fi compass EAFRD

Financial needs in the agriculture and agri-food sectors in Austria

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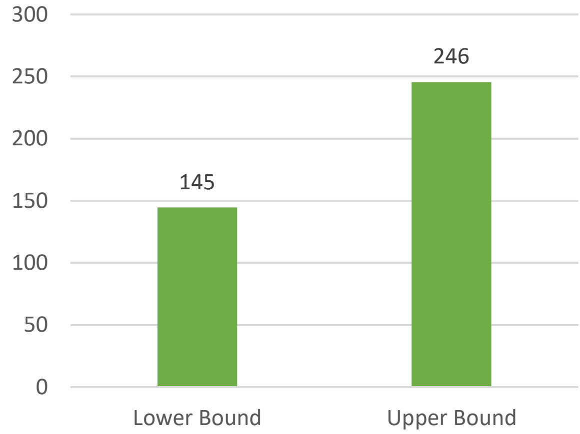
European Commission

European Investment Bank
The EU bank

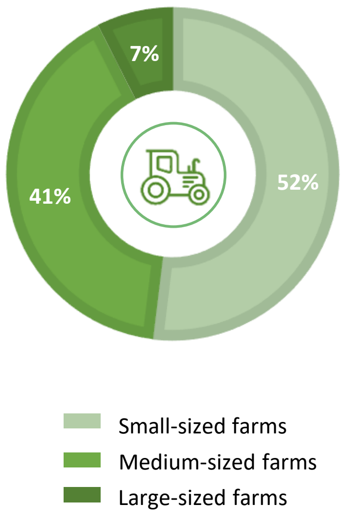
AUSTRIA

FINANCING GAP IN THE AGRICULTURE SECTOR

FINANCING GAP IN THE AGRICULTURE SECTOR (EUR MILLION)

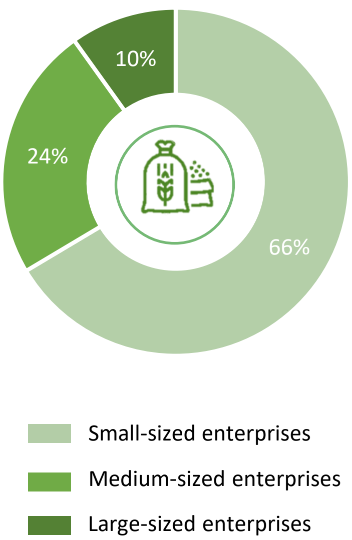


BY FARM SIZE

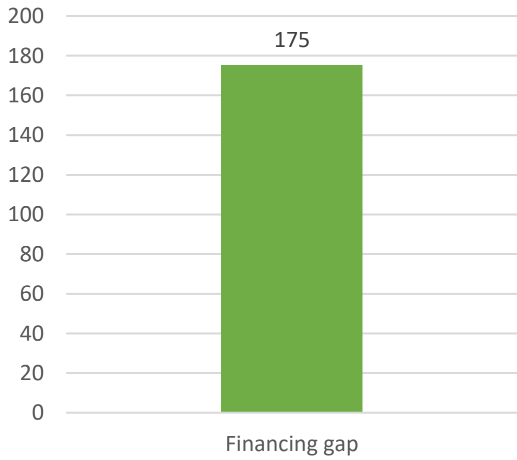


FINANCING GAP IN THE AGRI-FOOD SECTOR

BY ENTERPRISE SIZE



FINANCING GAP IN THE AGRI-FOOD SECTOR (EUR MILLION)



Source: *fi-compass* 2020

EXECUTIVE SUMMARY

This study gives a clear insight into agriculture and agri-food financing in Austria by providing a better understanding of investment drivers, financing supply and financing difficulties as well as on the existing financing gap.

The analysis draws on the results from two comprehensive and representative EU-level surveys carried out in 2018 and 2019, namely the *fi-compass* survey on financial needs and access to finance of EU agricultural enterprises and a survey of the financial needs of EU agri-food processing enterprises. The report does not take into account the impact of the ongoing COVID-19 health crisis and/or the effect of any new support scheme being set-up by the Member State and/or changes in legal basis and/or policies at European level to mitigate the crisis, as surveys and data available covered a period prior to its outbreak. This would need to be subject to further analyses by interested stakeholders, administrations and/or researchers.

