



Preview of Methodological Handbook for implementing an ex-ante assessment of financial instruments for agriculture supported by the EAFRD





Introduction

The *fi-compass* [Methodological Handbook for implementing an ex-ante assessment of financial instruments for agriculture supported by the EAFRD](#) provides Managing Authorities (MA) with methodological advice step-by-step to successfully carry out an ex-ante assessment for the setting up of such financial instruments (FI), fulfilling the requirements under Article 37(2) of the Common Provisions Regulation (EU) No 1303/2013 (CPR) in the 2014-2020 programming period. The CPR requires that FI are designed on the basis of an ex-ante assessment which has identified market failures or sub-optimal investment situations, respective investment needs, possible private sector participation and resulting value added of the FI in question. [An ex-ante assessment has to be conducted by an EAFRD MA before EAFRD resources are contributed to the FI.](#)

Why a handbook on implementing ex-ante assessment of FIs for agriculture supported by the EAFRD?

Due to the novelty and overriding importance of the ex-ante assessment requirement for all subsequent steps of implementing an FI, and due to the specificities of EAFRD target sectors and final recipients, a comprehensive specific handbook on how to carry out ex-ante assessments for FIs in agriculture to be co-funded by the EAFRD is needed.

When undertaking an ex-ante assessment for agriculture, users may face many challenges specific to the sector. For example, the analysis of supply and demand related to the agricultural sector may present difficulties due to data availability constraints.

The [purpose](#) of the handbook – which builds on the existing ex-ante assessment guidance from EC/EIB (2013) – is to guide MAs intending to create and implement FIs for agriculture under the EAFRD.

More specifically, the handbook:

- helps increase the MAs' understanding of how to carry out an ex-ante assessment successfully, including templates for surveys and checklists,
- considers different approaches and pathways to the assessment, outlines cross-cutting themes such as market gap analysis, attraction of private capital, State aid implications or the consistency of FIs with an RDP's strategy,
- recommends methods to be used, literature to be considered, data sources to be reviewed as well as provides illustrative examples.

Thus there is a need to provide operational and practical advice to identify existing data sources and to propose adequate tools such as a tailored demand-side survey.

This is why the handbook is designed to be easily consulted providing methodological advice and illustrative examples in the agricultural context. The handbook responds to the specific needs and considerations of the agricultural sub-sectors: annual crops, horticulture, grazing and any other livestock, dairy, mixed farms, viticulture and other permanent crops.



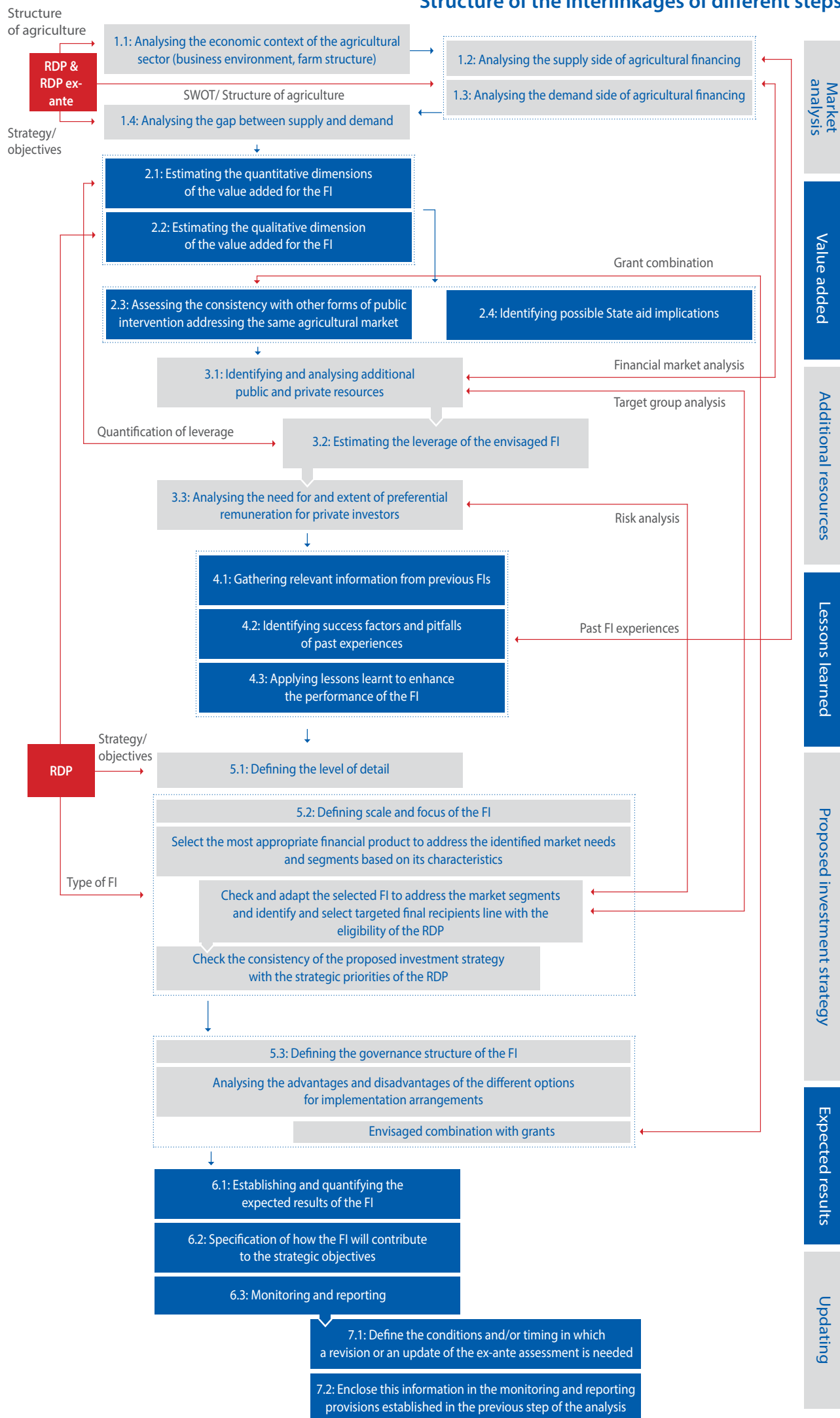
The content of the Handbook – an overview

