



**Advancement with CAP Strategic Plans and programming of new financial instruments in Latvia: insights from the ex-ante assessment and proposed FI**

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# Structure of the presentation:



- Preparatory works on CAP Strategic Plan
- First insights from the ex-ante assessment of financial instruments
- Proposed financial instrument



# CAP SP thematic working groups



	Name of the thematic working group
1.	<b>Rural areas</b>
2.	Direct payments
3.	<b>Young farmers</b>
4.	<b>Investments (inc. young farmers and food production)</b>
5.	<b>Agri-food production</b>
6.	<b>Knowledge, Consultations, Cooperation</b>
7.	Environment and climate, including ecosystems, agri-environment, forest management and Natura
8.	Cooperation, risk management
9.	Organic farming and integrated crop production



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# Logic behind designing new investment measures

(example related to farm competitiveness)



		CAP Specific Objectives									
		SO1	SO2	SO3	SO4	SO5	SO6	SO7	SO8	SO9	FORZ
<i>Strategic priorities of Latvia</i>		(a) support viable farm income and	(b) market orientation and increase competitiveness	(c) farmers' position in the value chain	(d) climate change mitigation	(e) efficient management of natural resources	(f) protection of biodiversity	(g) attract young farmers	(h) promote employment, growth, social inclusion and local development in rural	(i) response of agriculture to societal demands	knowledge, innovation and digitalisation in agriculture and rural areas
1	To increase value added through cooperation and creation of competitive products for local and export markets	X	X	X				X	X	X	X
2	To increase farm income up to average of economy by strengthening competitiveness, promoting cooperation and introducing innovations	X	X	X				X	X	X	X
3	Fostering of knowledge-based entrepreneurship, facilitating innovation and application of research results into practice		X	X				X	X		X
4	Vibrant rural areas, facilitating economic activity, providing infrastructure and preserving population		X	X				X	X		X
5	Each farm contributes to preservation of biodiversity and mitigation of climate change via efficient use of natural resources				X	X	X				
6	Safe and quality local food available/affordable to each customer		X							X	X

Needs identified with stakeholders within thematic WG
1. To facilitate creation of added value, increase of productivity and competitiveness (also strengthening cooperation);
2. Development of local and external markets with value added;
3. To facilitate competitiveness and market orientation of farms, by targeted support to small and medium size farms, and young farmers;
4. To promote improving the knowledge and skills of farm managers, as well as workers of farms and food enterprises. To facilitate creation and use of innovations;
5. To tackle an access problem of financial and production resources, providing targeted financial instruments, also in combination with grants;
6. To facilitate creation (and development) of production infrastructure;
7. To support delivery of goods to markets and ports from farms located in remote regions;
8. Tax allowances to those starting agricultural production;
9. Investment needs – targeted/sustainable/future-oriented approach;
10. To ensure balanced availability of investment support, revising "ceilings" of investment support;
11. To implement regionalisation principle in order to ensure equal development of regions.

# Financial needs identified in the thematic working groups



## *Promotion of competitiveness (investment):*

- To solve the problem of availability of financial and production resources by introducing targeted financial instruments, including their combination with grants;

## *Rural areas:*

- Promote the availability of financial resources for business development, especially for small businesses and start-ups;

## *Young farmers:*

- Ensure the availability of financial instruments;
- start-up, working capital;
- for the purchase of agricultural land;
- for the construction / reconstruction of the housing stock;
- To improve infrastructure.



