

- EAFRD
- EUR 27 million
- Rural final recipients support
- France

... enabling loans to agricultural SMEs with more favourable conditions ...

Financial instruments for rural development 2014–2020

Occitania/Pyrénées-Méditerranée, France

Case Study





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The authors of this study are a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

Abbreviations

Abbreviation	Full name
CPR	Common Provision Regulation
EAFRD	European Agricultural Fund for Rural Development
EFSI	European Funds for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
FLPG	First Loss Portfolio Guarantee
FOSTER TPE-PME	Fonds Occitanie de Soutien Territorial aux Entreprises Régionales
GGE	Gross Grant Equivalent
RDP	Rural Development Programme
SME	Small and medium-sized enterprise



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1 Summary

This case study reviews the implementation of the European Agricultural Fund for Rural Development (EAFRD) financial instrument 2014-2020 in the Occitanie/Pyrénées-Méditerranée Region in France. This region was created on 1 January 2016 with the merger of Languedoc-Roussillon and Midi-Pyrénées regions.

As an instrument to address the market failure highlighted in the ex-ante assessment, the Occitanie/Pyrénées-Méditerranée Region entrusted the European Investment Fund (EIF) with the creation of a fund of funds (FOSTER TPE-PME - Fonds Occitanie de Soutien Territorial aux Entreprises Régionales) within the meaning of Article 2(27) of the Common Provision Regulation (CPR). The objective is to address the identified market failures by facilitating access to finance for final recipients in cooperation with selected financial intermediaries active in the region. FOSTER TPE-PME aims at improving funding conditions for final recipients through various financial instruments.

FOSTER TPE-PME is the largest fund of funds in France, with contributions of EUR 143 million from the region, the European Regional Development Fund (ERDF), EAFRD, and the European Funds for Strategic Investments (EFSI, Juncker Plan). FOSTER TPE-PME foresees supporting more than 5 000 final recipients through investments totalling more than EUR 900 million.¹ The fund of funds includes i) loans for innovative small and medium-sized enterprises (SMEs), ii) First Loss Portfolio Guarantees (FLPG), supporting SMEs as well as final recipients in the agricultural sector, iii) an equity instrument to support SMEs with high growth potential. A separate, recently added equity instrument focusing on mature SMEs complements the FOSTER TPE PME. The EFSI resources are not combined with EAFRD since they are not used at the moment in the specific guarantee instrument for agriculture.

Within this structure, the rollout of a FLPG in the Occitanie/Pyrénées-Méditerranée Region is a pilot project to support the agricultural, food industry and forestry sectors. This should pave the way for expanding the geographical reach of this novel initiative by implementing similar instruments in other countries.