The seven requirements of an ex-ante assessment are described by Article 37(2) of the CPR. Fulfilling all of these requirements will give the MA a solid foundation of evidence on which to design the FI.

The figure below shows an overview of the logical connections between the requirements as different steps of the ex-ante assessment.

- 1** **Step 1 on the market analysis** addresses policy areas and priorities relevant to agriculture and provides the reader with guidance on the assessment of the macroeconomic context, type and size of market failures and suboptimal investment situations, farm structures, the demand and supply gap and specifics of agriculture subsectors.
- 2** **Step 2** advises on carrying out a check of the **value added of an agricultural FI** as well as State aid implications and advices on minimising distortion and overlap.
- 3** **Step 3** advises methodologies to estimate **additional public and private resources** potentially to be raised by the FI (leverage effect) and provides the reader with appropriate methods.
- 4** **Step 4** offers advice on identifying lessons from ex-ante assessments or similar instruments **carried out in the past** and provides guidance on **implementing these lessons** in a structured and systematic way for the agricultural sector.
- 5** **Step 5** draws specific attention to the **achievement of consistency** between the FI and the RDP's strategy, delivers guidance on **developing a proposed investment strategy** and describes advantages and disadvantages of different types of financial products or combination of support.
- 6** **Step 6** advises the reader on how **results should be specified** in the context of contributing to the RDP's objectives, and finally
- 7** **Step 7** provides advice on **revising and updating** the ex-ante assessment in case of changing market conditions.

Structure of the interlinkages of different steps





Spotlight: Analysing market failure, suboptimal investment situations and investment needs of agriculture

Article 37(2)(a) of the CPR requires the analysis of market failures, suboptimal investment situations and investment needs under the policy areas, thematic objectives or investment priorities to be addressed by the envisaged FI.

The handbook will show users how to address this requirement in four steps.

Guidance provided by the handbook on the investment gap analysis

1.1 Economic context

Goal: Analysing the economic context of the agricultural sector (business environment, farm structure)

1

Approach: The recommended general approach for building a sound basis for analysing market failure in agricultural access to finance is to first get an overview on the general sectoral economic circumstances

Methodological guidance will be provided for:

- Analysis of the economic context at the national or regional level from an agriculture perspective
- Analysis of market problems and suboptimal investment situations linked to the agricultural business environment
- Analysis of the farm structure (e.g. average farm size, agricultural income, sector concentration).

1.2 Supply side analysis

Goal: Analysing the supply side of agricultural financing

2

Approach: The objective of the supply-side analysis is to identify the available supply of finance for the (specific) agricultural sector or market in the Member State or region.

