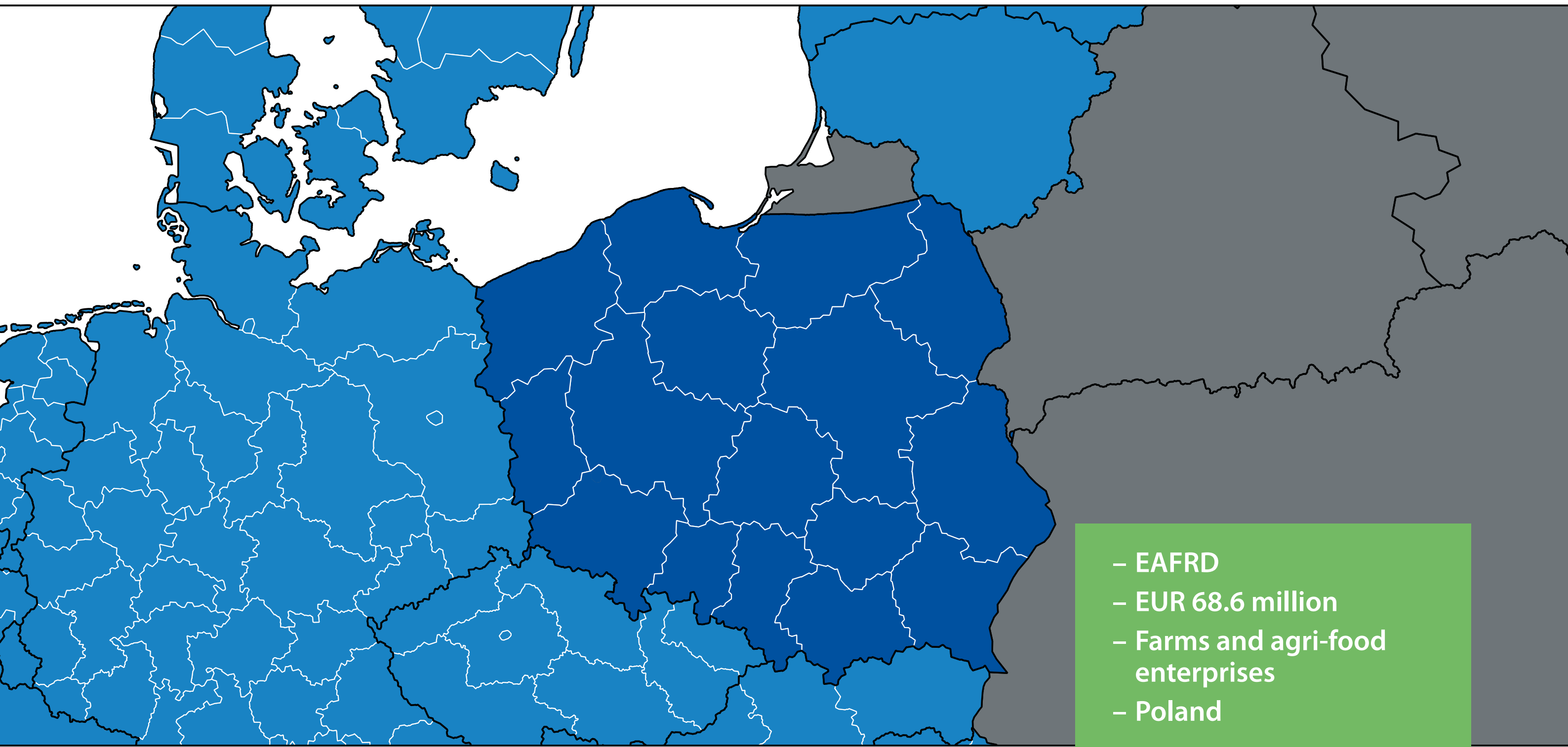

- EAFRD
- EUR 68.6 million
- Farms and agri-food enterprises
- Poland

... enabling access to finance for agricultural holdings and agri-food businesses ...

EAFRD guarantee fund for agriculture and agri-food businesses, Poland

Case Study

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Abbreviations

Abbreviation	Full name
ARiMR	Agency for Restructuring and Modernisation of Agriculture
BGK	Bank Gospodarstwa Krajowego
CPR	Common Provisions Regulation
EAFRD	European Agricultural Fund for Rural Development
EFSI	European Fund for Strategic Investments
ESIF	European Structural and Investment Funds
GGE	Gross Grant Equivalent
MRiRW	Ministry of Agriculture and Rural Development
RDP	Rural Development Programme
SMEs	Small and Medium Enterprises
TFEU	Treaty on the Functioning of the European Union

Table of contents

1. Summary

This case study reviews the implementation of the European Agricultural Fund for Rural Development (EAFRD) 2014-2020 financial instrument providing guarantees to farms and agri-food enterprises in Poland. The instrument aims to fill a financing gap affecting small and medium-sized agricultural holdings and to a lesser extent large farm holdings and large agri-food processors. The limited access to credit for these businesses is mainly due to insufficient collateral and to a smaller degree also to high interest rates and an insufficient grace period for investment loans offered by banks. The banking sector in Poland is cautious about financing agriculture due to low margins, seasonal production, the low profitability of agricultural activity and insufficient collateral.

