

- EAFRD
- EUR 16 million
- Support for farmers and agricultural SMEs
- Lithuania

...addressing economic disruptions in the agriculture sector caused by the COVID-19 outbreak...

Agriculture Risk-Sharing Loan instrument, Lithuania

Case study





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Abbreviations

Abbreviation	Full name
ACGF	Agricultural Credit Guarantee Fund
CPR	Common Provisions Regulation
CRII	European Commission's Coronavirus Response Investment Initiative
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ESIF or ESI Funds	European Structural and Investment Funds
FoF	Fund of Funds
GGE	Gross Grant Equivalent
PRSL	Portfolio Risk Sharing Loan
RDP	Rural Development Programme
SMEs	Small and medium-sized enterprises
TFEU	Treaty on the Functioning of the European Union



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1. Summary

This case study presents the financial instrument introduced for the agriculture sector in Lithuania, featuring a portfolio risk-sharing loan (PRSL) facility under a Fund of Funds (FoF) structure set up by the Ministry of Agriculture in 2021. The financial instrument is supported by the Rural Development Programme 2014-2020 (RDP 2014-2020) of Lithuania with a contribution of EUR 16 million from the European Agricultural Fund for Rural Development (EAFRD).

In order to address economic disruptions in the agriculture sector caused by the COVID-19 outbreak, rapid and targeted public support was needed to ensure that market operators retained sufficient liquidity and continued their economic activities.

The objective of the financial instrument was to enable farmers and agricultural small and medium-sized enterprises (SMEs), especially young farmers small rural businesses, to obtain loans on preferential terms for the maintenance or expansion of their activities, including new investments, during and after the pandemic. The financial instrument was expected to reduce the market financing gap and contribute to RDP 2014-2020 objectives.

To implement the instrument, the managing authority appointed the Agricultural Credit Guarantee Fund (ACGF) as manager of the FoF. ACGF has extensive experience of implementing similar financial instruments in the sector. The financial instrument is implemented through a financial intermediary, selected via an open call.

The instrument co-finances new loan portfolios built-up by the financial intermediary at a risk-sharing rate of up to 75%, while the financial intermediary shares the risk of non-repayment in proportion to its private contributions. The embedded transfer of benefits enables final recipients to take advantage of lower financing costs in the form of reduced interest rates for the entire life of the loan.

The PRSL is delivered to final recipients through three products:

- Investment loan (including purchase of livestock) potentially combined with RDP 2014-2020 grants under measure 4.1¹;
- Investment loan (including purchase of livestock) with a working capital component and potentially combined with RDP 2014-2020 grants under measure 4.1;
- Working capital loan (including refinancing) for SMEs impacted by the COVID-19 crisis that have received support under measure 4.1 of the RDP 2014-2020.

The financial instrument currently supports a portfolio of EUR 15.2 million of new loans. The current funding is based on the allocation of EUR 8 million from the RDP (half the total RDP potential contribution) and the financial participation of the financial intermediary (EUR 7.6 million). With any improved demand, the potential allocation of the remaining half could crowd-in further private resources and increase the total portfolio.

1 Measure 4.1: Support for investment in agricultural holdings, according to Article 17 (1) (a) of Regulation (EU) 1305/2013.



Agriculture Risk-Sharing Loan instrument, Lithuania

THE FINANCIAL INSTRUMENT

Funding source

EAFRD RDP 2014-2020 Lithuania

Type of financial products

PRSL (stand-alone loan or in combination with grant support)

Financial size

EUR 16 million from RDP 2014-2020, including EUR 13.6 million from EAFRD and EUR 2.4 million from national co-financing + EUR 7 598 000 from the financial intermediary.

Currently only EUR 8 million from RDP 2014-2020 have been transferred to the instrument, for a total amount available to final recipients of EUR 15 196 000, including the financial intermediary participation.

Thematic focus

Production and trade of agricultural products.

On-farm processing of agricultural products produced by agricultural holdings

Timing

From 2021 to 2025

Partners involved

Ministry of Agriculture of Lithuania (managing authority)

Agricultural Credit Guarantee Fund (FoF manager)

Medicinos Bankas (financial intermediary)

ACHIEVEMENTS

EU leverage²

2.4 times

Leverage of public resources³

1.9 times

Main achievements

By 30 September 2022, 33 loan applications had been submitted to the financial intermediary by potential final recipients for a total of EUR 2 731 535, of these 26 loan agreements have been signed for a total of EUR 1 996 783. All final recipients supported so far are natural persons (mainly individual farmers active in mixed farming, raising dairy cattle, or growing cereals, vegetables and root crops). The average loan request is for approximately EUR 80 000.

2 The EU leverage is calculated as the total amount of finance currently available to eligible final recipients, i.e. EUR 15 196 000 (based on the maximum portfolio size of the financial instrument), divided by the total EAFRD allocation to this financial instrument, gross of management fees (i.e. EUR 6 458 300). It does not include the reuse of resources returned to the instrument.

