EAFRD Loan Fund for agriculture
Friuli Venezia Giulia, Italy
Case Study

- EAFRD
- EUR 93 million of which 16.1 million from the RDP
- Agriculture enterprises
- Italy

... a consolidated experience from the past has ensured an efficient and effective support to final recipients ...
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Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Full name</th>
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<tr>
<td>EAFRD</td>
<td>European Agricultural Fund for Rural Development</td>
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<td>GGE</td>
<td>Gross Grant Equivalent</td>
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<td>RDP</td>
<td>Rural Development Programme</td>
</tr>
<tr>
<td>RRF</td>
<td>Regional Revolving Fund for agriculture in the Friuli Venezia Giulia Region</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium-sized enterprises</td>
</tr>
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1. **Summary**

This case study explains the setting up and implementation of the European Agricultural Fund for Rural Development (EAFRD) Loan Fund for agriculture in the Friuli Venezia Giulia Region in Italy. The Loan Fund enables access to credit for farmers and agri-food enterprises, thanks to a financial contribution from the EAFRD and regional resources in accordance with EU Regulation 1303/2013. The instrument builds on the experience of the Regional Revolving Fund (RRF), a public instrument established in 1982\(^1\), for interventions in the rural sector.

The RRF has proved to be highly effective, especially during the 2007-2013 crisis enabling agricultural enterprises to diverge from the rest of the regional economy by benefitting from increased credit flows and investment.

An ex-ante assessment finalised in January 2015 identified needs for support to address a lack of credit compared to potential demand from agricultural and agri-food businesses.

At the end of 2016, the RRF was selected by the managing authority as the body implementing the EAFRD financial instrument\(^2\).

The EAFRD Loan Fund provides subsidised loans for investments. These can be for processing, marketing and developing new agricultural products, as well as for improving the performance and competitiveness of agricultural enterprises.

The financial instrument was set-up with a capital of EUR 93 million, of which EUR 16.1 million was from the Rural Development Programme (RDP) of Friuli Venezia Giulia Region and EUR 76.9 million from RRF own (regional) resources. Loans are delivered to final recipients through four local financial intermediaries. The loans of up to EUR 3 million can cover 100% of eligible investments and have a zero-interest rate for the EAFRD Loan Fund contribution. A financial intermediary can add up to 50% to each loan at a market interest rate and assumes the risk for each operation, including on the EAFRD resources.

The instrument was not created from scratch and one key advantage is a consolidated *modus operandi* enabling final recipients to access credit in a very short time. The EAFRD Loan Fund can count on an established coordination structure, using a common information system for the managing authority and the financial intermediaries. Simplified operating procedures minimise the burden on enterprises, allowing rapid activation of the funding.

The demand for financing was so significant that the EAFRD resources were absorbed during the first year of operation in 2018. Thereafter, the instrument continued operating with regional resources. By October 2020, 443 agriculture enterprises were supported by nearly EUR 95 million of subsidised loans.

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1. Regional law of 20 November 1982, No. 80.
2. Regional law of 29 December 2016, No. 24 (article 3, paragraphs 2 to 6).
EAFRD Loan Fund for agriculture in the Friuli Venezia Giulia Region

THE FINANCIAL INSTRUMENT

Funding source
EAFRD, RDP Friuli Venezia Giulia Region 2014-2020

Type of financial products
Subsidised loans

Financial size
EUR 93.0 million of which: EUR 16.1 million from the RDP (around EUR 6.9 million from the EAFRD + national/regional co-financing), and EUR 76.9 million from the RRF own (regional) resources as of October 2020. Contribution from financial intermediaries can be up to 50% on each loan and is excluded from the above figures.

Thematic focus
Improved performance and competitiveness of farms. Support for investments in processing, marketing and developing agricultural products.

Timing
From 2018 - 2051 (planned)

Partners involved
EAFRD Managing Authority of Friuli Venezia Giulia Region
RRF in the Friuli Venezia Giulia Region (fund manager)
Federazione Banche di Credito Coop, Banca di Cividale, Banca Popolare Friuladria, Banca Intesa-San Paolo (financial intermediaries)

ACHIEVEMENTS

Absorption rate
100% of RDP resources

EU leverage3
20.2 times

Leverage of public resources4
1.5 times

Main achievements
443 loans disbursed to final recipients totalling around EUR 95 million (as of October 2020).