The case study shows how access to funding can be facilitated using EAFRD guarantees, which can be combined with grants, including interest rate subsidies, from the 2014-2020 Rural Development Programme (RDP) for Poland. Guarantees are issued by Bank Gospodarstwa Krajowego (BGK), the implementing body, on loans to farms and agri-food businesses provided by a pool of commercial and cooperative banks selected through an open and transparent procedure. Guarantees cover investment as well as working capital loans eligible under EAFRD rules. The credit risk protection provided by the EAFRD guarantee enables banks to finance riskier enterprises and offer loans with more favourable collateral requirements and costs compared to standard market conditions.

The instrument was launched in 2019 with a budget[1] of EUR 50 million from the Polish RDP, to complement grant support measures. In response to the COVID-19 pandemic, the financial instrument structure was revised in May 2020 to facilitate access to working capital loans supporting financial liquidity for the target groups. An interest rate subsidy to reduce the cost of working capital loans was also introduced[2] under the instrument, with an additional budget of EUR 18.6 million from the RDP. Offering the interest rate subsidy alongside the guarantee is an example of combining support in one operation under Article 37(7) of the Common Provisions Regulation (CPR). In July 2021 the instrument's budget was revised with an increase of the guarantee fund capital to EUR 62.36 million and a corresponding reduction in the interest rate subsidy budget to EUR 6.24 million. The total RDP contribution to the Guarantee Fund remained unchanged.

Final recipients immediately showed a significant interest in the instrument, in particular the COVID-19 liquidity support loans. **As of June 2021, a total of 3 489 guarantees were issued, covering loans of about EUR 145.5 million.** These include 3 241 'COVID-19 working capital loans' totalling EUR 90.2 million with guarantees of EUR 72 million.

Designed specifically for agricultural and rural entrepreneurs, this repayable support is proving to be a successful tool for achieving RDP objectives, as well as helping farms and agri-food enterprises to overcome liquidity constraints caused by the COVID-19 pandemic.

1 The EUR/PLN exchange rate applied throughout the document is the European Central Bank rate as at 30 August 2021, 1 EUR= 4.5678 PLN.

2 Taking advantage of the options under Articles 37(7) and (8) for combining financial instrument support with grants in the form of interest rate subsidies under the Common Provisions Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1303&from=EN. See also the fi-compass Factsheet – Responding to the COVID-19 crisis through financial instruments. Available at https://www.fi-compass.eu/sites/default/files/publications/Responding%20to%20the%20COVID-19%20crisis%20through%20financial%20instruments_0.pdf.

The EAFRD guarantee fund is the first experience with financial instruments for the EAFRD managing authority in Poland (Ministry of Agriculture and Rural Development - MRiRW). Building capacity and knowledge for national stakeholders about this type of support was key to 'getting going' with the instrument under the RDP. The managing authority also participated in fi-compass targeted coaching delivered in cooperation with DG AGRI, which deepened their understanding of this form of support. In the process of design and set-up, the managing authority could also count on their experience with other financial instruments established under Cohesion Policy, some of which are also managed by BGK. Also, the paying agency (Agencja Restrukturyzacji i Modernizacji Rolnictwa – ARiMR) had experience of managing nationally funded measures to improve access to credit for farms and agri-food enterprises.

EAFRD guarantee fund for farms and agri-food businesses in Poland

THE FINANCIAL INSTRUMENT

Funding sources

EAFRD, Rural Development Programme 2014–2020, Poland

Type of financial products

Guarantees for investment and working capital loans
Interest rate subsidies for working capital loans guaranteed by the instrument

Financial size[3]

EUR 62.36 million from RDP resources (EUR 39.68 million from EAFRD, EUR 22.68 million from national funding) to establish the guarantee financial instrument.
EUR 6.24 million from RDP resources (EUR 3.97 million from EAFRD, EUR 2.27 million from national funding) to provide interest rate subsidies on 'COVID-19 working capital loans'.

Thematic focus

Investments in agricultural holdings (focus area 2A)
Investments in processing and marketing agricultural products (focus area 3A)

Timing

From 2019 to 2025

Partners involved

MRiRW (managing authority)
BGK (implementing body)
ARiMR (paying agency)
Selected credit and financial institutions (financial intermediaries)

ACHIEVEMENTS

Absorption rate

Estimated at 40% as of June 2021

Expected EU leverage[4]

9 times

Expected leverage of public resources[5]

5.8 times

Main achievements

As of June 2021:
- 3 489 operations approved;
- Loans signed for EUR 145.5 million;
- Guarantees cover EUR 114 million of loans.

Of these, working capital operations under the COVID-19 special rules were:
- Loans: 3 241;
- Value: EUR 90.2 million;
- Guarantees: EUR 72 million;
- Interest rate subsidies: EUR 1.6 million.

3 The budget in the table reflects an adjustment adopted in July 2021.
4 EU leverage is calculated as the estimated total amount of finance to eligible final recipients, i.e. EUR 361.7 million (based on the maximum portfolio size), divided by the total amount of EAFRD allocation to this financial instrument, i.e. EUR 39.68 million, including management fees. It does not include the reuse of resources returned to the instrument.
5 Leverage of public resources is calculated as the estimated total amount of finance to eligible final recipients, i.e. EUR 361.7 million (based on the maximum portfolio size), divided by the total amount of public resources allocated to the financial instrument, i.e. EUR 62.36 million, including management fees. It does not include the reuse of resources returned to the instrument.