Financing gap for the agriculture sector in Austria

The agriculture sector in Austria shows a positive attitude towards investment. This report's analysis highlights three main investment drivers of the Austrian agriculture sector:

(i) **Modernisation of agricultural enterprises**. As in many other countries, farmers in Austria suffer from the weak position they occupy in the value chain, facing difficulties relating to increasing input costs and fluctuating selling prices of their products. To overcome these barriers, Austrian farmers invest in the competitiveness of their enterprises and in solutions for shortening the value chain. In addition, to improve their position in the market, Austrian farmers adopt a stricter set of production standards in terms of quality, environmental impact and animal welfare.

(ii) **Income diversification**. Austrian farmers are diversifying their activities to capture additional sources of income. They are mainly combining agricultural production with services that benefit other industries, such as agri-tourism and renewable energy.

(iii) **Expansion of farms' size and production capacity** of some agricultural sub-sectors. This happens in particular, in the dairy sub-sector, where the abolishment of the milk quota has shifted production from mountains to more favourable areas. Restriction removal has generated a positive effect and led to an increase in investment related to purchase or rent of additional land.

Results from the report indicate that access to European Agriculture Fund for Rural Development (EAFRD) resources and requests for bank finance are correlated, and these two sources of financing are often complementary in investment operations. For instance, bank finance is important to fund non-eligible expenditures under EAFRD. This includes cases with financing for the purchase of land in Austria, which is mainly supported by bank finance. Furthermore, this source of finance for this type of investment in agriculture is far above the EU 24 average. Financing needs also relate to working capital, which represents 17% of the loans obtained by Austrian farmers in 2017.

Financing supply, for its part, is provided by a group of financial intermediaries with a long history and sufficient specialisation in the sector. They are also able to cover the Austrian rural areas with a large number of local outlets. The downside of this situation is that, at provincial level, just one intermediary dominates the market, which generates a subsequent risk of limited competition. This seems to be confirmed by the number of lending applications in 2017, where the share of farmers that consulted only one or two banks to obtain a loan is higher in Austria in comparison with the EU 24 average. Nevertheless, limited competition in the market has not emerged as a significant issue in the interviews conducted for this report. In addition, the supply of finance is supported by a public interest subsidy scheme, which seems to be appreciated and is effective in helping farmers to access finance at favourable conditions.

Non-financial support is also provided to farmers seeking advice. The District Chambers of Agriculture provides capacity building and technical assistance to farmers requesting support for the development of their investment project form. According to interviews conducted for this report, banks are also open to informal discussions and advice on the preparation of business plans before formal applications.

Overall, the financial market for Austrian farmers seems to be well developed and able to support investment and working capital needs of the sector.

However, this study shows that there is still potential for new financial instruments, with a market gap estimated between EUR 145 million and EUR 246 million. Around 65% of the gap value relates to small-sized farms (below 20 ha) and around 38% to young farmers. In terms of financial products, almost 75% of the gap relates to medium and long-term investment loans. This market gap is comprised of separate components:

- The first component of the financing gap is constituted by the estimated value of loan applications submitted in the past year by viable enterprises which were rejected by banks, or which translated into loan offers refused by the applicants due to non-acceptable lending conditions. This financing gap component relates mostly to investment loans, since rejection of viable applications for short-term loans seems to be non-significant according to this report. Loan application rejections appear to be mostly related to lack of assets to be used as collateral. To this regard, it is also worth noting that according to *fi-compass* survey data, request for collateral or guarantee in Austria is more frequent and represents on average a higher percentage of the loan value in comparison with the EU 24 average. In addition, lack of collateral might affect particularly young farmers and most specifically the new entrants that do not have the possibility to take over a parents' holding.
- The second component of the gap relates to the estimated value of loan applications that are not submitted by farmers considered viable due to discouragement of a possible rejection. This phenomenon can be tied to lack of knowledge and familiarity with the banking system which prevents viable enterprises applying for finance. Hence, farmers can miss potentially profitable investment opportunities. While interviews conducted for this report show that farmers in Austria can already obtain information and advice relating to access to finance, an additional effort in terms of awareness raising and training on the financial management and investment opportunities for agricultural business may help to expand the market further. These initiatives might encourage a group of enterprises (not very large but still significant) that may be self-excluded from the financial market. In the case of Austria, the other reason for not applying for a loan may also be the consequence of preliminary informal meeting with banks, which may discourage enterprises from applications due to weaknesses in the business plan or their credit history.