3 The leverage of public resources is calculated as the total amount of finance currently available to final recipients, i.e. EUR 15 196 000 (based on the maximum portfolio size of the financial instrument), divided by the total public resources allocated to the financial instrument, i.e. EUR 8 000 000, gross of management fees. It does not include the reuse of resources returned to the instrument.



2. Objectives

2.1. Context

The financial instrument was designed to support activities within the scope of measure 4.1 ('Investment in agricultural holdings') of the Lithuanian RDP 2014-2020. These activities include the production and trade of agricultural products as well as on-farm processing of agricultural products produced by agricultural holdings.

The priorities of measure 4.1 as defined by the RDP 2014-2020 are to i) improve the viability of farms and the competitiveness of all types of agricultural activity, improving economic efficiency and performance, and promoting innovative farming technologies and ii) promote the organisation of the food supply chain, including processing and placing agricultural products on the market. These priorities should be achieved in compliance with the relevant cross-cutting objectives of the RDP 2014-2020 such as innovation, sustainable development and climate change mitigation.

In that context and within areas defined in the RDP 2014-2020, investments should focus on technological modernisation, increase farmers' incomes from agriculture and related activities and promote the production of agricultural products with higher added value.

The capital market in Lithuania has a significant shortage of financing for agricultural operators, in particular for short-term loans. Credit institutions generally treat agricultural companies as higher-risk operators due to their seasonal activities, exposure to plant and animal diseases, fluctuations in prices for supplies and the risk of adverse climatic events. Together with a frequent lack of collateral for agricultural SMEs, credit institutions often impose strict requirements and high financing costs. Moreover, the economic crisis caused by the COVID-19 outbreak led to banks and other financial institutions significantly reducing their lending to limit additional risk-taking.⁴

On the demand side, target groups such as small holdings and young farmers face particularly extreme difficulties in obtaining market financing, especially due to high interest rates. In addition, the COVID-19 crisis increased the need for farmers and agricultural companies to access external finance for working capital, as well as to secure their own contributions for ongoing investments supported under the RDP.

The financial instrument was set up to increase the availability of funding in the sector with preferential terms for final recipients. The objective was to raise at least EUR 5 million from private sources, with a target portfolio of approximately EUR 20 million which would allow at least 100 agricultural SMEs to benefit from the instrument.

2.2. Previous experience with financial instruments in Lithuania

As a response to the 2008 financial crisis, a 'Loan Fund' was introduced in 2009 to improve access to finance for agricultural operators. It was set up by a tripartite agreement between the Ministry of Agriculture, the paying agency and the ACGF. The funding sources were EAFRD 2007-2013 with national co-financing. The financial instrument targeted the production and processing of agricultural products (i.e. the equivalent of measures 4.1 and 4.2 of the RDP 2014-2020). Between 2009 and 2010, a total of EUR 66 million was contributed to banks for the provision of soft loans, which resulted

⁴ According to the updated ex-ante assessment, total loans decreased by 10% from 2019 to the first quarter of 2020 for the agricultural, forestry and fishery sectors in Lithuania.



in 475 loan agreements with final recipients (with an average loan of EUR 139 000). The financial instrument was terminated in 2019 and was a success as it addressed the shortage of financing in the market after the crisis and helped beneficiaries of RDP 2007-2013 grants to secure financing for their own contributions to ongoing investments.

Additional benefits of the instrument came from its revolving nature, since repaid loans could be reinvested in the sector. Indeed, some of the RDP 2007-2013 reflows have been used to implement additional financial instruments in Lithuania. First, a loan instrument was launched in October 2019 to support investments in agricultural machinery and equipment with funding of EUR 2 million complemented by EUR 0.67 million from financial intermediaries. Demand for the instrument was high, so the managing authority launched a new instrument with a contribution of EUR 3.8 million, also funded from 2007-2013 reflows. This second instrument supported the purchase of agricultural machinery, equipment and more specifically livestock for dairy production.

In 2019, under the framework of the RDP 2014-2020, following recommendations of the corresponding ex-ante assessment, the managing authority set up a financial instrument for working capital financing under measure 4.1. This focused on small agricultural businesses with up to EUR 10 million of EAFRD funds. Then, in March-April 2020, a follow-up ex-ante assessment recommended setting up a financial instrument providing micro-loans for agricultural businesses affected by adverse climatic events and facing temporary difficulties. EUR 2.1 million was allocated for the instrument from the national budget.

2.3. Ex-ante assessment

An ex-ante assessment is required by Article 37 of Regulation (EU) No 1303/2013, the Common Provisions Regulation (CPR) to verify the existence of market failures and sub-optimal investment situations. It was initially carried out in 2015 and identified a shortage of market financing for investments by agriculture enterprises. The ex-ante assessment identified a financial gap of between EUR 87 million and EUR 145 million for agricultural producers for 2015-2020.

To address this gap the ex-ante assessment identified three financial instruments: a risk-sharing loan instrument, an individual guarantee scheme and support for guarantee fees.

