



Combining grants and financial instruments

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Institutions involved



Ministry of Agriculture

- Development of the national laws and regulations to ensure efficient implementation of the national programmes;
- Monitoring and evaluation of the national programmes and RDP;
- Public information of support possibilities;
- Accreditation and supervision of the Paying Agency;
- Certification body's selection.

Paying Agency (Rural Support Service)

- Informing the applicants
- Administration of measures and national programmes
- Approval and control of payment claims
- Accounting of payment claims

Advisory body (Latvian Rural Advisory Center)

- Providing advice and services to rural entrepreneurs, organisations and citizens in relation to the manufacturing process, accounting and business planning in the industry;
- Educates and informs the public by supporting innovation in agriculture, forestry and fisheries.

JSC Development Finance Institution Altum

- Evaluate the business projects;
- Monitor the implementation of programmes/funds/business projects;
- Collect data; to prepare reports on implementation of financial instruments for supervisory bodies;
- Collect data on resources paid back to financial instruments;
- Invest and manage interests generated by ESIF.

JSC Development Finance Institution Altum



- ▶ 100% state-owned financial institution
- ▶ Access to finance, areas prioritised by the government, where other market players don't act
- ▶ The state policy in the national economy
- ▶ Moody's – Baa1

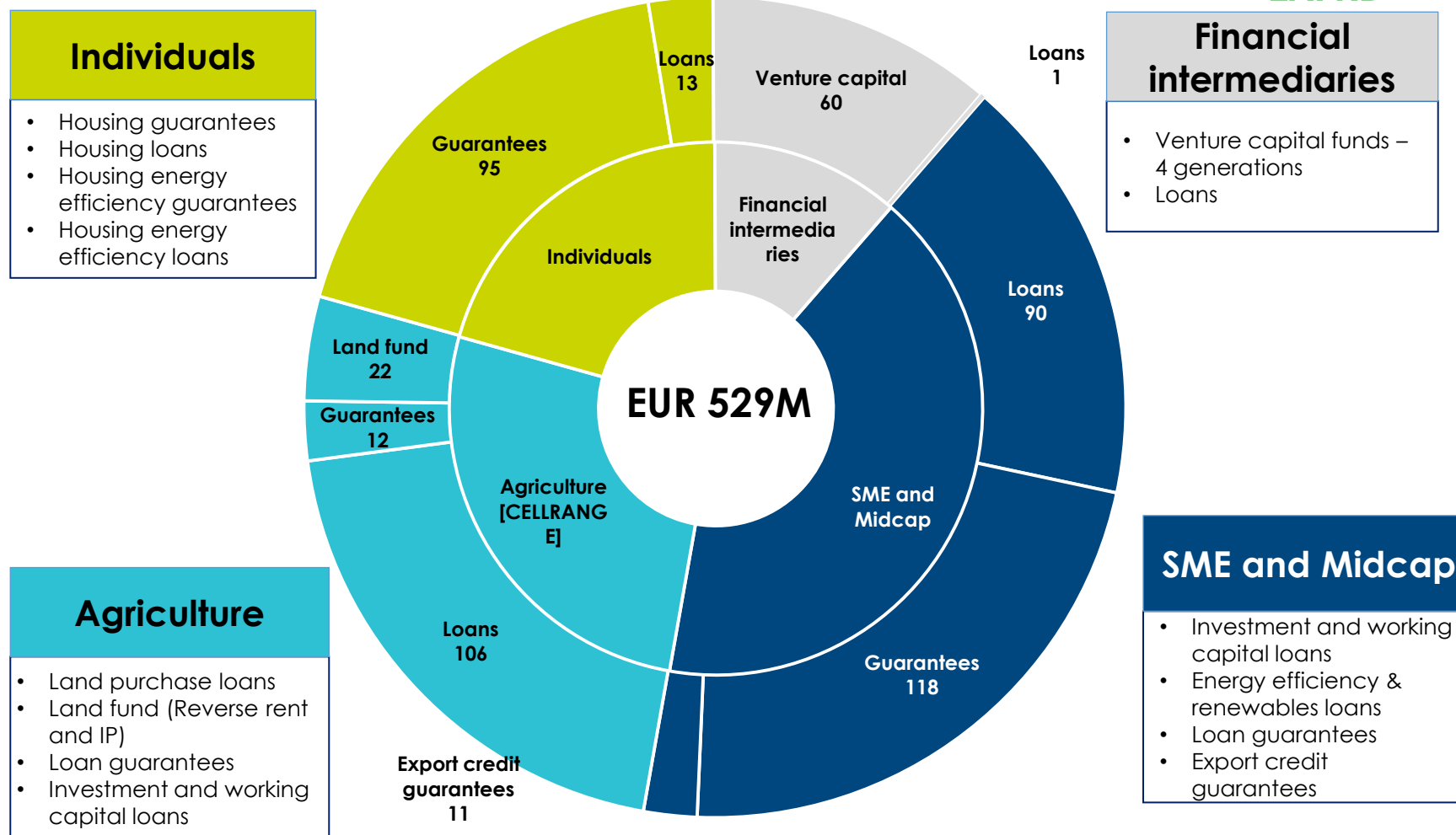
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ALTUM portfolio map