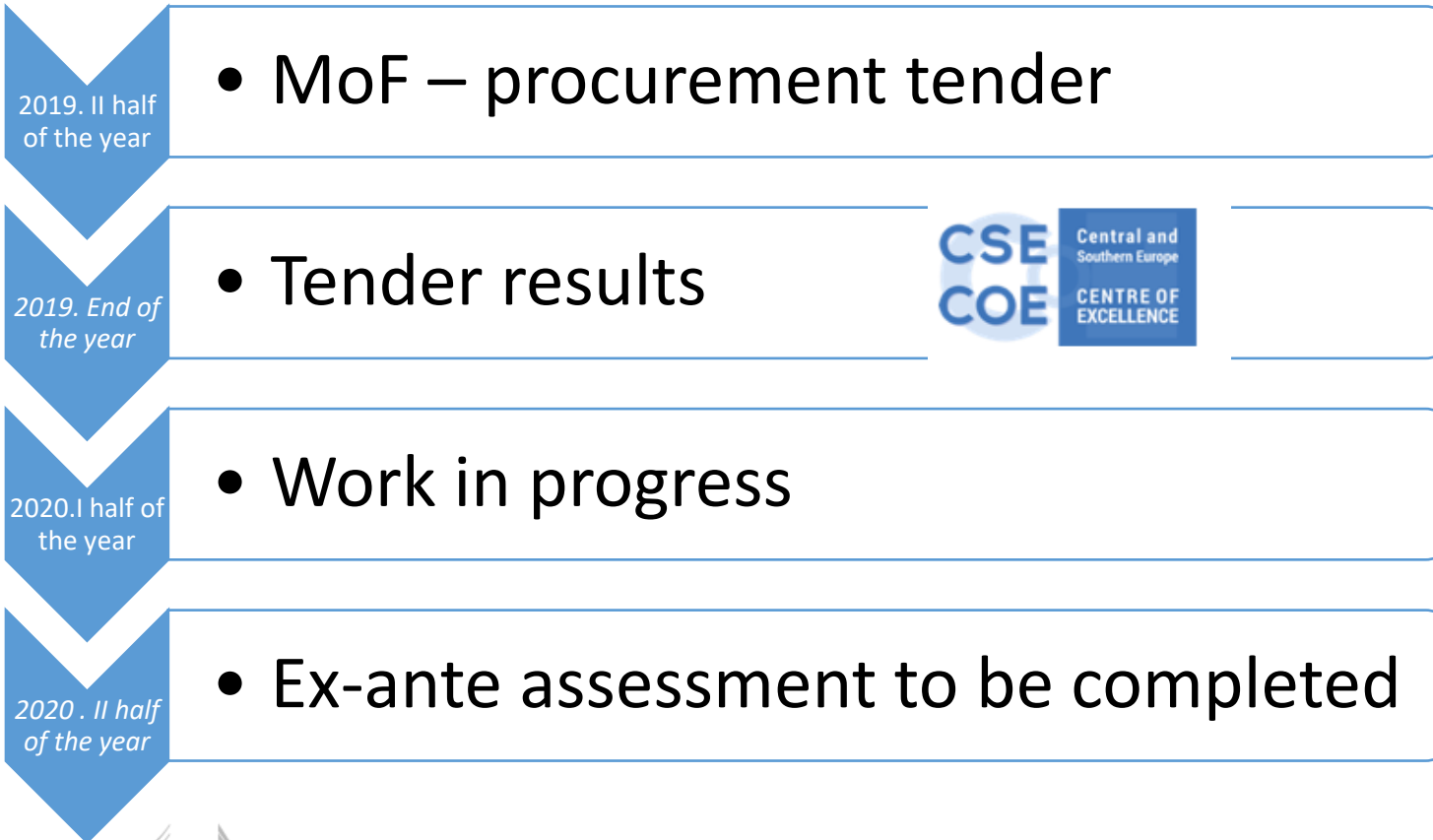
**Getting ready  
for 2021-  
2027  
programming  
period**

National horizontal ex-ante  
assessment –

for 5 European Union funds  
(EAFRD, ERDF, CF, ESF,  
EMFF)

Ex-ante assessment planned  
to be completed by the 2st  
part of year 2020.

# Ex-ante assessment of financial instruments in Latvia



• MoF – procurement tender

2019. II half of the year

• Tender results

2019. End of the year



• Work in progress

2020. I half of the year

• Ex-ante assessment to be completed

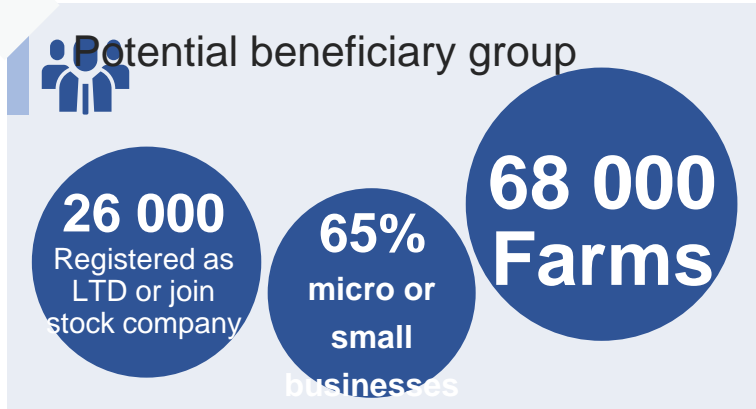
2020. II half of the year



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# First insights from the ex-ante assessment for Module – Agriculture, Rural development and forestry



## Policies Priorities

Improving the competitiveness of farms

Establishment and improvement of infrastructure

Equipment replacement



# First insights from the ex-ante assessment



- ✓ Micro and small farmers need funding of up to EUR 10 000 (approximately 10% of all farms).
- ✓ Small and medium-sized farms need funding of up to EUR 100 000 for business development.
- ✓ Large farms need funding to increase productivity and develop production.



