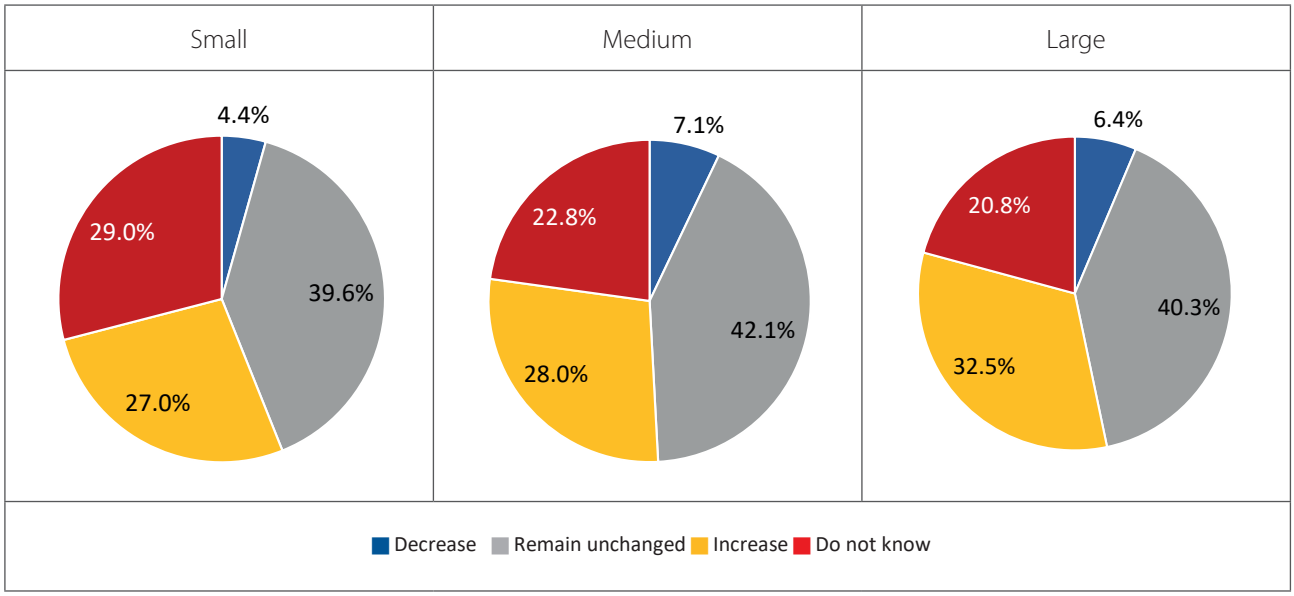


Source: Based on questions S.4 and Q.17, see Annex I.

Concerning future expectations, large farms more often think that their financial needs will increase (Figure 5.16). Medium agricultural enterprises remain stable in their expectations as they do not expect a relative change. And all three groups attach the same 'medium' importance to the four financial products for their future financing (see Figure 5.17). The only difference is with private resources, which is much more important for small farms.