Ministry of Agriculture of Latvia implement national financial instruments



- ✓ **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;
- ✓ **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 Program;
- ✓ **Credit guaranties** - 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.



Getting ready for 2021-2027 programming period



National horizontal ex-ante assessment – for 4 European Union funds

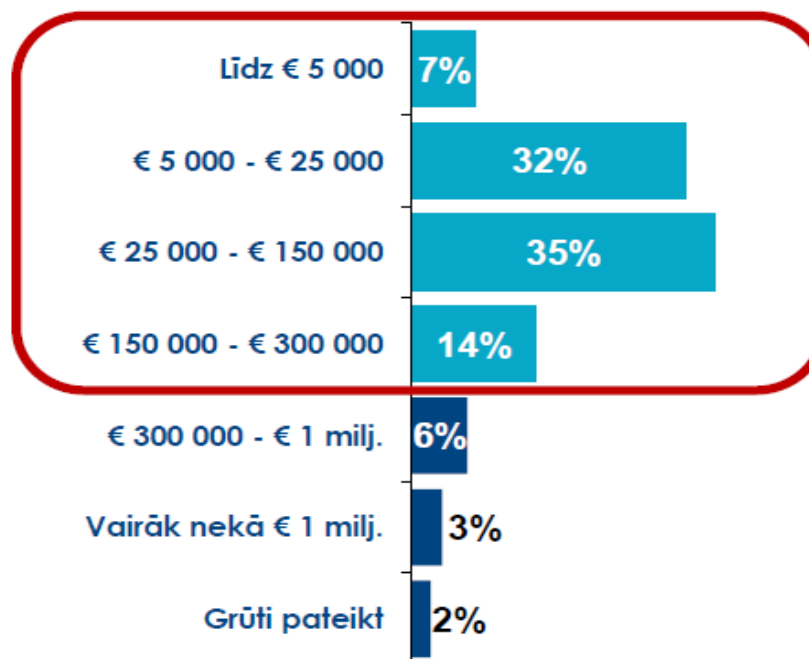
Ex-ante assessment planned to be performed by the end of 2019



