



# Financial instruments for agriculture and rural development in 2014 – 2020

*‘Cases from the ground: the Netherlands’*

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Vienna, 1 October 2015





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# Guarantees for agricultural SME's in the Netherlands

Instruments with regards to

- Market failure's of financial markets
- Sustainable production
- Market introduction of innovations



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# Guarantees for agricultural SME's in the Netherlands

- Since 1951 (origin in Marshall Plan aid)
- Banks can provide loans as repayment is guaranteed by the State
- Policy-instrument: economic development, reliable European food supply,



# Guarantees for agricultural SME's in the Netherlands

- Actual policy-context:
  - International competitive agriculture
  - More sustainable agriculture
- Now operational
  - Guarantee agriculture - 80% guarantee, loan max. € 600.000,-
  - Guarantee young agricultural starters – likewise, max. € 1.2 mln
  - Guarantee agriculture plus – likewise, max. € 2.5 mln
- Facts and figures:
  - average guaranteed €86 mln/year
  - average losses € 4.8 mln/year; minus comm. € 2.7 mln/year

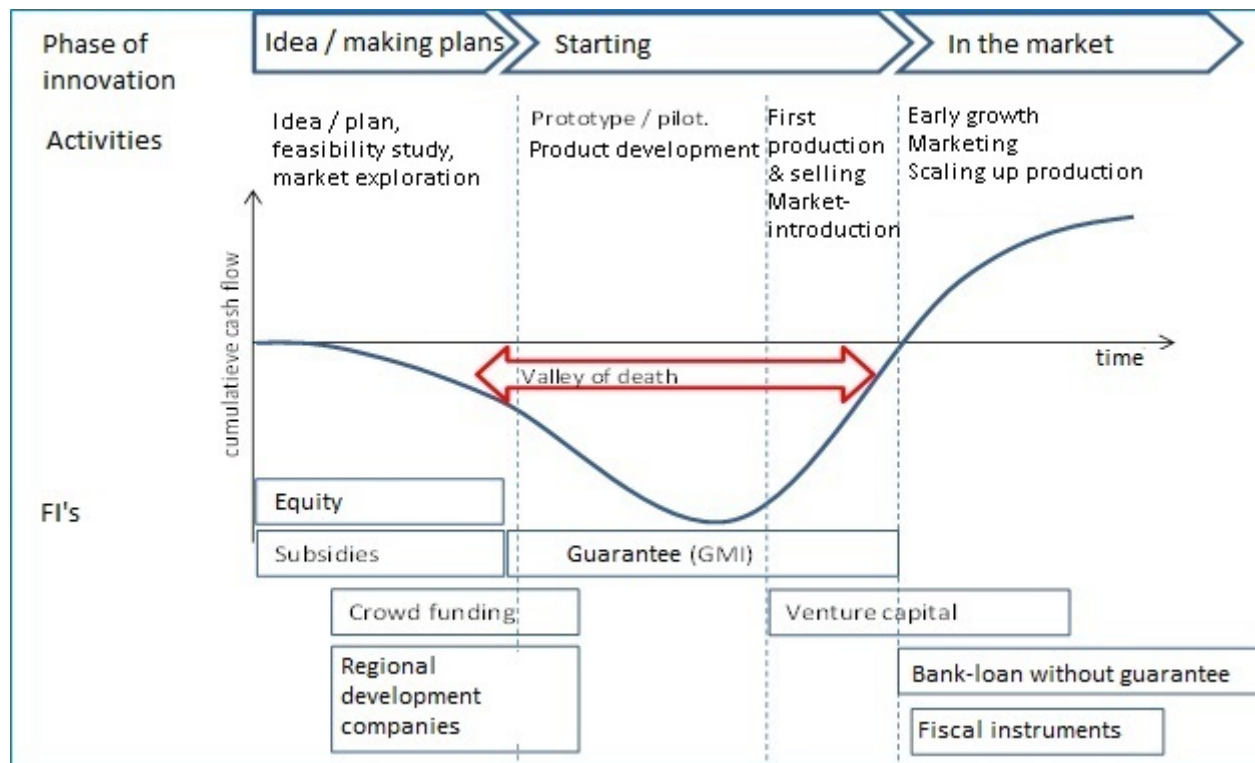


# Guarantees for agricultural SME's in the Netherlands

- Traditional financing doesn't fit modern companies
  - Increasing scale, capital intensive
  - Cooperative business (manure processing, geothermal energy) needs equity
  - Innovation is capital intensive and more risky
- In preparation
  - Guarantee for market introduction of innovations (part of Dutch program for rural development 2014 – 2020)
  - Growth Facility – guarantee for subordinated loans (self-supporting guarantee, commission paid for the guarantee is sufficient to pay all losses)



