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Case Study
October 2023

Micro-loan Fund for Agricultural Entrepreneurship in Greece

European Commission

European Investment Bank

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DISCLAIMER

Abbreviations

Abbreviation	Full name
CAP SP	Managing Authority of Common Agricultural Policy Strategic Plan
CPR	Common Provisions Regulation (1303/2013)
EAFRD	European Agricultural Fund for Rural Development
FoF	Fund of Funds
GDP	Gross Domestic Product
HDB	Hellenic Development Bank
NPI	National Promotional Institution
RDP	Rural Development Programme
SMEs	Small and medium-sized enterprises
TFEU	Treaty on the Functioning of the European Union

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Summary

This case study presents a financial instrument set up in 2022 to support the Greek agricultural sector. The Micro-loan Fund for Agricultural Entrepreneurship features a risk-sharing micro-loan facility under a Fund of Funds (FoF) structure. Supported by the Rural Development Programme (RDP) 2014-2022 of Greece with a contribution of EUR 21.5 million from the European Agricultural Fund for Rural Development (EAFRD), it is the first micro-finance instrument for the primary sector in Greece.

Greece has an important agricultural heritage. While historically it was considerably more significant, the sector still employs 11% of the workforce and generates 3.6% of the Gross Domestic Product (GDP), both above the EU average.

The ex-ante assessment completed in 2018 identified a market failure with a considerable financing gap for micro-loans in the agricultural sector. This was seen in the very high rejection rate, especially for loans up to EUR 25 000. Access to finance in the processing sector varies by company size, with smaller entities facing similar difficulties as producers. The financing gap was estimated to be around EUR 850-950 million. The ex-ante assessment proposed a risk-sharing micro-loan instrument for producers and micro-processors, with the potential to combine the loans with grants.

To implement the instrument, in 2022 the managing authority entrusted Hellenic Development Bank (HDB) as manager of the FoF. HDB[1] was established in 2019 as a National Promotional Institution (NPI) under the supervision of the Bank of Greece and the Ministry of Development as the successor to ETEAN S.A. The financial instrument is implemented through seven financial intermediaries, selected via an open call for expression of interest.

The instrument co-finances new loan portfolios built-up by the financial intermediaries at a risk-sharing rate of 50%. In addition to the Micro-loan Fund's 50% interest-free participation in each loan, it provides an interest rate subsidy during the first two years of the loan for the remainder. Furthermore, there is an optional grant of EUR 300 for consulting services, facilitated by consultancy firms associated with the financial intermediaries.

The financial instrument is expected to support 1 500 operations with up to EUR 150 million in total. The first disbursement to final recipients took place in March 2023. Final recipients immediately showed significant interest in the facility. By June 2023, 701 loans had been contracted for a total of EUR 16.1 million, of which EUR 9.7 million had been disbursed.

The instrument's swift absorption is attributed to its effective alignment with the needs of the target group. The product's unique features, combining loans with preferential terms and conditions together with interest-rate subsidies and a grant component has made it increasingly appealing. Justified by its successful implementation, and the relatively small financial size due to the shortage of time at the end of the eligibility period, the managing authority intends to support such a micro-loan instrument in the 2023-2027 programming period as well.

1 The Hellenic Development Bank was established by Law 4608/2019 (Government Gazette A΄ 66/25.4.2019). Further information is available at: https://hdb.gr/en/.

Micro-loan Fund for Agricultural Entrepreneurship in Greece

Funding sources
EAFRD RDP 2014-2022 Greece

Type of financial products
Portfolio risk-sharing loan (risk-sharing micro-loan instrument in combination with interest rate subsidy and optional grant component)

Financial size
EUR 21.5 million from the RDP (100% from EAFRD). Together with private contributions from financial intermediaries of some EUR 18.7 million, the financial instrument is expected to provide financing of approximately EUR 39.3 million.

Thematic focus
Investments in primary agricultural production or processing, marketing and/or development of agricultural products.

Timing
From 2023 to 2025

Partners involved
Ministry of Rural Development and Food of Greece (managing authority)
Hellenic Development Bank (FoF manager)
Cooperative Bank of Thessaly, Piraeus Bank, Cooperative Bank of Karditsa, Cooperative Bank of Epirus, Cooperative Bank of Chania, PanCretan Cooperative Bank, Eurobank (financial intermediaries)

ACHIEVEMENTS

EU leverage[2] (expected)
1.8 times

Main achievements
By 30 June 2023, 701 loans had been contracted with final recipients for a total of EUR 16.1 million, of which EUR 9.7 million had been disbursed. The interest rate subsidy provided up to that date was EUR 1.1 million, while EUR 205 500 had been committed for technical assistance. About 97% of the loans are for agricultural producers, with the remaining 3% for food processors. The average loan so far is for about EUR 23 000.

2 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 39.4 million (based on the maximum portfolio size), divided by the total EAFRD allocation to this financial instrument, i.e. EUR 21.5 million, gross of management fees. It does not include the reuse of resources returned to the instrument.

02 Objectives

2.1 Context

Greece's identity as an agrarian nation is deeply rooted, with a substantial portion of its land and population historically engaged in agricultural activities. Agriculture has been a prominent pillar of the Greek economy for many decades, with a key role in the country's economic development.

When Greece joined the EU in 1981, agriculture employed around 30% of the workforce, contributing 25% to GDP. Since then, the landscape has shifted, with the agricultural workforce now about 11% of the total, while the GDP contribution is 3.6%. Nevertheless, these still surpass the EU average of 4% for the workforce and 1.5% for the share of GDP.

Over the last decade Greek agri-food exports have increased, reaching EUR 5.2 billion in 2017 from EUR 3.9 billion in 2010, helping to narrow the trade deficit. Food and beverage exports account for a remarkable 23% of total exports, substantially higher compared to 7% across Europe.