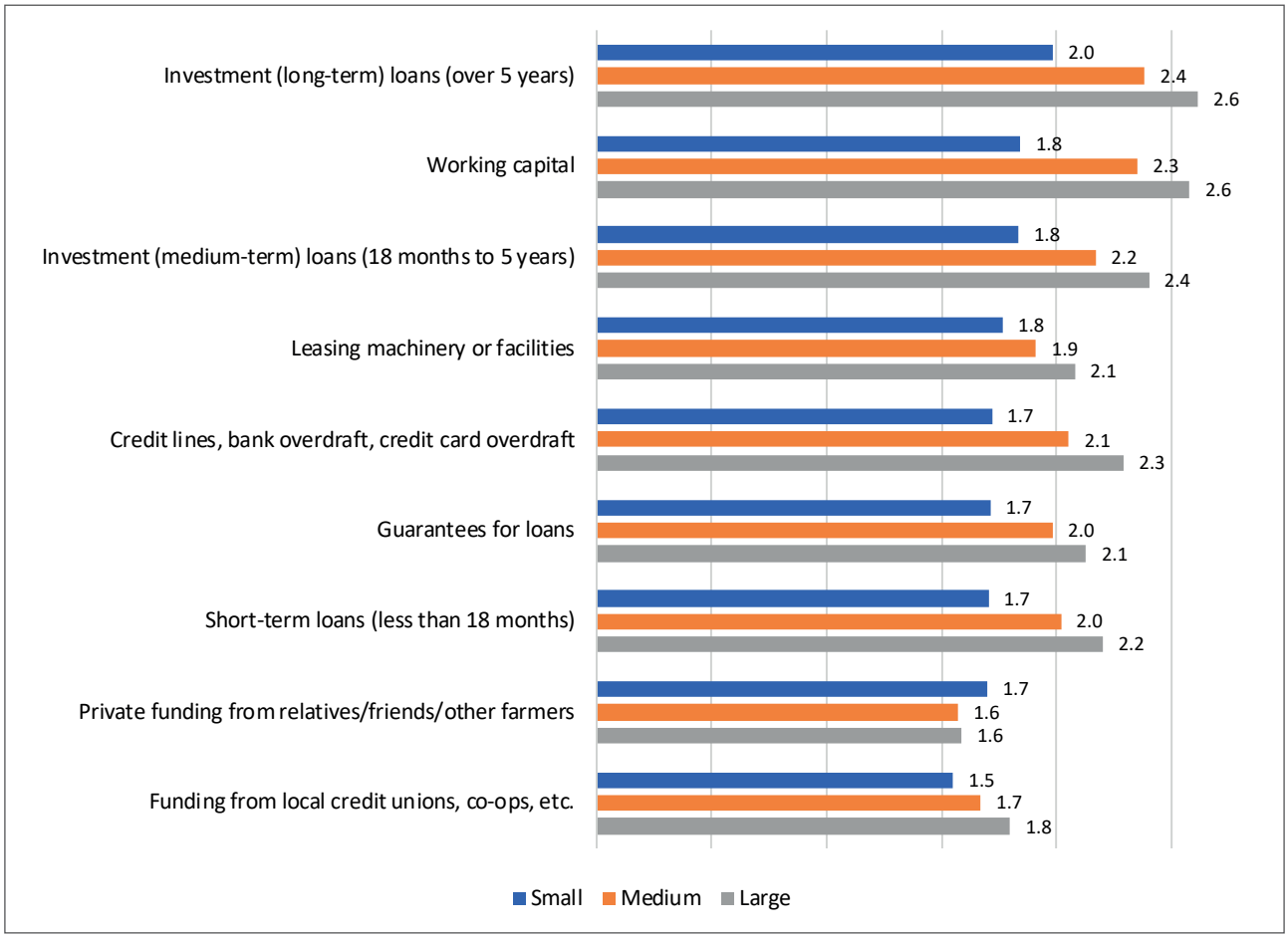
For perceptions about a potential financial instrument with flexible conditions, such as an interest rate or repayment schedule adjusted to the business cycle and/or cash flow (Figure 5.18), the survey reveals that large farms are more interested in such products than smaller farms, with nearly 15% definitely applying and 43% interested in receiving information. However, more small farms would definitely apply than medium-size farms (15% versus 13%), if such loans were available.

Figure 5.16: Expectations about farm financial needs in the next 2-3 years



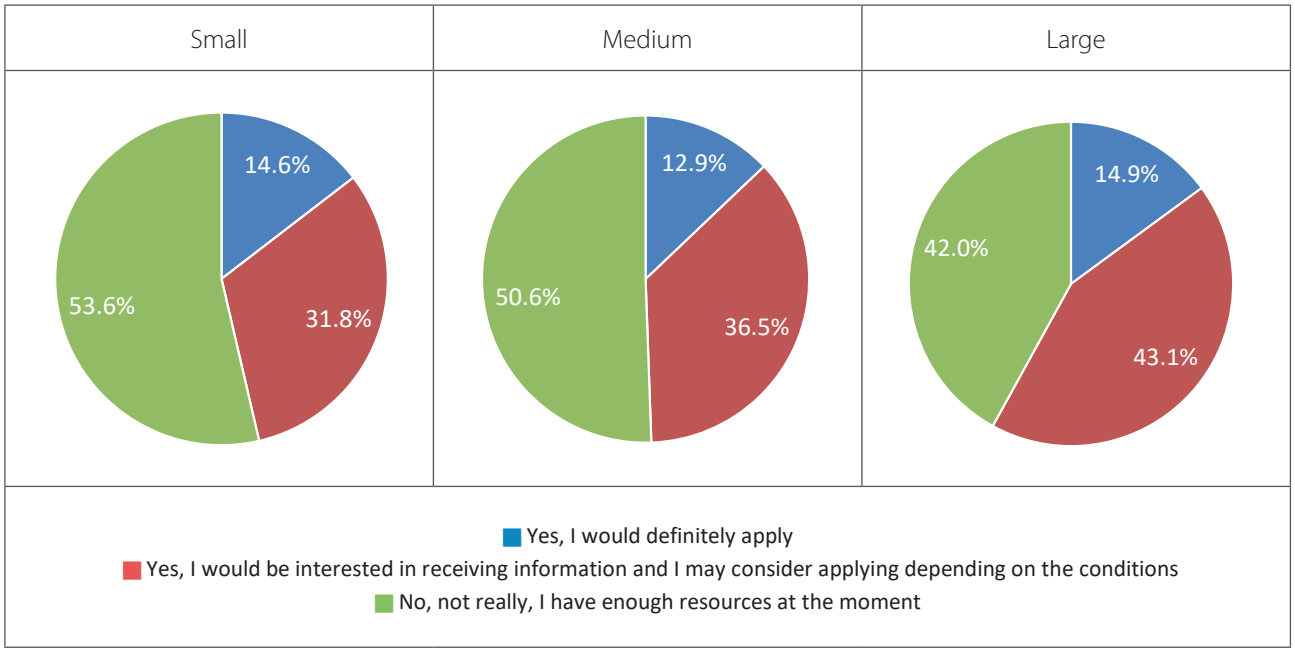
Source: Based on questions S.4 and Q.18, see Annex I.

