Opening statement

Maciej Golubiewski, Head of Cabinet of European Commissioner for Agriculture and Rural Development

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Speech of Mr Maciej Golubiewski, Head of Cabinet of European Commissioner for Agriculture and Rural Development

Webinar on the Financial needs in the agriculture and agri-food sectors in Poland

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Dear Ms Grazka, Ladies and Gentlemen, Good morning.

I am very glad to be with you today and to open this webinar on the financing needs of Polish agriculture and agro-food sectors.

I would have much preferred to be with you in Warszawa, but we must all adjust to the circumstances.

CAP Reform: State of Play and Significance

As you know, we are at a very important juncture for the CAP reform. The negotiations have entered the home stretch, and we hope to conclude soon. We are aiming for an overall political compromise in May – early June, to ensure a timely preparation and implementation of the CAP in 2023.

And we urgently need to have a new CAP in place and implement it properly. The new policy will support farmers in the twin digital and green transition, to make farming more competitive and sustainable. It will be a key instrument of change to make Europe's foods systems fit for future and it will play an important role in translating our European Green Deal into action.

Why financial instruments?

I am convinced that financial instruments can bring a specific value added to the table in this context. Let me explain.

The concentration of lending to the agriculture sector may hamper the supply of financing. Our study from last year found that in 14 Member States the lending to farmers has been concentrated to a very limited number of intermediaries, or even to a single intermediary, leaving these same bodies with a strong market power, which allows them to dictate loan conditions. In fact, the agriculture sector often faces higher interest rates than other economic sectors and these sometimes reach 5 - 6 or even go above 10%. The dominant loan maturity (duration) offered to agriculture is up to 5, maximum 7 years. Almost two thirds of the financing gap in agriculture is due to difficulties in accessing long-term loans. This means a figure in the range of EUR 12 – 31 billion.

In addition, half of the farmers in the EU applying for long-term loans must provide a guarantee. The guarantee level required by banks is also higher for the agriculture sector than for other economic sectors, no matter the viability of the project. In this context, small-sized farms and young farmers are particularly disfavoured. We also noticed lack of specific expertise on agriculture in banks, which is a burden.

Young farmers and new entrants are amongst the most affected groups, and often lack adequate financing possibilities. Their share of the financing gaps can reach above 50%. Small farms face significant difficulties when it comes to accessing "development" investments, because they often lack assets to use as guarantees and the necessary skills to prepare business plans. Innovative investments also find it harder to access financing as being considered riskier.

This leads to a situation where our farmers and the EU agri-food sector are suffering from lack of bank financing. Take the Polish agricultural sector as an example, where this gap was found to be between EUR 3 to 6 billion. A clear case of market failure!

This is where financial instruments can step in to help close this gap. They can provide better financing opportunities to farmers and the agri-food sector, through low interest rates and favourable lending conditions, for instance. In the case of Poland, the current Guarantee instrument is a step in the right direction. Given that between 50 and 70% of the financing gap in the Polish agricultural sector is associated with young farmers, this may also warrant a more specific financial instrument targeting generational renewal, which is one of the CAP objectives to which I attach a lot of attention.

The Covid-19 health crisis

The COVID-19 crisis has put even further strains on the investment capacity of the European agricultural sector, and of certain sub-sectors in particular.

This is why the EU reacted and introduced additional flexibilities for financial instruments in response, allowing loans and guarantees for stand-alone working capital finance of up to EUR 200,000 per entity. The purpose was to help farmers and rural SMEs to overcome their current liquidity difficulties and stay in business. This measure was complemented by the possibility to give grants up to EUR 7000 for farmers and EUR 50000 for SMEs in the framework of a new temporary rural development measure.

Poland, together with Spain, Italy, Romania and Lithuania extended their financial instruments and introduced the stand-alone working capital finance. We will hear from our Polish colleagues why this was important for the sector and the country.

The Recovery Funds

The crisis is not over yet, but we need to start repairing the damage it caused to our economies. For rural areas, the most relevant tools within the Next Generation EU funds are on the one hand the EUR 672.5 billion recovery and resilience facility (RRF), and on the other hand the EUR 8 billion assigned to be implemented via the Rural Development Programs. Managing authorities can use part of these resources to top up their financial instruments, done already by Estonia and three French regions.

As to the measures to be funded with the EURI funds, at least 55% will be dedicated to investments and other activities like installation aids for young farmers that will support the recovery and resilience of the rural communities post–COVID.