Agricultural income in Greece compared to the overall economy is still high (87%) against the EU average of 45%. This is due to Greece's relatively lower non-agricultural income. The strong position of the agricultural sector in the country's economy was especially evident during the pandemic when non-agricultural income declined while agricultural income remained stable.

In this economic context, the main rationale for a micro-loan instrument was substantial demand, particularly from farmers but also from processors. This was highlighted in the ex-ante assessment along with the reluctancy of the banking sector to finance small agricultural and agri-food enterprises due to their lack of credit history and collateral.

The Micro-loan Fund for Agricultural Entrepreneurship was launched in October 2022 and has been open for loan applications since February 2023. The financial instrument operates under the RDP 2014-2022 through Action 4.1.4 for investments in the primary sector and Action 4.2.4 for investments involving the processing of agricultural products. Based on their focus areas, Action 4.1.4 focuses on enhancing farm viability and competitiveness across regions, promoting innovation, sustainable forest management and economic improvement (Focus Area 2A). Similarly, Action 4.2.4 aims at improving primary producer competitiveness by integrating them into the agri-food chain through quality schemes, adding value, local markets and inter-branch collaboration (Focus Area 3A).

2.2 Previous experience with financial instruments in Greece

Prior to the risk-sharing micro-loan facility, the managing authority had already piloted EAFRD financial instruments during the 2007-2013 programming period under the Agricultural Entrepreneurship Fund (Tameio Agrotikis Epixeirimatikotitas - TAE). This instrument was designed to finance investment projects that had already secured approval for grants under the RDP.

Experience from this initiative highlighted several lessons that have informed the approach towards subsequent financial instruments, such as:

- The lack of previous experience in executing such a fund. The unfamiliar terrain impacted the instrument's effectiveness.
- The fund design emerged as a critical factor. A misalignment between the fund's design and the needs of potential beneficiaries became apparent. This hindered the fund's ability to address the needs of the target group.

- The timing of the fund's launch within the broader economic context was significant. Unfortunately, this coincided with an unfavourable economic climate, limiting investments and uptake.
- Only one bank operated under the facility. Broader participation from financial institutions would have fostered a competitive environment in the banking sector.
- There was insufficient information for the target group on the instrument's operation, leading to misunderstandings about the implications of lower interest rates on the loan.
- Many potential final recipients were excluded because they were unable to provide enough collateral, or due to the high risk characteristics of the farming sector, which rendered many farmers ineligible.

During the 2014-2022 programming period, a First Loss Portfolio Guarantee scheme was introduced under the RDP in the form of an FoF managed by the European Investment Fund[3]. When designing the guarantee instrument, many of the conclusions and lessons learnt from the previous period were considered. The knowledge from both 2007-2013 and more recent experience with the guarantee fund played an important role in shaping the new micro-loan facility.

2.3 Ex-ante assessment[4]

The objective of the study was to assess the market gaps or deficiencies in financing for primary agricultural and agri-food processing in Greece, in view of potentially implementing financial instruments. The assessment aimed to justify the appropriateness, adequacy and necessity of the proposed financial instruments to achieve investment priorities for the RDP in the 2014-2022 programming period.

The ex-ante assessment highlighted an important challenge for micro-finance: roughly 80% of producers, regardless of their scale, had faced rejections for various types of financing, micro-loans included. There was a preference for loans up to EUR 25 000 among primary producers, particularly micro and small agricultural enterprises, to purchase of equipment as well as considerable demand for working capital.

However, between 2014 and 2017, most unmet demand (53%) concerned producers looking for microloans of up to EUR 25 000. The rejection rate for loans ranging from EUR 26 000 to EUR 100 000 was significantly lower at 33%. Restricted access to finance for producers is mainly due to existing mortgages on their assets, a lack of own capital that could be used as collateral, the economic crisis and a lack of financial literacy coupled with complex bank procedures and bureaucracy.

Data from the 2014-2017 period underscores access to finance for processors depends largely on the size of the enterprise. Micro and small processors encounter similar difficulties in accessing finance as producers. Conversely, a dynamic subset of small processors, along with medium and large processors, had enhanced access to bank financing, with higher rates of approved loan applications.

In addition, processors in general request larger loans than producers, possibly due to their size and investment volumes. Specifically, nearly 55% of processors applied for loans ranging from EUR 25 000 to EUR 100 000, while 33% requested loans of more than EUR 250 000. In terms of approvals, 65% of processors were granted loans up to EUR 100 000. For those unable to access bank financing, the main reasons were high interest rates and a lack of collateral.