Figure 5.17: How important are each of the following for your enterprise's future financing? (1=low; 4=high)



Source: Based on questions S.4 and Q.19, see Annex I.

Figure 5.18: If you are offered a credit / loan with a lower interest rate or adjusted repayments based on your business cycle and cash flow, would you be interested in applying?



Source: Based on questions S.4 and Q.20, see Annex I.

6. CONCLUSIONS AND RECOMMENDATIONS

Based on information from 7 659 farms across 24 EU Member States, this study has investigated EU agricultural financial needs from the point of view of farmers. The following observations and policy recommendations can be made.

Structure and challenges for agricultural enterprises in the EU

The survey confirms the main features of EU agricultural enterprises and the challenges they face in terms of farm size and manager age.

Many agricultural enterprises are small family farms, with almost 40% reporting an annual turnover of less than EUR 25 000 (with 12.5% below EUR 2 000). Around 94% employ less than 10 people permanently.

A major challenge is the ageing farm manager population, around half are over 55. Only some 5.4% of the farm managers are under 35 years old.

Performance indicators in the previous year show a group of more dynamic enterprises whose turnover and farm size have increased (16% and 18% respectively), but at the same time a considerable group (nearly 23%) report lower turnover. The main challenge in the previous year, which is linked to the disadvantaged position of farmers in the supply chain, is pressure on their profit margins. About 58% experienced difficulties with rising costs and more than 36% signal difficulties linked to lower prices for their produce. The problem is significant across all EU countries. In Greece, Hungary, Austria and Finland up to 80% of farms have been affected by increased production costs. In Greece, Romania, Belgium, Italy and Finland more than 40% of the farms are affected by lower selling prices.

Small size and limited profitability suggest high investment needs to increase the efficiency and competitiveness of EU agricultural enterprises. At the same time, reduced size and low profitability may affect the ability of farms to obtain financial resources, with the concrete possibility of a vicious circle to be addressed by public support. Similar concerns arise for ageing famers. Though young farmers are more likely to invest in modernising their agricultural holding, they have significant difficulties in accessing financial resources.

Access to land seems to be problematic for a relatively small group of enterprises (11%), which hides important differences between the Member States. For example, access to land was a problem for more than one third of farmers in the Czech Republic, Greece, Estonia, Germany and Finland.

Market conditions

Around 12% of the farms reported difficulties in accessing loans for investment and more than 10% for working capital loans in the previous year. The situation is highly diversified at Member State level. If access to finance was less of a problem for famers in Italy, Poland, Sweden and Austria, it affected more than half of Greek farmers (58% for investment finance and 56% for working capital). It was a significant issue for many farmers, especially in Hungary, Lithuania, Estonia, and Bulgaria where more or less one quarter experienced difficulties in accessing finance for investment.

A comparison with SMEs in other sectors, according to the SAFE survey, suggests that agricultural enterprises are, indeed, less successful in their applications for finance (79% obtained at least part of the amount requested against 84% in other sectors). Agricultural enterprises are also more likely to see their loan applications directly rejected by banks (more than 14% against 5% for SMEs in other sectors) and they refuse the loan more often because the cost is too high.

The reasons given by banks for rejecting loan applications highlights a certain risk aversion towards the sector. A lack of acceptable assets to be used as collateral also seems to be a considerable obstacle for many enterprises, including young farmers and small farms.

Other specific difficulties for agricultural enterprises in their relations with the banking system could signal failures in the market, which may not be fully developed in some Member States:

- **Fear of rejection**: around 9% of the farms did not apply for finance in the previous year from fear of their application being rejected. This implies a considerable group of 'discouraged' farms (double other economic sectors), which may need financial resources for their development, but which do not approach banks.
- **Application for bank finance**: Farms apply for bank finance much less often than SMEs in other sectors (16.7% against 26% for SMEs in other sectors) and farmers, in particular young farmers and small farms, rely largely on resources from private individuals. This implies that a considerable number of agricultural business are excluded from the formal financial market, including self-exclusion (e.g. a lack of knowledge and confidence which discourages farmers from applying for bank finance, previous rejections or unacceptable conditions).

The situation is highly diversified across Member States. The financial market for agriculture does not seem to function well, or is not fully developed, in some Member States where there are high rejection rates (Lithuania, Greece, Slovakia, Romania, Estonia, and Hungary in particular) and/or a significant group of enterprises are excluded (or self-excluded) from the formal financial market (Hungary, Greece, Romania, Bulgaria, Croatia, Estonia, Latvia, Lithuania, and Spain).

Information collected through this survey is not sufficient to analyse these potential market failures in detail. Only a proper gap assessment at Member State level, covering both the demand and the supply side of the market, could clarify the existence, nature and dimension of a local financing gap.

