

- EAFRD
- EUR 391 million
- Farmers and agricultural SME support
- Italy

# AGRI Italy Platform

## Case Study

*... enabling access to finance for agricultural holdings and agri-industry businesses through uncapped guarantees ...*



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## Abbreviations

Abbreviation	Full name
CPR	Common Provisions Regulation
CRII	Coronavirus Response Investment Initiative
EAFRD	European Agricultural Fund for Rural Development
EIB	European Investment Bank
EIF	European Investment Fund
GGE	Gross Grant Equivalent
RDP	Rural Development Programme
SME	Small and medium-sized enterprises



## Table of contents

Abbreviations	2
1. Summary	4
2. Objectives	6
3. Design and set-up	7
3.1 Ex-ante assessment	8
3.2 Selection of the implementing body	9
3.3 Funding and governance	10
4. Implementation	14
4.1 Financial products and terms	15
4.2 State aid	17
4.3 Financial flow and appraisal process	17
5. Output	19
6. Lessons learned	20



# 1. Summary

This case study describes the Agricultural Multi-Regional Guarantee Platform (AGRI Italy Platform or Platform) set up in Italy in 2017. The funding agreement for the financial instrument was signed by the European Investment Fund (EIF), the fund of funds manager, and the managing authorities of Rural Development Programmes (RDPs) from eight Italian regions (Calabria, Campania, Emilia Romagna, Piemonte, Puglia, Toscana, Veneto and Umbria). The regions joined the Platform to maximize the leverage of their RDP resources.

The Platform provides loss protection for financial institutions via an uncapped guarantee of 50% on a loan-by-loan basis. It aims to support new loans for agricultural and agri-food final recipients to finance investments in agricultural holdings, as well as for processing, marketing and/or developing agricultural products.

The Platform can provide risk coverage up to EUR 195.5 million. It has a layered structure, where participating regions are junior risk-takers, committing to cover losses in their regional portfolio up to the respective RDP contribution. Nearly EUR 70.85 million from regional RDP resources has been contributed to the Platform - EUR 35.76 million from the European Agricultural Fund for Rural Development (EAFRD) and EUR 35.08 million from other national and regional sources. If the portfolio loss exceeds the RDP contribution in one or more regional portfolios, the senior risk-taker, which is currently the fund of funds manager (EIF), will cover up to EUR 132 million of additional defaults. The Platform is open to other investors to increase senior risk coverage, which is linked to the junior risk coverage (RDP contribution) as well as the target portfolio volume.

The financial instrument is expected to increase the leverage of EU funds for agriculture and agri-businesses with a target loan portfolio of EUR 391 million across the contributing regions. Final recipients can benefit from lower interest rates and reduced collateral requirements.

The Platform operates through seven financial intermediaries working in each region under conditions stipulated in operational agreements signed with the EIF.

The Platform was set-up to cover the agriculture financial gap of nearly EUR 200 million in the contributing regions, identified in the national ex-ante assessment. The Platform will also address financial constraints affecting farmers and agri-food enterprises.

In addition, the Platform builds on a consolidated governance structure with standardised funding agreements between the EIF and each region, as well as portfolio agreements with financial intermediaries. The EIF has signed portfolio agreements with the same conditions and requirements with each region. This ensures simplification, expertise and homogeneous criteria enabling all actors to be more confident in providing finance, assuming risk and selecting better quality projects.

## AGRI Italy Platform Uncapped Guarantee Instrument

### THE FINANCIAL INSTRUMENT

#### Funding sources

EAFRD, RDP Calabria 2014-2020, RDP Campania 2014-2020, RDP Emilia-Romagna 2014-2020, RDP Piemonte 2014-2020, RDP Puglia 2014-2020, RDP Toscana 2014-2020, RDP Umbria 2014-2020, RDP Veneto 2014-2020

#### Type of financial products

Uncapped guarantees for loans

#### Financial size

EUR 70.85 million contribution from the eight regions (EUR 35.76 million from EAFRD and EUR 35.08 million from other public sources), up to EUR 132 million from the EIF (senior risk cover) and EUR 195.5 million from the seven financial intermediaries.

As a result, the Platform is expected to support a loan portfolio of up to EUR 391 million.

#### Thematic focus

Investments in agricultural holdings and processing, marketing and/or development of agricultural products

#### Timing

From 2017 to 2023

#### Partners involved

Calabria, Campania, Emilia-Romagna, Puglia, Piemonte, Toscana, Umbria and Veneto Regions (managing authorities)

EIF (fund of funds manager)

Banca di Cambiano, Banca Popolare di Puglia e Basilicata, Banco Popolare Pugliese, Credem, Creval, Iccrea BancalImpresa, Monte dei Paschi di Siena (financial intermediaries)

### ACHIEVEMENTS

#### EU leverage<sup>1</sup>

11 times

#### Leverage of public resources<sup>2</sup>

4 to 5.6 times

#### Main achievements

As of June 2020, 46 loans have been disbursed to final recipients for a total of EUR 10.5 million.

- <sup>1</sup> EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 391 million (based on the maximum regional volume according to the operational agreement, i.e. portfolio size), divided by the total EAFRD allocation to this financial instrument, i.e. EUR 35.76 million. It does not include the reuse of resources returned to the instrument.
- <sup>2</sup> Leverage of public resources is calculated as the total amount of finance to final recipients, i.e. EUR 391 million (based on the maximum regional volume according to the operational agreement, i.e. portfolio size), divided by the total public resources allocated to the financial instrument, i.e. EUR 70.85 million. It does not include the reuse of resources returned to the instrument.



## 2. Objectives

The Platform refers to two sub-measures under the regional RDPs:

- 4.1 Support for investments in agricultural holdings, and
- 4.2 Support for investments in processing and marketing agricultural products.

The policy objectives and related terms and conditions of these two measures drive the eligibility criteria for final recipients of loans that can benefit from the guarantee.