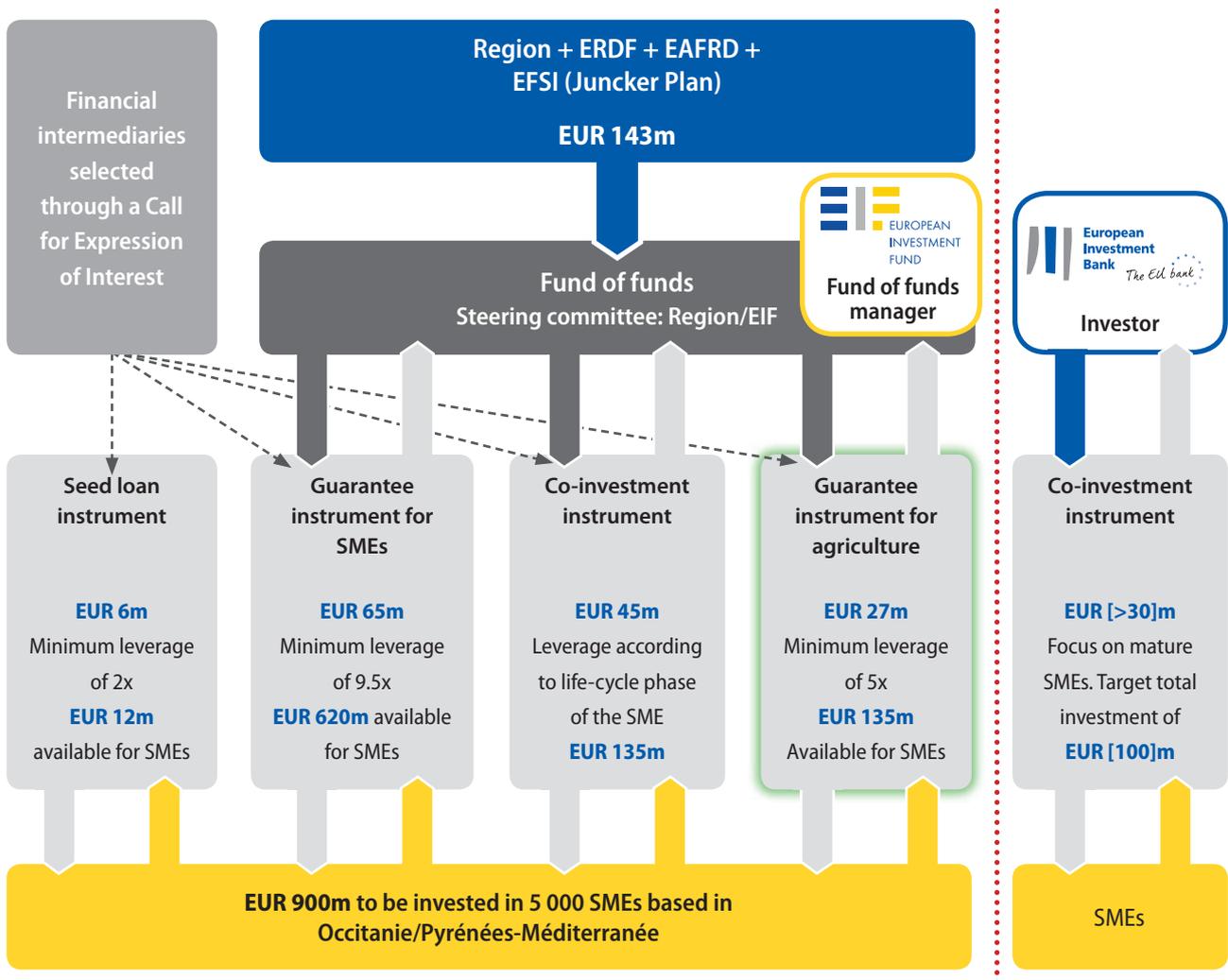
The total funding allocated to the guarantee instrument for agriculture is EUR 27 million, of which EUR 15 million comes from the Languedoc-Roussillon Rural Development Programme (RDP) and EUR 12 million from the Midi-Pyrénées RDP. The financial instrument provides guarantees covering loans, enabling financial intermediaries to facilitate better access to finance for targeted final recipients (such as farmers and agricultural holdings). It also promotes investments in the development, processing and marketing of agricultural products as well as the creation and development of non-agricultural activities in rural areas and forestry technologies. The FLPG provides credit risk coverage for selected financial intermediaries on a loan by loan basis at a fixed guarantee rate (i.e. 80%) and up to a maximum loss amount (i.e. 25% of the total portfolio amount) for a portfolio of new leases and loans to eligible final recipients. This instrument incentivises the financial intermediaries to provide more financing and ensures that benefits from the free of charge guarantee are passed on to final recipients through lower interest rates and lower collateral requirements.

¹ Although FOSTER TPE-PME acts in practice as a single fund of funds, in legal terms the contribution from the EAFRD Rural Development Programme is based on a separate funding agreement between the EAFRD managing authority and the EIF.

This financial instrument provides high leverage, creating greater market impact. In that respect, it is expected to support at least 1 000 final recipients active in the agricultural, food industry and forestry sectors based in the Occitanie/Pyrénées-Méditerranée Region.

Key challenges arose from the administrative difficulties of merging the two regions and aligning two separate RDP programmes. The EIF manages the fund of funds on behalf of the managing authority and has helped to support the new FOSTER TPE-PME managing authority in designing and setting up the investment strategy, selecting the financial intermediaries and implementing all the financial instruments.

Figure 1.1 - Schematic representation of the overall fund of funds FOSTER TPE-PME





Financial instruments for rural development 2014-2020, Occitanie/Pyrénées-Méditerranée, France

THE FINANCIAL INSTRUMENT

Funding source

EAFRD, Languedoc-Roussillon Rural Development Programme (RDP) 2014–2020 and
Midi-Pyrénées RDP 2014–2020

Type of financial products

First Loss Portfolio Guarantee (FLPG)

Financial size

Languedoc-Roussillon – EUR 15 million RDP resources (63% EAFRD + 37% region contribution)
Midi-Pyrénées – EUR 12 million RDP resources (53% EAFRD + 47% region contribution)

Thematic focus

Investment in agricultural holdings, livestock modernisation, specialised crops, processing and marketing farm products, food industry, wood processing, logging and wood mobilisation.