The risk-sharing loan instrument initially envisaged in the ex-ante assessment would be funded with EUR 65.2 million of EAFRD resources to support investments under measures 4.1 ('Support for investments in agricultural holdings'), 4.2 ('Support for investments in processing/marketing and/or development of agricultural products'), 6.4.1 ('Support for investments in creation and development of non-agricultural activities') and 8.6 ('Support for investments in forestry technologies and in processing, mobilising and marketing of forest products') of the RDP 2014-2020.⁵

However, the COVID-19 pandemic brought significant changes to the financial market and the economy in general. As a response, the European Commission amended Regulation (EU) 1303/2013 to provide additional flexibility to address the negative economic consequences of this unprecedented situation. In line with amendments to the regulatory framework, the ex-ante assessment was also revised twice⁶ and the managing authority adjusted the allocation of funds and implementation deadlines. The updated ex-ante assessment concluded that due to the COVID-19 economic crisis only 15% of agricultural businesses could cover their short-term liabilities with their own funds.

⁵ Recommendations regarding the implementation of financial measures in accordance with the Lithuanian Rural Development 2014-2020 programme (2014-2020 RDP) based on ex-ante evaluation of financial instruments.

⁶ Update of the ex-ante evaluation of the implementation of financial instruments under the Lithuanian Rural Development Programme 2014-2020, July 2020 (revised 9 April 2021).



Consequently, some EUR 47.5 million of financing for agricultural sector working capital would not be covered by the market. The updated recommendation of the ex-ante assessment was to deploy a standard off-the shelf risk-sharing instrument. This would provide preferential loans of up to EUR 200 000 for working capital and/or investments to farmers (both natural and legal persons) or groups of farmers engaged in agricultural activities that comply with the intervention logic of measure 4.1 of the RDP 2014-2020. Within the measure, the instrument should prioritise financing farmers with a Standard Output (SO)⁷ of up to EUR 25 000, as well as young farmers.

3. Design and set-up

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

Table 1: Timeline of the financial instrument

Date	Event
March 2015	Ex-ante assessment for the use of financial instruments in RDP 2014–2020
July 2020	Ex-ante assessment updated due to COVID-19
October 2020	Amendment of the RDP 2014-2020
April 2021	Subsequent update of the ex-ante assessment due to COVID-19
June 2021	Funding agreement signed between ACGF and the managing authority
July 2021	Publication of the first call for expression of interest to select financial intermediaries
October 2021	Operational agreement signed between the FoF and the financial intermediary (Medicinos Bankas)
February 2022	First disbursement to final recipients
October 2023	End of the availability period under the first call

Source: Annual Implementation Report, 2021.

3.1. Selection of the implementing body

The financial instrument is set-up via an FoF dedicated to implementing a risk-sharing loan instrument in the agricultural sector. In this structure, the FoF manager selects the financial intermediary(s) to lend funds in accordance with the funding agreement.

The financial instrument is managed by the managing authority (represented by the Ministry of Agriculture) in line with Article 38(1)(b) of the CPR. The managing authority entrusted the ACGF as the body implementing the financial instrument with the creation of an FoF within the meaning of Article 2(27) and according to Article 38(4)(b)(iii) of the CPR. The latter allowed the contract to be direct awarded to ACGF as a publicly owned financial institution. The appointment of ACGF as fund manager was concluded by a tripartite agreement between ACGF, the managing authority and the national paying agency. The FoF is established as a separate block of finance.

⁷ The standard output, abbreviated as SO, is used to classify agricultural holdings by type of farming and by economic size. The standard output of an agricultural product (crop or livestock) is the average monetary value of the agricultural output at farm-gate prices over five years, in euro per hectare or per head of livestock. The sum of all the SO per hectare of crop and per head of livestock in a farm is a measure of its economic size.



ACGF has extensive experience of implementing agricultural financial instruments and was considered to have the institutional set-up, internal information infrastructure and established relations with national authorities and financial partners that would contribute to the successful implementation of the new FoF.

The selection of financial intermediaries is subject to a public tender, in accordance with the principles of equal treatment, non-discrimination, transparency and impartiality in line with the Law on Public Procurement in Lithuania. Applicants had to comply with requirements to be eligible for the tender. These included the financial institution operating under the Law of the Republic of Lithuania, able to provide financial services in the country and having assets of at least EUR 25 million. Applicants complying with the requirements would be assessed and scored based on their undertakings, such as:

- contributing more than 25% of own funds to the loan portfolio,
- a basic management fee of less than 0.5%,
- a performance-based management fee below 0.5%,
- an interest rate of less than 1.3% per annum on loans,
- the loan agreement fee to be paid by the final recipient below 1% of the loan amount.

Following this process, Medicinos Bankas was selected as the intermediary with the best terms and conditions. The operational agreement between AGCF and Medicinos Bankas was signed in October 2021.

3.2. Funding and governance

The FoF is financed under the RDP 2014-2020 with EUR 13.6 million from EAFRD and EUR 2.4 million from national co-financing. With the amount set aside for management fees, the available funding amounts to EUR 15 195 560 (of which 85% from EAFRD).