Implementation of FI in the current period

So, there is definitely a demand for financial instruments in the agricultural and agri-food sectors, and Member States are have been responding to this demand in their ongoing Rural Development Programmes already. Currently, we have more than 30 financial instruments with EUR 578 million of programmed EU resources, which corresponds to EUR 760 million of total public expenditure. Compared to the previous programming period, we doubled not only the volume, but also the number of countries where financial instruments are used – we now have 14 Member States and 34 Rural Development Programmes with financial instruments.

We believe that by the end of the eligibility period, the underlining portfolio of loans from all our instruments will be close to EUR 2 billion. The majority of these funds, around 90%, should go to the agricultural sector. This is a good basis for launching the preparations for the next period and the new financial instruments.

Financial Instruments and Green Deal

I have said earlier that I am convinced that financial instruments will be key when it comes to translating our European Green Deal into action and supporting our farmers in this transition.

In order to be successful, the green transition that we are embarking upon will require investments. Take organic farming. It is well known that it can come with multiple benefits such as new business opportunities, job creation, improved ecosystem services, and positive environmental effects on soil, water and biodiversity. This is why the Commission's Farm to Fork and Biodiversity Strategies, two initiatives at the heart of the Green Deal, include the target of reaching 25% of agricultural land under organic farming by 2030. But organic farming requires different equipment and other costly up-front investments. And those requirements can constitute barriers that prevent farmers from adopting organic farming approaches.

Investments – for instance, in sensors and other digital technologies – are also a precondition for engaging in precision farming, a management approach with the potential to increase both economic and environmental sustainability. ICT and technologies can make farming more attractive for young people, improve the quality of life of farmers and rural communities, and support the development of rural businesses, thus helping to fight rural depopulation.

Financial instruments can help facilitate these and other green and digital investments in organic farming, land-based carbon sinks, the bio-economy sector, new environmentally friendly machinery and buildings, water and energy savings, as well as cost savings. Broadband can also be funded through financial instruments, for businesses and infrastructure.

The new CAP legal framework

For the future, we made financial instruments more attractive and we simplified the rules. Stand-alone working capital financing will be possible under all relevant strategic objectives. We cut down the eligibility rules and eliminated the restriction for purchase of land by young farmers. The monitoring and reporting are streamlined.

Using financial instruments remains voluntary. Member States will have a full flexibility to choose the type and design of financial instruments, and when to set them up. Financial instruments may prove important also in the times of crisis.

Those decisions will be helped by the rationalised content of the ex-ante assessments, the enhanced combination possibilities with grants opening the door to one-stop shop support (i.e. grants and FI support given at once and by one body) and the clear rules on continuation from the current to the new period.

Recommendations

To assist the Member States in the preparation of their CAP strategic plans, the Commission has already provided each Member State with tailor-made recommendations. These recommendations identify the key areas on which they should focus.

For 11 Member States there are specific recommendations linked to the need for using appropriate financial instruments. For another 10 Member States the recommendations address the difficult access to finance for farmers, including young ones. All in all, with the exception of some well justified cases, we see the need for using financial instruments under the new CAP Plans almost everywhere across the EU. And this is why we are here today.

The Commission will continue its activities to support Member States on the path towards CAP strategic plans fit for purpose and stands ready for bilateral exchanges, including on financial instruments, in the months to come.

I believe that financial instruments can make a difference. I strongly recommend their introduction in the new CAP Strategic Plans for the countries where needed. We will be able to discuss these issues, among others, in the structured dialogue with Member States in preparation of the CAP plans.

The needs of rural areas are clear, and we need to keep the rural dimension of policy-making high on the agenda if we are to have a truly balanced development of the European Union. The CAP cannot deliver alone on all fronts: other EU and national policies also have an important role to play and there should be synergies in the financing from the various sources.

Thus synergetic funding will contribute to address the challenges of farmers and rural areas. The Commission is currently working on a Long-term vision for Europe's rural areas with outlook to 2040 that will offer some pathways to addressing these challenges.

We recognise that young farmers alongside other small and medium-sized business are the economic and social backbone of rural communities. They have to be maintained and newcomers have to be attracted. EU and national policies and funding should help ensure better infrastructures and digital access, educational and health services, as well as other public amenities. Sustainable rural mobility is also essential for this purpose.

The investment gaps in infrastructure and the erosion of services in rural areas have been highlighted in many recent studies. They must also be recognized and we should look for best possible combinations for funding and actions for their improvement. In this context, the funding from the Cohesion policy as well as InvestEU are expected to play their role.

Dear participants,

as managing authorities or active stakeholders in using and implementing financial instruments under the CAP, you can play a key role for the development of Europe's agriculture, rural areas and for the success of the new CAP.

Your discussion in this webinar will be an important contribution in this important phase.

Thank you for your attention and I wish you an exciting conference experience!