Timing

From 2017 to 2023 (planned)

Partners involved

Occitanie/Pyrénées-Méditerranée Region (managing authority)
European Investment Fund (fund of funds manager)
Banque Populaire du Sud (selected financial intermediary in Languedoc-Roussillon)

ACHIEVEMENTS

Absorption rate

n/a

EU leverage¹

Minimum 8.5 times

Leverage of public resources²

Approximately 5 times

Main achievements (so far)

By August 2017, FOSTER TPE-PME had supported approximately 20 final recipients in the agricultural sector with approximately EUR 3 million of loans covered by the guarantee instrument.

- 2 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 135 million, divided by the total amount of EAFRD allocation to this financial instrument, i.e. EUR 15.81 million. It does not include the reuse of resources returned to the instrument.
- 3 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. EUR 135 million, divided by the total amount of public resources allocated to the financial instrument, i.e. EUR 27 million. It does not include the reuse of resources returned to the instrument.

2 Objectives

Occitanie/Pyrénées-Méditerranée Region was created in January 2016 through the merger of Languedoc-Roussillon and Midi-Pyrénées regions. Agriculture, forestry and agri-food are the leading sectors for employment and play an important role in the region's economy. In addition, around 50% of the land area is used for agriculture. However, the unemployment rate of 12% is above the national average, while per capita income is below the national average, especially in Languedoc-Roussillon Region which is a transition region. On the other hand, Occitanie/Pyrénées-Méditerranée Region benefits from promising characteristics when it comes to economic activity. It is the top French region in terms of creating new enterprises and has the highest rate of GDP invested in research and development (3.7%).

FOSTER TPE-PME's main objective is to channel EUR 143 million public funds until 2023 to enhance SME competitiveness. This is being done through a fund of funds that involves various resources, i.e. ERDF (EUR 52.67 million), EAFRD (EUR 15.81 million), the region's own resources as well as EFSI resources from the Juncker Plan. This initiative targets SMEs and start-ups in agriculture-related sectors (with EAFRD financing) as well as other sectors (with ERDF funding). FOSTER TPE-PME foresees the implementation of different financial instruments including loans (Funded Risk Sharing Products for innovative SMEs), FPLGs for SMEs and agricultural final recipients, as well as equity for SMEs with high growth potential.

Ex-ante assessments in Languedoc-Roussillon (April 2015) and Midi-Pyrénées (January 2017) identified a lack of access to finance for SMEs in the agriculture, forestry and agri-food sectors and recommended an increased use of financial instruments to address the financial needs of agricultural SMEs. The investment strategy (April 2015) defined by Languedoc-Roussillon Region was to design specific financial instruments to improve the access of agricultural, forestry and agri-food SMEs to bank financing. This included the development of a dedicated guarantee product⁴ as well as strengthening and repositioning existing instruments.

The Occitanie/Pyrénées-Méditerranée Region decided to build on the notable achievements of the JEREMIE holding fund of the former Languedoc-Roussillon Region from the 2007-2013 programming period which was implemented through different financial instruments (guarantee, equity and seed loans). On the basis of this positive past experience, Occitanie/Pyrénées-Méditerranée Region decided to support the agricultural sector in 2014-2020, by developing a specific guarantee instrument within a new fund of funds (FOSTER-TPE-PME).

The financial instrument financed by the EAFRD is an FPLG developed by the EIF in close collaboration with the managing authority. EIF acts as the fund of funds manager on behalf of the managing authority. The aims of the FPLG are to enable more favourable loan conditions for agricultural final recipients including lower interest rates and reduced collateral, as well as to align private and public funding and risk sharing. The financial instrument supports investments including for processing, developing and marketing agricultural products, creating and developing non-agricultural activities and forest technologies as well as for processing, mobilising, and marketing forest products.

The guarantee instrument for agriculture is expected to make around EUR 135 million available for 500 to 850 agricultural SMEs in Languedoc-Roussillon, plus 500 agricultural SMEs in Midi-Pyrénées.