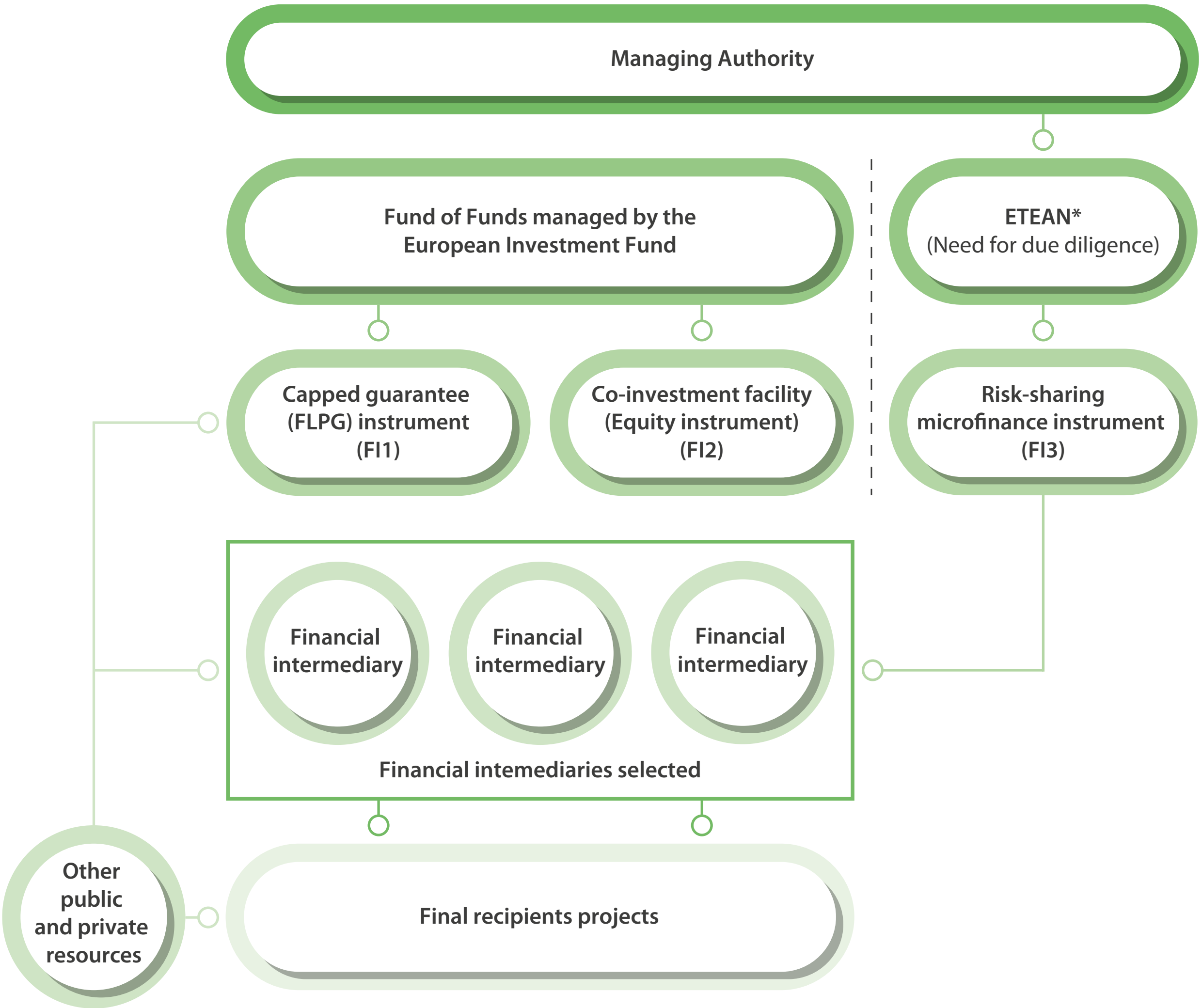
According to the ex-ante assessment, the financial gap for micro-loans concerning agricultural producers and food processors was EUR 837 to 943 million and EUR 10.7 to 13 million, respectively.

3 More information for the EAFRD Guarantee Fund 2014-2020 in Greece (2021) is available in the dedicated fi-compass case study brochure at: https://www.fi-compass.eu/sites/default/files/publications/EAFRD-guarantee-fund-2014-2020-Greece.pdf.

4 'Assessing the potential use of Financial Instruments in Greece in agriculture', 2018.

The ex-ante assessment recommended three financial instruments under the RDP 2014-2022, using one or two FoF structures. These were a first loss portfolio guarantee scheme, an equity co-investment facility and a risk-sharing micro-loan instrument. The managing authority decided to implement the guarantee and the micro-loan instrument described in this case study.

Figure 1: Proposed governance structure



Source: Ex-ante assessment, 2019.

Note: *ETEAN/Hellenic Development Bank (HDB)[5].

5 As noted above, HDB is the successor of ETEAN S.A.

03 Design and set-up

Table 1 below provides the timeline for the set-up and implementation of the financial instrument.

Table 1: Setting up the financial instrument

Date	Event
May 2018	Ex-ante assessment for the use of financial instruments in RDP 2014-2022
October 2022	Funding agreement signed between HDB and the managing authority
November 2022	Publication of the call for expression of interest to select financial intermediaries
December 2022	Call for expressions of interest closed
February 2023	Operational (guarantee) agreements signed between HDB and the financial intermediaries
March 2023	First loan contract signed with final recipient

3.1 Selection of the implementing body and financial intermediaries

Following the ex-ante assessment recommendation, the managing authority decided to implement the financial instrument based on an FoF structure.

As stipulated by the Common Provisions Regulation (EU) 1303/2013 (CPR), implementation could be delegated through direct award of a contract to a publicly owned bank or institution established as a legal entity carrying out financial activities on a professional basis. The bank or institution must fully adhere to all conditions specified in CPR Article 38.4(b)(iii).

Following a comprehensive due diligence procedure, the managing authority ascertained that HDB could manage the FoF for the micro-loan. HDB was established in 2019 as a National Promotional Institution to provide an equal playing field for small and medium-sized enterprises (SMEs). This is through the efficient allocation of funds, bridging gaps in the business environment, attracting alternative funding sources and improving the business environment. Moreover, HDB's knowledge and experience in designing and implementing specialised facilities via financial intermediaries made it an optimal solution as fund manager for the micro-loan instrument.

The financial intermediaries were selected following an open call for expression of interest. The call was published in November 2022 with terms and conditions in line with the national institutional framework, the European Union regulatory framework, as well as the content and objectives of the RDP. The call was preapproved by the Investment board which also approved each financial intermediary after due diligence of the applications and approval by HDB. For further details on the role and composition of the Investment board, see the following section on governance.

Following this process, operational agreements were signed in February 2023 with seven banks selected as the intermediaries with the best terms and conditions. These were Cooperative Bank of Thessaly, Piraeus Bank, Cooperative Bank of Karditsa, Cooperative Bank of Epirus, Cooperative Bank of Chania, PanCretan Cooperative Bank and Eurobank.

