



Financial instruments for agriculture and agri-food – Market consultation results

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Scope of the market consultation



✓ Goal of the market testing

- Assess the potential of new financial and advisory products to support the agriculture and agri-food sectors in the EU

✓ Geographical coverage

- 6 Member States (FR, IT, ES, PT, GR, NL)
- 15 Financial Institutions

✓ Timing of the survey

- March-April 2023

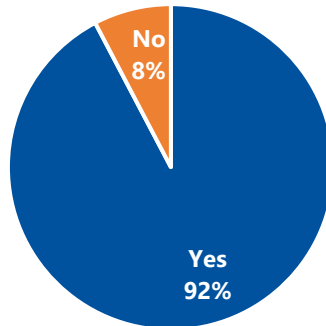
✓ Response rate

- Total number of FIs surveyed: 25
 - ☐ 13 responses to questionnaire
 - ☐ 2 interviews feedback

Current lending to agriculture



Do you expect to increase business volumes in these two sectors?

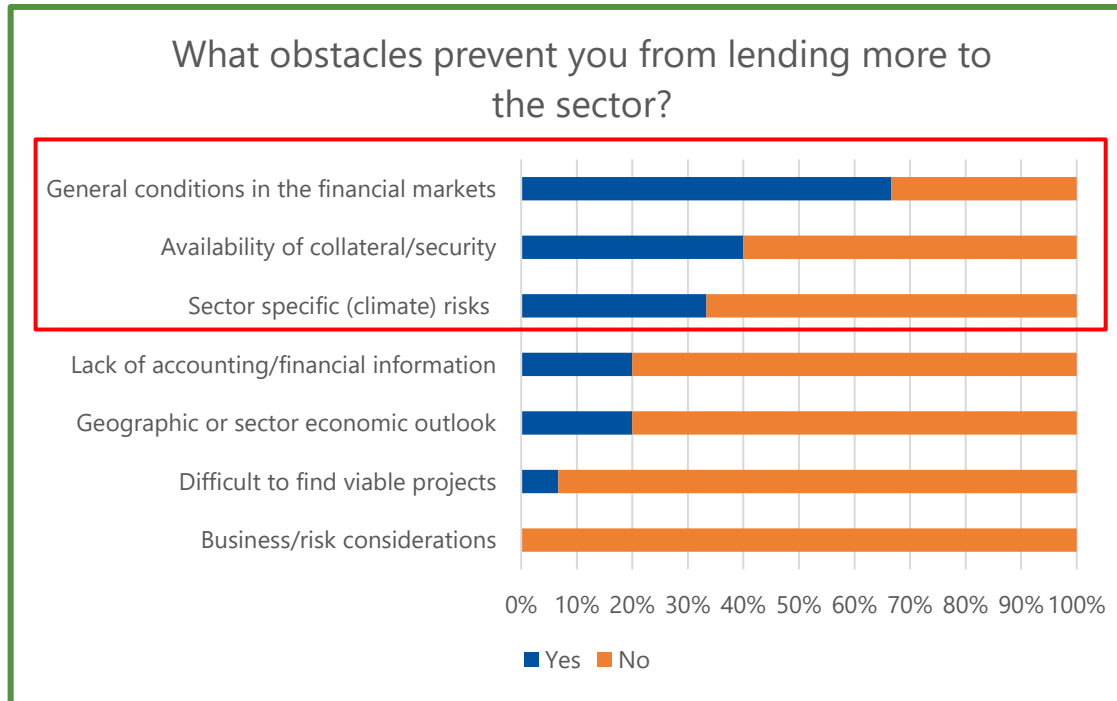


Source: EIB Group (2023): Questionnaire for market testing – Financial Instruments for agriculture and agri-food, Q.1

Number of responses: 13/15

- ✓ **Business volumes are expected to increase by almost all banks in the next 5 years**
- ✓ **Main reasons for the banks to increase lending volumes include:**
 - Sectors regarded as strategic focus by banks
 - Sectors with good credit profile, low default rates and resilience to financial crisis
 - Digitalisation, innovation and transitioning to more sustainable assets
- ✓ **Large variety in maturity and ticket sizes**
 - Transactions from EUR 1 000 to EUR 15 million
 - Maturity up to 20 years (6.5 years on average)

Obstacles to increase lending volumes

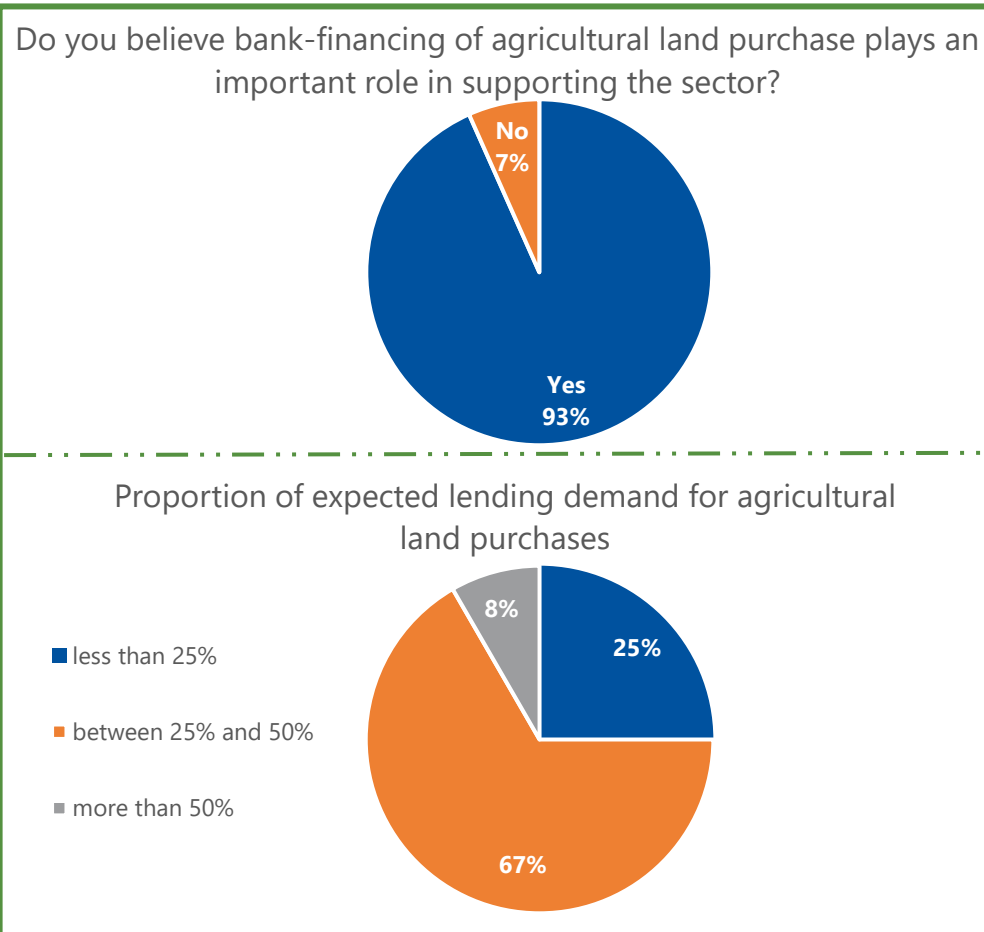


Source: EIB Group (2023): Questionnaire for market testing – Financial Instruments for agriculture and agri-food, Q. 9.

Number of responses: 15/15

- ✓ **Most important obstacles are related to general conditions in the financial market, such as:**
 - Rising interest rates reducing willingness to invest and putting pressure on margins.
 - Regulatory issues (evolution of prudent lending, Basel IV, management of conflicts of interest).
- ✓ **Lack of sufficient collateral often creates constraint**
 - E.g. when the final recipient does not own the land.
- ✓ **Sector specific risks related to adverse climate events, pests, disease outbreaks affect also lending**
 - Uncertain market conditions (e.g. price volatility) that may reduce income and repayment ability.
 - They reduce farmers' income, which affects the conditions in which they could get future credit.

Financing of land acquisition



Source: EIB Group (2023): Questionnaire for market testing – Financial Instruments for agriculture and agri-food, Q. 5

Number of responses: 15/15

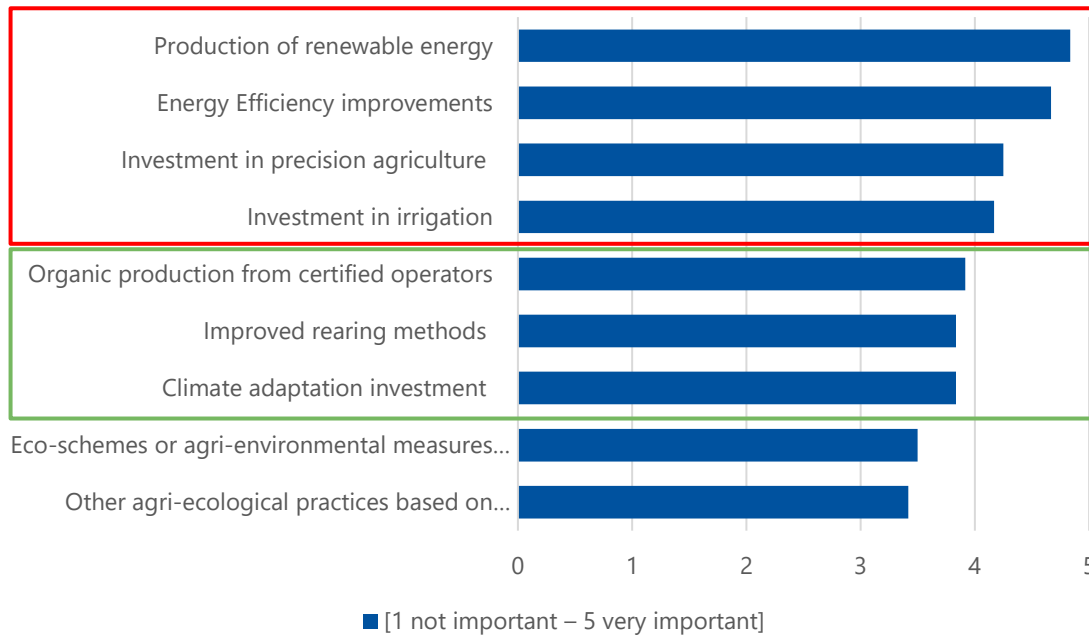


- ✓ **Strong support for the financing of land purchase**
 - Almost all banks believe that banks have an important role in financing land acquisition.
 - ✓ **The expected demand for lending is very high in that area**
 - Over 75% of the banks expect a demand above 25% of their total lending.
 - Internal thresholds to be considered, e.g. max. 70% authorised.
- ✓ **In many regions, availability of land is scarce, with increasingly high purchase price – need solutions that (re)parcel land as an attractive option.**

Lending to “green” and sustainable investments



Main “green” and sustainable investment types



Source: EIB Group (2023): Questionnaire for market testing – Financial Instruments for agriculture and agri-food, Q. 10.

Number of responses: 13/15

✓ The “green” investment types seen to be the most important by the banking sector are:

- Production of renewable energy (incl. biodigesters)
- Energy efficiency improvement
- Precision agriculture
- Investment in irrigation

✓ Typical characteristics of green investments:

- Higher risk and uncertainty due to longer return on investment
- Higher investment amounts (especially in case of RE)

✓ To consider “green interest rates”, or enhanced risk-coverage via “green guarantees” in return for meeting ESG commitments.

Interest in intermediated lending

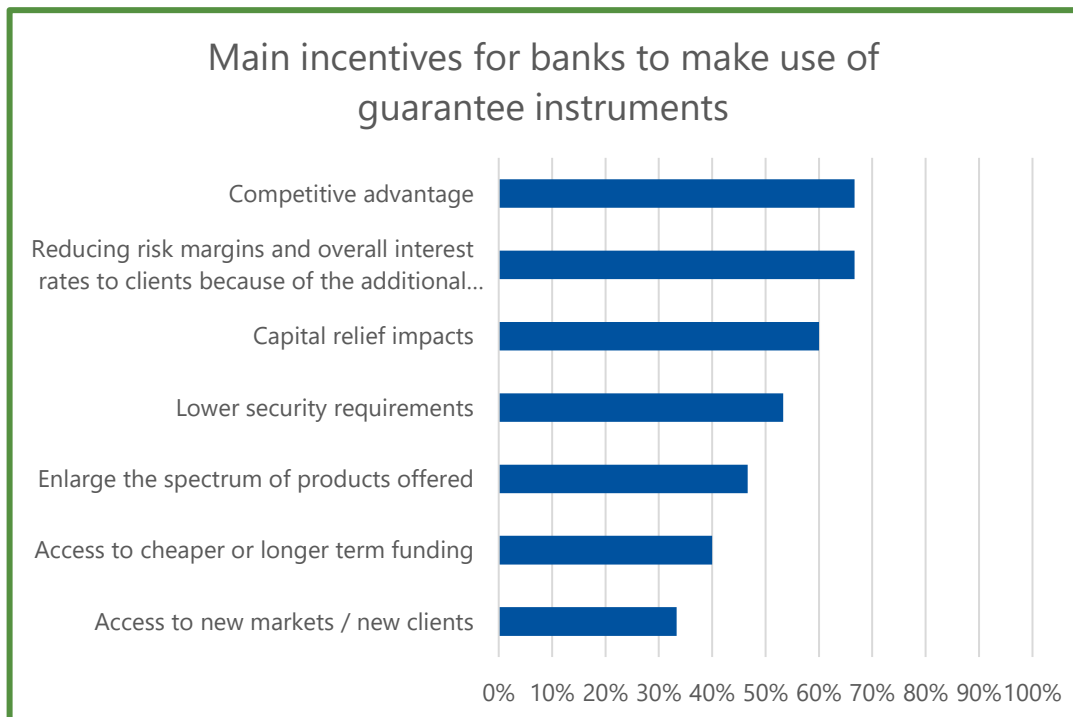


✓ **86% of banks show high interest in intermediated lending provided by the EIB**

✓ **Main features of new lending should include:**

- **Tenor:** up to 180 months, with longer maturity (15-20 years) in case of land purchase.
- **Eligibility:** investments (including land purchase) and working capital.
- **Thematic focus:** young farmers, innovation, sustainability (e.g. organic farming), diversification.

Interest in guarantee products



Source: EIB Group (2023): Questionnaire for market testing – Financial Instruments for agriculture and agri-food, Q. 18.

Number of responses: 13/15

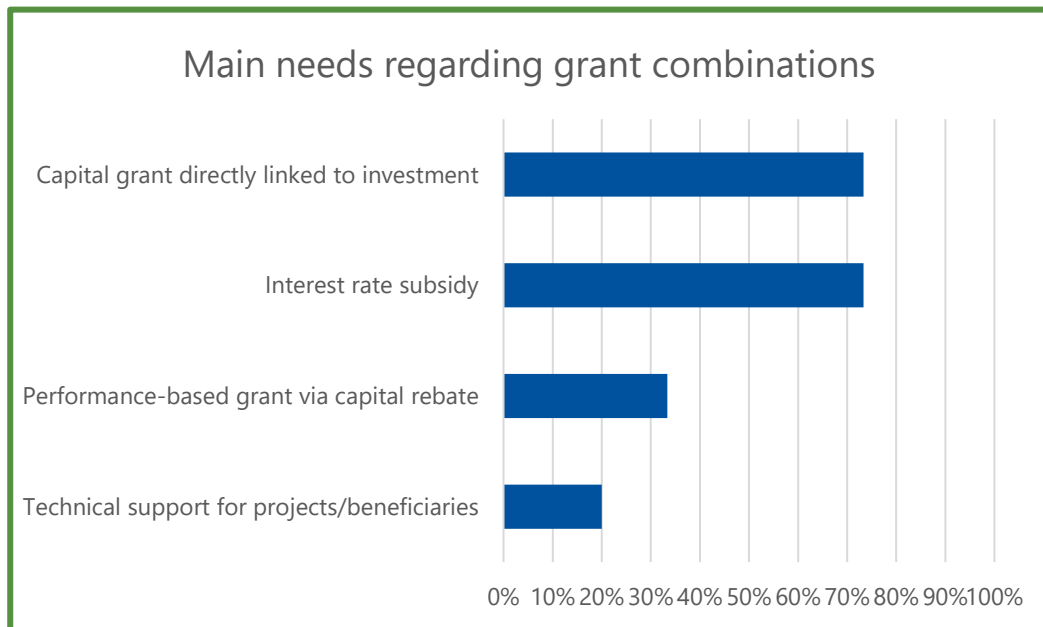
✓ Main benefits of guarantees, highlighted by banks:

- Better pricing, lower interest rates
- Faster bank approval
- Lower collateral/security requirements (no down payment or deposit requirements)
- Longer maturities
- Access to credit for lower credit risk scores
- Broader client group

✓ Main challenges of implementation:

- Verification of eligibility criteria
- Reporting
- High operating costs for limited loan amounts
- Regulatory restrictions (maturity, eligibility specifications)
- Complex procedures, long and difficult implementation

Grant combinations



Source: EIB Group (2023): Questionnaire for market testing – Financial Instruments for agriculture and agri-food, Q. 19.

Number of responses: 14/15

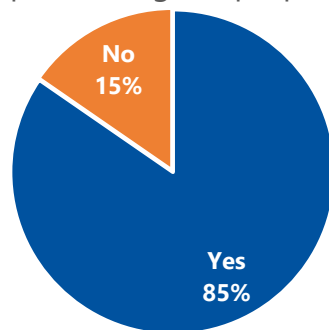
- ✓ **Main needs of the clients when it comes to grant combinations:**
 - Capital grant linked to investment and interest rate subsidy outweigh the relevance of performance-based grant and technical support.
- ✓ **40% of the banks have some experience and would be interested in managing instruments that include a grant component.**

✓ **Reservations about complexity of administration for the banking sector to implement.**

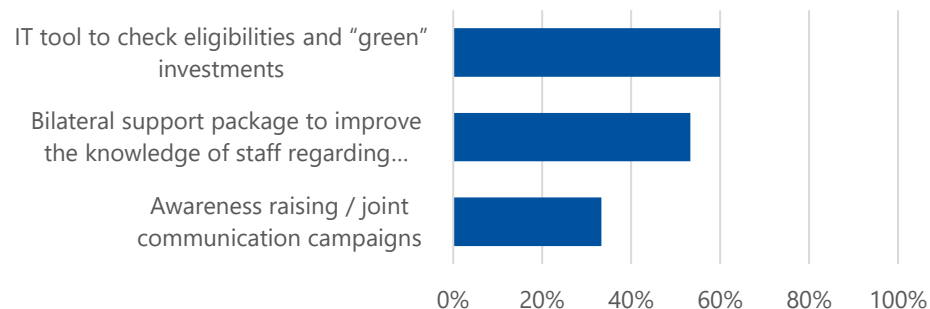
Advisory support



Do you believe that an advisory support package would be useful for implementing the proposed EIB products?



Which of the services would you find helpful?



Source: EIB Group (2023): Questionnaire for market testing – Financial Instruments for agriculture and agri-food, Q. 22

Number of responses: 13/15

✓ **Most banks are interested in advisory support:**

- Especially in implementation support (including IT tools or bilateral knowledge-raising)
- Awareness raising is less relevant for them

✓ **The majority of banks are interested in the Green Checker tool**

- 64% would find it helpful, because:
 - It would ensure that eligibility criteria are applied in a consistent way
 - Reporting could become simpler
- 36% would not need it or would be against, because:
 - Impact measurement tool already in place
 - It is difficult to understand at branch level

Conclusions



- ✓ Financial institutions show interest in the sector:
 - Almost all banks expect growth in their lending to the sector in the next 5 years
 - Many intermediaries generally see a sector with good risk profile, low default rates and resilient to crisis

- ✓ Key areas for public support: Generational renewal, land purchase, innovation, in particular related to resource efficiency, reduced pollution and climate impact (e.g. technologies for precision farming)

- ✓ But still high interest in intermediated loan facilities and/or guarantee instruments dedicated to the sector:
 - Financial provision at competitive cost and for longer maturity
 - Risk sharing solutions, to cover for collateral deficiencies or allowing for more lending
 - Grant combination e.g. in the form of interest rates subsidy would also be useful to make financing more affordable to the sector and to support more green investments



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