2. Objectives

The Polish Rural Development Programme 2014-2020 supports, among others, the agriculture and agri-food sectors as well as Polish rural areas with a budget totalling more than EUR 13.5 billion, including national co-financing. The programme did not originally foresee the use of financial instruments. However, two subsequent assessments of the financial market for farms and agri-food enterprises in 2016 and 2019 highlighted important constraints in access to finance, in particular for small and medium-sized agricultural holdings. This limited access to credit was mainly due to insufficient collateral and to a lesser extent to high interest rates and an insufficient grace period for investment loans offered by banks.

In order to help farms and agri-food businesses overcome these difficulties and to improve their access to finance, the EAFRD managing authority decided to implement a guarantee instrument which, after preparatory work, became operational in the second half of 2019. The guarantees cover investment loans as well as working capital loans. The credit risk protection of the EAFRD guarantee enables banks to finance riskier enterprises and to provide loans with more favourable collateral requirements and at reduced costs compared to standard market conditions.

The financial instrument was set up to support final recipients to obtain loans for operations under the Polish RDP 2014–2020 sub-measures: 4.1 'Investments in agricultural holdings' and 4.2 'Investments in processing and marketing agricultural products'.

The financial instrument contributes to priorities 2 'Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and the sustainable management of forests' and 3 'Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture'. More specifically, it contributes to focus areas 2A and 3A[6].

Initially, financial products offered under the instrument included guarantees for investment loans and working capital linked to the investment, in line with EAFRD rules applicable at the time. In May 2020 changes in the CPR were introduced by the Commission and the co-legislators, allowing stand-alone working capital finance for SMEs under EAFRD financial instruments. This enabled the Polish instrument's rules to be amended so businesses affected by the COVID-19 pandemic could obtain guarantees on stand-alone working capital loans (i.e. not linked to investment operations), together with a grant in the form of an interest rate subsidy on such loans, combined in one operation as allowed by Article 37(7) of the CPR[7].

6 Focus area 2A: 'Improving economic performance of all farms, farm restructuring and modernisation', Focus area 3A: 'Improving competitiveness of primary producers by better integrating them in the agri-food supply chain'.

7 The changes to the instrument were possible also thanks to the EU Coronavirus Response Investment Initiative (CRII) and CRII Plus, which amended the rules for ESIF financial instruments and introduced new flexibilities. The measures include amendments to the CPR, European Regional Development Fund and EAFRD regulations and the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak. Further information available at https://www.fi-compass.eu/publication/factsheets/factsheet-responding-covid-19-crisis-through-financial-instruments.

3. Design and set-up

The managing authority completed the ex-ante assessment for the use of financial instruments under the RDP in March 2019. In April, the necessary amendments to the RDP were approved by the European Commission. This process was followed by completing legal and contractual arrangements with the implementing bodies. In November 2019 the instrument was already fully operational and the first guaranteed loan had been issued.

Just a few months later, the Covid-19 crisis emerged, which had an impact on the economy and the demand for business loans. Following the new possibilities allowed by the CPR, the instrument was modified to broaden its scope and offer liquidity support to SMEs in agriculture and agro-food processing affected by the pandemic. The funding agreement was amended in May 2020 and the first 'COVID-19 working capital loan' was issued a month later. In July 2021, a further change to the instrument's budget was approved, increasing the amount dedicated to guarantees, with a corresponding reduction in the budget for interest subsidies (see details in Section 3.3). The main implementation steps are summarised in Table 1 below.

Table 1: Timeline of the financial instrument

Date	Event
February 2019	Ex-ante assessment
March 2019	Ex-ante risk assessment
March 2019	Amendment of the national law for the RDP 2014-2020
April 2019	Amendment of the RDP 2014-2020
June 2019	Polish Government approved amendments to the government programme supporting entrepreneurship with the use of guarantees and sureties of BGK
July 2019	Signature of the funding agreement with BGK
September 2019	Signature of the first operational agreement between BGK and a financial intermediary
November 2019	First guaranteed loan provided
May 2020	Amendment of the funding agreement with BGK to introduce COVID-19 related changes and a budget increase
June 2020	Signature of amendments to the operational agreements between BGK and the financial intermediaries in relation to the COVID-19 changes
June 2020	First 'COVID-19 working capital loan' provided
November 2020	Marketing campaign to promote the instrument, including through national TV channels
January 2021	Amendment of the funding agreement to extend the 'COVID-19 working capital loans'
July 2021	Budget modification with an increase in the RDP commitment for guarantees and a corresponding reduction in the budget for interest rate subsidies

Source: MRiRW, Poland, 2021.

3.1 Ex-ante assessment

The EAFRD managing authority conducted a first assessment of the market in 2016[8]. This study analysed access to finance for farms with a standard output of between EUR 10 000 and EUR 200 000 based on the access criteria for the Polish RDP sub-measure 4.1.

A second market assessment was conducted under the fi-compass[9] platform in 2019 to evaluate the feasibility of a combined use of resources from EAFRD and the European Fund for Strategic Investments (EFSI)[10] in a financial instrument under the Polish RDP 2014-2020, building on the novelties of the Omnibus Regulation[11]. The feasibility study also extended the scope of the analysis, covering all potential final recipients under sub-measure 4.1 (i.e. without applying an upper limit to the volume of loans or the size of the final recipient), as well as all potential final recipients under sub-measure 4.2.