The financial instrument originally expected to support loans of around EUR 20 million, crowding-in at least EUR 5 million of private resources and creating a leverage of at least 1.6 times on the EAFRD contribution, net of management fees. During implementation, the contribution by the financial intermediary has already exceeded the minimum, which has resulted in higher leverage and consequently greater impact ([see Section 4.3](#)).

Table 2: Funding sources and amounts

Funding source	Amount
EAFRD	EUR 13 600 000
National budget	EUR 2 400 000
Total	EUR 16 000 000
Financial intermediary	EUR 7 598 000 ⁸
Total	EUR 23 598 000

Source: Funding Agreement, Operational Agreement.

In light of the experience of the Loan Fund established under the 2007-2013 period, a similar governance structure was recommended for the current financial instrument as well.

8 The contribution by the financial intermediary is based on funds available for final recipient transactions.

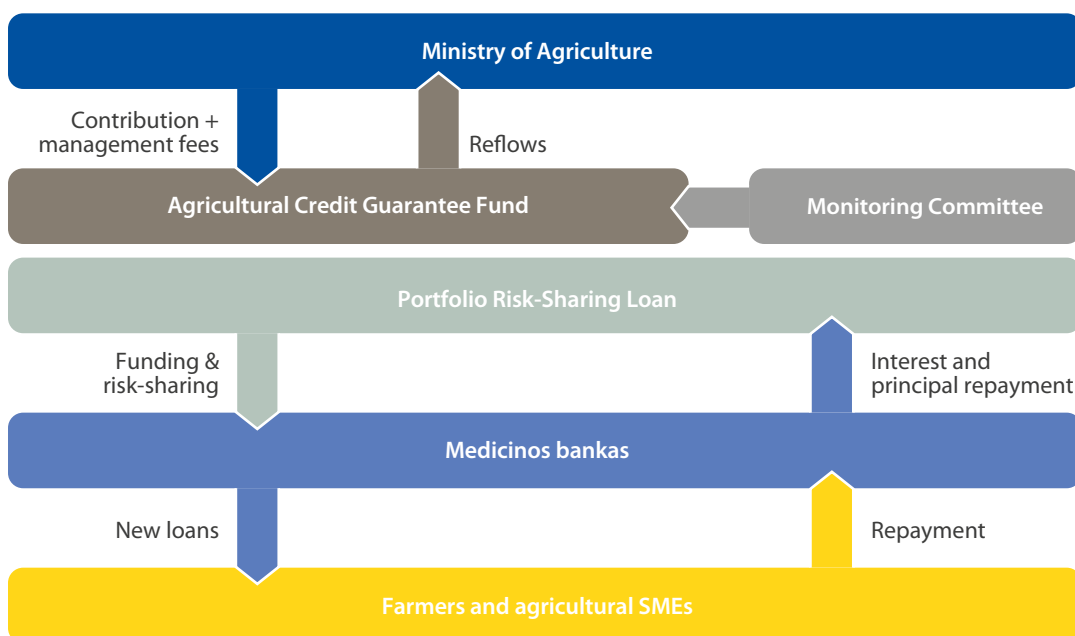


The Ministry of Agriculture is the managing authority and responsible for organising and revising the ex-ante assessment, signing the Funding Agreement, setting up the Monitoring Committee to supervise the FoF and submitting annual implementation reports. It also carries out management verifications to ensure proper implementation of the instrument.

ACGF is responsible for implementing the investment strategy, selecting and supervising bilateral agreements with financial intermediaries, preparing regular reports as well as monitoring implementation of the financial instrument.

The Monitoring Committee includes representatives of the managing authority and the paying agency. It provides proposals to review the ex-ante assessment and potential amendments to the funding agreement or the investment strategy, approves the call for selecting financial intermediaries and operationally supervises the FoF.

