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The implementation of financial instruments in the Italian Rural Development Programmes

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Financial instruments framework in 2014-2020

Financial instruments introduced by EAFRD have a key role in helping reducing the risk associated with longer-term loans and mitigate collateral requirements.
Three main components:

Guarantee products provided by ISMEA

Four regional EAFRD financial instruments

An EAFRD Guarantee Facility managed by the European Investment Fund (EIF)

Italian Regions and financial instruments for agriculture 2014-2020 programming period

Two loan funds in Friuli Venezia Giulia and Lombardia, and two guarantee funds in Umbria and Puglia

Banking platform in eight Italian regions that have joined forces and budgets (Calabria, Campania, Emilia-Romagna, Piemonte, Puglia, Toscana, Umbria and Veneto)

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Financial instruments for agriculture before 2014-2020

The demand for financial instruments co-financed by the EAFRD started to grow from 2007, in particular following the financial and economic crisis it caused the decrease in resources available for rural areas and for agriculture.

In CAP, the downsizing of public support for agriculture has also determined the evolution of the management model of agricultural activities. With the reform of the consolidated law on banking (TUB), there was a shift from the simple request for credit, to investment and liquidity management instruments, and insurance and risk hedging instruments.

Banking system organisation for agriculture in 2014-2020 Programming period

The main banking groups in Italy offer financial products and services to farmers

Only a few banks have departments with agricultural loans knowledge

The financial needs are not satisfied by existing financial instruments, which are not adapted to the specificities of the sector

The sector is financed mainly through short-term loans (2/3 of the total agriculture loans), which suggests an insufficient supply of longer-term financing for investments

Analysis by *fi-compass* shows that there is a significant funding gap in the Italian agricultural sector, estimated between EUR 110m and EUR 1.3bn

The main characteristics of agri-food and rural areas for credit

Large number of small farms with poor integration in the value chain, which means that farmers have difficulties related to both the input costs and the selling prices of their products

Substantial presence of family farms with little or no formal accounting, which hinders access to bank credit

Low generational turnover and relatively high average age of agricultural entrepreneurs, which translates into a limited propensity to invest in new technologies and products to improve competitiveness and productivity

Main problems in the use of financial instruments in agriculture

The experience in Italy of financial instruments in agriculture, in particular for the use of guarantee instruments, has not been very successful.

One difficulty for the activation of the financial instrument of EIF comes from procedural difficulties with AGEA related to controls.

Another difficulty comes from the insufficient specialisation of banks in agriculture, which places farms in the highest risk category and obliges them to commit large personal guarantees to access loans, in particular medium and long-term loans.

EAFRD financial instruments clearly have a role to play in facilitating access to finance in the agricultural sector… provided they are adapted to the needs of farmers and meet acceptable or successful negotiations with financial institutions.

The outlook for the financial instruments in agriculture in post Covid-19

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Some of the measures adopted at EU level for the agricultural sector go in the direction of modifying the current regulatory framework, allowing greater flexibility to Member States and ensuring an acceleration of expenditure.

From a procedural point of view, the guarantees that in the event the Programme needs to be modified to extend eligibility to cover working capital or to introduce a new financial instrument, the expenditure for crisis response operations is eligible starting from 1 February 2020. The modification can also be adopted at a later stage, without delaying the application of the new measures.

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