3.2 Funding and governance

The FoF is funded through the RDP 2014-2022 with EUR 21.5 million of EAFRD resources. There is no national co-financing for the instrument[6]. Deducting the amount set aside for management fees, the RDP's contribution to the financial instrument is EUR 20.64 million.

Of this, EUR 18 731 875 from the RDP is supplemented by an equivalent contribution from financial intermediaries to provide loans to final recipients. Each loan can also include a grant of EUR 300 excluding VAT, for mentoring. The total amount available from the RDP for the mentoring grant is EUR 403 125. This technical assistance helps final recipients prepare their investment projects to be eligible for support through the instrument. The mentoring services are provided by registered advisors within the financial intermediaries' networks. The grant is combined in a single operation with the financial instrument pursuant to CPR Article 37.7. It can be disbursed by HBD to the final recipient to reimburse payments to the advisors or directly to the advisors themselves.

Additionally, an allocation of EUR 1 505 000 from the RDP is dedicated to interest rate subsidies which benefit final recipients, but which is paid to the banks.

As a result, the total financing expected to benefit final recipients via the financial instrument is EUR 39 371 875.

Table 2: Funding sources and amounts

Funding source	Amount
EAFRD	EUR 21 500 000
of which contribution to loans	EUR 18 731 875
of which contribution to interest rate subsidy	EUR 1 505 000
of which contribution to grants	EUR 403 125
of which set-aside for management fees	EUR 860 000
Financial intermediaries' contribution to loans	EUR 18 731 875

Source: Managing authority.

As a result of quick absorption of the instrument, in September 2023 the managing authority initiated a budget increase of EUR 10 million.

The financial instrument is set up at national level under the responsibility of the Ministry of Rural Development and Food of Greece, through the Managing Authority of Common Agricultural Policy Strategic Plan (CAP SP), formerly Managing Authority of RDP 2014-2022. Certain responsibilities of the managing authority are delegated to the Implementation Authority of Rural Development Interventions within the same Ministry.

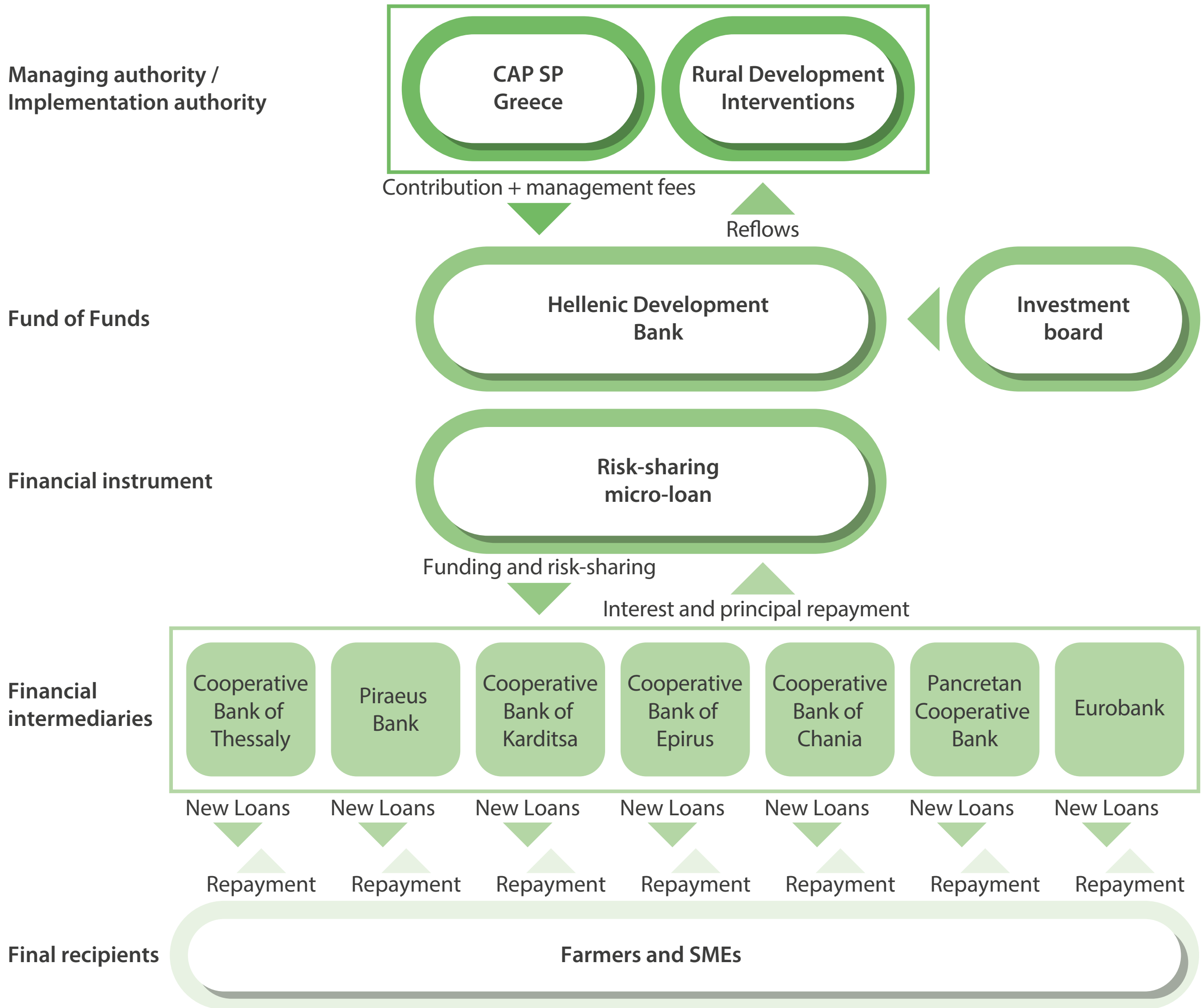
HDB is implementing the financial instrument via an FoF structure. HDB, as fund manager, is responsible for executing the investment strategy, selecting and managing financial intermediaries, monitoring implementation, ensuring efficient asset management and conducting information and publicity campaigns.