Figure 1: Governance structure



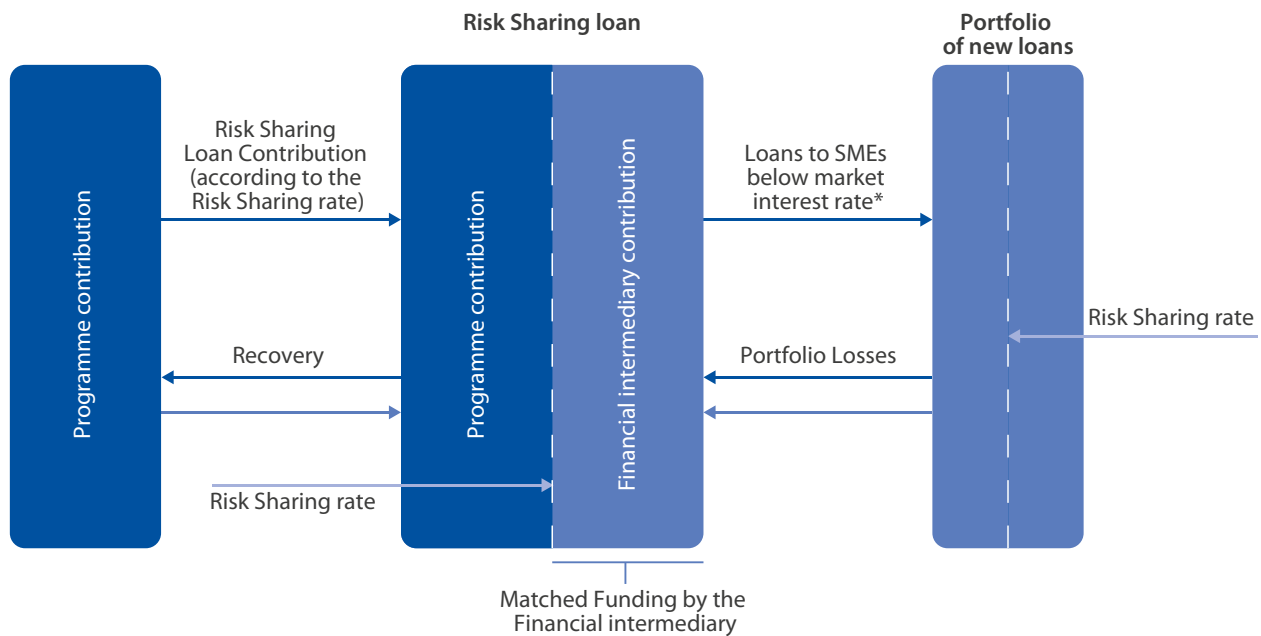
Source: Funding agreement, Operational agreement.

4. Implementation

The FoF has implemented one financial instrument. This is a PRSL, following the model laid down in Regulation (EU) 964/2014⁹⁹. It provides co-financing for a new portfolio of loans and shares the credit risk of the underlying portfolio at the risk-sharing rate, while the financial intermediary shares the risk of non-repayment in proportion to its private contributions.

The implementation mechanisms and financial flows of the 'off-the-shelf' model, provided by the EU regulation, is presented in Figure 2 below.

Figure 2: The 'off-the shelf' portfolio Risk Sharing loan model



Note: *Full Benefit of interest rate is passed to SMEs.
Source: Commission Implementing Regulation (EU) 964/2014.

4.1. Financial product and terms

The PRSL can be delivered to final recipients through three products:

- Investment loan without working capital financing;
- Investment loan with working capital financing;
- Working capital loan to mitigate the consequences of COVID-19.

The first product can support investments in tangible (including livestock) and intangible assets, as well as general costs. The second product extends the first by also financing working capital linked to the investment project, according to Article 45 of Regulation 1305/2013. Both types of loan may be combined with RDP grants under measure 4.1 to support the borrower's own contribution to the investment.

⁹⁹ 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.



The third product type is available only to micro, small and medium-sized enterprises that have already received support under measure 4.1 of the RDP and have been affected by the COVID-19 crisis. It provides for working capital financing, including refinancing existing loans in line with the provisions of Article 25 (a)(11) of Regulation (EU) 1303/2013.

The key benefit of the financial instrument for final recipients is lower credit costs in the form of reduced interest rates. A unique feature of the instrument is that the interest rate is fixed for the entire life of the loan, freeing final recipients from the risk of potential rises in interest rates.

The support can be granted for activities related to the production of agricultural products as listed in Annex I to the Treaty on the Functioning of the European Union (TFEU), excluding fishery and aquaculture products. It can be granted also to recognised agricultural cooperatives which buy and sell agricultural products produced on the farms of their members, or which process and market agricultural products bought from their members, as long as the final output is still an agricultural product as defined in the TFEU.

Final recipients must be engaged in an agricultural activity for at least one year prior to submission of their application. Income from activities during that year must represent at least 50% of the income of the final recipient. The scope of the facility does not include small, semi-subsistence farms with an SO of less than EUR 8 000.

Table 3: Financial product key characteristics

Loan amount	Maximum EUR 200 000
Risk sharing rate	Maximum 75% of each transaction ¹⁰
Maturity	Up to 5 years
Grace period	Maximum 1 year (but not exceeding the maturity)
Eligible final recipients	Farmers and agricultural SMEs established and operating in Lithuania
Eligible operations	Measure 4.1: Support for investments in agricultural holdings
Loan purpose	- Investments according to Regulation (EU) 1305/2013 - Working capital according to Article 45 of Regulation (EU) 1305/2013 or Article 25(a) of Regulation (EU) 1303/2013
Interest rate	Maximum 1.3% (0% for the risk-shared portion of the transaction) ¹¹
Transaction fee	1% of the loan amount (min. EUR 130; max. EUR 1 500)
Availability Period	24 months ¹² to build up the loan portfolio, starting from signature of the operational agreement

10 During the first call, the financial intermediary undertook a risk retention ratio of 50%, instead of the minimum 25%, which resulted in a risk-sharing rate of 50% for the financial instrument.