Based on these documents, in March 2019 the managing authority completed the ex-ante assessment for the use of financial instruments under the RDP, in compliance with Article 37.2 of the CPR.

Data and information for the ex-ante assessment were collected using:

- Desk research of documents and data regarding the sector, including policies and programming documents, statistical data, previous evaluations and sectoral evaluations;
- Interviews with stakeholders covering both demand and supply sides, including representatives from the private and public sectors (banks, agricultural organisations, development agencies, etc.) to collect qualitative data on the demand and supply of finance for the agricultural sector, as well as to gather the views of policy makers, other bodies and key experts;
- Computer Assisted Telephone Interviews of farms and agri-food processing enterprises;
- Online surveys of financial institutions, including representatives of the largest commercial and cooperative banks involved in agricultural financing, loan funds and guarantee funds;
- Focus group with representatives of financial institutions, the Ministry, the European Investment Bank and the European Investment Fund.

The financing gap for medium and long-term loans was estimated to be PLN 11.6 billion (approx. EUR 2.54 billion) for agricultural holdings and PLN 0.2 billion (approx. EUR 44 million) for food processing companies. No estimate for short-term loans was provided.

The ex-ante assessment indicated that the financing gap mainly impacted small and medium-sized agricultural holdings, while large agricultural holdings and large food processing enterprises were affected less. The main obstacles to accessing finance for both groups were similar, i.e. high collateral requirements, high interest rates and an insufficient grace period for investment loans offered by banks.

8 ECORYS, 30 November 2016, Ex-ante evaluation of the appropriateness of using financial instruments under the Rural Development Programme 2014-2020.

9 fi-compass, 2018, Feasibility study in support of the implementation of Financial Instruments combining EAFRD and EFSI within the framework of the Rural Development Programme of Poland for the 2014-2020 programming period, Final report,2019, Ministry of Agriculture.

10 The study was conducted under the DG AGRI EAFRD-EFSI initiative. Further information available at https://www.fi-compass.eu/news/2016/12/new-eu-investment-initiative-boost-financing-rural-economy.

11 Regulation (EU, Euratom) No. 2018/1046 of the European Parliament and of the Council (the Omnibus Regulation) on the financial rules applicable to the general budget of the Union, repealing the previous Financial Regulation No. 966/2012 and introducing changes to several sectoral regulations, including targeted changes for financial instruments in Title IV of the CPR: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R1046&from=EN.

Based on information from commercial and cooperative banks in Poland, the ex-ante assessment expected agricultural holdings to increase their demand for finance. In addition to long-term financing sought by farmers, the need for working capital loans was also mentioned during the interviews and the focus group.

On the supply side, the needs of financial intermediaries to increase lending to the agricultural sector differed significantly depending on the type of intermediary. Commercial and cooperative banks signalled they would need guarantees to enable them to increase their activity. Guarantee funds would prefer counter guarantees and loan funds would require funded debt instruments. In addition, the banking sector highlighted another aspect of agricultural lending in Poland: existing legal restrictions to recovering agricultural assets as collateral[12]. A guarantee financed by RDP 2014-2020 funds could solve this issue.

Given the above factors, a guarantee instrument was suggested as a more suitable product than a funded instrument. Providing financial intermediaries with credit risk coverage on a new portfolio of loans was expected to result in more loans to agricultural holdings and food processing companies.

Regarding State aid, the study expressed the need to implement a system that is sufficiently simple for the financial intermediaries to manage. In this context, use of the *de minimis* regime for all investments outside of Annex I of the Treaty on the Functioning of the European Union (TFEU) was also suggested.

The main proposals in the ex-ante assessment were:

- Key-success factors for the correct and effective implementation of the financial instrument are the investment strategy and the design of the financial product (i.e. the eligibility criteria for final recipients, the costs that could be financed, maturity period, interest rates and grace periods), simple procedures, time for implementation and adequate promotion of the financial instrument.
- When choosing implementation through a fund of funds, it is important that all procedures are undertaken in a timely manner (including the signing of the funding agreement, the selection of financial intermediaries, the signing of all operational agreements, the disbursement of loans, etc.).
- Other important success factors are the capacity of the financial intermediaries, including their geographical coverage and network in contact with the targeted recipients, as well as the capacity to market the new products.
- Considering the relatively small scale of resources to be allocated for financial instruments (according to the managing authority), resources under the RDP 2014-2020 should be concentrated in one financial product in the form of credit guarantees.
- The financial products should allow for the use of working capital as defined in the Omnibus Regulation.
- The proposed guarantee instrument should be offered to agricultural holdings and food processing companies independent of their size and without sectorial or geographic restrictions.
- The instrument should be considered a pilot scheme to prove the concept of using financial instruments in the agriculture sector in Poland.
- The final design of the guarantee product (capped or uncapped / size of cap or guarantee rate, pricing) should be based on market testing by the entity(ies) entrusted with implementation of the financial instrument.

12 A range of agricultural assets are excluded from the enforcement of bank loans against farmers in Poland, which means that those assets cannot be used as collateral to secure bank loans.

3.2 Selection of the implementing body

The guarantee instrument is managed by BGK according to Article 38(4)(b)(iii) of the CPR. The funding agreement between the EAFRD managing authority and BGK was signed in July 2019. In September 2019, BGK started the process of signing 11 operational agreements with financial institutions that can provide investment and working capital loans covered by the EAFRD guarantee.