The Platform contributes to reducing the financial gap of nearly EUR 200 million for the regions, as identified in the national ex-ante assessment for the potential use of financial instruments under EAFRD in the 2014-2020 programming period. Some of these regions have the highest financial gaps in Italy. The ex-ante assessment also underlined the significant credit constraints affecting support for agriculture and agri-food enterprises. This was due *inter alia* to the risk-aversion of financial institutions, based on persistent asymmetric information. A very large share of the agriculture sector in Italy, including agri-food, is made up of SMEs and micro enterprises, with high fragmentation, inefficiency in the supply chain and a low propensity to innovate. The vast majority of farms are sole proprietorship, often lacking formal documentation proving their profitability and financial situation.

By covering potential default at 50% on a loan-by-loan basis, the Platform aims to support final recipients through loans from seven financial intermediaries selected by the EIF, offering better interest rates and/or collateral requirements. The Platform also intends to contribute to improving knowledge and skills for financial instruments in agriculture, especially across the participating managing authorities. This involves strengthening cooperation among regional, national and European institutions and exploiting the know-how and experience of the EIF.

### 3. Design and set-up

Following a national ex-ante assessment for the use of financial instruments in RDP 2014-2020 published in June 2015, ex-ante assessments in the eight regions were finalised between December 2016 and June 2017. These leveraged on the market assessment and the estimation of the funding gaps carried out by the National Rural Network in the national ex-ante assessment.

In parallel with the ex-ante assessment, EIF started in 2016 a roadshow supported by the National Ministry for Agriculture to present the Platform to managing authorities of the Regional RDPs. After several workshops, some of them also attended by the European Commission, a Memorandum of Understanding was signed in April 2017 by the EIF, the National Ministry of Agriculture, the EIB and all the interested regions. With signature of the Memorandum, negotiations on the funding agreement started. These resulted in November 2017 with a funding agreement signed between EIF and six managing authorities. The Regions of Piemonte and Toscana joined the Platform in February and May 2018 respectively. The call for expression of interest to select financial intermediaries was launched by the EIF in January 2018. Initially open for applications till 15 October 2019, it was extended to 31 January 2019.

The first operational agreement between the EIF and a financial intermediary was signed in December 2018 and six more were signed between March and May 2019.

Table 1: Timeline of the financial instrument

Date	Event
June 2015	National ex-ante assessment for the use of financial instruments in RDP 2014-2020
December 2016	Ex-ante assessments in Campania, Veneto and Umbria
January 2017	Ex-ante assessments in Puglia and Toscana
March 2017	Ex-ante assessment in Calabria
June 2017	Ex-ante assessment in Emilia-Romagna
November 2017	Funding agreement signed between the EIF and the managing authorities of Calabria, Campania, Emilia-Romagna, Puglia, Umbria and Puglia
January 2018	Publication of the call for expression of interest to select financial intermediaries
February 2018	Managing Authority of Piemonte joined the Platform
May 2018	Managing Authority of Toscana joined the Platform
October 2018	Extension of the call for expression of interest to select financial intermediaries to 31 January 2019
December 2018	Operational agreement (guarantee agreement) between the EIF and Creval signed
March - May 2019	Operational (guarantee) agreements signed between the EIF and Credem, Iccrea BancaImpresa, BPP, Banca Popolare di Puglia e Basilicata, Banca di Cambiano, and Monte dei Paschi di Siena



### 3.1 Ex-ante assessment

In June 2015, a national ex-ante assessment for the use of financial instruments in the 2014-2020 programming period was conducted by the National Rural Network<sup>3</sup> and the Italian Ministry of Agriculture<sup>4</sup>.

In addition, each region participating in the Platform conducted an ex-ante assessment to analyse their specific regional context.

These documents analysed the key financial constraints and structural problems of the agriculture and agri-food sectors in Italy.

Agriculture, forestry and fishing represented about 2% of the Italian GDP in 2014, or approximately EUR 28 billion. The agri-food sector played – and still plays – a central role in the Italian economy, making up 17% of GDP in 2014. This was worth EUR 267 billion<sup>5</sup>. Agribusiness, in particular was a major part of Italian exports, contributing EUR 34.3 billion, with more growth than the national export average (2.4%, vs. 2%).

Agricultural production and its value added were affected by the financial crisis (2007-2013). The level of these indicators was almost the same from 2009 to 2011 but fell respectively by 3.2% and 4% in 2012. This was mainly due to a considerable contraction in purchasing power for households which led to a reduction in expenditure on food, while demand was only partially supported by increased exports. Furthermore, higher production costs worsened the terms of trade. The price dynamics highlighted a weakness of the agricultural sector in Italy. Economic margins were distributed asymmetrically (different bargaining power, multiple operators in the supply chain, low competitiveness of commercial channels), which negatively affected the income of agricultural producers.

Moreover, agriculture in Italy suffered from several persistent structural problems including high fragmentation and inefficiency in the supply chain, low propensity to invest in innovation and technology, low level of education of agricultural workers, lack of skilled workers, low turnover and stagnant generational renewal.

A large majority of agricultural businesses in Italy are sole proprietor, micro and small enterprises. The legal requirements for accounting records for these are very limited, and often the enterprise's assets could not be distinguished from the owner's property. For these reasons, around 95% of such farms did not have formal documentation showing their profitability and financial situation, making their access to credit structurally very difficult.

3 <https://www.reterurale.it/flex/cm/pages/ServeBLOB.php/L/IT/IDPagina/1>.

4 Ministero delle Politiche Agricole e Alimentari e Forestali (2015), *Strumenti finanziari nello sviluppo rurale 2014-2020 - Valutazione ex-ante nazionale*, June 2015. Available at: <https://www.reterurale.it/flex/cm/pages/ServeBLOB.php/L/IT/IDPagina/15194>.