11 For the portfolio built up under the first call, the annual interest rate was 1.25% (0% for the risk-shared portion, and 2.5% for the risk retained by the financial intermediary).

12 For the initial call for financial intermediaries, the availability period for contracting with final recipients ends on 14 October 2023 (i.e. for the operational agreement signed on 14 October 2021).



Source: Investment Strategy of the Funding Agreement.

The financial instrument prioritises lending to small farms with an SO of up to EUR 25 000 and to young farmers¹³. For these, the financial intermediary shall reserve 40% of the budget for at least 6 months after signing the operational agreement. If within the first 4 months, applications submitted by these priority groups do not exceed EUR 1 million, the reserve can be lifted and the financial intermediary can then use the contributions for all eligible final recipients.

Working capital loans to mitigate the consequences of COVID-19 cannot exceed 30% of the total portfolio.

4.2. State aid

For the body implementing the financial instrument as well as the financial intermediaries State aid is excluded, since the financial intermediary and the FoF are remunerated via management costs and fees according to the regulatory thresholds. In addition, the financial advantage of the public contribution to the instrument is fully transferred to final recipients.

At the level of final recipients, the financial instrument can only support activities related to agricultural products (included in the Annex I of the TFEU), so State aid rules do not apply either. This also includes stand-alone working capital finance mitigating the consequences of COVID-19.

However, for investment loans, covering potentially also working capital costs pursuant to Article 45 (5) of Regulation (EU) 1305/2013, the aid intensity thresholds under the RDP should be respected. This means the gross grant equivalent (GGE) of each loan should not exceed a pre-defined proportion of the total eligible costs of the investment. If the final recipient receives both a loan and a grant to finance the same project, it is the sum of the grant amount and the GGE of the loan that should not exceed the applicable threshold.

When a working capital loan is provided under Article 25(a) of Regulation (EU) 1303/2013, the eligible expenditure supported by the loan shall not exceed EUR 200 000.

4.3. Financial flow and appraisal process

According to the investment strategy, the financial instrument should be implemented by building up two loan portfolios via two calls for financial intermediaries. For each call, the managing authority has allocated an equal portion of the total RDP contribution of EUR 16 million.

Under the first call in 2021, EUR 8 million was committed by the managing authority to the FoF which in turn and net of management fees committed EUR 7.6 million to the financial instrument. The financial intermediary (Medicinos Bankas) exceeded the minimum risk retention rate (i.e. 50%, instead of 25%), so it contributed the same amount as the public contribution. Therefore, a total of EUR 15.2 million has been made available to provide loans to eligible final recipients.

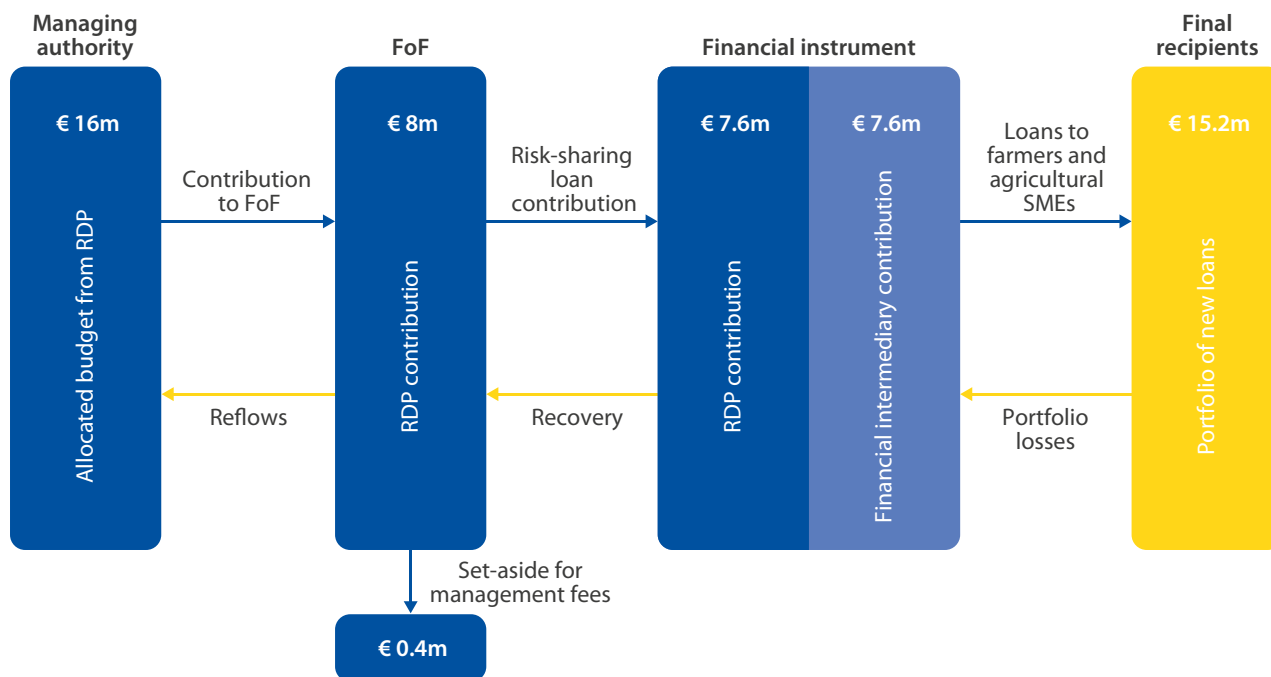
Since the commitment under the first call has not yet been absorbed, as at October 2022, the second call for the selection of financial intermediaries has not taken place.

