fi compass
EAFRD

advancing with ESIF financial instruments

The European Agricultural Fund for Rural Developement

Financial instruments

European Commission

European Investment Bank
The EU bank

Financial instruments co-funded by the European Agricultural Fund for Rural Development are a sustainable and efficient way to invest in the growth and development of people, businesses and resources in the agriculture and forestry sectors as well as in the rural economy. They can support a broad range of development objectives to the benefit of a wide range of recipients with the potential for funds to be reused for further investments.

The European Agricultural Fund for Rural Development (EAFRD), which is the funding instrument of the second Pillar of the Common Agricultural Policy of the European Union and one of the European Structural and Investment Funds, aims at strengthening the EU's agriculture, forestry sector and rural areas in general.

The EAFRD has a total budget of over €96 billion for the period 2014-2020. This support is provided to agriculture, forestry and environment/ natural resources management as well as to the sustainable development of rural economy.

The EAFRD support can be provided through grants and, increasingly, through financial instruments.

The demand for financial instrument co-funded by the EAFRD has been increasing since 2007, and in particular following the financial and economic crisis which cut short available budgets for rural areas and agriculture.

Financial instruments

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

In 2014-2020, recognising the advantages of financial instruments, their use is extended to **all thematic objectives** and is expected to further intensify due to the improved and more flexible implementation options.

Financial instruments can be co-funded by the EAFRD to **support the investment priorities outlined in the EAFRD Rural Development Programmes (RDPs)** of the Member States. They can potentially support the implementation of many measures covered by the EAFRD, provided that they address **an identified market gap**, i.e. areas where banks are unwilling to lend and/or where the private sector is unwilling to invest, for instance in small farms or new agricultural businesses without sufficient credit history or assets as collaterals.

Financial instruments can thus contribute to the achievement of most of the established EU priorities for rural development:

- fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- enhancing competitiveness of all types of agriculture and enhancing farm viability;
- promoting food chain organization;
- promoting resource efficiency and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors; and
- promoting social inclusion, poverty reduction and economic development in rural areas, in particular with regards creation and development of small enterprises, as well as jobs creation.

Financial instruments under the EAFRD are **available to all potential recipients in agriculture, forestry and in the rural areas who are undertaking financially viable investment projects**.

A **broad range of EAFRD-supported financial instruments** can be potentially implemented:

- **Loans**, which may be available where none are offered commercially (e.g. from banks), or may be on better terms commercially (e.g. with lower interest rates, longer repayment periods, or with less collateral required). For instance, loans could be made available to help farmers and their families diversify their sources of income by developing activities such as agri-tourism or food-related businesses such as restaurants selling local food, investment support for young farmers, or investments in agricultural machinery aimed at increasing the overall performance of farms and their sustainability.

- **Microcredits**, which are smaller loans made to people sometimes excluded from access to finance, often provided over a short term and with no or low collateral required, e.g. loans to farmers to purchase equipment, to improve the added value or quality of the harvest, or projects in the framework of community-led local development strategies.

- **Guarantees**, where assurance is given to a lender that their capital will be repaid if a borrower is not able to repay a loan. As an example, this may be beneficial for enterprises aimed at investing in the bio-economy or in resource efficiency, or for farmers who may have the necessary skills and finance available through banks but may lack the necessary guarantee or security for obtaining the loan.

- **Equity**, where capital is invested in return for total or partial ownership of a firm; the equity investor may assume some management control of the firm, may share the firm's profits and may sell, at a later stage, the acquired shares realising again profits. Equity is most likely to be relevant for higher risk and potentially higher growth firms – for example, SMEs operating in the agri-food sector building/investing in new processing technologies.

Financial instruments may also be offered in combination with grants and other forms of assistance. It is often necessary to improve the investment readiness as a pre-requisite for attracting investment funds. Advisory and other support can be grant-aided through the EAFRD.

Financial instruments co-funded by EAFRD can contribute to the long-term development and diversification of the sector and investment in it by supporting activities in areas where levels of investment have often been suboptimal and stimulating the development of commercially-viable projects thus opening up new market opportunities. They can also create opportunities for investors and financial intermediaries. Access to financing has typically been costly and difficult for firms in the agriculture and forestry sectors. In many Member States, the sectors are considered by banks and other financial institutions as high risk in terms of lending and access to credit. However, some projects can become more attractive investments due to public sector backed financial instruments and related risk-sharing.

For more information

For information on rural development:
http://ec.europa.eu/agriculture/rural-development-2014-2020/index_en.htm

For a reference guide for managing authorities on financial instruments in ESIF programmes:
http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf

For information on the ex-ante assessment methodology for financial instruments:
http://ec.europa.eu/regional_policy/en/funding/financial-instruments

For the 'fi-compass' website, the platform for advisory services on financial instruments under the ESIF:
http://www.fi-compass.eu/

For more information on the European Agricultural Fund for Rural Development and the other European Structural and Investment Funds Regulations, including Implementing and Delegated Acts:
http://enrd.ec.europa.eu/en/policy-in-action/cap-towards-2020/rdp-programming-2014-2020/policy-overview

For information on the State aid rules for agriculture and forestry and in rural areas:
http://ec.europa.eu/agriculture/stateaid/index_en.htm

www.fi-compass.eu
contact@fi-compass.eu

European Commission
Directorate-General
Regional and Urban Policy
Unit B.3 "Financial Instruments and IFIs' Relations"
B-1049 Brussels

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