Demand and financial products

The main purpose of loans is for farmers to invest in mechanisation (63%), with working capital being the second objective (43%). Purchasing land seems to be a less frequent reason (11%), although this varies significantly between Member States. For example, working capital is the main objective for finance in many countries (almost 80% in Greece and Ireland and over 60% in Bulgaria, Denmark, Hungary, Latvia Lithuania and Slovakia). Purchase of land is also important for more than 30% of farms in Slovakia, the Netherlands, Estonia, the Czech Republic and Bulgaria.

A large majority of farmers (more than 70%) did not report difficulties in repaying previous loans. The smaller (but substantial) group which did have difficulties feel the response from banks was very positive. Most farmers could negotiate and obtain delays for some payments. Farmers are interested in financial instruments offering repayment flexibility, and almost half would at least consider applying.

The outlook for farmers' financial needs in the coming years is stable for 40% and around 30% think they will increase. Only 5% see a contraction (the rest do not have an answer). Long-term loans and working capital financing are considered the most important and needed type of financing in the EU agriculture sector.

Young farmers

The financial needs of young farmers (under 40 years old) do not appear to substantially differ from their older colleagues. The share of farmers who applied for finance in the previous year was the same, and the types of financial products they applied for were very similar. There are some differences where young farmers tend to rely more on resources provided by relatives and friends.

However, young farmers are less confident in approaching the banking system and they receive very different responses from banks compared to those given to older farmers. Young farmers were two to three times more likely to have their application rejected by the bank. Agricultural enterprises run by young managers are around 10% less successful than older farmers in receiving the full amount requested. For banks, 60% of the young farmers did not receive funds because of the perceived riskiness of their investment (against 18% for older farmers). Lack of movable or immovable assets to be used as collateral also seems to be a much bigger issue for young farmers than it is for older ones.

Nevertheless, it is important to note that for this study, young farmers are defined only on the basis of their age and the statistics do not necessarily refer to start-up enterprises. Difficulties to access credit are almost certainly even higher for young farmers who have recently started an agricultural activity.

Farm size

Small farms are a crucial segment for public policies supporting development of the financial market for agriculture. This segment may include part-time farming or self-consumption, with low investment potential. At the same time, it may include a substantial number of farms with growth potential and appetite for investment, which does not happen due to financial market failures. Small farms may be important actors in developing the agricultural sector in the future, provided their ability to access finance is duly supported.

The analysis very clearly shows that the size of the enterprise matters when it comes to access to finance. Almost 60% of large farms (more than 100 hectares) applied for finance in the previous year. This is double the share of small farms (less than 20 hectares), which account for almost 30%, whereas 40% of medium-sized farms (between 20 and 100 hectares) applied.

There is the same strong correlation for loan applications where large farms were almost 96% successful, medium-sized and small farms follow with around 86% and 74% respectively. Therefore, large farms are much more confident in approaching the banking system than smaller farms.

Looking at reasons given by banks for refusing requests, applications from large farms are more often refused because of bank policies (e.g. decision to limit lending to farmers). Small farms are rejected more often because of the lenders' risk aversion to the individual investment or new farm business. Small farms also suffer more for applying with inadequate business plans and from a lack of appropriate collateral, both immovable and movable.

RECOMMENDATIONS

Based on the above findings and the analysis in the report, the following recommendations could be made:

- Although only a proper market assessment at country or regional level can verify any gap in the market for agricultural finance, findings from this study suggest that **further (EU) public support through financial instruments could facilitate access to credit. This would benefit in particular a substantial group of Member States where the financial market for agriculture does not seem to be fully developed or which have a number of evident market failures**.
- **Public support should look to address among others (i) risk aversion of banks and (ii) lack of collateral from farmers**, which seem to be the main justifications for banks to reject finance applications. In terms of specific financial products to be supported, long-term investment loans are more difficult to access but working capital finance seems to be very important for farmers and also difficult to access in many Member States. Public support could also bring discouraged farmers back to the financial market and stimulate their farm development.

- **Development of training and financial advisory services for farmers, also in combination with financial support through financial instruments**, may also facilitate the inclusion of more agricultural enterprises in the financial market. Particularly those whose applications get rejected for being inadequate, those currently not applying for bank finance because they are 'discouraged' and/or farmers relying on resources provided by private individuals.
- **Public intervention should focus on young farmers and small farms**, which clearly have less access to credit compared to the other groups. Public instruments targeting these groups should also address price volatility and provide flexible conditions, in line with the target group business cash flows

ANNEX I – STRUCTURE OF THE INTERVIEWS AND THE SURVEY

S.0 FARM/ENTERPRISE INFORMATION

What is the main activity of the farm (enterprise)?