Methodological guidance will be provided for:

- Identification of providers involved in providing finance to agriculture with both public and private sources of finance
- Analysis of the volume of funding potentially available to agricultural holdings
- Development of an inventory of the different financial products available, the terms and conditions applied to agricultural undertakings, any restrictions and the past use of these sources of finance in terms of volume



1.3 Demand side analysis

Goal: Analysing the demand side of agricultural financing

3 Approach: The potential credit demand encompasses not only the volume of successful applications, but also the unsatisfied credit demand, i.e. the credits not realised for different reasons, which has to be quantified

Methodological guidance will be provided for:

- Estimation of the demand for financing for agricultural holdings
- Development of a tailored demand-side survey
- Analysis of the rejection rate, lack of applications due to expected rejections and non-viable applications
- Calculation of the unmet credit demand
- Analysis of alternative sources of finance frequently used in agriculture

1.4 Investment gap analysis

Goal: Analysing and quantifying, as far as feasible, the gap between supply and demand

4 Approach: Bringing together the demand and supply analysis, the final step is the quantification, as far as feasible, of the investment gap. The number shall give an estimation of the size of the future FI.

Methodological guidance will be provided for:

- Analysis of the reasons of credit rejections or loan refusals as reported in the demand survey
- Determination whether the gap is a result of market failure or other causes
- Calculation of the financing gap

The investment gap analysis approach given in the handbook is based on the Farm Accountancy Data Network (FADN) data. The FADN is a European system of sample surveys that are run each year and collect structural and accountancy data relating to the farms. It is determining income of European agricultural holdings and providing farm level analyses based on harmonised microeconomic and sub-sector data collected annually from around 80,000 farms. It includes a lot of relevant indicators that can be used for capital development, reinvestment cycles, etc.

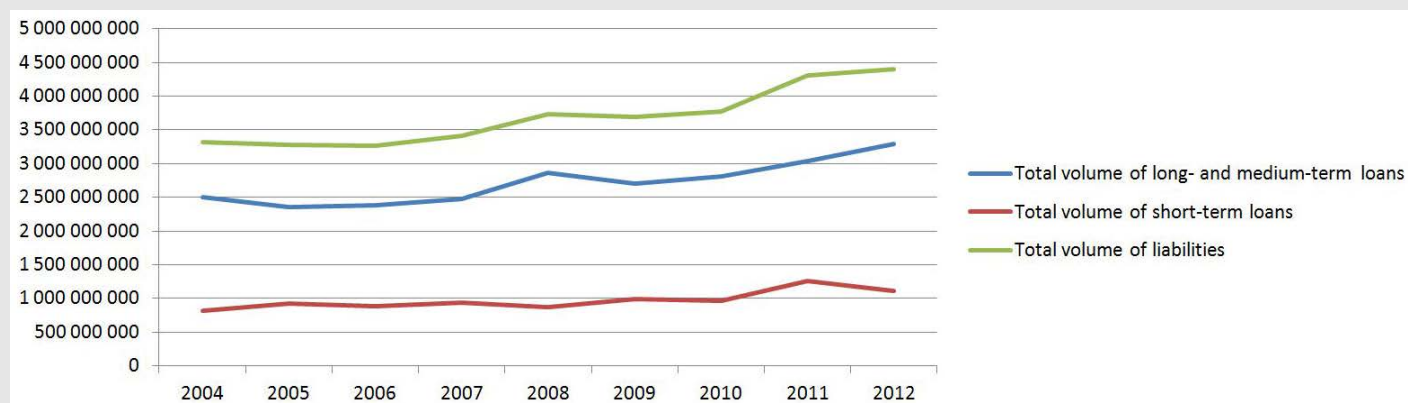
In our methodological example for one aspect of Step 1.2 (as part of supply side analysis), we estimate the size of the agricultural credit market of Austria by using data from the FADN database differentiated between short- and medium-term loans. This data could, whenever feasible, be further differentiated by region, economic size classes, production type or less-favoured and not significant areas. The second example calculates the total volume of loans for specific sizes and sub-sectors using FADN data. These examples provide one input for analysing the investment gap.



Methodological example for Step 1.2: Calculation of the total volume of loans for specific sizes and sub-sectors

Austria	Farms represented	Long & medium-term loans	Short-term loans	Total liabilities	Total volume of long- and medium-term loans	Total volume of short-term loans	Total volume of liabilities
Year	(SYS02)	(SE490)	(SE495)	(SE485)	= (SYS02)*(SE490)	= (SYS02)*(SE495)	= (SYS02)*(SE485)
2004	91,070	27,497	8,968	36,464	2,504,151,790	816,715,760	3,320,776,480
2005	91,780	25,673	10,023	35,696	2,356,267,940	919,910,940	3,276,178,880
2006	95,840	24,836	9,245	34,081	2,380,282,240	886,040,800	3,266,323,040
2007	90,560	27,315	10,308	37,623	2,473,646,400	933,492,480	3,407,138,880
2008	88,790	32,212	9,793	42,005	2,860,103,480	869,520,470	3,729,623,950
2009	86,540	31,227	11,518	42,744	2,702,384,580	996,767,720	3,699,065,760
2010	93,200	30,112	10,336	40,447	2,806,438,400	963,315,200	3,769,660,400
2011	92,790	32,805	13,642	46,448	3,043,975,950	1,265,841,180	4,309,909,920
2012	93,270	35,311	11,937	47,248	3,293,456,970	1,113,363,990	4,406,820,960