5 Ministero delle Politiche Agricole e Alimentari e Forestali (2015), *Strumenti finanziari nello sviluppo rurale 2014-2020 - Valutazione ex-ante nazionale*, June 2015, p.9.



Since the reform in the banking sector in 1994, agricultural expertise in financial organisations has almost disappeared. In addition to this, in the 2000s, supervisory regulations following Basel 2 closely connected the cost of financing to the lender's risk, strengthening bank credit ratings as risk measurement tools<sup>6</sup>. The financial crisis increased financial intermediary risk aversion and credit funding requirements tightened. Agricultural holdings sharply decreased long-term investment and used debt financing mainly to cover current production costs.

The financial crisis produced a very different impact on lending to agriculture compared to many other economic sectors, with overall stability but at the same time a substantial change in the lending portfolio structure. There was a drastic reduction in financing for investment in the sector, compensated by an increase in working capital lending.

The national ex-ante assessment also estimated the financial gap for agriculture at regional level as EUR 350 million for all of Italy<sup>7</sup>. Of this EUR 195 million was for the eight contributing regions<sup>8</sup>. Among these, Piemonte, Emilia Romagna, Veneto in the north, Toscana in the centre and Puglia and Campania in the south had higher financing gaps.

The ex-ante assessment concluded that the use of financial instruments in implementing RDP measures could provide significant added value in leveraging resources, sustainability and the cost-effectiveness of public intervention. For final recipients, the instruments could cover more financing of their investment needs. The analysis also showed that the use of financial instruments (a guarantee fund or a credit fund) was preferable to grant support in the form of interest rate or guarantee fee subsidies, which were previously used to support rural development in Italy.

The national ex-ante assessment was also confirmed by the ex-ante assessments in the contributing regions. These underlined the need to ease the credit conditions offered to farmers, as well as to improve or create financial instruments to support agricultural holdings and enhance the competitiveness of rural SMEs. Moreover, some of the assessments reviewed experiences with financial instruments supporting agriculture in the previous 2007-2013 period, including Calabria (Revolving Fund) and Campania (Guarantee Fund). In the former case, the financial instrument lowered the cost of debt, but the leverage ratio was not particularly high. In the latter case, the financial instrument was deemed to be ineffective because of overcapitalisation, delays in setting up, lack of adequate knowledge of financial intermediaries and higher debt cost than expected.

## 3.2 Selection of the implementing body

The Platform is managed by the EIF according to Article 38(4)(b)(i) of the Common Provisions Regulation (CPR)<sup>9</sup>.

The EIF selected seven financial intermediaries to operate in all the contributing regions (with three to five branches/subsidiaries, on average, operating in each region).

6 Rating models rely on statistical predictions of defaults based on quantitative data from the financial statements of companies, exacerbating the problem of information asymmetry.

7 The estimate refers to a three-year period, between 2010 and 2012.

8 More specifically: Calabria EUR 3.5 million, Campania EUR 20 million, Emilia Romagna EUR 40 million, Toscana EUR 12 million, Umbria EUR 10 million, Piemonte EUR 35 million, Puglia EUR 20 million, and Veneto 25 million.

9 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1303>.



The call for expression of interest outlined the eligibility criteria defined in the funding agreement between the EIF and the managing authorities.

The EIF selection process was conducted in three phases. During the first, pre-selection, phase ('first come, first assessed'), expressions of interest were evaluated through a formal assessment<sup>10</sup>, a minimum regional criteria assessment<sup>11</sup> and a quality assessment. The quality assessment included verification that the financial intermediary could cover at least 25% of the maximum regional portfolio in 65% of the contributing regions (fast track assessment). Moreover, the quality and plausibility of the implementation proposal in each region and at Platform level<sup>12</sup> were assessed.

The second phase, due diligence, assessed the ability to build up regional portfolios, to transfer benefits to final recipients, the composition and risk profile of the envisaged regional portfolios, origination quality, marketing and publicity of the Platform, distribution network strategy (including sales incentives), risk management, collection recovery/workout processes, IT systems and the ability to comply with control and reporting requirements.

The third and last phase was when the EIF selected, placed on the reserve list or rejected each expression of interest.

### 3.3 Funding and governance

Total contributions to the Platform are up to EUR 202.85 million, of which EUR 70.85 million comes from the eight contributing regions (EAFRD contribution and national co-financing), and EUR 132 million is committed by the EIF to cover the senior risk. The contribution of each region varies from EUR 5 million to EUR 15 million, depending on the managing authorities. The regional contribution is EUR 32.19 million for sub-measure 4.1 and EUR 38.66 million for sub-measure 4.2.

The funding can support a portfolio of up to EUR 391 million, with an expected leverage on RDP resources - i.e. the expected maximum volume - of 4 to 5.6 times in each region.

10 The applicant should demonstrate an adequate system of internal controls, accounting and reporting.

11 The applicant should prove adequate capacity to implement the financial instrument, with respect to historical volumes of loans in the territory and sectors, as well as any prior experience with public guarantee schemes or management of other relevant forms of public support; to identify and select eligible final recipients.

12 According to implementation and rollout strategy, network distribution strategy, regional portfolio proposed volumes against the applicant's origination track record and distribution network in the contributing regions, proposals to improve access to finance for final recipients, compliance with regulations and State aid and the specific reporting requirements.

Table 2: Total AGRI Italy Platform funding sources and amount

Funding source	Amount
EAFRD*	EUR 35.76** million (of which EUR 6.05 million from Calabria, EUR 6.05 million from Campania, EUR 2.59 million from Emilia-Romagna, EUR 2.16 million from Piemonte, EUR 6.05 million from Puglia, EUR 4.25 million from Toscana, EUR 2.16 million from Umbria, and EUR 6.47 million from Veneto).
Additional public resources* (co-financing of RDPs 2014-2020)	EUR 35.08** million (of which EUR 3.95 million from Calabria, EUR 3.95 million from Campania, EUR 2.41 million from Emilia-Romagna, EUR 2.84 million from Piemonte, EUR 3.95 million from Puglia, EUR 5.60 million from Toscana, EUR 4.84 million from Umbria, and EUR 8.53 million from Veneto).
Total public contribution from the regions (RDPs)*	EUR 70.85** million
EIF	Up to EUR 132 million
Total AGRI Italy Platform funding	Up to EUR 202.85 million
Financial intermediaries	Up to EUR 195.5 million

Source: \*Specific regional terms agreement.

