European Commission - Speech
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# Opening speech delivered by Mr Janusz Wojciechowski at EU conference on EAFRD financial instruments, organised by the European Commission, Brussels.

Brussels, 12 October 2023

Distinguished guests,

Dear colleagues,

Ladies and gentlemen,

It is my great pleasure to welcome you here today – at the **9th annual conference on financial instruments under the CAP**.

I am pleased to see a great number of you here, from a great variety of backgrounds and organisations.

I thank you all for joining!

Your presence here today, and the participation of the **European Investment Bank** and **COPA-COGECA**, is important, and encouraging.

It shows a strong recognition that, in the current climate, our farmers need accessible finance, at good conditions, now more than ever.

### *Financial problems & challenges*

After meeting the challenges of COVID, our farmers now face the crisis caused by **Russia's aggression in Ukraine**, which has provoked sharp increases in energy and production costs.

To fully understand how this crisis has impacted the sector, we surveyed more than 6,500 farmers, and over 2,200 agri-food businesses, across 24 EU Member States.

The results show that **83% of all farmers in the EU experienced an increase in production costs, but only 12% managed to significantly increase their selling prices**!

By comparison, about **77% of the agri-food enterprises managed to pass on the increase in production costs to consumers, through higher selling prices**.

This significant difference reveals the disproportionate impact of the crisis on our farming sector!

Furthermore, it is not the only crisis faced by our farmers.

I recently visited Thessaly in Greece, where I witnessed environmental destruction on a scale I have never seen before.

Beneath every flooded field was a family business, a vital income, and an essential supply of food.

The financial needs of these farming communities, to support their recovery, are immense.

In the years ahead, our farmers will have to cope with even more **environmental and climate challenges.**

To mitigate and adjust to these challenges, they will need new techniques and technology; they will need to invest and diversify.

In particular, our small family farms and young farmers need support to remain viable, to improve their productivity in a sustainable manner, to ensure they get fair rewards in the value chain.

To support all of our farmers, now and in the future, **significant financing will be needed**.

So I can easily repeat what I said before – now more than ever, farmers in the European Union need accessible finance, at good conditions!

### *Finance gap*

Yet just when the financial needs of our farmers are at their greatest, the financing gap in EU agriculture is at its largest.

Our farm survey shows the **total financing gap for EU agriculture** has **increased substantially**, and is now at **62 billion euro**.

It has almost doubled compared to the "average" level of the gap in 2017, which was 33 billion euro.

If we look into this gap, what do we see?

We see five of our largest Member States – Romania, Italy, Poland, France, and Spain – who account for almost two-thirds of that 62 billion gap.

Compared to 2017, we see the gap growing across a number of Member States:

- in Latvia, the increase was elevenfold,
- in Austria and Italy, the increase was sevenfold,
- while in Denmark, it was fivefold.

We see that all farmers experience significant difficulties in obtaining money from banks, but the **biggest burden remains on small farmers** – they account for €38 billion of the total gap.

For **young farmers**, the figure has increased since 2017, to reach **€14.2 billion**.

**Long-term loans remain difficult to obtain** for all farmers: they account for 58% of the gap, or €36 billion.

Furthermore, our survey shows that 37% of all rejected farm loans in were down to limitations of the bank policy – in other words, the unwillingness of banks to expand their support to agriculture.

In the case of young farmers, more than 50% of all their applications were declined due to restrictions in bank policy.

The lack of credit history remains a significant hurdle for young farmers, accounting for 36% of the rejected cases.

We do see positive news in the food sector, however, where the total financing gap declined from its maximum level of €11.8 billion in 2017, to €5.5 billion in 2022.

While this is positive for the food sector, it reveals the **unequal treatment of the farming sector by financial organisations**.

### *Solutions*

Ladies and gentlemen,

In summary, our survey tells us that the financial needs of our farmers are growing, and these needs are not being met by banks.

Securing finance remains an enormous challenge, and if the financial security of our farmers is threatened, the food security of society is at stake.

To address this issue, and to close the financing gap, we must of combine the efforts and resources of our public and private sectors.