6 In accordance with Article 59 (4) (ea) and Article 58a (1) of Regulation (EU) 1305/2013.

The financial instrument operates through a delegated model, so loan applications are assessed and originated by the financial intermediaries. The loan transactions must adhere to criteria in the operational agreements signed between each intermediary and HDB.

The Investment board has five members (and five alternate members) appointed and empowered by the managing authority with delegates from the Ministry of Rural Development and Food as well as the paying agency. The key role of the Investment board is to monitor and supervise implementation as well as approve any amendments of the investment strategy and business plan. It is notified by the FoF manager through each report to the managing authority on implementation. The Investment board also approved the call for expression of interest as well as the selection of each financial intermediary.

Figure 2: Governance structure

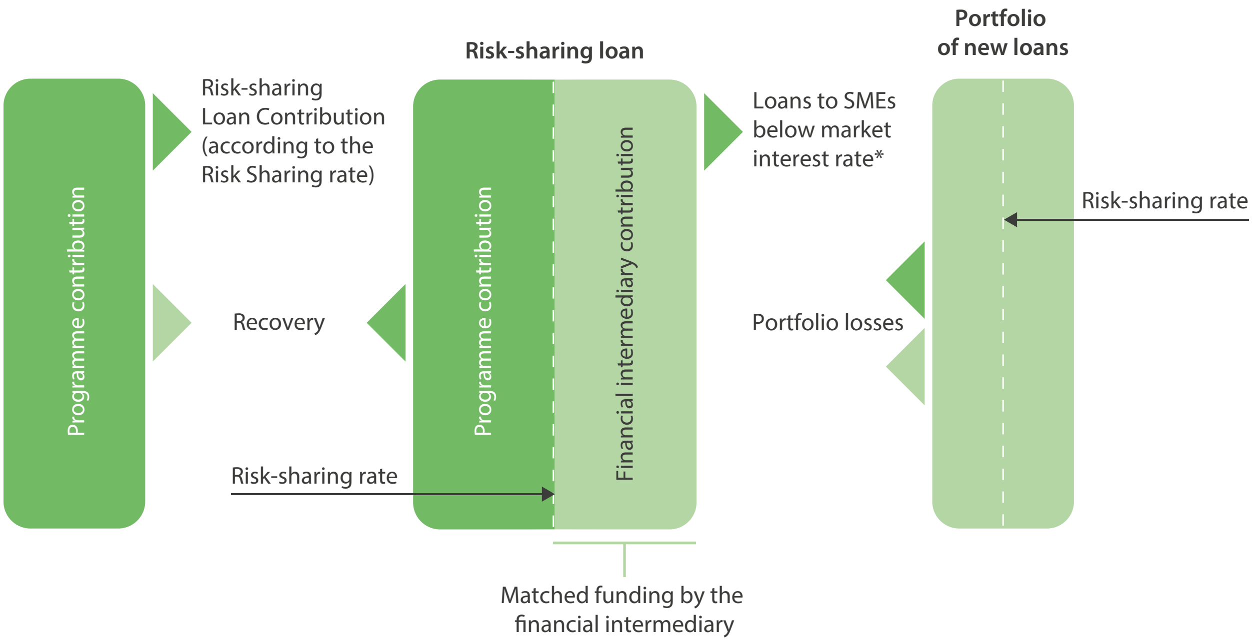


04 Implementation

The financial instrument implemented by the FoF is a risk-sharing micro-loan facility, built on the model laid down in Regulation (EU) 964/2014[7]. It provides co-financing for a new portfolio of loans and shares 50% of the portfolio credit risk. The financial intermediary shares the risk of non-repayment in proportion to its own contributions. The risk-sharing loan contribution from the Micro-loan Fund is at 0% interest, reducing the aggregate interest rate of the loans to substantially below the standard market interest rate, transferring the benefit to final recipients.

The implementation mechanisms of the financial instrument are presented in the Figure below.

Figure 3: The 'off-the shelf' portfolio risk-sharing loan model



Source: Commission Implementing Regulation (EU) 964/2014.

Note: *Full Benefit of interest rate is passed to SMEs.

4.1 Financial product and terms

The Micro-loan Fund has three components. Firstly, EUR 18.7 million of the RDP contribution is allocated to micro-loans to provide funding and risk-sharing to financial intermediaries. Secondly, EUR 1.5 million is designated for interest rate subsidies to the intermediaries, reducing the interest rates on the loans. Lastly, a grant component provides EUR 300 per final recipient for consulting services.

Following the ex-ante assessment recommendations, the managing authority decided the financial instrument could be combined with other sources of funding (i.e. RDP grants) for the same investment. Nevertheless, the loans may be provided also on a stand-alone basis to final recipients with no RDP grants for their investment.

7 Commission Implementing Regulation (EU) 964/2014 laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards standard terms and conditions for financial instruments.

In addition to the potential combination with RDP grants, elements of the financial instrument, such as the interest rate subsidy as well as the consulting and technical support for mentoring, provide further possibilities for combinations with grants. RDP grants received by the final recipient for the same investment project would be combined under two separate operations. The combination of support could cover the same expenditure items, provided this complies with cumulation rules. In contrast, any combination with the interest rate subsidy and the grant element for consulting and technical support would be implemented in a single operation.