¹³ Young farmers are heads of a farm holding, aged between 18 and 40, possess the necessary occupational skills and competences and have not been in the farming business for more than five years.



The financial flow with the current state of play is presented in the figure below.

Figure 3: Financial flow of the risk-sharing loan instrument under the first call



Source: Funding Agreement, Operational Agreement.

According to the legal basis¹⁴, payments to the financial instrument should be in tranches and linked to disbursements to final recipients. The investment strategy defined the phased payment schedule from the managing authority to the FoF with respect to each call for financial intermediaries.

Regarding the first call, the payment schedule is:

- The first tranche of EUR 4 million (25% of the RDP contribution) paid on signature of the Funding Agreement in June 2021.
- The second tranche of EUR 2 million (12.5% of the RDP contribution) to be paid once 60% of the first tranche has been used.¹⁵
- The third tranche of EUR 2 million (12.5% of the RDP contribution) to be paid once at least 85% of the previous two tranches has been used.

In addition, for a second call for financial intermediaries, the investment strategy envisaged payments in equal instalments of EUR 2 million for that part of the RDP contribution, in line with the provisions of Article 41 of the CPR.

The loan applications of the final recipients may be linked to the following categories of RDP support:

- soft loan only for investments and working capital in accordance with Article 45 of Regulation (EU) 1305/2013;
- soft loan for working capital only, in accordance with Article 25(a)(11) of Regulation (EU) 1303/2013 (until the deadline laid down in EU legislation);
- combination of investment support (non-refundable grant) and soft loan for investment and working capital in accordance with Article 45 of Regulation (EU) 1305/2013.

¹⁴ Article 41(1) of Regulation (EU) 1303/2013.

¹⁵ Funds 'used' means those paid to final recipients or used to pay management fees.



The first step of the appraisal process is the collection of final recipient's applications by the paying agency. These applications can be submitted during call periods only. So far, two calls for loan applications have been launched, one in the first half of 2021 and another in the second half of 2022. The paying agency evaluates the applications, including applicants' compliance with RDP 2014-2020 eligibility requirements and issues a certificate that is valid for 6 months.

Final recipients can then apply for a loan, presenting the application approved by the paying agency and other documents requested by the financial intermediary. These applications are processed on a 'first come first assessed' basis, where the financial intermediary analyses the applicants' solvency, liquidity, cash flow, liabilities, etc. If the final recipients' financial indicators and risk assessment are positive, the financial intermediary informs the fund manager of the loan approval. The fund manager calculates the GGE and informs the paying agency. The loan agreement is then signed between the final recipient and the financial intermediary.

When the loan is combined with a grant under measure 4.1, this information is provided in the certificate issued to the final recipient by the paying agency to ensure that all sources of project finance are taken into account during the appraisal. After the paying agency has received the information from ACGF regarding the loan and the GGE, the paying agency specifies the intensity and amount of the support (adjusting the grant if necessary) and a decision is made on offering the support. Once approved, a loan agreement is signed between the financial intermediary and the final recipient. During implementation, financial intermediaries need to confirm that separate records are kept for each source of support and cumulation rules are respected (i.e. the sum of all forms of support does not exceed the total expenditure covered and maximum aid intensity ceilings are complied with).

4.4. Monitoring and reporting

Monitoring by the FoF manager includes document verification and, where appropriate, visits to financial intermediaries as well as on-site visits to final recipients. According to the funding agreement, the fund manager shall select at least 5% of transactions for verification. The contract with the financial intermediary allows ACGF to monitor the financial intermediary, control the use of funds and their intended purpose including the investigation of irregularities. The financial intermediaries must provide, where necessary, all documents justifying proper implementation of the financial instrument and compliance of the loan agreements with the eligibility criteria both with respect to final recipients as well as the transactions themselves.

Each month the Monitoring Committee shall be provided with information on the financial intermediaries, funds disbursed to financial intermediaries, pending, approved and rejected applications submitted by final recipients, the number and amount of loan contracts signed and the amounts disbursed to final recipients.

A separate report on implementation of the financial instrument is submitted to the Monitoring Committee and the paying agency on a quarterly basis. The report details the flow of payments and reimbursements between the fund manager, the financial intermediary and final recipients.

In addition, an activity report is submitted by the fund manager to the managing authority and the paying agency by 31 March each year, including information the managing authority needs to provide in the annual implementation report to the EC according to Article 46(2) of Regulation 1303/2013.