### *CAP funding*

First of all, the results of the survey emphasise the importance of CAP funding, and the relevance of CAP objectives.

Let me give you some examples:

The new CAP will support over **350,000 new young farmers** with a total of 8.5 billion euro. This funding is directed towards the setting up of farms, the topping up of direct payments, and supporting investments.

The CAP is also supporting **small farmers**: About 4 billion euro, or just over 10% of the EU direct payments budget, will be reallocated through redistributive payments. In addition, 5 Strategic Plans include a dedicated payment to small farmers.

Furthermore, about 400,000 farms are expected to benefit from **investment support** under the rural development pillar of the CAP, mainly targeting on-farm productive investments.

However, to respond to the growing environmental challenges facing our farmers, we need to ensure that the **CAP has sufficient funding** in the years ahead.

For example, in light of our recent challenges, a strong **agricultural reserve** is essential.

Member States must also embrace CAP support for preventative and proactive measures, that enable farmers to anticipate and adapt to the impacts of climate change.

For instance, the CAP offers risk management tools, grants for farm modernisation, sustainable and green investments to improve energy efficiency, and support for cooperation activities.

Farmers can also apply for short-term measures to alleviate liquidity difficulties, such as support for working capital.

Tools such as these will be crucial to help address the financial needs of farmers in the coming years.

### ***CAP financial instruments***

And among these different tools, **financial instruments** can play a key role.

Under the 2014 – 2022 period of the CAP, we have 32 financial instruments in operation, which can run into 2025.

By the end of last year, these financial instruments have directed over **1 billion euro** in loans to support almost 13,000 farms and businesses.

In the new CAP period, 12 Member States have programmed Financial Instruments into their national strategic plans, amounting to **€997 million** of total public support.

6 Member States have programmed Financial Instruments to provide installation support exclusively for young farmers, accounting for over €88 million.

In the new CAP, Member States also have the right to

- establish preferential rates and conditions for target groups, such as young farmers;
- they can design financial instruments to support young farmers in the purchase of land, with no restrictions on size;
- and they can set up Financial Instruments to support stand-alone working capital and risk management, for example, for young farmers experiencing production difficulties.

We need Member States to use these possibilities to their full potential.

By making the most of financial instruments in the CAP, we can make positive changes to the market.

As I have mentioned, EU banks' requirements on farmers are heavy and lack flexibility.

Many farmers who apply for loans are rejected, while those who are accepted face market prices and high interest rates, which can cause further problems.

Our data shows that between 2010 and 2021; the share of farmers with financial debt has increased from 27% to 35%, and that 80% of this debt falls under commercial loans.

We also know there is little competition in the market, as not enough banks specialise in agricultural finance. In numerous Member States, only 2 or 3 banks account for a significant share of the overall agricultural financing.

And here is where our financial instruments can intervene and **correct the situation.**

With financial instruments, Member States can offer farmers easier access to finance:

- at reduced interest rates,
- with longer maturities,
- with much lower collateral requirements,

- and accompanied by working capital support.

Outside of financial instruments, CAP interventions can also encourage **the private loan market**. In 2022, about 29% of all farm loans in the EU were linked to CAP support.

This is a significant share, which indicates that banks feel more secure when projects are backed up by CAP payments and grants.

### ***Conclusion***

To conclude,

We must build a new financial environment, to meet the current needs and future challenges of our farmers.

For this to happen, we need everyone – the European Commission, and the European Investment Bank; our Member States, and our private banks.

We need to use all the tools at our disposal:

- we need to provide strong interventions in our CAP Strategic Plans,
- we need well-designed financial instruments,
- And we need to raise more private funding for the sector.

Ladies and gentlemen,

I have presented a number of different figures, which you may or may not remember.

But if you take anything from my intervention today, let it be these three messages:

- It is time for **banks** to **open their doors** to farmers.
- It is time for **Member States** to open new possibilities, through CAP interventions and financial instruments;
- And it is time, for all of us together, **to close the financing gap for European agriculture**.

With this, I wish you an interesting conference, and many fruitful discussions.

Thank you!

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