Note: \*\*Rounding figures apply.

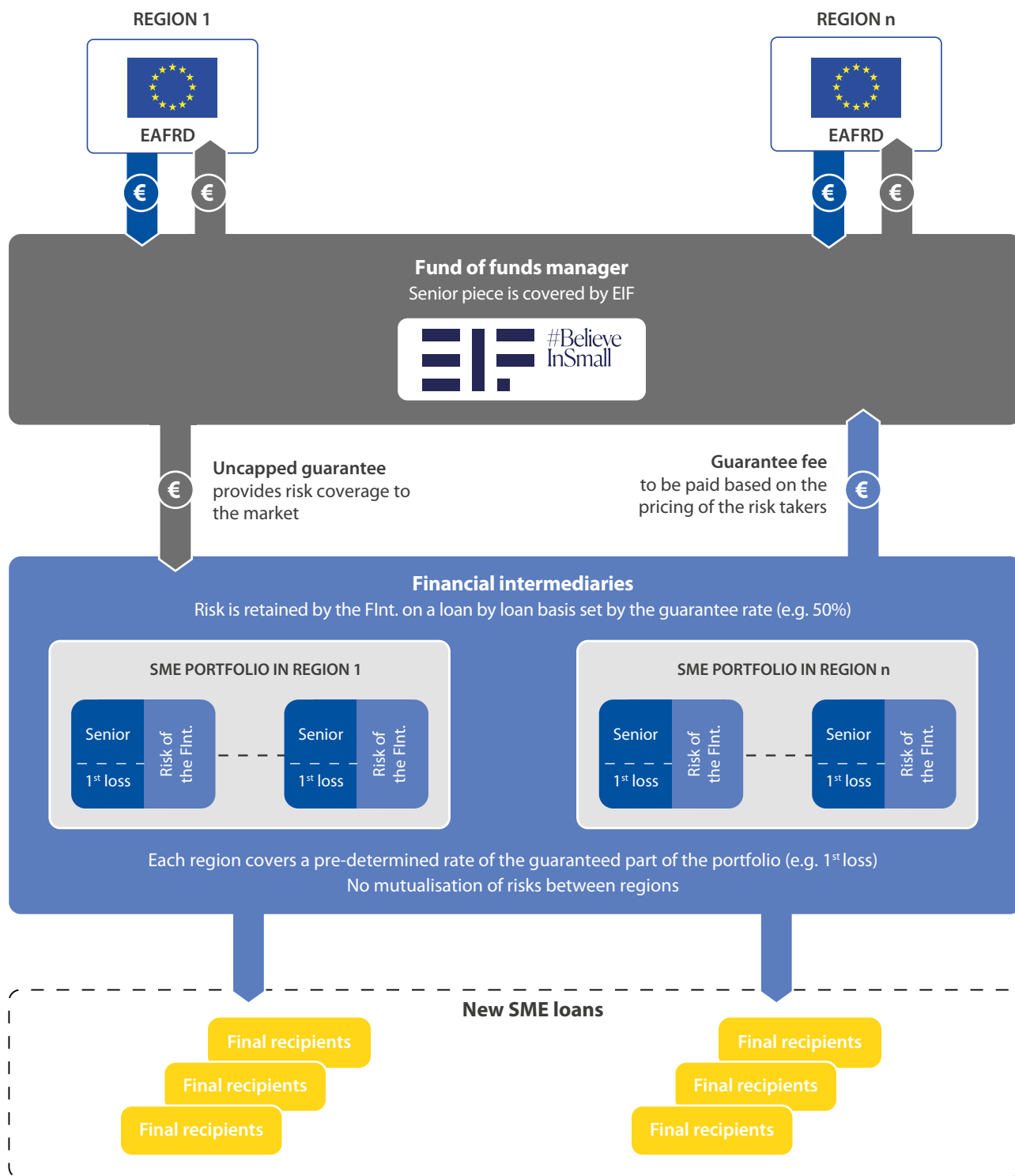
Each managing authority provides its contribution based on a funding agreement signed with the EIF. Each region gives a mandate to the EIF to manage RDP resources in a separate fund of funds<sup>13</sup>, aiming at a portfolio of new loans in the RDP programme area. Based on this structure, the EIF manages eight different funds of funds under the Platform.

The Platform and each regional fund of funds have a layered risk structure (Figure 3.3). Each region (i.e. each fund of funds) is a junior risk-taker, covering any default in the regional portfolio up to the total RDP contribution. Once the junior risk coverage has been fully used (i.e. the total loss on the portfolio exceeds the RDP contribution), the EIF is the residual senior risk-taker.

The risk structure of each portfolio reflects the specific sector risk in the region. In particular, the portion of the portfolio covered by the RDP contribution (junior risk), is different for each region (i.e. regions with higher risk have a higher portion of the portfolio, with a consequent lower leverage).

<sup>13</sup> Each region and the EIF agree that the respective regional fund of funds shall be established as a 'separate block of finance' within the EIF, as permitted under Article 38(6) of the CPR and the EIF shall implement appropriate solutions (including an accounting distinction) separating such resources from other resources managed by it.

