



fi-compass feasibility study
for a financial instrument
combining EAFRD and EFSI
resources in Poland

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FINANCIAL INSTRUMENTS

fi-compass EAFRD feasibility study – Rationale



- Using the opportunity of combining EAFRD and EFSI in FIs
- Feasibility study by *fi-compass* explores the possibility of such an FI
- Feasibility study to be considered input to the ex-ante assessment to be undertaken by MA



Objectives of the ex-ante assessment:



Legislative framework: Title IV of the Common Provisions Regulation No 1303/2013 of 17 December 2013, Articles 37 – 46 (OJ L 347), Delegated and Implementing Acts adopted by the Commission

1. Is mandatory

2. **Assesses the rationale for a FI** against prevalent **market failure** and to ensure that the FI will contribute to the achievement of the Programme and **ESIF objectives**

3. Helps to **avoid overlaps** and inconsistencies between instruments implemented at different levels

4. To be completed before the MA decides to make Programme contributions to a Financial Instrument

Logical structure of the ex-ante assessment



Article 37 (2) of the CPR

points (a) to (d)

Block 1

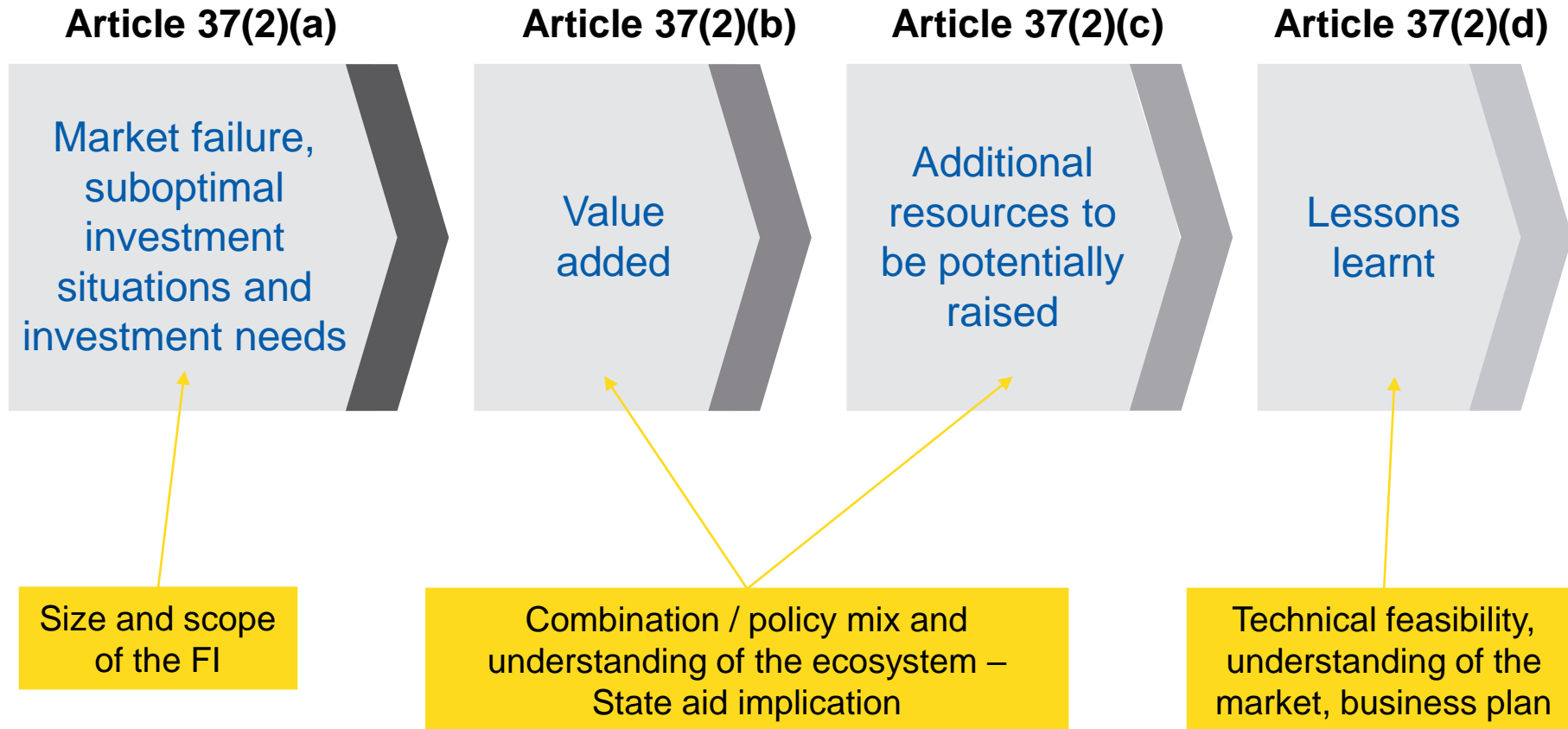
“Market
assessment”