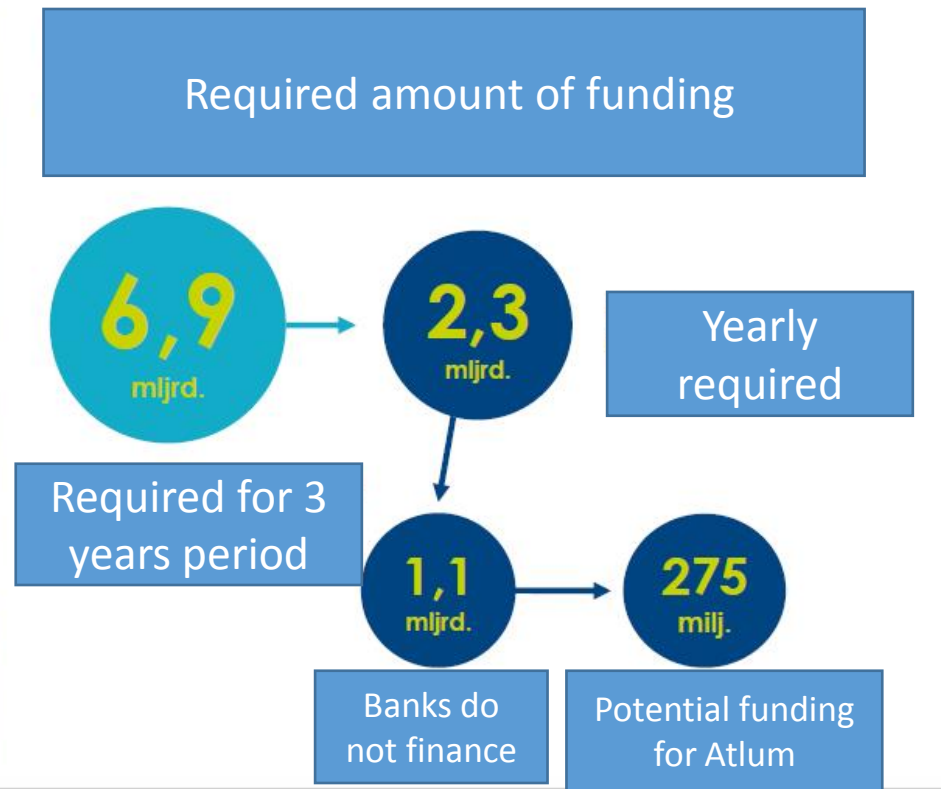
SKDS ALTUM assessment on the need of financial resources (year 2018)



Amount of funding required



SKDS ALTUM assessment on the need of financial resources (year 2018)