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3 EU leverage is calculated as the total amount of finance to eligible final recipients, estimated at EUR 139.5 million - being the contribution from financial intermediaries of up to 50% per loan - divided by the total amount of EAFRD allocation to this financial instrument, i.e. EUR 6.9 million. It does not include the reuse of resources returned to the instrument.

4 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. estimated at EUR 139.5 million - being the contribution from financial intermediaries of up to 50% per loan - divided by the total amount of public resources allocated to the financial instrument, i.e. EUR 93 million. It does not include the reuse of resources returned to the instrument.
2. Objectives

The EAFRD Loan Fund provides support related to two RDP 2014-2020 measures: 4.1.4 ‘Improvement of the performance and competitiveness of farms’ and 4.2.3 ‘Investments for the processing, marketing and development of agricultural products’.

The fund supports subsidised loans for investments in processing, marketing and developing agricultural products, more efficient water use on farms and more sustainable agricultural businesses. The financial instrument budget builds on a contribution from the RDP (EAFRD and national/regional resources), and own resources of RRF, the fund manager.

The EAFRD Loan Fund contributes to thematic objectives of the Common Strategic Framework under Priority 2 ‘Farm Viability and Competitiveness’ and Priority 3 ‘Food Chain Organisation and Risk Management’. Under these Priorities, the financial instrument enables improved performance and modernisation of farms, as well as greater integration in the supply chain through interventions to foster competitiveness. The EAFRD Loan Fund interventions are also fully integrated with the Europe 2020 Strategy, supporting actions that pursue smart and sustainable growth:

- Intervention 4.1.4 helps create conditions for smart and sustainable growth through the rationalisation and innovation of production processes, diversification and improved regional production, sustainable and low environmental impact management, more efficient use of water and mitigation of climate changes;
- Intervention 4.2.3 directly contributes to smart and sustainable growth by supporting operations to rationalise, organise and introduce technological innovation, as well as new methods for first processing, conservation, marketing and transforming agricultural products.

Final recipients targeted through the financial instrument are agricultural and agri-food enterprises or farmers’ associations that:

- produce, transform or market agricultural products in the Region;
- fall within the definition of micro, small or medium-sized enterprises (SMEs) set out in Annex I of the Regulation (EU) 702/2014;
- are not companies in difficulty, referred to in Article 2, paragraph 1, number 14 of the Regulation (EU) 702/2014;
- have no pending recovery order following a previous decision of the European Commission declaring aid illegal and incompatible with the internal market.
3. **Design and set-up**

The ex-ante assessment for the use of the EAFRD financial instruments under the RDP of the Region was prepared in January 2015, with results and outcomes presented to the Monitoring Committee of the Friuli Venezia Giulia RDP in December. The main conclusions specified that:

- agricultural, agri-food and forestry companies in the Region face suboptimal investment conditions and market failures, which justify the use of financial instruments within the RDP;
- compared to existing financial instruments, a subsidised rate is the most appropriate mechanism, both in relation to the economic situation and to the structural characteristics of agricultural, agri-food and forestry enterprises in the Region.

One year after the ex-ante assessment was completed, the Region established an EAFRD financial instrument with the Regional Law No. 24 of December 2016, building on the extensive experience of the RRF for interventions in the rural sector.

On 11 January 2018 the funding agreement between the managing authority and the RRF as fund manager was signed. Two weeks later the fund manager signed agreements with three financial intermediaries (Federazione banche di Credito Coop, Banca di Cividale and Banca Popolare Friuladria). In April 2019 a fourth agreement was signed with Banca Intesa-San Paolo.