4 See EIF (2015), 'AFMA Languedoc-Roussillon – Stratégie d'investissement proposée', p.36.



3 Design and set-up

During the 2007-2013 programming period, neither of the regions that merged into Occitanie/Pyrénées-Méditerranée implemented financial instruments funded by the EAFRD. However, good experience with guarantee fund and seed loan instruments in the 2007-2013 Midi-Pyrénées ERDF Operational Programme, as well as with JEREMIE funds in the 2007-2013 Languedoc-Roussillon ERDF Operational Programme, created a positive environment for Occitanie/Pyrénées-Méditerranée to increase the use of financial instruments in the 2014-2020 programming period. This included through EAFRD, in addition to ERDF.

The Occitanie/Pyrénées-Méditerranée Region

The recent merger of the former Languedoc-Roussillon and Midi-Pyrénées regions has resulted in the creation of one of the largest regions in France, which is responsible for public support policies for businesses and access to finance for SMEs. French regions are the managing authorities for European Funds (ERDF, European Social Fund and EAFRD). Since the funds were allocated to the regions in their former configuration, i.e. before the territorial reorganisation of 2014-2016, they cover the geographical area of the former regions. Today, the new Occitanie/Pyrénées-Méditerranée Region manages European funds dedicated to Languedoc-Roussillon and Midi-Pyrénées in a non-fungible manner. So the RDPs, ex-ante assessments, proposed investment strategies, financial intermediary selection process and structure within the fund of funds remain distinct.



The use of guarantee instruments to address the financial needs of agricultural SMEs was originally foreseen under the Languedoc-Roussillon RDP and included in the proposed investment strategy elaborated in April 2015. Management of the fund of funds was mandated to the EIF with the funding agreement signed in November 2015. After the creation of Occitanie/Pyrénées-Méditerranée Region in January 2016, the Investment Board was established and a Call for Expression of Interest published for the selection of financial intermediaries. In December 2016, the operational agreement for the FLPG for agricultural SMEs in Languedoc-Roussillon was signed with the selected intermediary, Banque Populaire du Sud. This led to the first loan disbursement to final recipients at the beginning of 2017. The ex-ante assessment in Midi-Pyrénées was completed in January 2017, together with the proposed investment strategy. The financial intermediaries are currently being selected and the deadline to receive applications for is October 2017.



Figure 3.1: Implementation timeline

Date	Event	
	Languedoc-Roussillon	Midi-Pyrénées
April 2015	Ex-ante assessment completed (17 April); proposed investment strategy	
May – October 2015	Negotiation of the funding agreement (per Annex 4 CPR)	
November 2015	Signature of the funding agreement, i.e. the managing authority entrusted EIF to manage the fund of funds	
January 2016	Following the regional election, creation on 1 January 2016 of the Occitanie/Pyrénées-Méditerranée Region	
June 2016	Investment Board established and Call for Expression of Interest published (30 June) for the selection of financial intermediaries	
30 September 2016	Deadline to receive applications for the selection of financial intermediaries	
October – December 2016	Selection process carried out by the EIF (respecting the Delegated Act criteria)	
30 December 2016	Operational agreement for the FPLG signed with the intermediary, Banque Populaire du Sud	
January 2017		Ex-ante assessment and proposed investment strategy completed (25 January)
December 2016 – April 2017	Financial intermediary employee information and training	
April 2017	First disbursement to final recipients	
June 2017		Signature of the funding agreement (i.e. the managing authority entrusted EIF to manage the fund of funds)
July 2017		Investment Board established and Call for Expression of Interest published (11 July) for the selection of financial intermediaries
15 October 2017		Deadline to receive applications for the selection of financial intermediaries
December 2023	End of the eligibility period (31 December)	



Modifying the RDP to include financial instruments⁵

When a managing authority decides to set up a financial instrument supported by the EAFRD (through its RDP) and this type of support was not envisaged, the managing authority must modify its programme. Following an amendment of the EAFRD rules, a request for such modification can be submitted by the managing authority any time and without limitations. The managing authority has to describe the financial instrument that will be set up, the sub-measures under which it will operate, the eligibility rules that will apply, and the support rates and principles of the selection criteria.