Figure 1: Junior risk and senior risk in the Platform mechanism

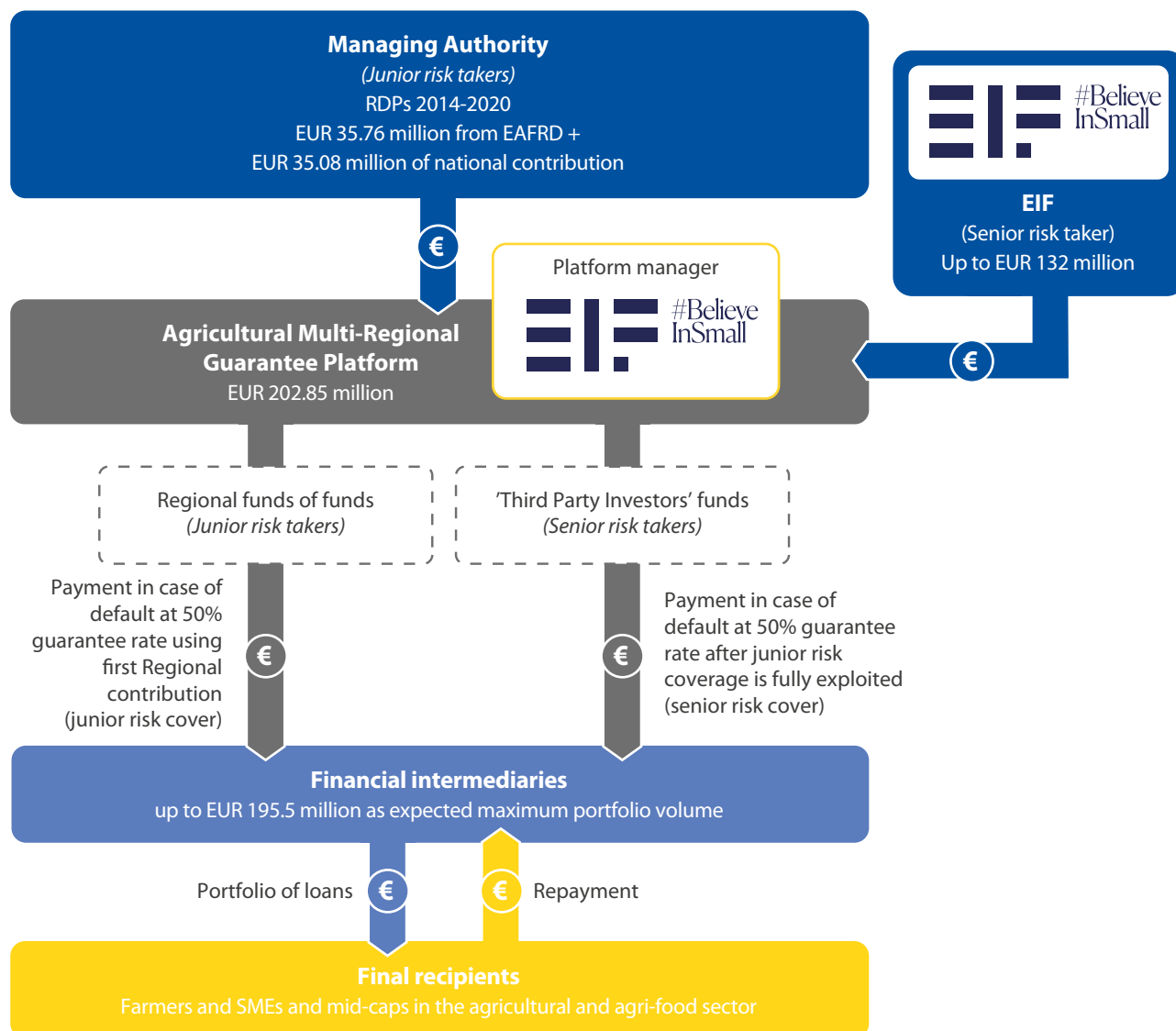


Source: EIF (2020).

The EIF operates the regional fund of funds under the Platform and defines, together with the managing authorities, the rules governing operations for each fund of funds, its functioning, as well as monitoring, evaluation, auditing and the exit strategy.

Governance of the Platform is through an investment board composed of two members appointed by each region after consultation with the EIF. The respective managing authority is a member with voting rights and there is a second member for each region without voting rights as well as two EIF members who participate as observers in the board meetings.