BGK is the State development bank of Poland[13], 100% owned by the State. It was established in 1924 and reactivated in 1989 during the political transformation. Currently, BGK is the major institution supporting the State in the administration of socio-economic government programmes to promote entrepreneurship, as well as infrastructure and residential investment at national, regional and local levels.

BGK has a significant experience in managing EU funded financial instruments. In the 2014–2020 programming period, 15 regional authorities entrusted BGK to act as fund of funds manager of financial instruments under their ESIF regional operational programmes (e.g. Cohesion Policy). These financial instruments covered the development of micro, small and medium-sized enterprises, improving energy efficiency in housing and SMEs, renewable energy installations, as well as revitalisation and development of the labour market, in particular new jobs and financing costs related to businesses being started by the unemployed.

BGK also manages financial instruments under central government programmes funded with national or EU resources (ESIF and EU level programmes), such as the Competitiveness of Enterprises and Small and Medium-sized Enterprises and the Cultural and Creative Sectors Guarantee Facility.

3.3 Funding and governance

The financial instrument was financed initially with EUR 50 million from the RDP 2014-2020 (EUR 31.8 million from EAFRD and EUR 18.2 million from national funding). In May 2020, an additional budget of EUR 18.6 million from the RDP was allocated to provide an interest rate subsidy on working capital loans. This was followed by an additional amendment in July 2021 to adjust the respective RDP allocations for the guarantee and the interest rate subsidies provided under the instrument. The total RDP contribution to the instrument remained unchanged. The current budget of the instrument is outlined in Table 2 below.

Table 2: Budget of the financial instrument

Compartment	Funding source	Amount
Guarantee fund	EAFRD	EUR 39.68 million
	Public/National budget	EUR 22.68 million
Interest-rate subsidy	EAFRD	EUR 3.97 million
	Public/National budget	EUR 2.27 million
	Total	**EUR 68.6 million**

Source: MRiRW, July 2021.

13 Further information available at: http://www.nefi.eu/our-members/poland-bgk/#:~:text=BGK%20is%20the%20state%20development,to%20the%20public%20finance%20sector.

The entities involved in governance of the financial instrument are:

- MRiRW, managing authority of the RDP;
- ARiMR, paying agency for the RDP;
- BGK, body implementing the financial instrument;
- Commercial and cooperative banks, selected by BGK, operating as financial institutions providing investment and working capital loans covered by the EAFRD guarantee.

MRiRW, as managing authority of the Polish RDP, was key in the design, set-up and implementation of the instrument, including selection of the implementing body, BGK.

Furthermore, the EAFRD managing authority:

- provides guidance and interpretations to national actors involved in implementing the financial instrument on the applicable rules, as well as input regarding the calculation of aid to final recipients;
- monitors and controls the whole process at national level and ensures the allocation of adequate resources for this, including regular monitoring of the financial instrument budget utilisation and of tasks assigned to the cooperating entities;
- participates in related events and meetings and presents information on financial instruments under the RDP at national and EU levels.

ARiMR performs, on behalf of the managing authority, management verifications referred to in Article 9(1)(c) of Commission Delegated Regulation (EU) No. 480/2014. In addition, it collects, compiles and transmits to the managing authority all data and information on implementation of the financial instrument necessary to monitor and evaluate the programme. In order to perform these tasks, ARiMR receives the following reports from the implementing body, BGK:

- a monthly report on guarantees issued;
- a monthly report on the provision of interest-rate subsidies;
- an activity report at the end of each calendar year.

BGK has selected the financial intermediaries, which provide the loans to final recipients, through an open and transparent procedure. As part of the selection process, BGK verified a lending bank's financial and business performance and determined the guarantee limit. Following a positive assessment, BGK and the lending bank sign a framework agreement which determines the rules and details of cooperation for the guarantee product.

In accordance with the terms of the product, the lending banks are responsible for assessing the final recipients' proposals, monitoring loan transactions and recovering receivables based on their own procedures. Recoveries and recovery costs are shared on a *pari passu*[14] basis.

14 The *pari passu* principle means that all creditors in insolvency processes must share any proceeds from the sale of any of the debtor's assets, at the same time and in proportion to the debts due to each creditor.

4. Implementation

The first guarantee under the financial instrument was provided in November 2019. Currently, Polish farmers and agri-food enterprises can access the guarantee through a pool of 11 commercial and cooperative banks. The financial instrument has also contributed to the resilience of the agriculture and agri-food sectors during the COVID-19 crisis, providing liquidity through subsidised working capital loans to eligible final recipients.

In 2021 the financial instrument's operations were extended until 31 December 2025 due to the transitional period under the EAFRD.

4.1 Financial products and terms

Final recipients can access guarantees for investment and working capital loans eligible under RDP rules, provided by financial intermediaries selected by BGK. The guarantee covers up to 80% of the loan principal and is limited to a maximum of PLN 5 million (EUR 1.1 million) for farms and PLN 10 million (EUR 2.2 million) for agri-food enterprises. For entrepreneurs active in processing and marketing non-Annex I products, the limits are based on *de minimis* rules: i.e. up to EUR 1.5 million if the guarantee is for up to 5 years, or up to EUR 750 000 if the guarantee is for up to 10 years.