Table 1: **Timeline of the financial instrument**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 1982</td>
<td>Creation of RRF (Regional Regulation 80/1982) to provide subsidised loans to agricultural enterprises.</td>
</tr>
<tr>
<td>January 2015</td>
<td>Ex-ante assessment for the use of financial instruments under the Friuli Venezia Giulia RDP finalised</td>
</tr>
<tr>
<td>December 2015</td>
<td>Presentation of ex-ante assessment to the RDP Monitoring Committee of the Friuli Venezia Giulia RDP</td>
</tr>
<tr>
<td>29 December 2016</td>
<td>Regional Law No.24 establishing the EAFRD financial instrument</td>
</tr>
<tr>
<td>11 January 2018</td>
<td>Funding agreement signed between the managing authority and the RRF manager</td>
</tr>
<tr>
<td>26 January 2018</td>
<td>Funding agreement signed with Federazione banche di Credito Coop, Banca di Cividale and Banca Popolare Friuladria</td>
</tr>
<tr>
<td>April 2018</td>
<td>First loan disbursements to final recipients</td>
</tr>
<tr>
<td>17 April 2019</td>
<td>Funding agreement signed with Banca Intesa-San Paolo</td>
</tr>
</tbody>
</table>

3.1 Ex-ante assessment

The roots of the RRF can be traced back to the earthquake that hit the Region in 1976. In August 1977, Law No. 546 established a twenty-year structural policy strategy with public contributions to encourage and promote reconstruction. This aimed at simultaneously supporting economic and social development by enhancing industrial and agricultural production, safeguarding cultural heritage and environmental protection, especially hydrogeological safety. The Region’s RDP 2014-2020 builds on this approach, especially by encouraging competitiveness and integration, territorial and environmental protection and territorial development. These are closely connected policy objectives, since enterprise competitiveness is supported together with promoting a sustainable environment.

The RRF was established in November 1982 to implement credit interventions foreseen by the structural policy strategy introduced under Law No. 546. From the beginning, a strength of the RRF was its focus on the specific financial needs of the agricultural sector. Since then, RRF has offered a variety of financial products to primary and agri-industrial businesses in the Region.

The ex-ante assessment for a financial instrument under the RDP, finalised at the beginning of 2015, analysed how the 2008-2009 economic and financial crisis negatively affected the Friuli Venezia Giulia economy and, in particular, agriculture. Between 2007 and 2013 production in the agriculture, forestry and fishing sectors decreased by 9.6% with value added dropping by 14.7%. Between 2009 and 2013, 2,681, or 14.4% of agricultural enterprises closed business.

The crisis also led to a shortage of liquidity, a lower capital base and credit rationing. Borrowers were no longer able to meet tighter funding conditions required by lenders and repayment terms became more stringent. All of these factors caused an increase in the number of enterprises in economic difficulty. Between 2007 and 2013, bankruptcy procedures increased by 124.2%, in line with the trend in North-Eastern Italy, but above the national average of +104.9%. In particular, 2013 saw 30% more bankruptcy procedures compared to 2012. There were 117 procedures per 10,000 enterprises (against 82 in North-Eastern Italy and 71 at national level).

Despite this adverse context, and although the economic crisis also negatively impacted agricultural producers and many left farming, the agriculture sector saw a significant increase in credit flows between 2008 and 2013, unlike the rest of the regional economy. Between 2007 and 2011 investments decreased by 12% at national level and about 4% in the Northeast of Italy, but in Friuli Venezia Giulia Region there was an increase of 23.9%. This was particularly evident in the most acute phase of the crisis, 2008-2009, when the rest of the country saw a drastic contraction in investment.

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6 Regional Law No. 80.
7 Lattanzio (2015), Servizio di valutazione ex ante relativa allo strumento finanziario del Fondo di rotazione per interventi nel settore agricolo - Rapporto di Valutazione, January, pp. 6-7.
8 For instance, according to the ex-ante assessment, between 2007 and 2013, lending to large enterprises decreased by 8%. Lending to small enterprises was instead positive between 2007 and 2011, but it then suffered a significant decrease in 2012-2013 (-8.4%). See Lattanzio (2015), Servizio di valutazione ex ante relativa allo strumento finanziario del Fondo di rotazione per interventi nel settore agricolo - Rapporto di Valutazione, January, p.12.
Financial resources disbursed to enterprises in the sector increased by EUR 300 million (27.7%) between 2008 and 2013, while for all other regional businesses and manufacturing enterprises they fell by 2.1% and 8.5% respectively. Sector-specific credit mechanisms (such as the RRF) undoubtedly enabled agricultural enterprises in Friuli Venezia Giulia to invest during the economic downturn and amidst constantly worsening credit conditions. The RRF was key to counterbalancing the increasing difficulties of accessing credit caused by the crisis.