[for Mixed farming please indicate also the major sectors comprising it]

01	**Crop and animal production, hunting and related service activities**	
01.1	**Growing of non-perennial crops**	
01.11	Growing of cereals (except rice), leguminous crops and oil seeds	
01.12	Growing of rice	
01.13	Growing of vegetables and melons, roots and tubers	
01.14	Growing of sugar cane	
01.15	Growing of tobacco	
01.16	Growing of fibre crops	
01.19	Growing of other non-perennial crops	
01.2	Growing of perennial crops	
01.21	Growing of grapes	
01.22	Growing of tropical and subtropical fruits	
01.23	Growing of citrus fruits	
01.24	Growing of pome fruits and stone fruits	
01.25	Growing of other tree and bush fruits and nuts	
01.26	Growing of oleaginous fruits	
01.27	Growing of beverage crops	
01.28	Growing of spices, aromatic, drug and pharmaceutical crops	
01.29	Growing of other perennial crops	
01.3	**Plant propagation**	
01.30	Plant propagation	
01.4	**Animal production**	
01.41	Raising of dairy cattle	
01.42	Raising of other cattle and buffaloes	
01.43	Raising of horses and other equines	
01.44	Raising of camels and camelids	
01.45	Raising of sheep and goats	
01.46	Raising of swine/pigs	
01.47	Raising of poultry	
01.49	Raising of other animals (Only: Holdings raising and breeding ostriches or emus; Holdings raising and breeding rabbits; Holdings with bee-keeping, production of honey and beeswax)	
01.5	**Mixed farming**	
01.50	Mixed farming [also specify above the major sub-sectors]	
01.6	**Support activities to agriculture and post-harvest crop activities**	
01.61	Support activities for crop production	

S.1 Which is the region where the farm is located: _____

S.2 What is your legal status?

1. I am a family farm (individual farmer; natural person)
2. I am a legal entity (JSC, Ltd, etc.)

S.3 Other than agriculture, does the farm/enterprise also process agriculture products?

1. Yes
2. No

S.4 Which is the land size of your farm in hectares? ____ (hectare)

S.5 Could you specify the number of animals of the farm? Please, split per category like poultry, pigs, cows, etc.

(0=no livestock in the farm):

Poultry: _____

Pigs:_____

Cattle/Cows: _____

Sheep: _____

Lambs: _____

Other types of animals_____

S.6 Which is the number of people permanently employed (working on farm)? Please, do not consider the seasonal workers _____

S.6 bis And how many seasonal workers? _____(annual average)

S.7 Which is your role in the farm?

- Owner
- Owner's relatives
- Member owner
- Human Resource manager
- Administrative manager
- Other employee
- NA

S.8 How old is the Farm manager? _____ ***[indicate the farmer's age if he is also the manager]***

[if impossible to specify use the following categories]:

- 18-30 yo
- 31-40 yo
- 41-60 yo
- + 60 yo

What was the approximate turnover of your enterprise last year (2017)?

EUR (or local currency)_____

Ask Q1 for each item listed below

Q.1 – From the following list of issues did your farm experience any difficulties in the last year (i.e. since beginning of 2017)

If yes, Could you please indicate the level of effort using a scale from 1 to 4, where 1 means 'Slightly difficult' and 4 means 'Very difficult'

	Yes/No	1	2	3	4
Access to market / outlets / shops					
Purchase prices of your production					
Costs of production					
Access to finance (bank loans) for investments					
Access to finance (bank loans) for working capital					
Access to land					

Ask Q2 for each item listed below

Q.2 - Have the following company indicators changed in the last year (i.e. since beginning of 2017):

	Significantly decreased	Slightly decreased	More or less Unchanged	Slightly increased	Significantly increased
Size of the farm (cultivated land or number of animals, or both)					
Employment (number of permanently employed people)					
Turnover (in EUR or local currency)					
Selling prices of your production					
Production costs					

Q.3. - Do you apply accountancy in running your business?

a) Yes, I have a fully-fledged bookkeeping (double-entry) or I have an expert accountant
b) Yes, but simple accountancy where I register the main data
c) No, I don't have accountancy (e.g. it is not needed).

If answers to question 3 are b) or c):

Q.4)- Would you consider improving your accountancy if a bank asks for that in order to give you a loan at favourable conditions (for example with a lower interest rate or lower collateral requirements)?

Yes
No

To All

Q.5 – For what kind of financing did you apply in the last year (i.e. i.e. since beginning of 2017)?

	Yes	No
a) Short-term loans (less than 18 months)		
b) Investment (medium-term) loans (more than 18 months and less than 5 years loan)		
c) Long-term loan (above 5 years)		
d) Credit lines, bank overdraft, credit card overdraft		
e) Small short-term loans by local credit unions / co-ops		
f) Leasing of agricultural machinery or facilities		
g) Private resources (e.g. from friends/relatives, etc.)		
Who say Yes at least one code in Question 5 (a-d)		

For each 'no' to question 5 (a-d),ask

Q.6. For what reasons you did not apply (insert item (a-d) at with 'no' Q5)?

Multiple answers

1. Possible rejection
2. A loan taken before 2017, which has been sufficient
3. Sufficient internal / own funds
4. Other reasons: _____ [please, write it down]

Show only application applied for in question 7

Q.7. Now thinking about your last application of (insert applications mentioned at Question 5), what was the result of your application?