To facilitate such combinations, target final recipients of the financial instrument align closely with the targeted beneficiaries of grant schemes in sub-measures M4.1 'Investments in agricultural holdings' and M4.2 'Investments in processing and marketing agricultural products' of the RDP. Under Action 4.1.4, these include professional farmers, legal persons with their main activity in the primary sector, young farmers approved for sub-measure M6.1 of RDP 2014-2022 'Business start-up aid for young farmers', as well as collective farmer associations such as agricultural cooperatives, producer groups and organisations along with associations of producer organisations. Under Action 4.2.4, the instrument supports SMEs in the following sectors: meat, milk, eggs, sericulture, apiculture, heliciculture, feed, cereals, oil products, wine, fruit and vegetables, flowers, pharmaceutical and aromatic plants, seeds and propagating material, and vinegar.

Loans under the facility must be newly originated for up to EUR 25 000 and must be disbursed during the eligibility period which ends on 31 December 2025. The final recipient may apply to more than one financial intermediary for a co-financed loan, as long as the amounts do not cumulatively exceed EUR 25 000. The loan can be for up to five years, including a grace period of up to 24 months.

Micro-loans under the instrument must finance an investment purpose, which means they can support the purchase or lease of tangible and intangible assets, as well as general costs[8] and working capital that is part of the investment project[9]. They must not refinance existing loans or credit lines.

8 General costs can include architect, engineer and consultation fees, as well as fees relating to advice on environmental and economic sustainability, including feasibility studies.

9 As set out in article 45 (5) of Regulation (EU) No. 1305/2013, the total expenditure for working capital cannot exceed EUR 200 000, or 30% of the total eligible costs for the investment, whichever is the higher.

The main terms and conditions of the loan transactions are summarised in the table below.

Table 3: Financial product key characteristics

Loan amount	**Maximum EUR 25 000**
Risk-sharing rate	50%
Preferential interest rate	0% for the risk-shared portion of the transaction financed by the Micro-loan Fund Up to 7% for the remaining 50% financed by the financial intermediary
Interest rate subsidy	For the first 2 years from disbursement of each loan on the portion of the loan financed by the financial intermediary
Additional grant element	EUR 300 per final recipient for consulting and technical support (mentoring)
Loan maturity	Maximum 5 years (including grace period)
Grace period	Maximum 24 months
Collateral requirement	No physical collateral is allowed, only debt securities
Eligible final recipients	Farmers and SMEs established and operating in Greece
Eligible operations	• Action 4.1.4 Support for investment in agricultural holdings • Action 4.2.4 Support for investment in processing / marketing and/or development of Agricultural Products[10]
Eligible investments	• Purchase or lease of tangible and intangible assets • General costs linked to the eligible investment (such as fees for architects, engineers, consultation and advice on environmental and economic sustainability, including feasibility studies) • Working capital that is part of the investment
Eligible costs include	• Purchase of second-hand equipment • VAT on eligible costs paid by the final recipient • Purchase of land up to 10% of the eligible expenditure of the investment • Transfer of property rights of enterprises, provided this is between independent investors • Live animals, annual plants and their planting
Eligibility period	Until 31 December 2025

Source: Managing authority / HDB.

10 Agricultural Products' are products listed in Annex I to the Treaty on the Functioning of the European Union (TFEU), with the exception of fishery and aquaculture products covered by Regulation (EU) No. 1379/2013.

4.2 State aid

The managing authority took a strategic decision to design a financial instrument free from State aid implications. Compliance with State aid rules is ensured at all levels involved in the implementation, including the fund manager, the financial intermediaries and the final recipients.

For the FoF manager, State aid compliance is ensured as the managing authority entrusted implementation tasks to HDB according to CPR Article 38. 4(b)(iii). In addition, the remuneration of HDB is aligned with Articles 12 and 13 of Regulation (EU) 480/2014 with no additional advantages extended by the managing authority.

The full transfer of financial benefits from the public contribution to final recipients ensures the financial instrument is free of State aid at the financial intermediary level. Notably, 50% of the loan to final recipients carries no interest and the interest rate subsidy for the remaining 50% is provided for two years based on a predefined interest rate.

At the level of final recipients the activities eligible for support are limited to primary production of agricultural products and processing, marketing and/or the development of agricultural products as included in Annex I to the Treaty on the Functioning of the European Union (TFEU), where State aid rules do not apply. The sole requirement in this scenario is compliance with aid intensity thresholds in Annex II of Regulation (EU) 1305/2013. The threshold for each transaction depends on the type of sub-measure and final recipient as well as the investment location. Nevertheless, the minimum support for each operation as stipulated in RDP 2014-2022, is 40%.

