Financial needs in Greek agriculture and the role of financial instruments

Costas Apostolopoulos, Head of Evaluation and Institutional Support Unit, Greek Managing Authority
Outline

• Financial needs in the Greek agri-food sector
• Design and set-up of the Rural Development Guarantee instrument
• Implementation of the instrument
• Lessons learned and future planning
Financial needs in the Greek agri-food sector
A substantial financing gap identified

Ex-ante assessment (2018)
- EUR 2.1 to 2.5bn for farmers
- EUR 0.7 to 1.5bn for processors

fi-compass (2020)
- EUR 4.5 to 14bn for farmers
- EUR 1.8bn for processors
Financial needs in the Greek agri-food sector

Main reasons hindering access to finance according to the ex-ante assessment and fi-compass study

1. **Supply side**
   - **Strict lending policies by the banks**, in the aftermath of the economic crisis

2. **Supply side**
   - **Lack of sufficient competition** in the provision of finance to farmers

3. **Demand side**
   - Farmers and small processors **lack collateral and credit history**

4. **Demand side**
   - **Structural characteristics of Greek agriculture** and **strong dependance on grants**
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Design principles

1. Reduce the gap
   Leverage RDP resources as much as possible

2. Improve terms of financing
   Minimise Financial Intermediaries’ risk by covering their expected losses

3. Improve competition
   Attract as many Financial Intermediaries as possible

4. Targeted but flexible
   Target those most in need but give flexibility to combine with grants
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The investment strategy

• A first-loss capped portfolio guarantee instrument under sub-measures 4.1 and 4.2
• Loan amount between EUR 10 000 and EUR 5 000 000
• Cap rate: up to 35%
• Guarantee rate: up to 80% of each loan
• Final recipients:
  • Farmers (natural or legal persons, young farmers) with minimum economic size ≥ EUR 8 000 or collective farmers schemes
  • Processors of specific agricultural products with a final product included in Annex I TFEU
• Combination with grants (4.1, 4.2, projects in processing of agricultural products under 19.2, national grant schemes) in two separate operations
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The set-up

- **European Investment Fund** as Fund Manager
- FoF structure with **7 Financial Intermediaries**
- **RDP: EUR 80m, EFSI: EUR 20m**
- Total estimated portfolio **volume: EUR 480m**
- Expected **leverage** of RDP resources: **6x**
- **Transfer of benefit:**
  - 50% – 100% reduction in collateral requirements
  - 0.5 – 1.25 percentage units reduction in interest rates
  - 20% reduction in transaction fees
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Implementation arrangements

Simple application procedure for potential final recipients

Collect data for monitoring and evaluation

IT tool

Minimize eligibility risk for Financial Intermediaries by automating checks

Provide Financial Intermediaries with info about combination with grants
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The main functions of the IT tool

IT Tool

Calculates
Farm economic size
Type of Farming (TF)
Utilized Agricultural Area

Checks
Eligibility and consistency

Correct applications

Final Recipient

Financial Intermediary

Web service

Email

FTPS

IACS

FADN

Farm data

SO coeff
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The combination functions of the IT tool

- Compiles data from loan application and combined grant project to generate useful information for both Implementing Bodies of the grant scheme and Financial Intermediaries.
## The Rural Development Guarantee Fund

### Implementation results

<table>
<thead>
<tr>
<th>Number of applications</th>
<th>Amount requested</th>
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<tbody>
<tr>
<td>1045 unique applications</td>
<td>EUR 86m</td>
</tr>
<tr>
<td>37% combined with grants.</td>
<td>EUR 30 000 median investment amount</td>
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<tr>
<td>19% request also working capital</td>
<td>EUR 20 000 median working capital amount</td>
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<tr>
<td>88% for investments in agricultural holdings of which 10% by young farmers</td>
<td>63% for investments in agricultural holdings</td>
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<table>
<thead>
<tr>
<th>Number of loans</th>
<th>Amount approved</th>
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</thead>
<tbody>
<tr>
<td>260 approved loans (unofficial data Oct. 2021)</td>
<td>EUR 14.2m</td>
</tr>
<tr>
<td>More than 70% with no collateral requirements</td>
<td>EUR 30 000 median principal amount</td>
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<tr>
<td>98 months average maturity</td>
<td>EUR 5 000 median Gross Grant Equivalent</td>
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Some key lessons

Need for capacity... but not hard to build it

Manage expectations and align them with reality

Make it easy both for banks and recipients

Give it some time especially if it’s new

Plenty of resources

Engage all stakeholders

Allow flexibility, Use ICT

Start as early as possible

Targeted coaching fi-compass
Ex-ante assessment
Funding agreement

Paying agency
Financial Intermediaries
Final Recipients

Combination with grants
State aid free (if possible)
Simple application form
Automated checks

Design and set-up need much time
Financial intermediaries need time to digest
Final beneficiaries need time to get familiar
Forward looking
Financial Instruments in the Greek CAP Strategic Plan

• Continuation of the Rural Development Guarantee Fund

• Capacity building for the novelties of the 2023 – 2027 period
  • Targeted coaching

• Explore
  • Making use of the new provisions for combination with grants in a single financial instrument operation