The report consists of an overview of FoF activities during the reporting period and throughout its lifetime, the financial performance of the FoF and the financial instrument, management costs and fees, returns of funds and their re-use as well as information on risk management and control activities with any irregularities found. It also provides performance data for the RDP objectives and the investment strategy, including achievements for pre-defined indicators.

5. Output

During the two periods for final recipient applications, 191 applications were submitted to the paying agency for a total of EUR 23.3 million. During the first period in 2021, the paying agency received 141 applications amounting to EUR 16.8 million. However, after initial evaluation, only 33 applications were submitted to the financial intermediary. During the second call in 2022, 50 applications were submitted to the paying agency for a total of EUR 6.5 million. These are currently pending assessment by the paying agency.

The total financing via the 33 loan applications amounted to EUR 2 731 535. Of these 26 loan agreements have been signed for a total of EUR 1 996 783. The total disbursed is EUR 1 718 279, of which EUR 730 269 is the EAFRD contribution.

The large majority of final recipients are individual farmers (mainly involved in mixed farming, dairy cattle, sheep and goats, cereals, vegetables and root crops as well as beekeeping).

Farmer in mixed farming

Type of finance: soft loan

Purpose of the loan: purchase of machinery

Total value of the investment:

EUR 140 000 + VAT

Loan amount: EUR 67 700

Maturity: 60 months

The final recipient is engaged in mixed farming, including raising dairy and meat cattle as well as producing fodder for livestock.

The farmer was looking to increase productivity while lowering production costs by applying new and innovative technology. This needed modern equipment and agricultural machinery.

The financial instrument supported the loan provided by Medicinos Bankas to purchase new machinery, such as a tractor and a baler. The investment was supported by combining the loan and an RDP grant of EUR 70 900 under measure 4.1. The modernisation helped to introduce more efficient technology for tillage, pasture maintenance and feed preparation.

As a result, the manual work for feed production has decreased, which has improved the competitiveness of the farm. In the future, the farmer aims to increase the number of cattle kept for fattening, which would guarantee more stable and competitive selling prices.





6. Lessons learned

The financial instrument was implemented via an FoF structure that had already proved to be successful during implementation of financial instruments in the 2007-2013 programming period. The choice of ACGF as fund manager was justified by their extensive experience and strong specialisation in providing financial and business development services for the agriculture and agri-food sector. Over the past 20 years, financial instruments managed and deployed by ACGF have supported investment projects totalling over EUR 900 million.

The financial instrument has mobilised private resources with the financial intermediary committing more of its own resources than the minimum required in the call for expression of interest. As opposed to the risk-sharing rate of 75% defined in the first call (i.e. requiring a minimum 25% contribution by intermediaries) Medicinos Bankas offered to match the RDP contribution to the financial instrument (i.e. 50% risk-sharing). As a result, EUR 7.6 million of public contributions crowded-in the same amount of private resources. This shows how EAFRD financial instruments can foster greater engagement by private institutions in the agricultural sector, which has historically been dominated by non-refundable forms of support.

Despite an intensive communication campaign by ACGF with information published and regularly updated on a dedicated website¹⁶ as well as Medicinos Bankas to ensure adequate information is available about the facility, eligibility conditions and the application process, the use of funds has been relatively low so far. There is a significant divergence between the number of applicants at the initial stage of the process and the loan contracts eventually concluded. This is partially due to the presence of other financial instruments that were introduced during the COVID crisis.

In addition, the financial instrument was expected to address the immediate liquidity needs of agricultural producers whose businesses had been impacted by the COVID-19 crisis. This was implemented through a dedicated product providing stand-alone working capital specifically targeting agricultural producers that experienced temporary difficulties due to COVID-19. The purpose of the loans included securing own contributions for investments subsidised under the RDP as well as extinguishing existing debt, taking advantage of the European Commission's Coronavirus Response Investment Initiatives (CRII and CRII+).¹⁷ However, the product was restricted to agricultural producers that had already received grant financing under measure 4.1. of the RDP 2014-2020, which significantly reduced the number of potential applicants. Consequently, almost all applications were submitted for investment support, only two applications requested stand-alone working capital financing.

Despite all the challenges, the financial instrument has also contributed to strengthening institutional capacity, further developing the financial ecosystem and raising awareness among agricultural producers about alternative forms of financing. In the new programming period 2023-2027, even wider use of financial instruments is envisaged in the sector, with a particular focus on young farmers and sustainable investments.

¹⁶ Information available at: https://garfondas.lt/lt/apie_mus/apie_mus/valdomi-fondai.

¹⁷ To rapidly mobilise ESI Funds to combat the COVID-19 health and economic crisis, European co-legislators approved amendments to the CPR as part of the CRII and CRII Plus package. The first amendments set out in Regulation (EU) No. 2020/460 came into force on 31 March 2020, while the second amendments implemented by Regulation (EU) No. 2020/558 came into force on 24 April 2020.