SKDS ALTUM assessment on the need of financial resources



Purpose of the funding

61%

Basic assets

48%

New products/Services

36%

Current assets

21%

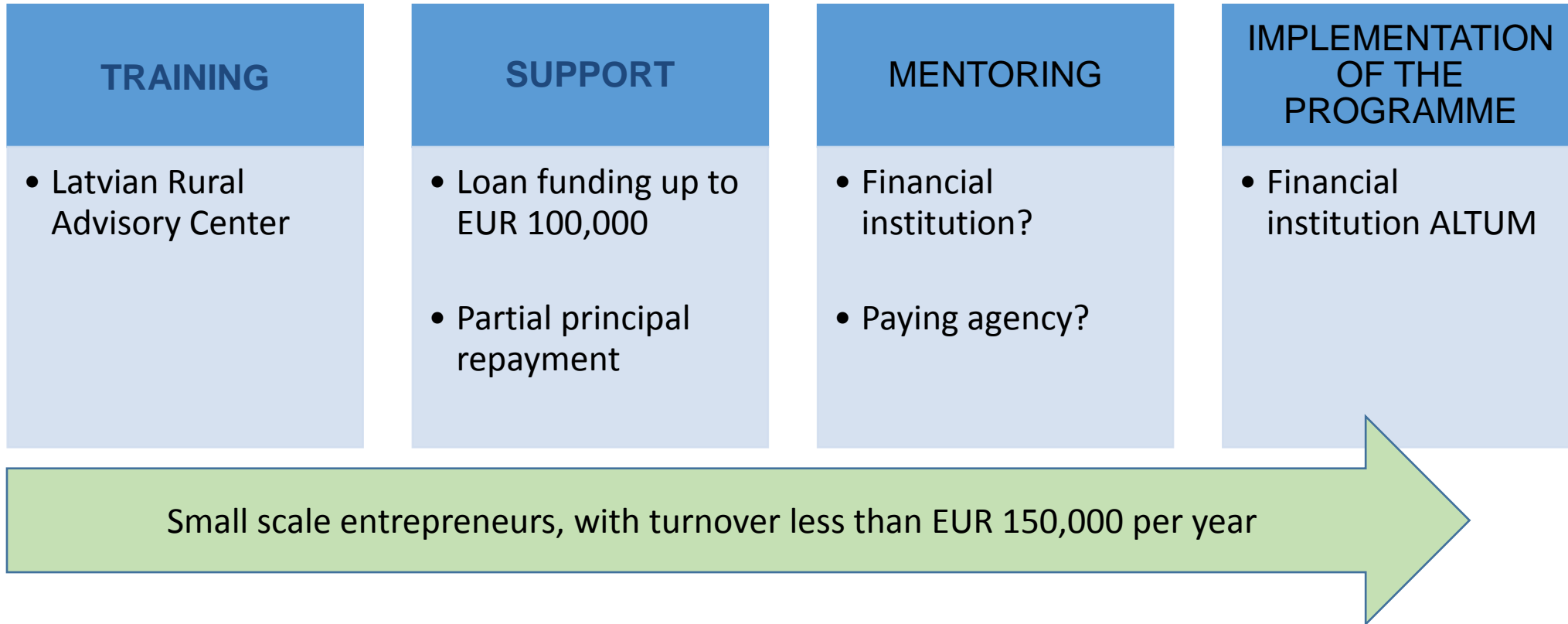
Exports

Key issues in accessing financing



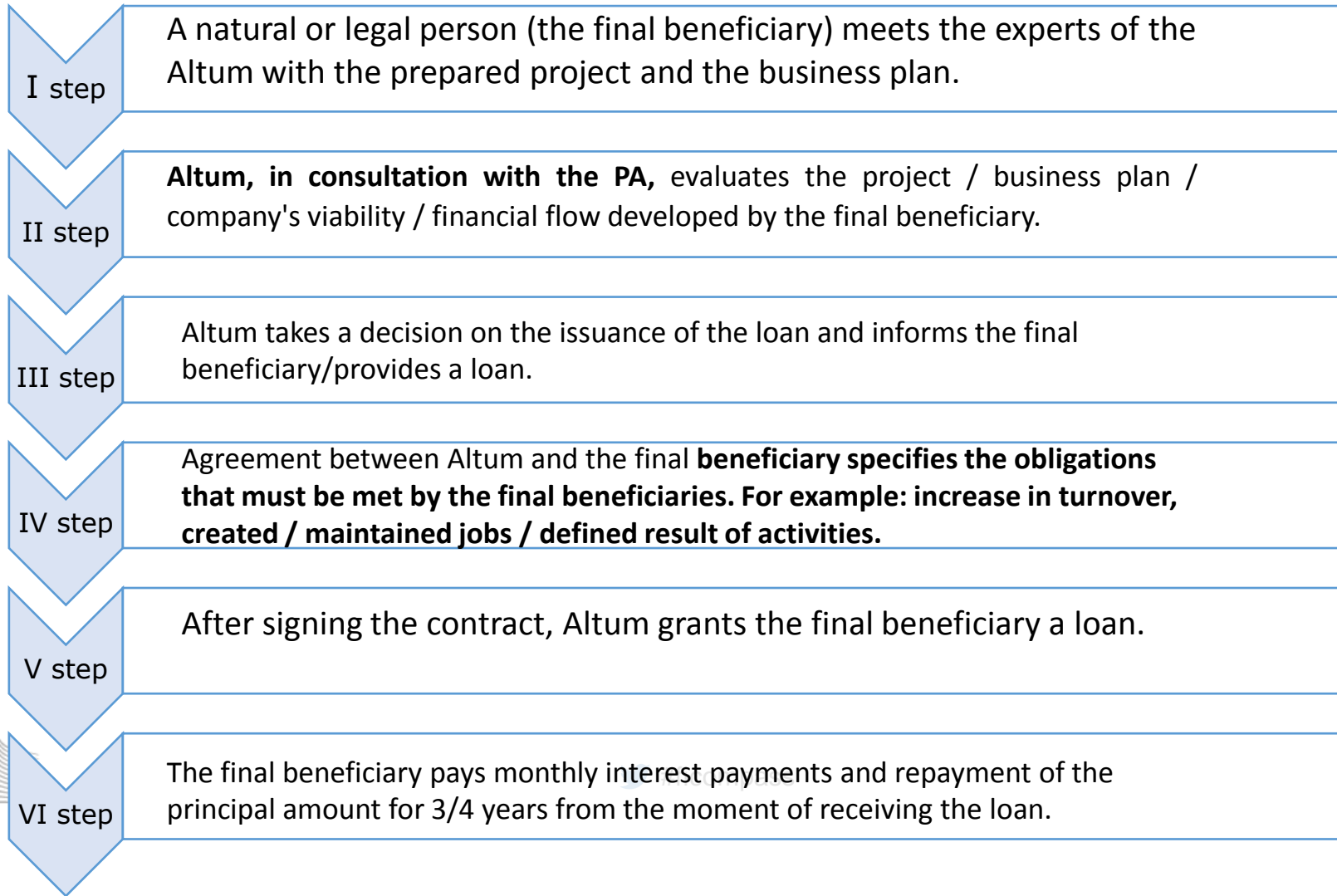
- Insufficient collateral
- Lack of own contribution
- Bank sector with a highly selective approach to agricultural sector
- High interest rates
- For start-ups: lack of the financial history