Produced by EUFADN Database 12/05/15



Source: ÖIR

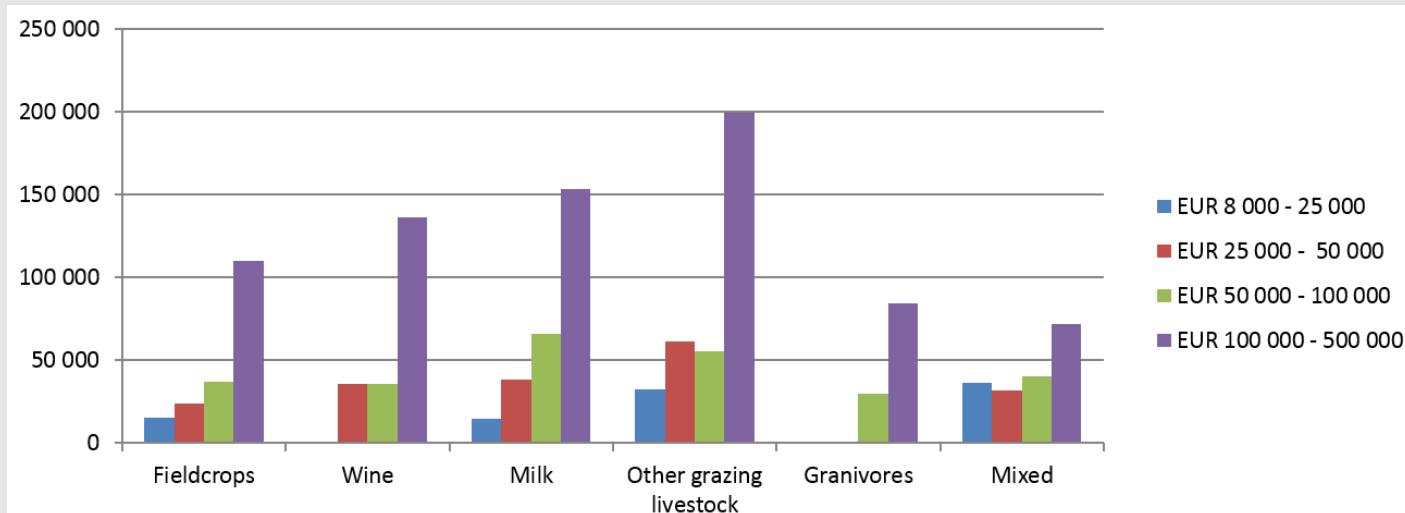
In Austria, there is a recent loan volume of around EUR 4.4 billion. Liabilities are generally low per farm, the volume is rising but not significantly volatile except for a slight increase in 2008 (financial crisis).



Methodological example for Step 1.2: Calculation of liabilities/realised credit supply by production type and size class by using data of the FADN for Austria

Austria	Ec Size class (EUR)	Total liabilities					
Year		Fieldcrops	Wine	Milk	Other grazing livestock	Granivores	Mixed
2012	EUR 8,000 – 25,000	15,345	–	14,761	32,521	–	36,682
2012	EUR 25,000 – 50,000	23,911	36,046	38,215	61,163	–	32,041
2012	EUR 50,000 – 100,000	36,826	36,019	65,723	55,173	29,825	40,485
2012	EUR 100,000 – 500,000	110,130	136,237	153,814	199,859	84,764	72,037

Produced by EUFADN Database 12/05/15



Comment: certain size classes not available in FADN because of lack of representativity or privacy protection

It can be seen that the liabilities per farm rise significantly with economic size with some exceptions: in the mixed and viticulture farms below EUR 100,000 have very comparable liabilities. In grazing livestock, farms with EUR 25,000 – EUR 50,000 even have higher liabilities than larger ones from EUR 50,000 – EUR 100,000. These might be hints for the demand for specific financial products. Concerning subsectoral differentiation, milk and grazing livestock farms have the highest liabilities per farm.

Next steps

The *fi-compass* Methodological Handbook for implementing an ex-ante assessment of financial instruments for agriculture supported by the EAFRD will become available at the end of summer 2015.