Market GAP in Agriculture, Rural development and Forestry sectors

The overall market gap is around EUR 200m.

- Insufficient collateral
- Lack of own contribution
- Bank sector highly selective approach to agricultural sector
- High interest rates
- For start-ups: lack of the financial history



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## 4 National financial instruments and subsidy scheme implemented by Ministry of Agriculture of Latvia

- ✓ **Loan for land property** - the aim is to provide an opportunity to purchase agricultural land for agricultural producers.
- ✓ **Loan for working capital** - the aim is to finance and strengthen the development of agricultural producers and agricultural service providers.
- ✓ **Credit guarantees** - the aim is to provide the economic operators in the field of agriculture and rural development with additional security for financing in the bank for the implementation of their business project.
- ✓ **Loans to rural and fishery small scale entrepreneurs** - the goal is to promote the involvement of the population in economic activities and increase the availability of financial resources for economic operators who are operating or intending to enter agriculture, rural development or fisheries.
- ✓ **Partial reduction of interest rate for the primary agricultural holdings** - the objective is to provide assistance in the form of financial instruments in the form of partial reduction of interest. The support is mainly targeted for the effective implementation of the Rural Development Programme.

## Financial instrument with Capital rebate element

### Advantages of the financial instrument with capital rebate element



- ✓ **Higher responsibility** of the final beneficiary for received funding;
- ✓ Reducing dependency on grants;
- ✓ It is possible to do more with the smallest amount of financing, as part of the funding will return to the principal loan repayments;
- ✓ The final beneficiary is interested in **meeting the contractual obligations and achieving the objectives of the project.**



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# Financial instrument with Capital rebate element



Loan EUR 100 000

The loan agreement will cover the obligations that the natural or legal person should comply with

3/4 years of loan repayment

Loan EUR 80 000

PA? FI? Evaluates whether the commitment has been met

2 options:

**1. Option:**

If the commitments has been fulfilled. Beneficiary would apply for the Capital rebate  
(80 000 – 50% = EUR 40 000)  
EUR 40 000 – capital rebate  
EUR 40 000 – loan

**2.Option:**

If the full amount of the commitments is not fulfilled, the loan agreement remains intact  
EUR 80 000 – loan

**EXAMPLE**

## Within the framework of the financial instruments it is possible:



- ✓ purchase of fixed assets (**including not new ones**) construction, rebuilding of the structure, installation of the structure, construction costs of the construction as well as costs of renovation of the building;
- ✓ purchase of land;
- ✓ purchase of live animals;
- ✓ stand alone working capital.



# Obstacles to take into consideration



2014-2020 – CPR

**3 forms of support:**

- ✓ **Grants**
- ✓ **Financial instruments**
- ✓ **Repayable assistance**

2021-2027 CPR

**2 forms of support:**

- ✓ **Grants**
- ✓ **Financial instruments**

*\* EGISIF\_15\_0005-01 «Guidance for MS on Definition and use of repayable assistance in comparison to financial instruments and grants»*

**But still combination of financial instrument and grants is possible:**

- **With a single funding agreement;**
- **Different types of grants can be used;**
- **Programme support in the form of grants shall be directly linked and necessary for the FI**
- **Programme support shall not exceed the value of the investments supported by the financial product – verified at FI level**
- **Can be paid directly to the final recipient**

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# Expectations for the new financial instrument



**Boosting entrepreneurial motivation and responsibility towards public money**

**Bonus system. Motivation do to more, in order to get more**

**Change of traditional thinking – from process orientation to result based approach**



**Market oriented financial instruments, fast response to market changes**



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financial instruments capacity building Farming  
Rural development funding agreement EU guidance  
added technical support co-financing ex-ante assessment final  
value seminars governance intermediaries recipients  
leverage EAFRD fi-compass case studies  
Agriculture thematic objectives Targeted coaching  
business plan equity  
advisory services private investors  
RDP guarantees life cycle combination  
conferences banks revolving of support  
fund of funds loans microfinance CAP  
manuals managing authorities factsheets  
DG AGRI Agricultural products investment strategy EIB Group