The duration of the guarantee is restricted to a maximum of 51 months for working capital loans (39 months for revolving credits) and up to 183 months for investment loans. The main features of the guarantee are summarised in Table 3.

Table 3: Characteristics of the guarantee product

Guarantee	
Coverage	Up to 80% of the loan
Maximum loan value	Up to PLN 5 million (EUR 1.1 million) for farms and up to PLN 10 million (EUR 2.2 million) for agri-food enterprises.
Fee	No
Duration	Up to 51 months for working capital non-revolving loans; Up to 51 months for working capital non-revolving loans to address liquidity problems linked to the COVID-19 pandemic;* Up to 39 months for revolving working capital loans (e.g. overdrafts) to address liquidity problems linked to the COVID-19 pandemic;* Up to 120 months (*de minimis*) or up to 183 months (State aid) for investment loans.
Collateral	Blank promissory note[15]
Interest rate subsidy	2% for 12 months (on working capital loans only)*

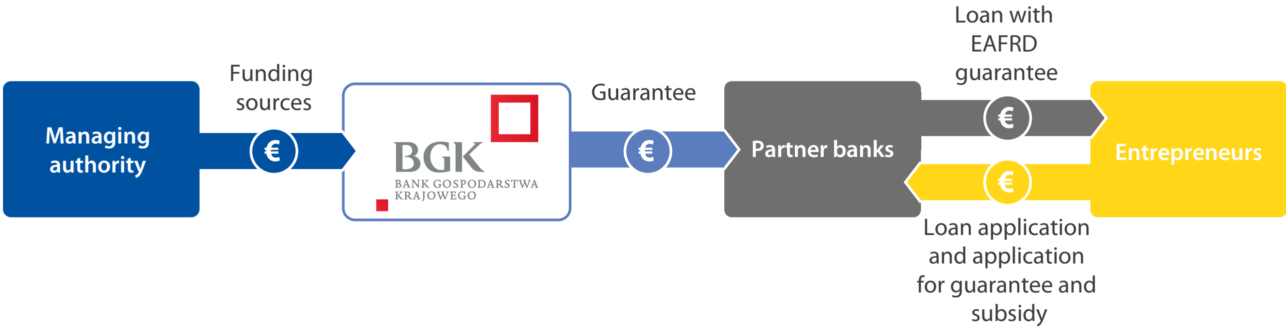
Source: BGK, 2021.

*Note: Changes introduced in May 2020 to reduce the impact of the COVID-19 pandemic crisis.

15 A promissory note is a written promise to pay another party a defined sum of money on demand or at a specified future date under specific terms. The payment obligation can be legally enforced if the terms are not fulfilled.

After the modifications related to the COVID-19 pandemic crisis were approved in May 2020, final recipients could also access stand-alone working capital loans. These can be provided as non-revolving loans, with a maximum maturity of 51 months, or as revolving loans with a maximum maturity of 39 months. The borrower can also obtain an interest rate subsidy on the loan of up to 2% for a maximum of 12 months. The working capital loans are also available as overdrafts.

Figure 1: Financial flow



Source: BGK, 2021.

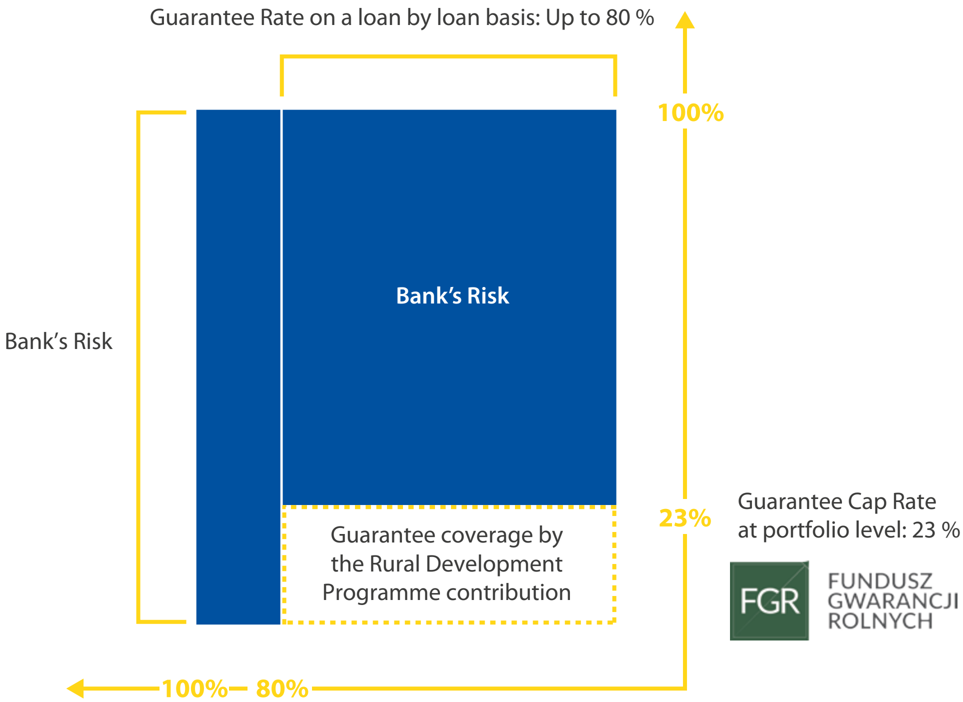
The guarantee is provided free of charge and the collateral is a blank promissory note signed by the final recipient.