Figure 2: AGRI Italy Platform Governance structure



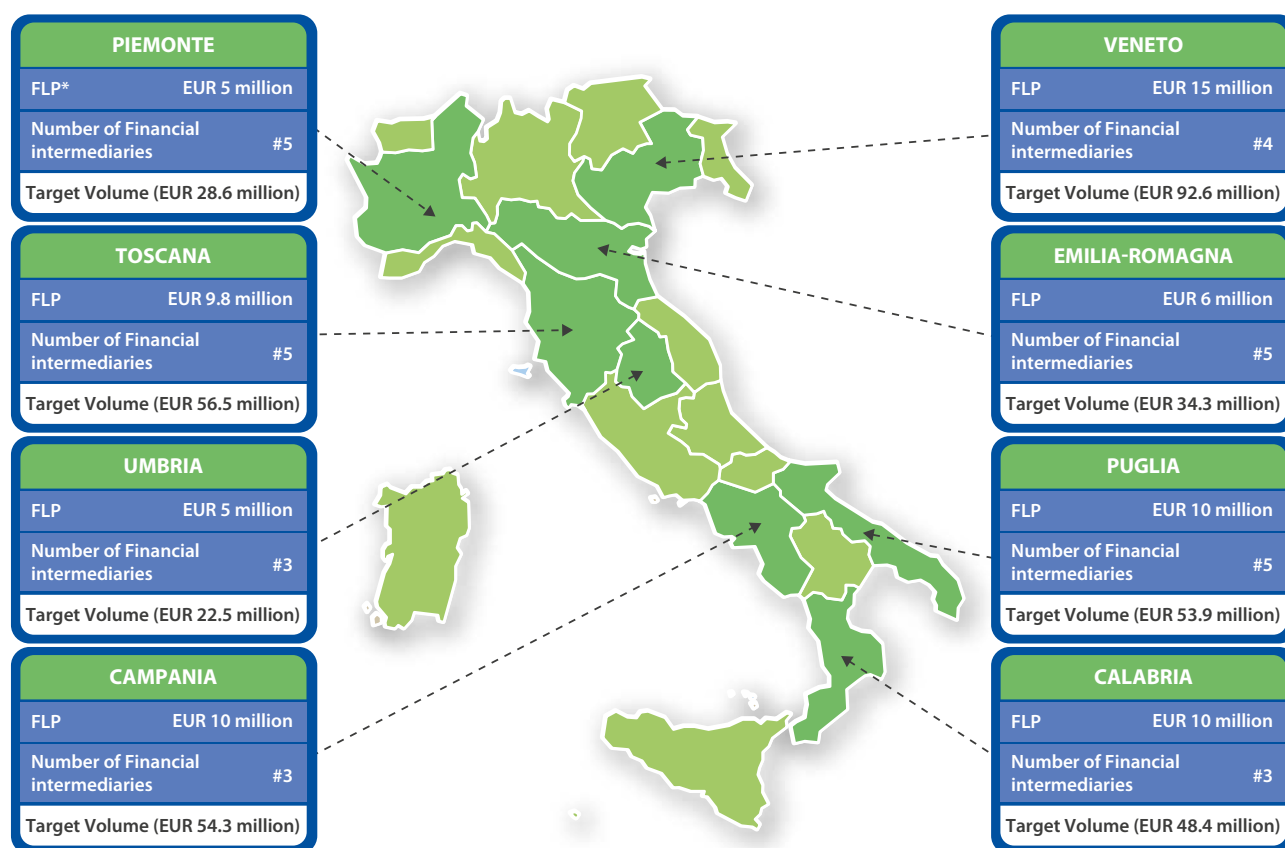
## 4. Implementation

The AGRI Platform issues guarantees for the benefit of financial intermediaries, to partially cover the credit risk of newly originated loans for operations eligible under the relevant RDP measures. Each financial intermediary has a limited 'inclusion period', during which loans ('agri transactions') may be signed with final recipients and included in a regional portfolio.

Each financial intermediary should achieve a target portfolio volume at regional level. The maximum total and regional volumes are determined by the EIF for each financial intermediary and defined in the respective operational (guarantee) agreements.

The aggregate of target regional volumes is the maximum amount covered by the Platform. This set-up enables adjustments if new regions join the Platform or contributing regions add further resources.

Figure 3: Expected aggregate maximum regional volumes



Source: EIF (2020).

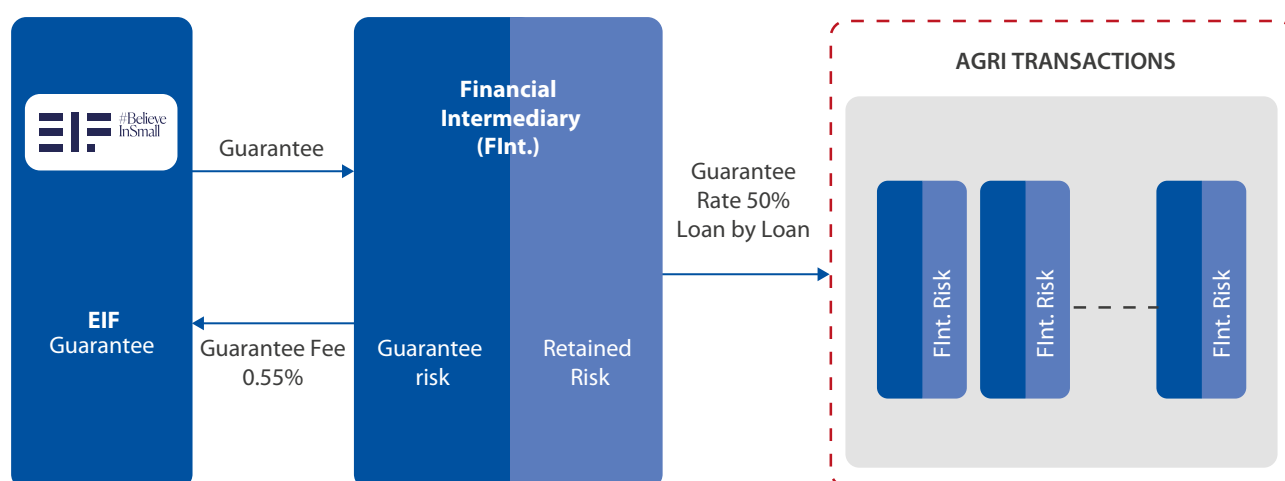
Note: \*First Loss Piece (FLP) or junior risk covered by the Region's RDP resources.

Disbursement of loans under the instrument started in the second half of 2019. The emergence of the COVID-19 pandemic has negatively affected disbursement with investments plummeting. As a response, the EIF and the managing authorities are looking into broadening eligibility to include support for working capital according to Coronavirus Response Investment Initiative (CRII) amendments<sup>14</sup>, under measures 4.1 and 4.2.

## 4.1 Financial products and terms

All financial intermediaries, in all contributing regions, benefit from a 50% risk cover (i.e. the guarantee rate) for each transaction in the portfolio. The guarantee amount is uncapped in total but covers the remaining 50% of the guaranteed portfolio. The uncapped guarantee does not increase the costs for final recipients however, all financial intermediaries pay a guarantee fee of 0.55% to the EIF. The financial intermediaries must ensure that the benefit of the guarantee is fully transferred to final recipients. This means that the financial intermediaries should provide debt at better pricing and/or collateral requirements compared to debt not covered by the guarantee. In particular, financial intermediaries should not charge any risk margin on the portion of each transaction covered by the guarantee. The possible interest rate reduction takes into consideration the guarantee fee, the guarantee rate and the cost of risk and capital for each final recipient in the absence of the guarantee. Collateral requirements for a transaction benefiting from the instrument shall not be higher than collateral for a similar transaction without the guarantee.