The ex-ante assessment highlighted persistent problems for regional agriculture:

- The regional agricultural sector is in large part (92.9%) made up of small-sized, sole proprietorship enterprises. These have limited capacity to innovate, encourage generational renewal, strengthen supply chain relationships, or to maintain negotiating power for raw material prices.
- Based on the national ex-ante assessment for the use of EAFRD financial instruments in Italy, there was a drastic increase in the agricultural sector financial gap at national level, especially in Northern regions. Here the difference between credit demand and supply was estimated at EUR 175 million between 2010 and 2012, EUR 7 million more than the in 2007-2009 period. At regional level, a financial gap of EUR 10 million was estimated for Friuli Venezia Giulia Region, one of the lowest in Northern Italy. However, if the gap is weighted by added value, the Region is the second highest in Northern Italy (0.68%), behind Trentino Alto Adige (0.99%) and in line with Piemonte (0.67%). These estimates show that in Friuli Venezia Giulia there was still an imbalance between credit demand and supply for agriculture, higher than in neighbouring regions. As a result, the use of financial instruments was recommended to reduce this gap.

The ex-ante assessment for use of a financial instruments under the RDP of Friuli Venezia Giulia concluded that subsidised loans through an EAFRD financial instrument, building on the experience of the RRF was the most appropriate tool to reduce the financial difficulties.

### 3.2 Selection of the implementing body

Following the results of the ex-ante assessment, in December 2016 a decision was taken to entrust the RRF as the body implementing the EAFRD financial instrument, pursuant to Article 38(4)(b) (iii) of the CPR. The RRF is a public fund and, although it has no separate legal personality from the Regional administration, it provides independent asset management.

The design of this financial instrument was proposed by the RRF and management of the EAFRD Loan Fund operations financed through the RDP contribution was organised as a separate block of finance within the RRF.

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13 Regional Law No.24.
After signature of the funding agreement between the EAFRD Managing Authority of Friuli Venezia Giulia Region and the Fund manager on 11 January 2018, a call for expression of interest was launched to select financial intermediaries. All financial intermediaries in the Region, respecting the criteria set by the managing authority and willing to sign a pre-defined agreement, could participate in the financial instrument. RRF knowledge of local financial actors ensured proper evaluation of financial intermediary experience in implementing similar financial instruments, as well as their operational and financial capacity to comply with EU legislation\textsuperscript{14}.

Three intermediaries (Federazione banche di Credito Coop, Banca di Cividale and Banca Popolare Friuladria) signed agreements at the end of January 2018 and in April 2019 a fourth funding agreement was signed with Banca Intesa-San Paolo. These four intermediaries had worked together with RRF in the past, alongside other six intermediaries.

### 3.3 Funding and governance

The Region allocated EUR 16.1 million from the RDP 2014-2020 to the EAFRD Loan Fund, of which EUR 8.7 million was from sub-measure 4.1.4 and EUR 7.4 million from sub-measure 4.2.3\textsuperscript{15}. An additional EUR 76.9 million was added by the Region (through the RRF’s own resources) increasing the available amount to EUR 93 million as at October 2020. This has ensured very high leverage.

Loans can be disbursed to final recipients exclusively using capital of the Fund (from the RDP or from regional resources\textsuperscript{16}) or financial intermediaries can decide to add contributions of up to 50% of each loan.

Implementing the EAFRD Loan Fund through the RRF was a key advantage, reducing cost by using a fully operational, existing structure which benefits from the revolving mechanism.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|}
\hline
\textbf{Funding source} & \textbf{Amount} \\
\hline
Financial instrument & \\
RDP of which: & EUR 16.1 million \\
EAFRD & EUR 6.9 million \\
National/Regional resources & EUR 9.2 million \\
RFF own (Regional) resources & EUR 76.9 million \\
\textbf{Total} & \textbf{EUR 93 million} \\
Financial intermediaries & Up to 50% per loan \\
\hline
\end{tabular}
\caption{Funding sources and amount (October 2020)}
\end{table}

The fund manager checks for eligibility with EU Regulations.