3.1 Ex-ante assessment

In Occitanie/Pyrénées-Méditerranée, two separate ex-ante assessments for the two former regions were conducted respectively by the EIF and PwC⁶ and by the European Investment Bank (EIB) and PwC.⁷ The final report for Languedoc-Roussillon Region was published in April 2015, while the one for Midi-Pyrénées Region was finalised in January 2017, together with the proposed investment strategy.

Both assessments included a literature review of regional strategic documents and studies, an analysis of indicators specific to SMEs, interviews and workshops with key stakeholders financing SMEs in both regions, and an online survey of existing SMEs. These assessed the macroeconomic environment in the region, the legal environment affecting SMEs, existing indicators and data available on SME financing in the region, priorities of managing authorities in the 2014-2020 programming period, as well as lessons from the past and any current use of financial instruments. Also 50 interviews (27 for Languedoc-Roussillon and another 23 for Midi-Pyrénées) with funding actors (including financial institutions, public decision-makers and potential final recipients) were conducted. Additionally, four general workshops with stakeholders (including from the agriculture and agri-food sectors) were organised in Languedoc-Roussillon, while two workshops specifically focused on agriculture and agri-food sectors in Midi-Pyrénées.

Market analysis in both ex-ante assessments highlighted that the agricultural sector counted for a large proportion of SMEs in the two former regions, most of which are micro-enterprises. This reflects the prevalence of family-owned businesses in this sector. In Languedoc-Roussillon, there were 41 752 agricultural SMEs in 2011, 19% of the SMEs in the region, above the national average of 14%. Almost 99% are micro enterprises, mostly family-run and in the development stage, especially in the agri-food sector. In Midi-Pyrénées the situation is similar. The agricultural sector has the most SMEs, with 45 435 farms in 2014 of which almost all are micro-enterprises (99.7%), accounting for 58 831 jobs. Of these micro-enterprises, 93% are self-employed enterprises.

5 Reproduced from EIF 'New EIF AGRI guarantee facility: How it works and who can benefit - Supporting the agricultural sector in Languedoc Roussillon Midi-Pyrénées (France)', p.5.

6 EIF and PwC (2015), 'Accès des PME au financement Analyse du marché en Languedoc-Roussillon'.

7 EIB and PwC (2017), 'Evaluer l'opportunité de recourir à des instruments financiers sur le territoire de l'ex Midi-Pyrénées - Etude en soutien à l'évaluation ex-ante dédiée aux instruments financiers du Programme Opérationnel FEDER-FSE Midi-Pyrénées et Garonne 2014-2020 et du Programme de Développement Rural régional Midi-Pyrénées FEADER 2014-2020'.

The two ex-ante assessments identified specific financial challenges for financing agricultural activities. In Languedoc-Roussillon, the majority of agricultural SMEs receive most of their funding from banks, or use their own resources.⁸ Agricultural and agri-food SMEs show a strong preference for investing own funds in machinery or production equipment (72%). However, as working capital requirements remain high and low operational margins are a challenge, the managing and hedging of the working capital requirements is difficult. The ex-ante concluded that agricultural SMEs in Languedoc-Roussillon need short-term loans to meet their working capital needs, particularly for inventories. They also need cheaper long-term financing for export and international development. Undercapitalised SMEs need equity financing.

In Midi-Pyrénées, the main financing needs of agricultural SMEs for 2013-2015 were for the acquisition of production machinery and equipment, land and buildings, for 61% of them, while 55% required additional working capital. As for Languedoc-Roussillon, availability of working capital is a major problem for many agricultural SMEs, especially in the start-up phase as there is little capacity for self-financing. They also need more financing than SMEs operating in other sectors to export their products. So far, agricultural SMEs have mainly used bank financing.⁹ However, agricultural SMEs in Midi-Pyrénées have more difficulty in raising finance than other regional SMEs.¹⁰ This is mainly related to the credit rating of their projects and their indebtedness, resulting in more collateral being required. Agricultural enterprises therefore require easier access to longer term and working capital financing through better financing conditions, such as loans under the financial instrument to increase farm production capacity and diversification, while others need to strengthen their capital, so they can cope with their investments.