Figure 4: The AGRI Italy Platform mechanism



Source: Reproduced from 'Agri Italy Platform: The Uncapped Guarantee Instrument Open Call for Expression of Interest to Select Financial Intermediaries', January 2018

The maximum loan guaranteed by the AGRI Platform varies by region from EUR 250 000 in Umbria to EUR 950 000 in Veneto and has to be paid back in between 2 and 12 years with a zero interest rate for the risk-share portion. Advantages for final recipients are mainly from lower costs of bank finance, in terms of both interest rates and lower collateral requirements. Moreover, with the expected leverage of resources allocated by the RDPs, more final recipients can access funding for their investments.

<sup>14</sup> To rapidly mobilise ESI Funds in response to the COVID-19 health and economic crisis, in April 2020 European co-legislators approved amendments to CPR 1303/2013, as well as to Regulations (EU) No 1301/2013 (ERDF Regulation) and No 508/2014. Regulation (EU) 2020/460 came into force on 1 April 2020 as part of CRII, followed by a second amendment, Regulation (EU) 2020/558, entering into force on 24 April 2020 as part of the follow on CRII Plus package.



Table 3: Financial product key characteristics

<b>Loan amount</b>	Max amount per region: <ul style="list-style-type: none"> <li>• EUR 250 000 in Umbria,</li> <li>• EUR 300 000 in Piemonte,</li> <li>• EUR 350 000 in Emilia Romagna,</li> <li>• EUR 500 000 in Calabria,</li> <li>• EUR 550 000 in Campania and Puglia,</li> <li>• EUR 600 000 in Toscana, and</li> <li>• EUR 950 000 in Veneto.</li> </ul>
<b>Risk sharing rate</b>	50% of the loan amount
<b>Financial intermediary risk retention</b>	A minimum of 20% on each transaction at all times.
<b>Maturity</b>	Between 2 and 12 years
<b>Interest rate</b>	0% risk margin for the guaranteed portion of the loan

Loans provided in the context of sub-measure 4.1 can support investments in agricultural production to improve performance and sustainability, access to farm land, its consolidation and improvement, energy saving investments, etc.<sup>15</sup> Under sub-measure 4.2 projects concerning the processing, marketing and/or development of agricultural products (where the output may also be a non-agricultural product) can be supported<sup>16</sup>. Loans to purchase or lease new machinery and equipment can also be supported alongside the construction, acquisition, or renovation of property linked to the business activity of the final recipient, general costs linked to a supported investment (e.g. feasibility studies) as well as ancillary working capital linked to such investments<sup>17</sup>. In this context, the new COVID-19 legal amendments allowed support for stand-alone working capital of up to EUR 200 000 per SME. In addition, VAT related to these costs is also eligible.

Under the two rural development sub-measures final recipients can be farmers (natural or legal persons and legal groupings/joint ventures, e.g. cooperatives, including large enterprises) or anyone identified and declared as an eligible farmer under the RDP, with a certificate issued by the contributing Region. Under sub-measure 4.2 any SME or small mid-cap<sup>18</sup> active in processing, marketing and/or developing agricultural products can be also supported.

15 a) Purchase of new machinery and/or equipment; b) Construction, purchase, restructuring, or improvement of any property used to process, transform, stock and market Agricultural Products; c) Improvements to the property used to process, transform, stock or market Agricultural Products using materials that would improve the energy efficiency; d) Land improvement (e.g. land and/or hydraulic/agricultural accommodation; planting orchards); e) Construction and/or renovation of facilities to stock and/or treat wastewater of the agricultural holding, including facilities built using technologies aimed at reducing CO<sub>2</sub> and other greenhouse gasses; f) Equipment to treat wastewater of the agricultural holding; g) Purchase of hardware and software aimed at the adoption of information and communication technology; h) Machinery and equipment aimed at reducing the environmental impact of farming through land preservation (conservative and precision farming); i) Adoption of active defence systems to preserve crops from the effects of extreme weather events and from damage caused by wild animals and predators.

16 a) Purchase of new machinery and/or equipment; b) Construction, purchase, restructuring, improvement of any property used to process, transform, stock and market Agricultural Products; c) Purchase of hardware and software aimed at the adoption of information and communication technology.

17 Within the limits set out in EAFRD Regulation 2013/1305/EC.

18 Small mid-cap is an enterprise (within the meaning of Article 1 of the Title I of the Annex of the Commission Recommendation 2003/361/EC) which: a) has up to 499 employees calculated in accordance with Articles 3, 4, 5 and 6 of the Title I of the Annex of the Commission Recommendation; and b) is not an SME.



### Expanded financing possibilities in light of the COVID-19 crisis

In relation to the COVID-19 outbreak, the EU regulatory framework has been amended, to provide additional flexibility to respond to the unprecedented situation. To support SMEs impacted by the pandemic, the AGRI Platform would also introduce flexibility measures. These can include working capital support on a stand-alone basis (i.e. without needing an investment ancillary to the working capital), support to undertakings in difficulty and the possibility of re-financing.

## 4.2 State aid

For agricultural activities supported by the EAFRD, State aid rules do not apply to the regional contribution or to additional funding from regional and/or national resources. In such cases support to final recipients has to comply with the provisions of EAFRD regulations, when provided for investments in the production and transformation of agricultural products (aid intensity rules). The benefit transferred to a final recipient through the guarantee under the financial instrument is calculated in the form of a Gross Grant Equivalent (GGE). The GGE should not be more than 20% of total eligible costs of the investment<sup>19</sup>. When the final recipient declares that other forms of support have been granted/requested, the GGE of the loan plus other forms of support should not exceed the maximum aid under the respective RDP.