points (e) to (g)

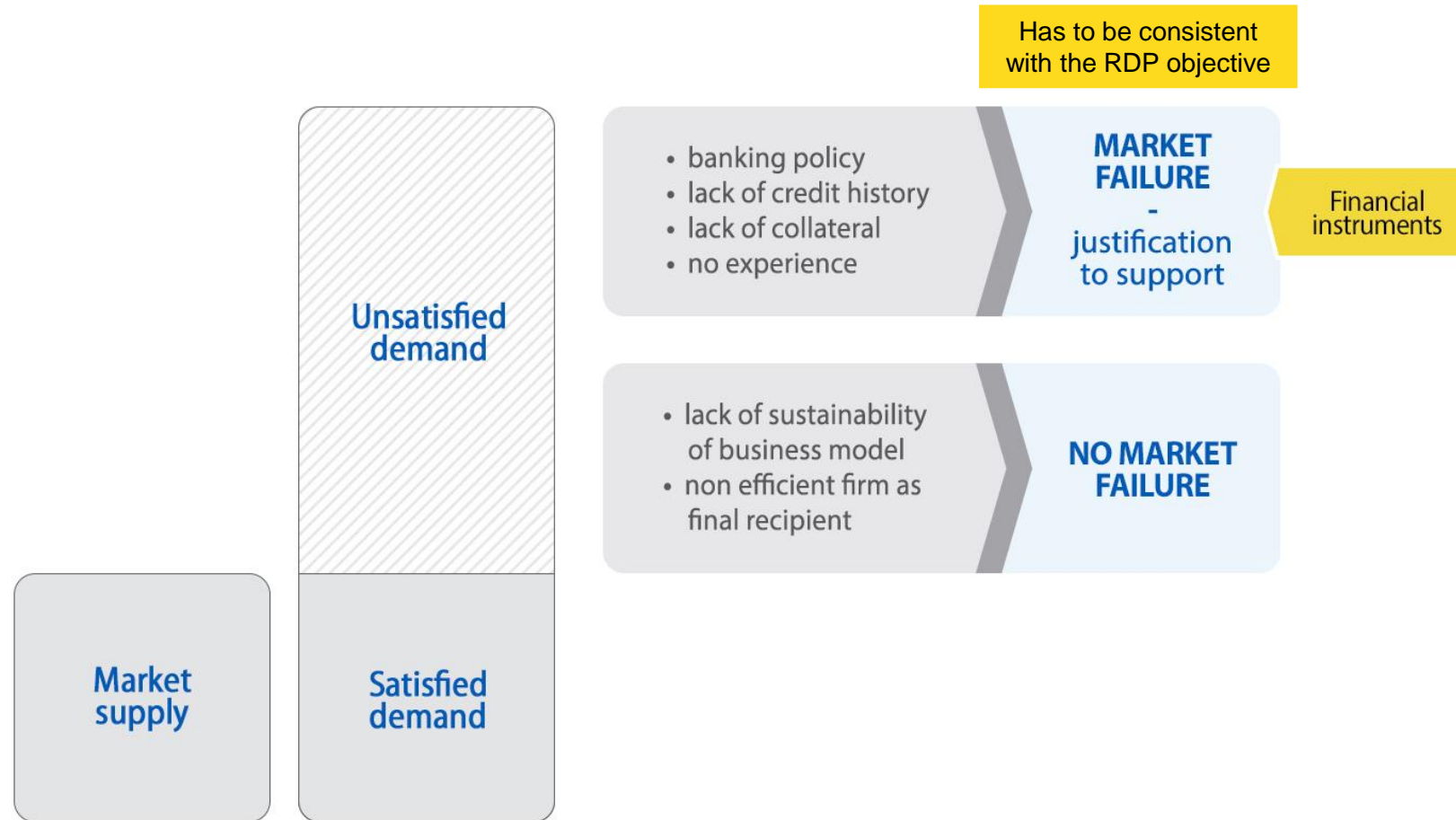
Block 2

“Delivery and
management”

Block 1: Market assessment



What is a market failure and financial gap?



Block 2: Delivery & management



Article 37(2)(e)

Proposed investment strategy

Article 37(2)(f)

Expected results

Article 37(2)(g)

Provisions for the update and review of the ex-ante assessment

Choice of financial products

Key steps to define the Investment Strategy



Phase 1

Defining the scale and focus of the FI

consistency between the market assessment and of the value added assessment

most appropriate financial product

potential final recipients

Phase 2

Defining the governance structure of the FI

pros and cons of the different options for implementation

co-financing structure - in particular the possible combination of the FI with grants

Key points of the Investment Strategy



The financial products

- Loans
- Guarantees
- Venture capital / private equity

The implementation structure

- Central management at Union level
- Shared management
- Direct Management

RDP 2014-2020 ex-ante assessment (Nov. 2016)



Some observations and conclusions of ECORYS study:

- **Scope:** Sub-measure 4.1 Support for investment in agricultural holdings, the type of operation: Modernisation of agricultural holdings.
Same eligibility rules for final recipients and investments as for grants.
- The size of the financial **gap** has been estimated at between PLN 1.5bn to 6.3bn.
- Financial gap refers primarily to entities relatively young, with small size of the farm / production.