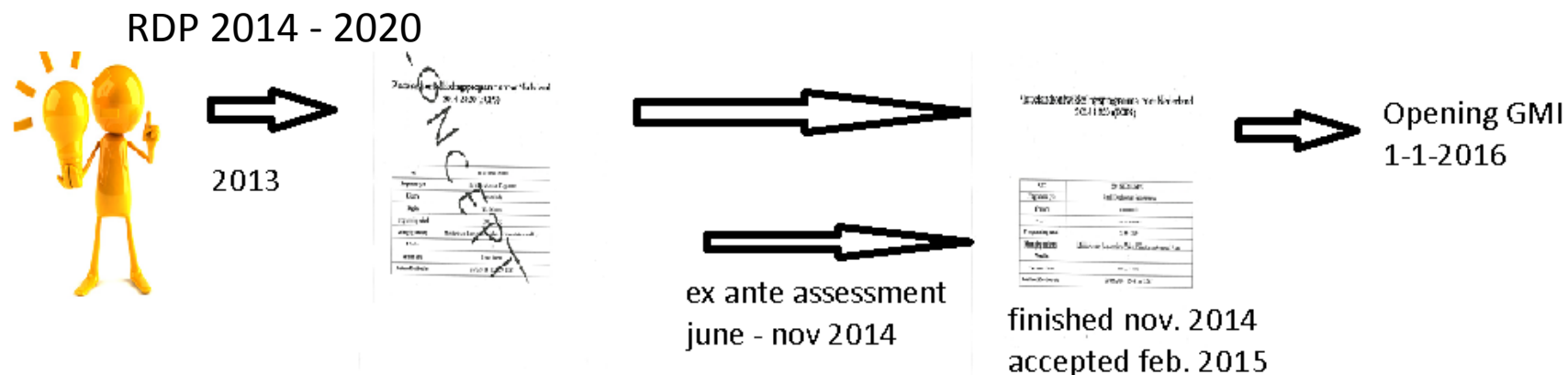
# Guarantee for market introduction of innovations



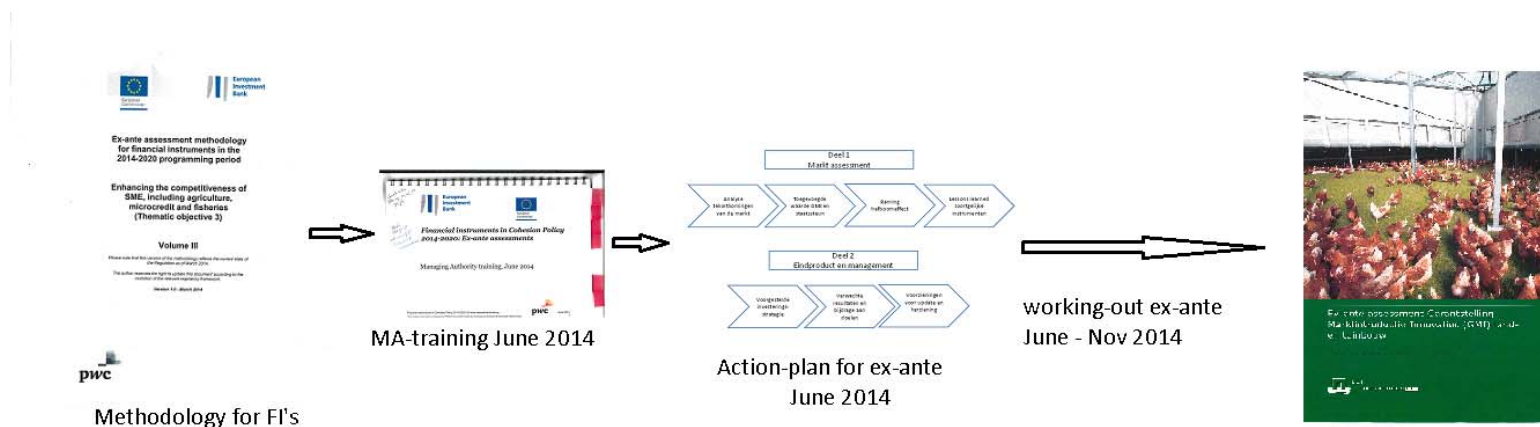
- € 600.000 < needed loan < € 2.500.000
- psychological threshold : entrepreneur doesn't want risking existing agricultural enterprise



# Proces "The making of Guarantee market introduction of innovations"



## Ex-ante assessment





# Guarantee for market introduction of innovations

## Findings ex-ante:

- needed investment-level = like Guarantee Agriculture € 2.5 - € 3.0 mln
- higher risk → more solvency – but innovating entrepreneurs cannot
- higher risk → psychological obstacle for entrepreneurs
- expected leverage of GMI = 3,7
- default risk = 2% ( 3 x default risk Guarantee Agriculture)





# Guarantee for market introduction of innovations

## Specifications:

- loan for investments
  - system-innovation
  - market-innovation (creating more added-value)
- guarantee by the State – max. loan € 2.5 mln
- joint and several liability in LLC is dispensed
- max. of 5 guarantees per innovation (estimation: 5 inn./year, +/- €37,5 mln/year)
- system-innovation will be judged and ranked by an assessment-committee





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# On going discussions

- What will be the best financial instrument to support innovation investments by agricultural SME's?
- What should be the government-role in supporting financing enterprises?
  - Discussion with Ministry of Finance  
(embargo on new guarantee's, unlike the European Commission)
  - Should FI's only be instrument because of failure of financial markets?  
Or also to stimulate ..... ?
  - In future: state-guarantee not on the individual-loan-level, but on fund level?



**Thank you**

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