	Received	Partially received (if possible please specify the %) • Above 75% • Below 75%	Refused by you (the farmer) because interest rate / costs too high (only for products from a to f)	Rejected by the lender (bank, co-ops, leasing agency, friends/ relatives…)	Still pending
a) Short-term loans (less than 18 months)					
b) Investment (medium-term) loans (more than 18 months and less than 5 years loan)					
c) Long-term loan (above 5 years)					
d) Credit lines, bank overdraft, credit card overdraft					
e) Small short-term loans by local credit unions / co-ops					
f) Leasing of agricultural machinery or facilities					
g) Private resources (e.g. from friends/relatives, etc.)			No for code G		

Show only application applied for in question 5 (a-d)

Q.8. Did you try to apply to more than one bank for the same project / proposal? If yes, how many?

	No, just one	2	3	4	5	More than 5
a) Short-term loans (less than 18 months)						
b) Investment (medium-term) loans (more than 18 months and less than 5 years loan)						
c) Long-term loan (above 5 years)						
d) Credit lines, bank overdraft, credit card overdraft						

Q.9 – Now, still thinking about your last application of (insert applications mentioned at Question 5), could you please indicate the amount applied for (EUR or local currency) and the interest rate (%)?

	Amount	Don't know	Interest rate **Alert - Max 20%**	Don't know
a) Short-term loans (less than 18 months)				
b) Investment (medium-term) loans (more than 18 months and less than 5 years loan)				
c) Long-term loan (above 5 years)				
d) Credit lines, bank overdraft, credit card overdraft				

For each Yes at question 5 (a-d) and 'Received' or 'Partially received' at question 7, ask from Q10 to Q13ter

Now thinking about your last application of (insert applications mentioned at Question 5 and 'received' or 'partially received' at Q7), could you please indicate:

Q.10. Could you negotiate the interest rate?

Yes, I did and I got a lower rate
Yes, I tried, but with no success
No, I couldn't

Q.11. Could you negotiate the type and amount of collateral?

The collateral was not requested
Yes, I did and I we agreed a lower collateral
Yes, I tried, but with no success
No, I couldn't

Q.12. Could you negotiate the repayments - frequency or final re-payment date?

Yes, and we agreed different re-payments, which are better for me
Yes, I tried, but with no success
No, I couldn't. The bank doesn't allow a negotiation

Q.13. If you had difficulty with any repayments, could you negotiate this with the bank?

Yes, and I managed to agree a delay or a different structure of the repayment
Yes, I tried, but with no success
No, I couldn't
I didn't have difficulties with the repayments

Q.14 – Did the bank ask for any guarantee?

Yes
No

If yes at Q14, ask Q14bis and Q15

Q.14 bis – Could you please indicate the Value of the guarantee, as a percentage of the loan amount?

- 1-50%
- 51-75%
- 76-100%
- 100% - 150%
- Above 150%

Q.15 – Could you please indicate the type of guarantee used for your loan:

MULTIPLE ANSWERS

Personal (collateral)
Public
From a private guarantee provider
From mutual guarantee association
European/International

Q.16 – Now, considering (the sum of) the loan received and/or partially received about which we spoke, which is/are the purpose of the bank loan and how it has been used?

Category	Yes	No
Working capital		
Investment in new machinery, equipment or facilities		
Purchase of land		
Renting additional land		
Investments on land (orchards, vineyards, etc.)		
Other 1, please specify_____		
Other 2, please specify_____		
Other 3, please specify_____		

If Yes at question 5 (a-d) and 'Rejected by the bank' at question 7, asked Q17

Q.17 - If your loan application was refused by the bank, what reasons were given by the bank?
MULTIPLE ANSWERS

Lack of credit history
Lack of appropriate immovable collateral (land or buildings)
Non-acceptance of livestock or other movable farm assets (e.g. machinery) as collateral
Investment risks too high
Banking policy (e.g. limits on lending to farmers)
Economically unviable
Inadequate business plan
Lack of accounting records
New farm business (considered too risky)
Existence of other loans (i.e. certain indebtedness)

To All

The following questions refer to the future

Q.18. For the next 2-3 years, do you expect your farm's financial needs to:

Decrease. Why?_____
Remain unchanged
Increase. Why?_____
Do not know

Q.19. How important are each of the following for your enterprise's future financing?
(1=Not very important to 4=Very important)

	1	2	3	4
Credit lines, bank overdraft, credit card overdraft				
Short-term loans (less than 18 months)				
Investment (medium-term) loans (18 months to 5 years)				
Investment (long-term) loans (over 5 years)				
Leasing machinery or facilities				
Working capital				
Guarantees for loans				
Funding from local credit unions, co-ops, etc.				
Private funding from relatives/friends/other farmers				

Q.20. If you are offered a credit / loan with a lower interest rate or adjusted re-payments based on your business cycle and cash flow, would you be interested in applying?