4.3 Financial flow

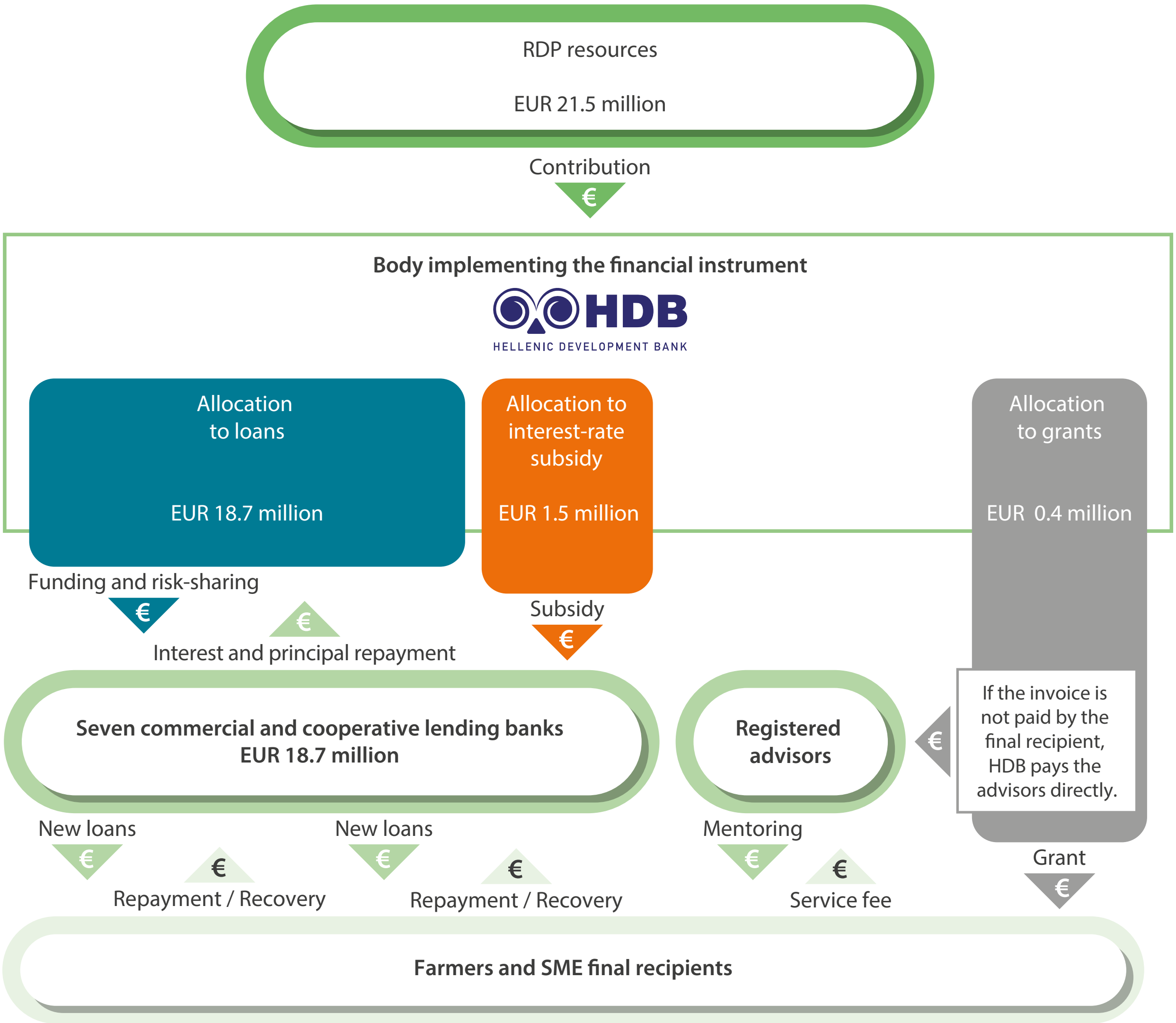
Under CPR Article 41(1), payments to the financial instrument should be in tranches and linked to disbursements to final recipients. The investment strategy defines the payment schedule from the managing authority to the FoF, which has functioned as follows:

- The first tranche of 25% of the RDP contribution (EUR 5.375 million) was paid in January 2023 on signature of the funding agreement.
- The second tranche, for the next 25% (EUR 5.375 million) was due to the Fund once at least 60% of the first tranche had been used[11] and was paid in July 2023.
- The third tranche, for the next 25% (EUR 5.375 million) is due once at least 85% of the first two tranches has been used. The application for the third tranche was submitted to the paying agency on 31 August 2023.
- The fourth tranche, for the last 25% (EUR 5.375 million) is due once at least 85% of the first three tranches has been used.

11 'Used' means funds have been allocated to cover possible losses of financial intermediaries corresponding to amounts disbursed to final recipients or used to pay management fees.

The financial flow with the allocated amounts is presented in the figure below.

Figure 4: Financial flow of the risk-sharing loan instrument



Source: Funding Agreement, Operational Agreement

4.4 Monitoring and reporting

Based on the delegated implementation model, the financial intermediaries have an exclusive direct credit relationship with each final recipient. They assume responsibility in accordance with their internal operating procedures for examining loan requests, authorising loans, managing disbursements, monitoring the progress of the loans and submitting reports to HDB. They must maintain a robust accounting system with accurate, complete and reliable data.

In terms of monitoring, HDB may at any time request information from the financial intermediaries to verify whether a final recipient transaction complies with the eligibility criteria and whether its inclusion in the portfolio is compliant with the terms of the operational agreement. At the same time, the managing authority may carry out on-the-spot checks at all levels following its supervisory tasks.

The funding agreement between the managing authority and the fund manager defines the reporting requirements. Based on data from the financial intermediaries, HDB provides the managing authority with weekly updates as well as annual and semi-annual reports on implementation of the financial instrument. The Investment board is notified on the basis of these reports.

The information in the HDB reports feeds into the annual implementation reports that the managing authority submits to the EC according to CPR Article 46(2). These reports include a description of the financial instrument and implementation arrangements, financial performance, leverage, etc. It also provides performance data for the contribution of the financial instrument to RDP priorities.

05 Output

Since becoming operational in February 2023, there were new loans for 701 final recipients already by 30 June 2023, of which 511 were (at least partially) disbursed. These loans totalled EUR 9.68 million, corresponding to EUR 4.84 million of RDP resources. An additional EUR 1.1 million has also been committed to the interest rate subsidy, EUR 60 440 of which has been disbursed. Furthermore, EUR 205 500 has been committed as technical assistance. The results, based on disbursements, include public expenditure of EUR 4.9 million (50% of each loan plus the interest rate subsidy). The value of investment projects supported by the instrument stands at EUR 9.7 million, equivalent to the disbursed loans. Thus far, all loans have been for small-scale investments, with no additional RDP grant support. Given the relatively short lifespan of the financial instrument, these results are highly promising.