When support is provided for investments to transform agricultural products resulting in outputs which are not agricultural products, the financial instrument has to comply with the *de minimis* rules set out in Commission Regulation (EU) No 1407/2013, and at the same time should not exceed the maximum aid applicable to the project. The total GGE (i.e. GGE of the loan and other *de minimis* support received by a final recipient over three fiscal years) must not exceed EUR 200 000. To ensure compliance with *de minimis* rules, the EIF supported the process of setting up a dedicated system for banks to notify GGE to the Italian State Aid Registry.

## 4.3 Financial flow and appraisal process

The regional contribution is available in tranches, each for 25% of the regional contribution, as required by EU legislation.

The first tranche is available upon signature of the funding agreement between the managing authorities and the EIF. The second, third and fourth instalments should be paid to the fund of funds based on disbursement of the previous instalment as follows:

- second instalment: 60% disbursement;
- third and fourth instalments: 85% disbursement.

The portfolio volumes for financial intermediaries are adjusted in line with disbursements. Each increase up to the maximum regional volume is effective when the EIF sends the financial intermediary an extension notice.

<sup>19</sup> In some regions the maximum aid in the respective RDP is higher than 20%. Nonetheless, given the nature of the Platform and the need for eligibility criteria to be the same across all regions, it was agreed to set the maximum GGE at 20% where the final recipient has declared that no other form of support is or will be granted or requested.



Individual loans and each regional portfolio have to comply with criteria set out in the funding agreement (i.e. types of final recipients, as well as eligible expenditure and investments falling under the RDP sub-measures). Additional criteria at a portfolio level can be set by the EIF on a case-by-case basis, including thresholds for ratings, minimum portfolio granularity, etc.

Investments to be supported by the loans must be financially viable and are assessed in accordance with the financial intermediary's internal procedures. The loans must be new and can have an amortising or a bullet repayment schedule, or be a revolving transaction.

### Azienda Agricola Villecco Antonio

Azienda Agricola Villecco Antonio was founded in 2001 near Salerno, in Campania. The company, with its roots in a ten-year family tradition of cultivating vegetables, concentrates on producing products ready for processing and packaging (specifically 'baby leaf' salads). 90% of Villecco Antonio's production is sold to La Terra e Sole, an agricultural cooperative in the North of Italy for which the farm is a supplier partner. For the remainder, Antonio's company supplies customers of the company run by his brother Marco.



Azienda Agricola Villecco Antonio is run in strict symbiosis with that of his brother. The two companies can be considered as belonging to the same family group and therefore managed by a single decision making body. The strategy adopted by Antonio, compared to Marco's company, is to provide a single customer (i.e. La Terra e Sole) in order to establish a solid and long-lasting relationship. Marco's company, instead, serves a more diversified market, exporting the products abroad. The choice to opt for two different sales strategies are the result of keeping both a loyal relationship and also different customers to fully respond to market demands.

The continuous investments made by the Villecco brothers in recent years show the desire to develop their business more systematically and to reinforce their capital structure to remain competitive in a market where higher quality and quantity as well as certain delivery are increasingly essential. The need to improve the production and technical business organisation prompted a new investment in 2020 of nearly EUR 600 000 to rent nearly 8.2 hectares of land and construct 31.5 m<sup>2</sup> of greenhouses, a new water drainage system and new tracks, as well as levelling, excavation and drainage.

Azienda Agricola Villecco Antonio therefore asked for a loan from the Platform of EUR 300 000 to finance part of the investment. The rest is covered through the company's own resources. The loan, provided through Credem, has a maturity period of five years and the guarantee provided by the EIF is 50% of the required amount. In line with the transfer of benefit requirements the loan is unsecured. Without the guarantee, the financial intermediary would require a mortgage guarantee from the final recipient. The first disbursement was in June 2020. The investment, fully operational in Autumn 2020, is expected to significantly reduce production and management costs as well as improve the quantity and quality of 'baby leaf' vegetable production. With a view to growing the business, the loan is perceived as essential to making the farm more competitive.

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## 5. Output

Since the operational agreements between the EIF and the financial beneficiaries were concluded only in May 2019, disbursement of the loans started in the second half of 2019. Financial intermediaries have to report to the EIF on approved and disbursed loans every three months, so the latest data available refer to the end of June 2020.

According to this, 46 final recipients have received loans for a total of EUR 10.5 million. On average, and at the time of this publication, the loans average around EUR 100 000 for farmers and EUR 250 000 for agri-food enterprises. The leverage on RDP resources is estimated at between 4 and 5.6 times by the time the instrument is closed.

Since the eligibility period is till the end of 2023, and with expected changes in the economic environment after the COVID-19 health crisis, the financial instrument is expected to accelerate. Moreover, the AGRI Platform remains open for additional regions and additional resources from current regions, which can further boost its performance.



## 6. Lessons learned

The Italian Agricultural Multi-Regional Guarantee Platform is an important pilot initiative, managed by the EIF to lessen existing financial constraints for agriculture and agri-food enterprises in Italy. It is a test with a view to implement a larger scale initiative in the future. The know-how and experience of the EIF has been important in attracting regions and financial intermediaries to join the Platform.

An uncapped guarantee reduces the costs and conditions of accessing loans for final recipients to finance investments and working capital. The set-up, with the same criteria in all regions and for all financial intermediaries ensures simplification, expertise and homogeneity in the operational agreements. This enables financial intermediaries to be more confident in providing finance, taking risk and selecting better quality projects.

Even though the instrument started only recently and data on disbursement up to now – heavily affected by the COVID-19 health crisis – do not enable a full assessment of the results, one added value is the improved know-how of using financial instruments, especially in the national and participating regional EAFRD managing authorities. When the EIF initially proposed the Platform, few regions knew how to use and manage financial instruments. Over time, a shared learning process and transfer of knowledge across regions has enabled all the participating regional authorities to internalise the mechanism and technicalities of the instrument. The increased synergy and cooperation among regional, national and European institutions has also contributed to this learning process and to disseminating the culture of financial instruments in agriculture.