\textsuperscript{14} Article 7 of EU regulation 480/2014.
\textsuperscript{15} See RDP modifications in Friuli Venezia Giulia RDP 2014-2020, v.7.1, September 2018. See also Iso Isemeri Europa (2019), Servizio di valutazione unitaria dei programmi co-finanziati con Fondi dell’Unione Europea nel periodo di programmazione 2014-2020, Rapporto Esteso 2019, July 2019
https://www.regione.fvg.it/rafvg/cms/RAFVG/GEN/programmazione/FOGLIA23
\textsuperscript{16} The two streams of resources cannot be combined.
Financial support flows through the financial intermediaries to agricultural enterprises (final recipients). The financial intermediaries bear the risk of all the operations and need to reimburse the EAFRD Loan Fund, even in cases of final recipient default.

Figure 1: Governance structure

As established in the investment strategy\(^\text{17}\), the fund manager prepares procedures and documentation concerning the financial instrument, including for monitoring, reporting and audits. The RRF is also in charge of agreements with financial intermediaries and verifying eligibility criteria for final recipient applications. In addition, it is responsible for disbursing loans through the financial intermediaries, along with the related financial and accounting management activities, as well as administrative and on-site verifications and controls. The fund manager is also responsible for information and communication related to the financial instrument, monitoring expenditure and reporting to the managing authority on implementation of the investment strategy. Finally, the RRF together with the financial intermediaries also provides assistance and awareness raising to potential final recipients.

\(^{17}\) Art. 1(7) of the funding agreement between the EAFRD Managing Authority of Friuli Venezia Giulia Region and the RRF.
4. **Implementation**

Before the dedicated EAFRD financial instrument was set up in 2018, namely between 2013 and 2017, the RRF supported 3,435 final beneficiaries with more than EUR 350 million. This consolidated experience meant that the RDP contribution to the new EAFRD Loan Fund could be made available to final recipients immediately after the first funding agreements were signed in January 2018.

4.1 **Financial products and terms**

The maximum maturity of the loans provided by the EAFRD Loan Fund is 20 years. This is longer than for loans provided by the RRF outside the EAFRD financial instrument (maximum 15 years). The fund finances up to 100% of the eligible expenditure of each investment. In addition, under the EAFRD Loan Fund eligible expenditures include VAT and working capital linked to the investment operation.

Credit risk on the loans is entirely borne by the financial intermediaries who are responsible for evaluating the creditworthiness of companies. The collateral is negotiated between the enterprises and the financial intermediary.

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>Max EUR 3 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund contribution</td>
<td>≥ 50%</td>
</tr>
<tr>
<td>Maturity</td>
<td>Between 5 and 20 years, including the grace period</td>
</tr>
<tr>
<td>Grace period</td>
<td>Max 24 months</td>
</tr>
<tr>
<td>Interest rate</td>
<td>0% on the Fund contribution; Market rate on the financial intermediary contribution.</td>
</tr>
<tr>
<td>Repayment</td>
<td>Instalments every 6 months</td>
</tr>
</tbody>
</table>
Azienda Agricola Ermacora is a family-owned wine producer in Ipplis di Premariacco, Udine Province. Founded in 1922 with only four hectares, today the company has 100 hectares of which 69 are vineyards. The two grandchildren of the founder (Antonio), Luciano and Dario, ensure continuity of the family tradition, annually producing around 250,000 bottles under 3 labels (Ermacora, Fantin Nodar, Brigai). With vineyards in the Colli Orientali del Friuli area, the wine benefits from a very favourable climate in these hills. The company has progressively increased its landholding following two criteria: acquiring areas close to existing cultivations or good size plots and maintaining a balance between the vineyard and the forest, keeping as much grassland as possible to respect the environment. In 2012 the company acquired 30 hectares of which 20 were vineyards and in 2015 an additional 30 hectares of which 20 were vineyards. With more land, at the beginning of 2019 the company decided to modernise and expand the wine cellar financed by a loan from the EAFRD Loan Fund.