Table 4: Key performance indicators

Indicator	Target	Results[12]
Total public expenditure	EUR 20.64 million	EUR 4.9 million
Total investment	up to EUR 40 million	EUR 9.7 million
Number of operations supported	1 500	511
Percentage of farms receiving RDP support under Focus Area 2A	70%	97%

Source: Managing authority

The financial instrument has already played an important role in facilitating access to finance for the most marginalised segment of final recipients, small-scale professional farmers. All final recipients are micro-enterprises (the 511 supported enterprises have 623 employees in total) and an impressive 97% of the allocated support is channelled directly to the primary sector, while a mere 3% is for processing activities. This reiterates the instrument's commitment to support core agricultural production ensuring that this vulnerable micro-segment of the primary sector, often underserved, receives the lion's share of support.

Remarkably, the financial instrument has effectively tackled a historical challenge highlighted in the ex-ante assessment. The assessment revealed that farmers had been struggling with high rejection rates by the banks. However, based on current results, the approval rate has exceeded 88% under the facility. This is emblematic of the financial instrument's efficacy in empowering previously excluded applicants with the opportunity for financial assistance.

12 Results as at 30 June 2023.

06

Lessons learnt

6.1 Success factors

The quick uptake of the instrument lies in its resonance with the needs of the target community. The nature of the product, encompassing an interest-free component and an interest rate subsidy for the remainder, ensures loans with significantly lower than market interest rates. In addition, adhering to the investment strategy, banks should not impose any collateral requirements on final recipients, which has rendered it an exceptionally appealing product for the target group.

Recognising the importance of knowledge sharing, the managing authority established robust lines of communication with key stakeholders including banks, advisors and the public sector. This deliberate effort not only fostered collaboration but also enhanced the visibility and awareness of the fund's offerings, playing a central role in its success.

A series of comprehensive presentations across Greece, both in person and online, was a proactive way to familiarise advisors and public sector authorities with the intricacies of the financial instrument. This concerted effort in awareness building significantly demystified the fund's processes, fostering a culture of trust and understanding.

In addition, updated brochures and posters on the Micro-loan Fund were widely distributed. These kept stakeholders informed and engaged in the instrument. In parallel, the managing authority's involvement in implementation with a Help Desk offering assistance to competent authorities, reinforced the fund's operational efficiency, ensuring that potential obstacles were swiftly addressed.

The close partnership established with the fund manager and streamlined communication with the banks, advisors and authorities ensured alignment of the objectives, timely responses to enquiries and responsive adjustments, all of which amplified the fund's impact.

The development of a customised IT Application tool[13] proved highly effective in streamlining operations. This tool, embraced by all stakeholders, enabled efficient calculation of the Gross Grant Equivalent to ensure State aid compliance, as well as easier and more transparent management of grant cumulation limits.

6.2 Challenges

During implementation of the Greek Micro-loan Fund, several challenges emerged that required dedicated efforts to overcome. One significant challenge during development was the limited familiarity of authorities within the Ministry with the implementation of financial instruments. As these facilities were novel, technical expertise in both the managing authority and the implementing bodies had to be built gradually. The ex-ante assessment in parallel with targeted coaching, seminars and publications provided by fi-compass, were instrumental in increasing the internal knowledge base for setting up the financial instrument.

Another challenge was to pass on this newfound expertise to stakeholders, including the paying agency. Coming from a grant-based tradition, many features of financial instruments were unfamiliar to the authorities. This was particularly true concerning the Gross Grant Equivalent. Administrative staff, accustomed to conventional

13 More information for the EAFRD Guarantee Fund 2014-2020 in Greece (2021) is available in the dedicated fi-compass case study brochure at: https://www.fi-compass.eu/sites/default/files/publications/EAFRD-guarantee-fund-2014-2020-Greece.pdf.

procedures, had to familiarise themselves with this term and its implications. Similarly, personnel in participating banks, although well-versed in banking protocols, encountered unfamiliar eligibility rules stemming from the distinctive institutional framework of the financial instrument.

To address these challenges, the managing authority carried out comprehensive capacity-building presentations, training courses, informative leaflets and case study examples. By adopting a diverse range of educational tools, the managing authority ensured that stakeholders gained a comprehensive understanding of the financial instrument.

As discussed earlier, the micro-loan financial instrument was designed so final recipients could also benefit from grant schemes within the RDP under Measure 4, potentially combining the two forms of support to cover the same expenditure. However, final recipients currently find such combinations less attractive due to the relatively modest loan amounts involved.

6.3 Outlook

Looking ahead to the 2023-2027 programming period, the managing authority has a strategic intention to maintain continuity by retaining the two financial instruments launched under the 2014-2022 RDP.

Combinations with grants will be promoted under both instruments, although this may be more effective in the guarantee scheme, due to its larger loans. Combinations with other types of support (i.e. the Development Law[14]) that involve different support rates, such as regional aid governed by the General Block Exemption Regulation, typically result in substantial grant reductions. This diminishes the viability of such combinations. An additional difficulty arises when other types of support use different IT tools, which further complicates administrative checks.

The post-2023 programming period will introduce new features to render financial instruments even more attractive and effective. Notably, stand-alone working capital marks a significant step forward by addressing a tangible market demand, with increased cash flow for agricultural enterprises.

Furthermore, an interest rate subsidy for the guarantee product would be an important improvement. From current experience, this feature is a prime incentive in financial instruments. Recognising its efficacy in increasing interest and participation, the managing authority is considering incorporating this element into the forthcoming capped guarantee scheme.

Simultaneously, a new guarantee facility combined with a grant element under a single operation could be directed towards supporting Young Farmers.

14 https://ependyseis.mindev.gov.gr/en/idiotikes/p/general.

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