Envisaged financial instrument for 2021-2027





Financial instrument with partial principal repayment element



Financial instrument with partial principal repayment element



1st option for beneficiary

If the final beneficiary has met the obligations stipulated in the agreement between Altum and the final beneficiary, then he can apply to partial principal repayment. Up to 50% from the principal amount left.

Altum reviews the terms of the contract. Reduces a principals of the loan, reviews loan repayment schedule.

The final beneficiary continues to pay principal and interest rates on loans in accordance with the revised contract.

2nd option for beneficiary

If the final beneficiary has not fulfilled the amount of the obligations stipulated in the agreement between Altum and the final beneficiary, then it continues to pay principal and interest rates on loans in accordance with the original contract.

Financial instrument with partial principal repayment element



The InvestEU programme?

Loan EUR 100,000

The loan agreement will cover the obligations that the natural or legal person should comply with
PA& evaluates whether the commitment has been met

3/4 years of loan repayment

Loan EUR 80,000

PA& evaluates whether the commitment has been met

2 options:

1. Option:

If the commitment has been fulfilled, the part of the principal would be repayed

$80,000 - 50\% = \text{EURO } 40,000$

EUR 40,000 – principal repayment

EUR 40,000 – loan

2.Option:

2.Option:
If the full amount of the commitments is not fulfilled, the loan agreement remains intact

EUR 80,000 – loan

Within the framework of the financial instruments it is possible:



- ✓ purchase 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 and purchase of capital;
- ✓ purchase of live animals;
- ✓ stand alone working capital products.



Advantages of the financial instrument with partial principal repayment 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.**

Obstacles to take into consideration



CPR proposal (COM(2018)375 final)

Art 52 (7)

The sum of all forms of combined support shall not exceed the total amount of the expenditure item concerned. Grants shall not be used to reimburse support received from financial instruments. Financial instruments shall not be used to pre-finance grants.

But if we consider support as a partial principal repayment element?

Art 52 (5)

- ***Financial instruments may be combined with ancillary programme support in the form of grants as a single financial instrument operation, within a single funding agreement,*** where both distinct forms of support shall be provided by the body implementing the financial instrument. In such case the rules applicable to financial instruments shall apply to that single financial instrument operation.



Expectations for the new financial instrument



Boosting entrepreneurial motivation and responsibility towards public money

Bonus system: motivation to do 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 recipients
value seminars governance intermediaries investments
leverage EAFRD fi-compass case studies
Agriculture thematic objectives Targeted coaching
business plan equity
advisory services RDP guarantees life cycle combination of support
conferences banks revolving microfinance CAP
fund of funds loans managing authorities factsheets
DG AGRI Agricultural products investment strategy EIB Group



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