Yes, I would definitely apply
Yes, I would be interested in receiving information and I may consider applying depending on the conditions
No, not really, I have enough resources at the moment

ANNEX II – METHODOLOGY

The report is based on a survey conducted from April to June 2018 across 24 EU Member States (EU-24): Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

To ensure representativeness of the entire farm population, 300 completed questionnaires were sought for each Member State and this target was reached in all countries except Lithuania (for few interviews) and Ireland, where the farmers were less confident in sharing information. The total of 7 659 respondents (see Table A.1), therefore, exceeded the target. 73% of respondents own the agricultural enterprise, 8% are member owners, 8% are owner's relatives, 7% administrative managers, 3% other employees, and 1% human resource managers.[45]

Figure A.1 displays the response rate for each question. Almost 85% of questions were completely answered and 98% of all questions were answered on average. The most problematic questions were on confidential, financial aspects. Only 50% of interviewees replied concerning their turnover, 67% gave the specific amount of their loan and 56% the exact interest rate of their loan.

Table A.1: Interviews

Member State	Number of lists used	Available telephone numbers	Telephone numbers used	Interviews achieved
Austria	2	6627	5660	320
Belgium	1	11620	7248	350
Bulgaria	1	6371	4065	351
Croatia	3	2579	2380	300
Czech Republic	1	8640	2601	309
Denmark	1	11627	9704	302
Estonia	2	2914	2914	310
Finland	1	7883	3718	327
France	1	11605	8814	350
Germany	1	11684	7065	376
Greece	4	3651	3639	350
Hungary	2	3104	2376	315
Ireland	4	2131	2131	151
Italy	1	11763	2644	351
Latvia	3	2521	2426	315
Lithuania	3	3348	2844	296
Netherlands	1	11645	3740	301
Poland	1	8989	5300	320
Portugal	1	4959	3164	349
Romania	1	11764	2707	350
Slovakia	2	2990	2977	312
Slovenia	3	2056	2044	300
Spain	1	10266	4069	354
Sweden	2	13040	12486	300
Total	**43**	**173 777**	**106 716**	**7 659**

45 Based on question S.7, see Annex I (no answer = 0.2%).

Figure A.1: Rate of answers for each question of the CATI questionnaire (see Annex I for detail)

Farmers were selected, contacted and interviewed ensuring a significant coverage of the regional (NUTS2) distribution of farms as well as representativeness of different farm sizes within each country.

The sample covers 198 (94.7%) of the 209 NUTS2 regions in the 24 Member States. These regions have nearly 99% of EU-24 farms. A variation index - in absolute value - is used to measure the sample's representativeness of the geographical distribution according to Eurostat data from 2016. The scale runs from 100% (completely different) to 0% for exactly the same as the real distribution of the population.

$$Variation\ Index = \frac{\sum_{i=1}^{N} |\%\ Sample_i - \%\ Population_i|}{N}$$

Where *i* is the region within a Member State.

At EU-24 level the variation index is 4.2%, which is very low, so the regional distribution of answers is a very good representation of the real distribution.

Additional information on how the sample compares the entire EU-24 farm population Eurostat data, is gained by comparing the distribution of the manager age. Eurostat provides data on this from 2013 in three classes:

- less than 35 years;
- between 35 and 54 years;
- more than 55 years.

By using these three ranges, it is possible to compare farm distribution in the sample with Eurostat and calculate the Variation Index for 23 countries (Eurostat does not provide data for Croatia). The sample is overrepresented in the first two classes with respect to Eurostat (i.e. managers under 55 years old), and the variation index for the EU-23 is nearly 15%. However, the highest divergences are in Poland and Romania (countries which have many farms), especially in the first age class (managers under 35). Probably in these two countries older managers were more reluctant to answer the questionnaire. By excluding these two countries from the EU average (EU-21), the variation index decreases significantly to 5%.

A final comparison looks at the average area of farms. Eurostat classifies agricultural enterprises by Utilised Agricultural Area (UAA), the total area of arable land, permanent grassland, permanent crops and kitchen gardens used by the holding, regardless of the type of tenure or whether it is part of common land. It does not include unutilised agricultural area, special holding areas, wooded areas, and other land occupied by buildings, farmyards, tracks, ponds, etc. These, together with the UAA are included in the Total Farm Area (FA).

Eurostat provides a classification[46] of farms physical size by hectares of UAA:

- very small: < 2 hectares;
- small: 2 – 20 hectares;
- medium: 20 -100 hectares;
- large: > 100 hectares.

Question S.4 in the questionnaire (see Annex I) asks for the total farm area (FA) in hectares. To enable a comparison with Eurostat data, the ratio between UAA and FA has been calculated using Eurostat data (2016) for each country. Each answer to question S.4 is then reduced applying the UAA/FA ratio for the related country.

This enables comparison of the sample's average farm size within each country with the EU-24 distribution. For simplicity, micro farms have been included in the small farm category. The Variation Index is 20% which is higher than the geographical or manager's age distributions. This implies that the interview sample does not closely resemble the EU farm population.