Expansion of the company’s activities with new vineyards required investment to modernise and enlarge the wine cellar, equipment to stock the grapes and wine, and also improving the production process. The company had already received support from the RRF in the past and decided to ask for a new EUR 1.35 million contribution from the EAFRD Loan Fund to finance the investments. The new cellar is 3 km from the main production site, restructuring and expanding its capacity to 5,000 hectolitres. There are also new storage tanks for the grapes and wine, new refrigeration for the grapes, as well as new facilities for first winemaking and fermentation. The loan is for 15 years at 0% interest with repayment instalments due every six months. The company received 80% of the loan in January 2019 and the remaining 20% one year later.

The investment in the new winery and related facilities was completed in August 2019 and became operational with the September-October 2019 harvest. This enabled better processing, time and cost savings and in particular increased quality of the wine, a crucial factor in hillside viticulture exclusively oriented to excellence.

The loan provided by the EAFRD Loan Fund has been particularly useful and beneficial, especially the conditions and resources received in advance that allowed the investment to start immediately. Moreover, local financial intermediaries have significant knowledge of regional agricultural enterprise needs and a long-established relationship with the territory. This is another important added value of the financial instrument recognised by the company. The reporting workload was seen as easy without a significant additional burden.
4.2 State aid

The EAFRD Loan Fund complies with the CPR and EAFRD Regulations. EU regulations on State aid also apply to support for non-agricultural activities or additional resources implemented along with RDP resources. Aid is expressed in terms of gross grant equivalent (GGE). This is calculated and checked by the Fund manager as the difference between interest at the reference interest rate set by the European Commission\(^{18}\) and what is paid by final recipients (which is 0% for the RDP contribution). When applying Regulation 702/2014, the maximum aid threshold (including for financial instrument GGE) is EUR 500 000 per enterprise for tangible or intangible investments linked to primary agricultural production, and EUR 7.5 million for processing and marketing agricultural products.

Furthermore, the aid must not exceed 40% of the eligible expenditure, but may be increased by 20% for young farmers, young entrepreneurs, collective investments, or farms in areas subject to natural or specific constraints, in line with provisions of the Regional RDP 2014-2020 and EU Regulation 1305/2013.

4.3 Financial flow and appraisal process

In the appraisal process, the enterprise submits a loan request to the financial intermediary. Together with the scope and characteristics of the investments, enterprises should also provide data to verify their credit rating, to calculate the aid amount. The financial intermediary assesses the creditworthiness of the applicant and verifies the application. Then it submits applications to the RFF, highlighting the creditworthiness range for each applicant in order to calculate the aid and the collateral required from applicants (high, normal, low) using Commission methodology for setting reference and discount rates. The RRF can disburse the loan in advance to the financial intermediary.

The financial instrument provides payments in advance to financial intermediaries through an account reserved exclusively for operations linked to the financial instrument contribution, also keeping separate records for the RDP funds.

Each financial intermediary is responsible for assessing the risk of each operation. The loan can be drawn down in several tranches, with the first not less than 50% and not more than 80% of the eligible amount. The second disbursement is provided as a balance once the investment has been carried out and documented.

Repaid resources must be transferred by the financial intermediary into the RRF specific RDP account according to the repayment schedules of each transaction, even if a final recipient defaults. Each financial intermediary receives a management fee of 0.8% per annum on outstanding loans.

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For the operations, each financial intermediary provides the RRF Fund with:

- applications it intends to finance, together with documentation proving the investment expenses incurred by the final recipient;
- on repayment, the amount of principal, identification details, the date and amount of each early repayment, recoveries and repayments, as well as the interest;
- monthly, the details of operations;
- every six months, the management fee accounts.

### Azienda Agricola Cecchetto

Azienda Agricola Cecchetto Angelo was founded in 1996 to cultivate cereals and is based in Carlino, Udine Province. It also specialises in chicken breeding. In recent years it has invested in the renewal and modernisation of its irrigation system by installing five new pivot irrigation systems with an additional four planned in the near future. A pivot irrigation system rotates around a central point connected to a water supply. Centre pivot irrigation systems are popular because of their high efficiency, uniformity and ability to irrigate uneven terrain, as well as low capital, maintenance, and management costs. The system also has an electric sprinkler that can be activated remotely, increasing efficiency.