To address the financial gap highlighted above, both ex-ante assessments underlined the importance of (1) using and developing a guarantee instrument in the form of collateral and/or other risk-sharing products available to financial intermediaries to improve agricultural SME's access to debt financing (for short-, medium- and long-term loans) by reducing the financial intermediaries' lending risk, and, (2) to support SMEs in their day-to-day management and long-term investments. The instrument should reduce the collateral required by financial intermediaries for financing new equipment and should be developed in parallel with technical assistance for the SMEs. These mechanisms should help integrate SMEs into existing networks and initiatives that support access to finance for SMEs but which do not specifically target SMEs in the agricultural and agri-food sectors. Finally, the ex-ante assessment in Midi-Pyrénées stresses the need to align and harmonise the design, implementation and management of existing and future financial instruments in the two former regions (i.e. Languedoc-Roussillon and Midi-Pyrénées).

8 EIF and PwC, 2015, p.247. The figures resulted from a regional survey at level of SME, which was implemented specifically for the ex-ante assessment. The survey reveals that, between 2011-2013, 62% of agricultural SMEs took out medium- and long-term loans, a higher proportion than for SMEs overall. This widespread use of medium- and long-term funding is followed by self-financing (39%) and the use of short-term loans (36%).

9 The data is the outcome of a specific survey conducted for the calculation of the financial gap in the region. The survey shows that 58% medium- and long-term loans (more than for SMEs overall, 46%) and 37% used short-term loans.

10 EIB and PwC, 2017, p.201. 17% said that they did not encounter difficulties in financing between 2013 and 2015, against 24% for SMEs overall. A slightly smaller proportion of agricultural SMEs (24%) received the entire amount requested, compared with 29% for SMEs overall.



3.2 Selection of the implementing body

Management of the fund of funds was mandated to the EIF, with the funding agreement signed in November 2015.¹¹ According to the regulation¹² and in order to assure an efficient use of public money, the selection of the financial intermediaries was initiated by a Call for Expression of Interest launched in June 2016. The EIF prepared the call documentation, which was approved by the Investment Board and subsequently published. The EIF also carried out the selection process.

On 30 December 2016, the Languedoc-Roussillon FPLG operational agreement covering agricultural SMEs was signed with Banque Populaire du Sud. The application deadline for selection of the financial intermediary in Midi-Pyrénées is October 2017.

The Languedoc-Roussillon Call for Expression of Interest was open for around three months, to give potential financial intermediaries enough time to prepare and develop competitive proposals. After the deadline, an initial eligibility check ensured that each 'Expression of Interest' complied with the eligibility criteria. The selection process also included a pre-selection phase where a desk-based review of documents applied initial scorings. The pre-selection was conducted in three phases:

1. formal assessment of the application;
2. qualitative assessment of the application;
3. financial robustness of the applicant and portfolio assessment.

In the next step, invitations to a second screening were sent to shortlisted candidates. After an intensive two day interview, the decision documents were prepared and reviewed by all relevant departments. In the end, the proposal was presented to the EIF board for approval.

The selection criteria covered formal requirements of the call, while applications were evaluated on quality (award criteria). The main selection criteria for the financial intermediary included:

- legal capacity to carry out the implementation tasks of the financial instrument under national and EU law;
- economic and financial capacity;
- organisational capacity: organisational structure, governance framework, internal controls, accounting system;
- experience with implementation of similar financial instruments.

Applications meeting the formal requirements were reviewed against the quality/award criteria, including:

- track record;
- implementation: origination strategy, marketing/visibility, duration, type of SMEs, maturity, etc.;

¹¹ In Languedoc-Roussillon; in Midi-Pyrénées it was signed in June 2017.