- ECORYS recommended to allocate 109 million PLN.

RDP 2014-2020 ex-ante assessment (Nov. 2016)



Some observations and conclusions of ECORYS study:

- Funded loan instrument with loans up to PLN 500,000.
- FI would act as pilot. Too small to close gap .
- Implementation through BGK as fund-of fund manager.
- Well-designed incentive system of remuneration of financial intermediaries to increase efficiency of implementation.

fi-compass EAFRD feasibility study – Highlights from Market assessment



- **Agricultural holdings** mainly financed by cooperative banks (75%).
 - Farmers present 5% of lending to private individuals.
 - Risk of default of loans to farmers is lower compared to SMEs, but farmers are less regular in paying.
- **Food processing** are financed by commercial banks, but also by loan and guarantee funds or cooperative banks.
 - Food processing corresponds to 4.3% of lending to enterprises.
 - Risk is similar to other SMEs.
- **Leasing** is an important form of financing for farming equipment and vehicles, increasing importance in food processing.

fi-compass EAFRD feasibility study – Highlights from Market assessment



- **Demand** in medium and long term loans (based on CATI survey):
 - **Agricultural holdings:** PLN 27.1 bn
average loan size: PLN 570,000
 - **Food processing:** PLN 0.5 bn
average loan size: PLN 1,950,000
- Estimated supply of financing in agriculture PLN 18.3bn.
- Estimated financing **gap** in agriculture PLN 9.3bn.
- Demand and gap is expected to increase over next years.
- Sector also has significant need for working capital financing.