A loan may be used to cover the contribution of the beneficiary for a grant under the relevant RDP measures if the Gross Grant Equivalent (GGE) of the grant and the loan taken together does not exceed the maximum established in Annex II of Regulation (EU) No. 1305/2013 and is also below the grant ceiling set out in the respective measure. A financial instrument loan cannot be used to pre-finance a grant, and grants shall not be used to reimburse support received from financial instruments.

Eligible final recipients under the EAFRD Guarantee Fund are:

- **Farmers:** SMEs engaged in economic activities concerning the primary production of agricultural products;
- **Processors of agricultural products:** SMEs engaged in registered economic activities concerning the processing and marketing of agricultural products (i.e. included in Annex I of the TFEU);
- **Processors of non-agricultural products:** SMEs engaged in registered economic activities concerning the processing and marketing of non-agricultural products (i.e. not included in Annex I of the TFEU).

Figure 2: Portfolio guarantee structure



Source: fi-compass, 2021

The managing authority conducted a separate ex-ante risk assessment for the Guarantee Fund to fulfil obligations under EU regulations.[16] The objective of the analysis was to estimate the level of expected and unexpected losses of the guarantee portfolio and to define the expected multiplier. Based on data on the quality of loan portfolios for farms and agri-food enterprises, the default risk was estimated at 23% of the portfolio value, assuming loans in the target portfolio were:

- 30% for farms;
- 70% for agri-food enterprises.

The value of the financial multiplier was estimated at 5.8, assuming an average guarantee coverage of 75% on a loan-by-loan basis. Considering the budget for the guarantee of EUR 62.36 million[17] this multiplier implies a potential portfolio of EUR 361.7 million.

The bank has to fully transfer the advantage of the guarantee to the final recipient. In particular, farms and agri-food enterprises benefitting from the guarantee can obtain:

- Lower financing costs compared to normal market practice for the same risk level;
- Longer maturity for investment loans;
- Easier access to credit for entrepreneurs without sufficient assets to secure the loan;
- No need to use own property as collateral;
- Time saving, as all formalities are dealt with directly by the lending bank;
- No costs for establishing collateral - no fee for granting the guarantee.

16 Commission delegated regulation (EU) No. 480/2014 of 3 March 2014, Article 8: Available at https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0480&from=EN.

17 Estimate including management cost and fees.

4.2 State aid

For agricultural activities supported by the EAFRD, State aid rules do not apply to the national contribution or to additional funding from national resources. In such cases support to final recipients has to comply with the EAFRD Regulation.

The benefit transferred to a final recipient through the guarantee under the financial instrument is calculated in the form of GGE. When the final recipient receives other forms of support (e.g. grants) for the same operation, the GGE of the guaranteed loan plus other forms of support should not exceed the maximum aid established under the RDP. When support is provided for investments related to products not falling under Annex I of the TFEU, the financial instrument has to comply with the *de minimis* rules set out in Commission Regulation (EU) No. 1407/2013.

If the loan is combined with any other form of support for the same project, ARiMR verifies that the maximum RDP aid for the operation is respected.

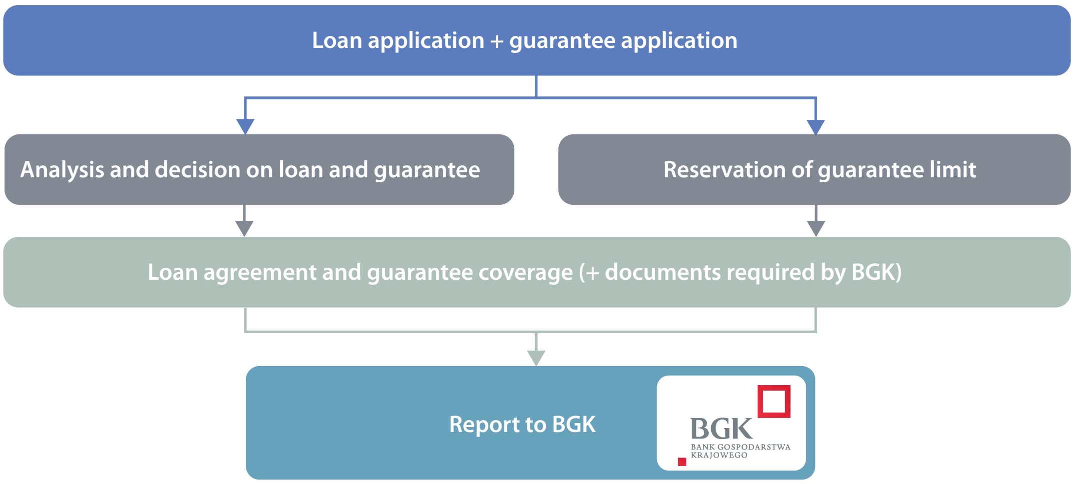
4.3 Financial flow and appraisal process

The financial intermediaries operating under the financial instrument act as a one-stop-shop for final recipients. They collect guarantee requests from potential final recipients, together with the loan applications. The banks also collect the applications under the financial instrument for interest rate subsidies for working capital loans based on the COVID-19 special measures.