Therefore, the UAA is used to calculate the weights so the sample distribution within each country and at EU-24 level match the entire farm population. Moreover, this variable can be seen as a good approximation of farm economic size.

46 See Eurostat, Small and large farms in the EU - statistics from the farm structure survey, Statistics Explained.

The weights have been calculated using the following formula:

$$k_{i,h} = \frac{n° \; of \; farms_{i,h} \; in \; EUROSTAT}{n° \; farms_{i,h} in \; the \; sample}$$

Where k_(i,h) is the coefficient for the sampling weights, while i indicates the Member State (from 1 to 24) and h is the farm size (small, medium, large).

So, within each Member State and for each question, answers have been categorised according to farm size class. Then the number of answers within each class has been weighted as displayed in the first part of Table A.2 to obtain a representation of the real farm population. The answer in percentage uses the formula:

$$\%\; of \; agriculture \; enterprises \; in \; i \; answering \; question \; 'x' = \frac{\sum_{h=1}^{3} n° \; asnwers_{i,h} * k_{i,h}}{ToT \; farms \; EUROSTAT \; of \; i}$$

The EU-24 weighted average is simply the sum of all farms answering question 'x' across the 24 Member States.

$$\%\; of \; agriculture \; enterprises \; in \; EU24 \; answering \; question \; 'x' = \frac{\sum_{i=1}^{24} \sum_{h=1}^{3} n° \; answers_{i,h} * k_{i,h}}{ToT \; farms \; EUROSTAT}$$

Statistics are shown and discussed in the report and displayed in Annex III by country only where there are more than 20 observations, otherwise the interpretation of results is not reliable.

Table A.2: Matrix of weights

Weight Matrix (K = N/n)				EUROSTAT 2016 (N)				Interview Sample (n)			
Member State	**Small**	**Medium**	**Large**	**Small**	**Medium**	**Large**	**TOT**	**Small**	**Medium**	**Large**	**TOT**
Austria	532.0	270.0	455.0	89 910	39 150	2 730	131 790	169	145	6	320
Belgium	172.7	99.6	33.4	16 410	18 020	2 470	36 900	95	181	74	350
Bulgaria	1 610.1	160.1	37.4	183 550	12 010	6 060	201 620	114	75	162	351
Croatia	800.8	135.1	21.9	122 530	9 860	1 620	134 010	153	73	74	300
Czech Republic	126.9	109.1	36.2	14 340	7 200	4 710	26 250	113	66	130	309
Denmark	174.0	97.1	85.3	15 310	12 040	7 680	35 030	88	124	90	302
Estonia	141.5	39.8	13.1	11 460	3 340	1 900	16 700	81	84	145	310
Finland	119.2	173.5	245.5	18 600	26 200	4 910	49 710	156	151	20	327
France	1 956.8	1 017.8	1 098.1	193 720	162 850	99 930	456 500	99	160	91	350
Germany	1 276.0	728.6	303.1	125 050	114 390	36 680	276 120	98	157	121	376
Greece	2 492.0	497.0	37.7	655 400	28 330	1 130	684 860	263	57	30	350
Hungary	4 571.7	405.0	51.5	397 740	23 490	8 760	429 990	87	58	170	315
Ireland	1 106.5	1 121.4	153.8	59 750	72 890	4 920	137 560	54	65	32	151
Italy	3 836.7	15 36.0	1684.0	1 009 060	119 810	16 840	1 145 710	263	78	10	351
Latvia	1280.2	123.8	18.3	55 050	11 640	3 250	69 940	43	94	178	315
Lithuania	1 533.6	347.8	32.7	127 290	17 740	5 290	150 320	83	51	162	296
Netherlands	221.1	184.9	69.2	27 190	25 890	2 630	55 710	123	140	38	301
Poland	7 679.7	1 373.9	187.7	1 274 830	123 650	12 010	1 410 490	166	90	64	320
Portugal	1 205.5	182.4	109.1	235 070	17 690	6 220	258 980	195	97	57	349
Romania	13 380.2	446.0	293.1	3 385 180	24 530	12 310	3 422 020	253	55	42	350
Slovakia	214.7	32.1	18.8	20 400	2.860	2 400	25 660	95	89	128	312
Slovenia	275.6	74.2	15.0	65 860	3 930	120	69 910	239	53	8	300
Spain	6 018.4	1 185.0	499.4	728 230	152 870	51 940	933 040	121	129	104	354
Sweden	254	167	180	34 550	19 860	8 100	62 510	136	119	45	300
Total	**10 221 330**			**10 221 330**				**3287**	**2391**	**1981**	**7659**

ANNEX III – STATISTICS BY COUNTRY

Available on www.fi-compass.eu/resources

www.fi-compass.eu
contact@fi-compass.eu
© EIB (2019)

European Commission
Directorate-General
Agriculture and Rural Development
B-1049 Brussels

European Investment Bank
Advisory Services
fi-compass
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg