



Main findings from *fi-compass* ‘Study on financial needs in the agriculture and agri-food sectors in Latvia’

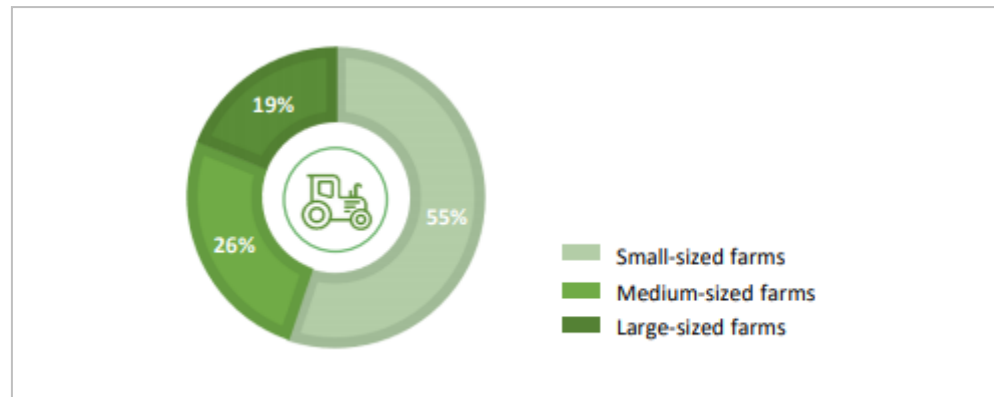
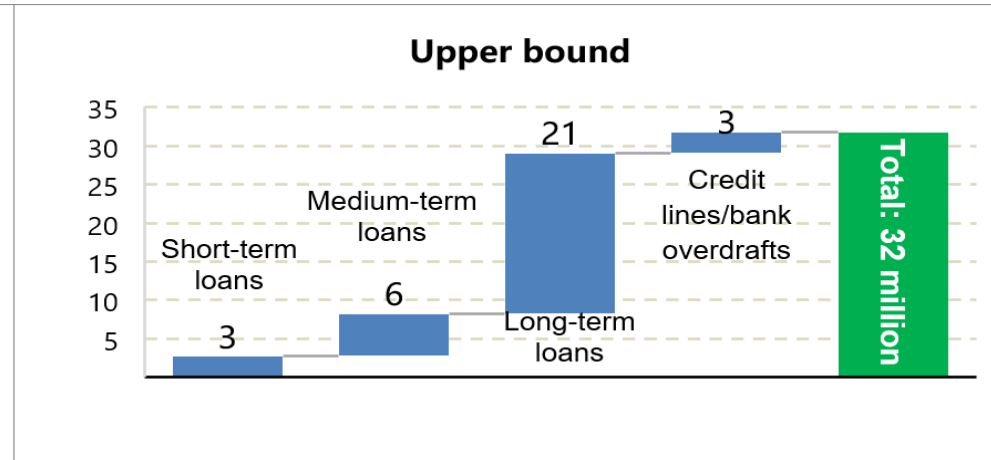
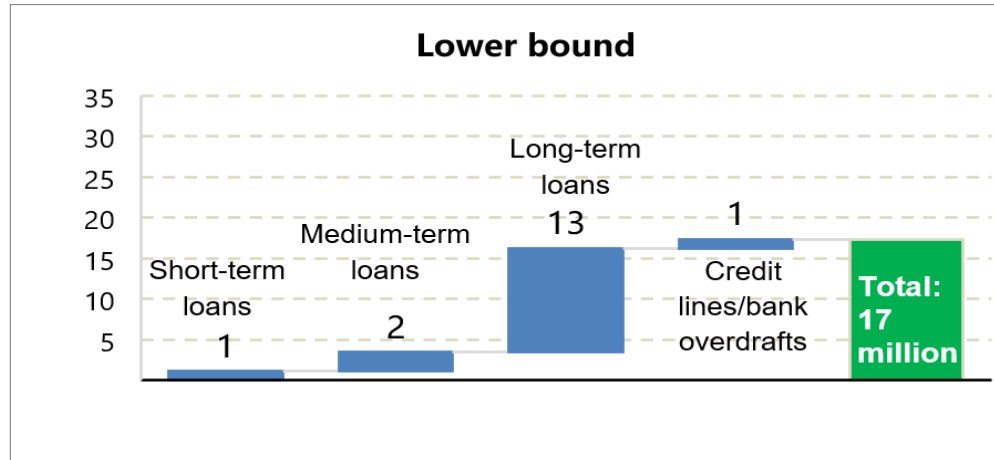
Miglena Dobрева, Financial Instruments Advisor,
European Investment Bank



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Financing gap - Agriculture

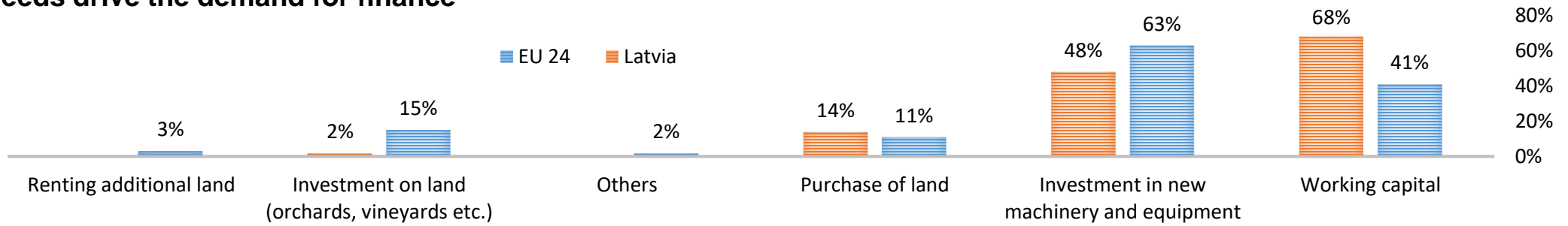


- ✓ 55% (upper bound) of the gap value relates to small-sized farms (below 20 ha)
- ✓ 75% of the gap relates to medium and long-term investment loans

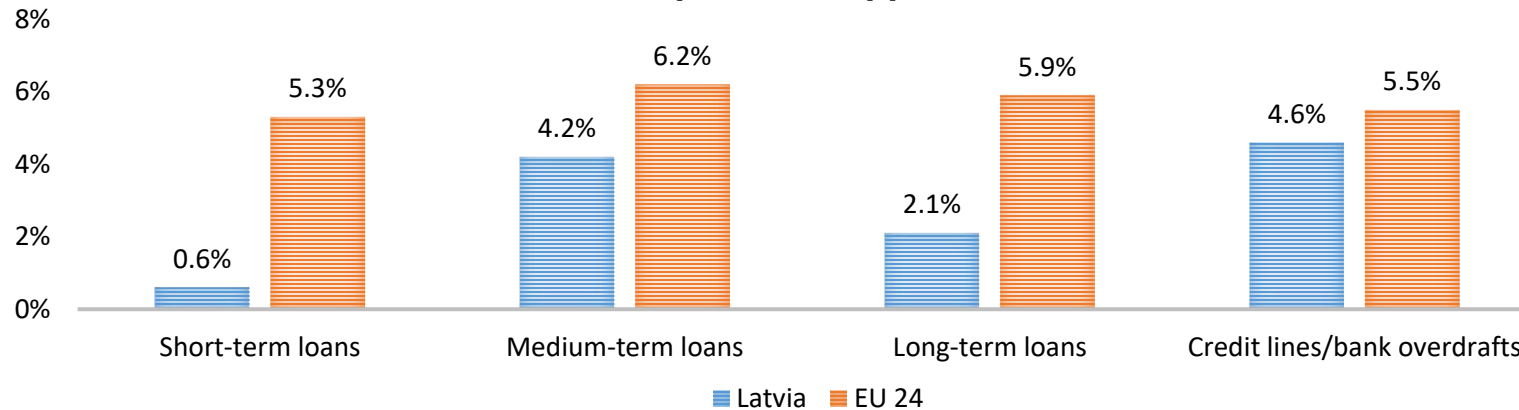
Demand and access to finance



- ✓ Positive attitude towards investment in the sector with an increase in the period 2014-2018
- ✓ Modernisation of production mechanisms and processes (incl. precision farming), purchase of land and working capital needs drive the demand for finance



✓ Financial products applied for in 2017



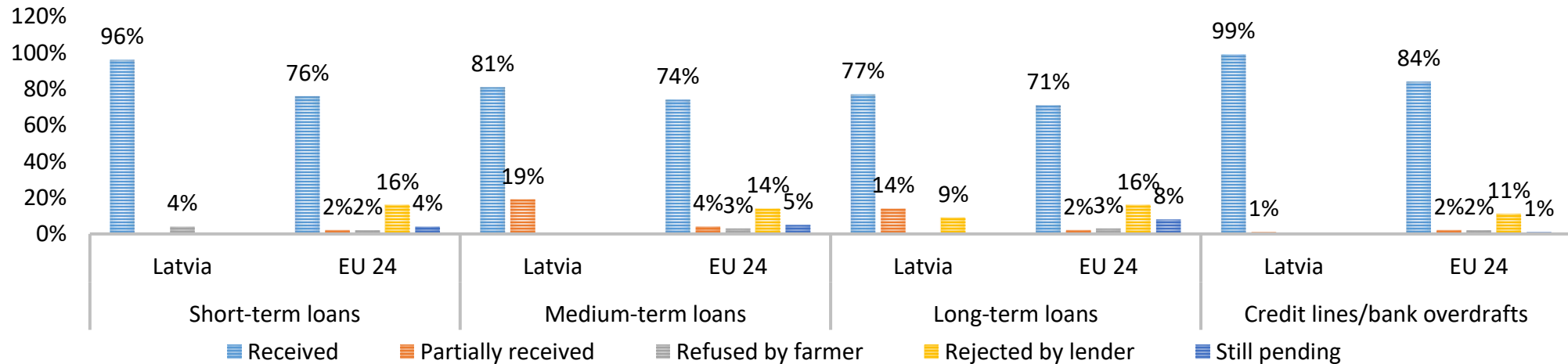
- ✓ 8.7% of farmers sought finance from private individuals such as family members or friends in 2017 compared to EU 24 average (11.4%) and slightly more popular than using banks (7.6%)



Demand and access to finance



- ✓ Agriculture cooperatives provide significant part of the working capital financing.
- ✓ Most bank loans received by the Latvian farmers are used for covering working capital needs.
- ✓ Rejection rates for loan applications are below the EU average.



- ✓ Farms discouraged from applying for loans for fear of rejections are below EU average.
- ✓ Outstanding loans to agriculture have increased by 33% in the period 2015-2017.



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Main gap drivers



Lack of collateral and own equity



- Small-sized farmers, especially young farmers and new entrants
- Available public guarantees may not help because of higher risk projects or might result in expensive loans

Lack of credit history and low financial awareness



- New entrants and young farmers lack:
- credit history
 - experience and skills to present viable business plans, and
 - typically have weak financial literacy

Supply side determinants



- High concentration of banks limit sector's choice amongst banks and other lenders
- The absence of fixed interest rate loans, which forces farmers to undertake interest rate risk
- Banks are positive towards agri sector but selective except for dominating segments such as crops and dairy farming

Insufficient provision of finance



- Inadequate supply of long-term loans (>10 years) to finance construction of buildings and the purchase of land for small farms
- Set-up of new financial products addressing sector specific needs
- Young farmers and new entrants lacking business and credit history

Recommendations



1

Specialised loans with **reduced interest rates** could help closing the financing gap **for young farmers, new entrants and small-sized farms**

2

Expanding existing offer of individual public guarantees to the sector **adding portfolio guarantees** could increase efficiency of guarantee type of financial instruments.

3

Developing financial products for integrated loans supporting young farmers and new entrants to takeover existing farms could facilitate **generation renewal**, incl. **possible combination of grants and FIs**

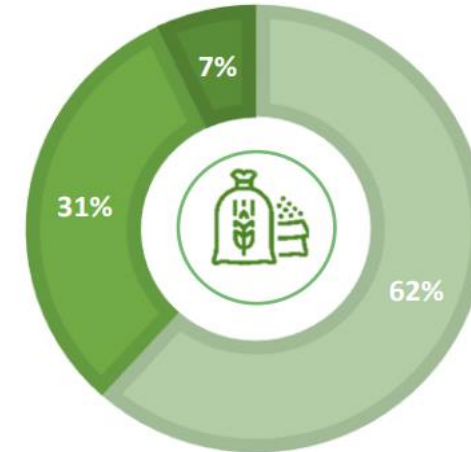
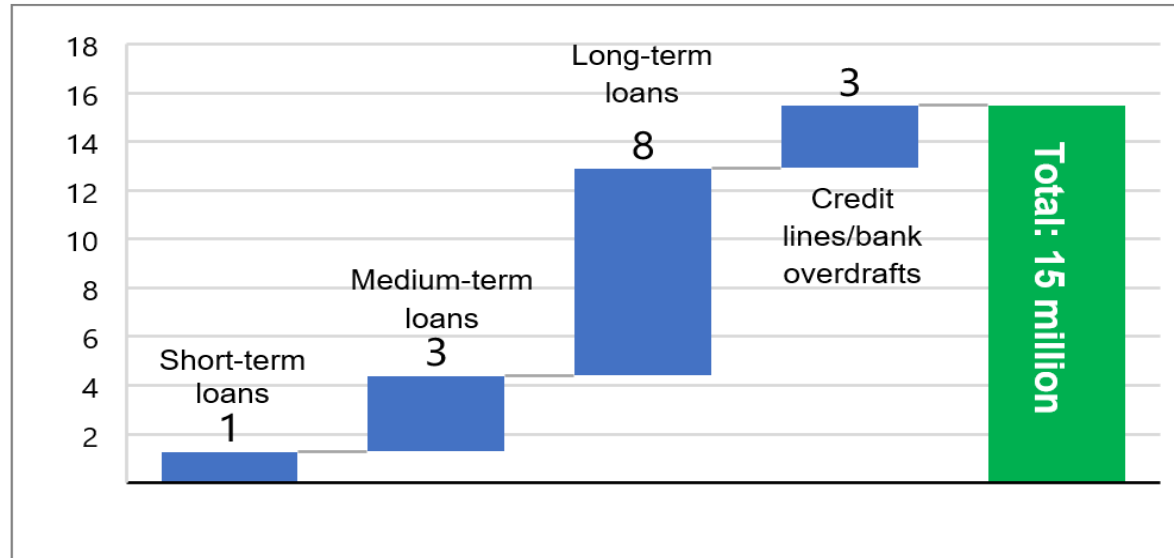
4

Financial instruments to support limited access to finance **for medium and long-term investments loans to small sized farm**, incl. possibility of **fixed-rate interest**, (e.g. for construction of agricultural buildings, purchase of agricultural land, etc.)

5

Technical support could be provided to strengthen **farmers' financial management capacities** to develop viable business plans and prepare loan applications.

Financing gap – Agri-food



- Small-sized enterprises
- Medium-sized enterprises
- Large-sized enterprises

✓ Almost 62% of the gap value relates to small-sized agri-food enterprises and 50% of the gap refers to long-term investment loans



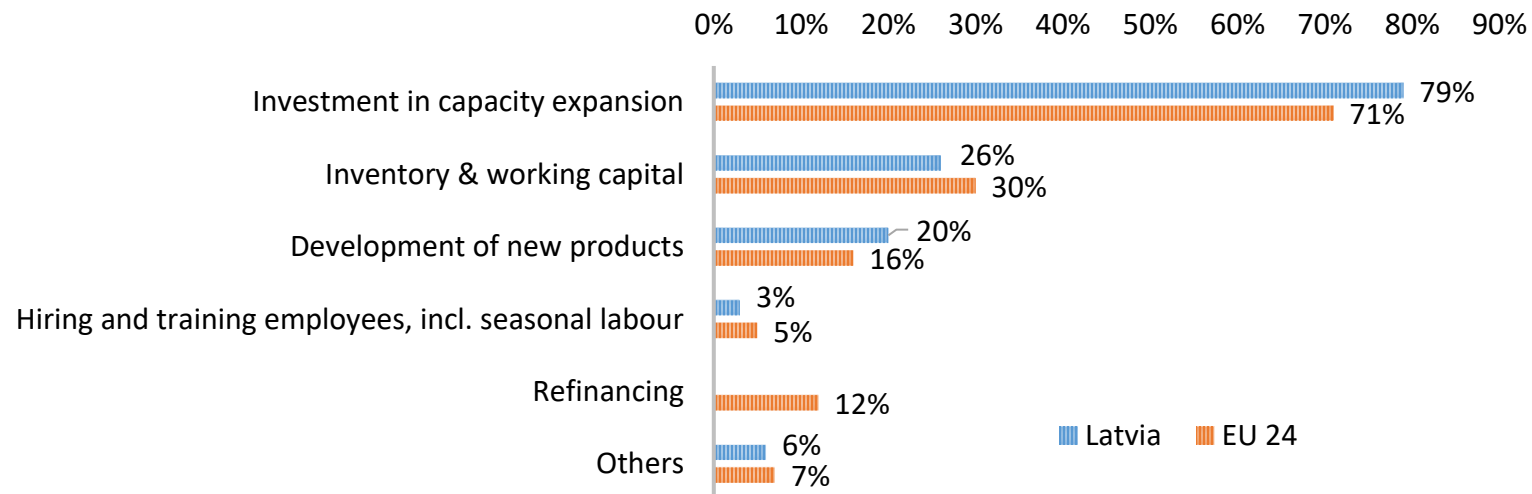
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Demand and access to finance



- ✓ Investment dynamic is also positive in the agri-food sector in Latvia despite the investments level drop between 2015 and 2017
- ✓ Amount of outstanding loans to the sector declined over the period 2015-2018 (sharper for beverage manufacture than for food products)
- ✓ Purposes of the loans obtained in 2018



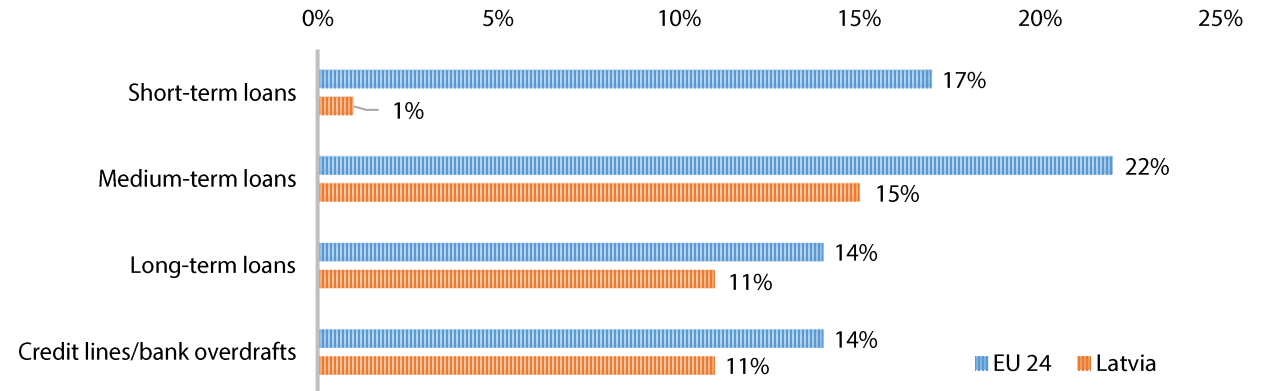
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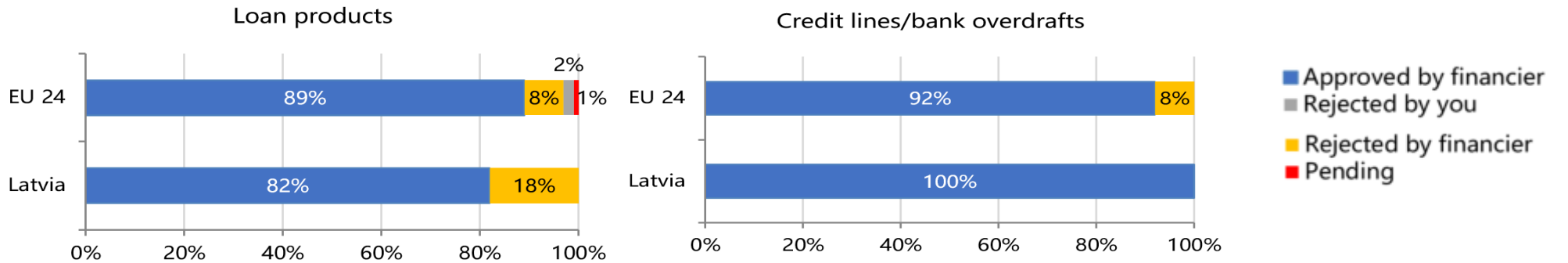
Demand and access to finance



✓ Financial products applied for in 2018



✓ Result of loan applications in 2018



✓ Feedback from stakeholders suggest that difficulties to access finance in Latvia might be higher



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Main gap drivers



Lack of collateral and own equity



- Start-ups and new entrants
- Excessive collateral requirements by banks could discourage enterprises from applying for loans
- SMEs need to provide high value collateral or public guarantees

Lack of credit history and low financial awareness



- Lack of credit history and experience might be an obstacle for new entrants, incl. experience of the whole team and the business idea

Supply side determinants



- Market concentration
- Absence of fixed rate loans (for >5 years) forces enterprises to undertake interest rate risk
- Limited supply of medium to long-term financing products for investments with longer maturities (>5-7 years)
- Start-ups lacking credit history and difficult to prove export orientation

Insufficient provision of finance



- New financial products for start-ups
- Limited bank financing is available for enterprises operating solely on the domestic market
- Working capital loans or credit lines with maturity longer than 12 months
- Short-term loans for large companies



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Recommendations



1 Available public guarantee offering should be reviewed to assess the set-up of new instruments to facilitate access to finance of agri-food companies, incl. combination of support

4 Dedicated products for start-ups and new entrants, - reduced interest rates loans and opening equity instruments to agri-food – could be assessed, incl. **capacity building support**

2 Financial instruments (e.g. specialised loans, guarantees for medium-term credit lines, etc.) could help address agri-food sector working capital needs

5 Possible scheme for large strategic projects (investment EUR 50 m, EUR 75 m and >) to be explored – financial instrument might help

3 Further public actions to facilitate access to long-term investment loans of small sized agri-food businesses, featuring fixed-interest rates, long-term maturities, etc.