For each operation, the bank conducts a parallel assessment of:

- the eligibility of the operation under the RDP rules, based on a pre-defined checklist and in compliance with the operational agreement signed with BGK;
- the creditworthiness of the project, based on its normal commercial practices.

Figure 3: Financial intermediary loan appraisal process



Source: SGB Bank SA, 2021.

If the request is approved, the bank signs a loan agreement with the final recipient and enters the loan into the registry used to manage the guarantee portfolio. In order to obtain the guarantee from the financial instrument, the final recipient has to submit a blank promissory note to the bank along with a promissory note declaration, which is a form of collateral to mitigate the risk for the guarantor. Finally, the bank issues a certificate on the GGE of the operation.

5. Output

From the start of activities in 2019 and until June 2021, a total of 3 489 guarantees covering loans for EUR 114 million have been provided under the financial instrument and the new loan portfolio reached EUR 145.5 million.

The majority of the loans relate to working capital operations under the COVID-19 special rules, in particular: 3 241 COVID-19 working capital loans were approved for a total of EUR 90.2 million with a total guarantee value of EUR 72 million. In addition, EUR 1.6 million were provided as interest rate subsidies on the COVID-19 working capital bank loans.

Investment to expand a block greenhouse

A horticultural farm specialising in cultivating vegetables received an investment loan secured under the EAFRD financial instrument to expand its block greenhouse.

Total investment is around EUR 1 million and the loan under the financial instrument from SGB Bank S.A. was for EUR 0.8 million (backed by the EAFRD guarantee). Repayment was set at 178 months. The investment aims to extend the farm's block greenhouse with equipment adapted to growing methods based on hydroponics (soilless cultivation of plants in special water media with precise control of the quantities of water, mineral salts and oxygen).

With this investment, higher yields are expected compared to traditional methods. Crops are also healthier thanks to biological control, with less pests and soil-borne diseases. Hydroponics provides tangible economic benefits with an optimal use of space, low labour intensity, water and fertiliser savings, rapid, uniform plant growth and better plant quality.

Extension and modernisation of a mushroom farm

Under the financial instrument, an entrepreneur engaged in mushroom cultivation received a long-term investment loan to enhance and upgrade his farm equipment and facilities.

Total investment is approximately EUR 1.86 million including a EUR 1.3 million loan with a maturity of 10 years from BNP Paribas Bank Polska S.A. secured by the financial instrument's guarantee.

The mushroom production is currently carried out in an area of approximately 7 300 m^2 with six levels of racks based on Phase III substrate and seven production cycles per year. With this investment, the farmer could modernise the production technology along with the necessary infrastructure, providing a basis for more production and expanding the growing area by 16 000 m^2.

The advantages for the farmer from the EUR 1 million financial instrument guarantee include a longer repayment period, lower own requirements and no need for physical collateral. In addition, the system to establish the guarantee is simple as there is no need to apply to an external institution and the guarantee is processed together with the loan.

Source: SGB Bank S.A. and BNP Paribas Bank Polska S.A., 2021.

6. Lessons learned

The market assessments conducted between 2016 and 2019 indicated clear obstacles to accessing finance, in particular for smaller agriculture enterprises. Based on this and taking into account the new legal environment in Poland and specific conditions of the Polish banking sector, the managing authority decided to establish a guarantee instrument under the RDP. The managing authority did not have previous experience of EAFRD financial instruments. Nevertheless, it could rely on the extensive experience of BGK with financial instruments under other EU programmes and national resources, as well as on fi-compass targeted coaching for EAFRD managing authorities. The paying agency also had experience of managing support measures for access to credit in agriculture.

The implementation of the financial instrument proceeded smoothly following completion of the ex-ante assessment in March 2019. In fact, four months later the financing agreement with BGK was signed and another four months after that (November 2019) the instrument had already issued the first EAFRD guarantee.

The output of the instrument after about 18 months of implementation has been very positive, with 3 489 operations approved as of June 2021, an average of 193 guarantees committed each month. The successful implementation has also shown how financial instruments can help during crisis events. Following the COVID-19 pandemic outbreak, the managing authority adapted the eligibility rules of the financial instrument very quickly to the changed market context. This enhanced the features through the introduction of an interest-rate subsidy component. The very high number of working capital loans shows how this instrument managed to concretely and quickly address real market needs.

A promotional campaign by the managing authority with an educational video and financial instrument logo, was also broadcasted on national TV networks, which contributed to the visibility and popularity of the instrument among the targeted final recipients.

In addition, BGK organised multiple training sessions and webinars for the lending banks, explaining the parameters and eligibility of the guarantees, designed to facilitate the deployment of the product. This was accompanied by a promotion campaign of the product in the mass media and during events attended by potential final recipients. A product overview and documentation is also available on the BGK website. A call centre was set up to provide information on how to benefit from the guarantee.

Close cooperation and good understanding among all stakeholders have been crucial throughout the implementation of the financial instrument. This includes interactions at various levels especially concerning EU and national rules, the banking environment and the needs of agricultural businesses. This has led to a well-designed product tailored for target final recipients.

Based on this positive experience, the managing authority is already looking to the future, with a view to ensure continuity for the instrument under the new CAP Strategic plan. This includes a possible extension of the scope of the guarantee fund to new investment areas such as renewable energy, energy efficiency and investments contributing to environmental and climate protection.

Notes

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