To finance one of five pivot irrigation systems, the enterprise obtained a loan from the EAFRD Loan Fund in 2019. The enterprise had previously also used support from the RRF. However, the novelties introduced with the EAFRD funding, including extending loan reimbursement to 10 years from 5 and the possibility to include VAT in eligible expenditure, made the loan conditions particularly attractive. The loan of EUR 117,000 was at 0% interest rate, with instalments every six months.

Installation of the new irrigation system has significantly increased productivity.

Moreover it considerably reduced water waste, contributing to the environment and decreasing production costs. The remote control is another added value to improve efficiency and optimise irrigation.

The loan mechanism has many key benefits, for example including VAT in eligible expenditure. In addition, the application process and loan disbursement is rapid and streamlined compared to grants or other forms of public support. Finally, the fact that finance was available in advance and quick to obtain was another important element in fast implementation of the investment, making the irrigation system operational in a very short time.
5. Output

From the start of activities in 2018 and until October 2020, a total of 443 final recipients received nearly EUR 95 million, including revolved resources, as support from the EAFRD Loan Fund. The resources provided by the RDP of EUR 16.1 million were completely absorbed during 2018, when 126 final recipients received EUR 27.3 million in total, including revolved resources.

In 2018\(^{19}\), 104 final recipients received support of nearly EUR 16.2 million under sub-measure 4.1.4, of this EUR 9 million was from the RDP (66 final recipients). Under sub-measure 4.2.3, 22 final recipients received EUR 11.1 million, of which EUR 7.3 million was from the RDP (19 final recipients). The average duration of the loans was 10 years and EUR 543 500 was repaid. The total GGE provided to final recipients was nearly EUR 3 million and the average contribution from financial intermediaries was 25% of each loan.

The financial instrument has highlighted the effectiveness of an efficient relationship between enterprises, institutions and financial intermediaries. The demand from businesses for such an instrument was so high that in its first year the EAFRD Loan Fund supported interventions that fully absorbed the RDP contribution. The interventions contributed significantly to achieving RDP objectives.

Directly transferring the benefit to final recipients, covering the full investment costs, ease of access to financing and the speed of disbursement, enabled the financial instrument to promote innovative interventions. This increased regional enterprise competitiveness and agricultural profitability which has also made the EAFRD financial instrument a success.

\(^{19}\) Lattanzio (2015), Servizio di valutazione ex ante relativa allo strumento finanziario del Fondo di rotazione per interventi nel settore agricolo - Rapporto di Valutazione.
6. Lessons learned

There are several strong points from this EAFRD Loan Fund that deserve attention. Firstly, was selecting the Fund manager (RRF) that has been operational for decades. This ensured significantly lower costs for the financial instrument design and set-up, as well as speeding up the disbursement process. A consolidated governance model, which has been operational for several years has enabled a progressive accumulation of know-how. This has efficiently affected relations across the different actors, including the selection of financial intermediaries. The involvement of local financial intermediaries is another key issue since it has ensured a proper knowledge and understanding of the financial needs of regional agricultural enterprises and an effective selection of projects to be financed. These synergies have enabled the RRF to reduce transaction costs and the time needed to sign the funding agreements, while also reaching more financial recipients.

Second, an existing revolving effect meant that less resources were added from the RDP than when setting up a new financial instrument. Moreover, since financial intermediaries bear the risk of default, the revolving nature of the instrument is ensured.

Third, over the years the RRF has achieved a high financial performance increasing the potential effect of EAFRD resources. The effectiveness and operational readiness of the RRF have been proved in the past, especially during the 2008 economic crisis. The RDP contribution and the new EAFRD Loan Fund enabled more flexibility in using the loans (i.e. including VAT and extending the duration to 20 years). This has further ensured leverage and absorption also in the 2014-2020 programming period. A high response from applicants indicate that the instrument is efficient, useful and appreciated by final recipients. This was also possible thanks to broader eligibility rules under the EAFRD taken on board by the EAFRD managing authority when setting up the financial instrument. Additional benefits derive from the availability of data related to Loan Fund performance that highlight the attractiveness and increase the visibility of the financial instrument, which leads to less effort in promoting it.