RECOMMENDATIONS

Even though Austrian farmers can rely on an already well-developed and functional financial market, a targeted use of financial instruments in the next CAP programming period may help to facilitate access to finance for new enterprises currently excluded (or more often self-excluded) from the market:

- A guarantee instrument based on EAFRD resources may complement the support currently provided through the public interest rate subsidy scheme, supporting access to finance for farmers (young farmers in particular) and/or small-sized farms who lack sufficient assets to be used as collateral.
- The combination of the guarantee instrument with technical support for the development of the business plan, together with a more general action of information and awareness raising may also be beneficial.

The use of financial instruments might also help to attract new financial intermediaries in the sector, potentially creating more competition for the benefit of the farmers.

Financing gap for the agri-food sector in Austria

The investment dynamics in the Austrian agri-food sector are driven by an export boom. Whilst the overall turnover of the Austrian agri-food sector has increased by 20% during the last 10 years (2009-2019), the turnover growth from exports has doubled during the same time span. Revenues obtained from exports are the main reason for turnover growth in the agri-food sector. Against this background, the following investment drivers of the Austrian agri-food sector stand out:

(i) **Improving productivity** and efficiency of production capacity by means of investments in automatised technologies;

(ii) **Expansion in new products and product differentiation** is another investment driver, in order to respond to consumer trends; and

(iii) **Promotion activities** on domestic and international markets (including branding strategies).

Whilst Austrian agri-food enterprises have high equity ratios, there is still sizeable demand for finance. The rural development support measure for processing and marketing of agri-food products only covers a small share of total investments. Based on the Agri-food survey, 34% of Austrian agri-food enterprises applied for finance in 2018. As a result, the total amount of credit provided to the agri-food sector is growing steadily, similarly for the agriculture sector. **In June 2019, the total outstanding loan volume in the Austrian agri-food sector was EUR 2.1 billion**.

The financial landscape is comparable with regards to agriculture loans, but specialised intermediaries offer various guarantee instruments for agri-food enterprises that are applying for a loan. In addition, these institutions offer equity investment solutions, which improve the overall rating of the enterprise, leading to better conditions on interest rates in case of loans.

Based on the analysis, a financing gap has been identified and estimated to be EUR 175 million. Two thirds of this gap are concentrated to small-sized enterprises (approximately EUR 116 million). In terms of financial products, 64% of the financing gap relates to long-term loans.

The financing gap for the agri-food sector in Austria is comprised of the following:

(i) The main reason for the rejection of investment loan applications is insufficient own capital as banks require own financial contribution to reduce moral hazard. This impacts on the level of collateral, which is insufficient and listed as another reason for rejections.

(ii) Obtained qualitative information reveals that the discouragement is mainly related to bank requirements, in particular relating to request for collateral.

RECOMMENDATIONS

Based on the findings of this report, the following recommendations should be considered to improve the offer of financial instruments supporting the sector:

- Significant problem for enterprises in agri-food sector is the provision of sufficient collateral. Whilst several financial intermediaries offer a wide range of guarantee options, the agri-food businesses are challenged with having enough of their own capital. This suggests to further reflect on the possibility to bolster the current guarantee offering, possibly in synergy with current instruments and avoiding duplications.
- A significant obstacle, especially for start-ups and new entrants, is the low level of their own funds and equity that limits their creditworthiness. Therefore, it is worth considering improving equity financial instruments (e.g. some type of acceleration funding and venture funding) in agri-food sector as the existing equity financial instruments are more indented for other industries.
- Considering the market dominance of one bank, it can be assumed that financial instruments might stimulate interest from new operators, providing a broader choice to Austrian agri-food enterprises.