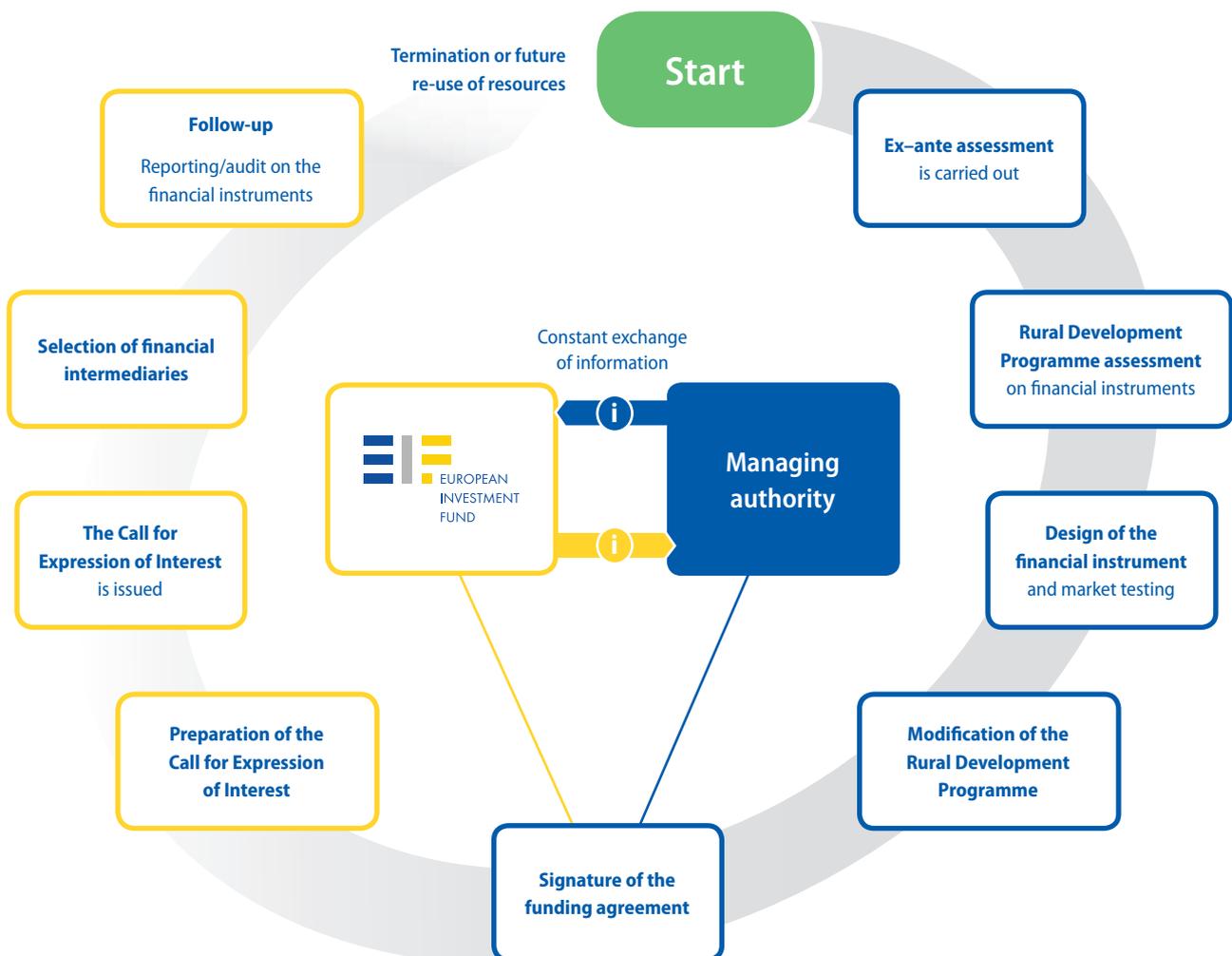
¹² According to Article 38(4) of the CPR, the body implementing financial instruments 'shall ensure compliance with applicable law, including rules covering the ESI Funds, State aid, public procurement and relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud'. According to Article 38(5) of the same regulation, 'financial intermediaries shall be selected on the basis of open, transparent, proportionate and non-discriminatory procedures, avoiding conflicts of interest'.

- experience;
- advantages to be passed on to final recipients, especially important for an FPLG and representing the key element for the EIF in its selection process;
- ability to raise resources for investments in final recipients;
- management costs and fees;
- other specific requirements (e.g. financial start-ups, reporting requirements, audit).

3.3 Funding and governance

The managing authority appointed the EIF as fund of funds manager and body implementing the guarantee instrument pursuant to Article 38(4)(b)(i) of the CPR. The funding agreement was drafted in accordance with Article 38 and Annex IV of the CPR. It sets out the roles and responsibilities of the managing authority and the EIF. The EIF was authorised to manage the bank account, pursue the investment strategy, select the financial intermediaries, perform due diligence, negotiate the operational agreements as well as audit and monitor the implementation of the financial instrument. According to Article 46 of the CPR, EIF will report on a monthly basis to the region and will provide an Annual Report (including financial statements audited by an external auditor).

Figure 3.1: Cooperation process between the EIF and the managing authority



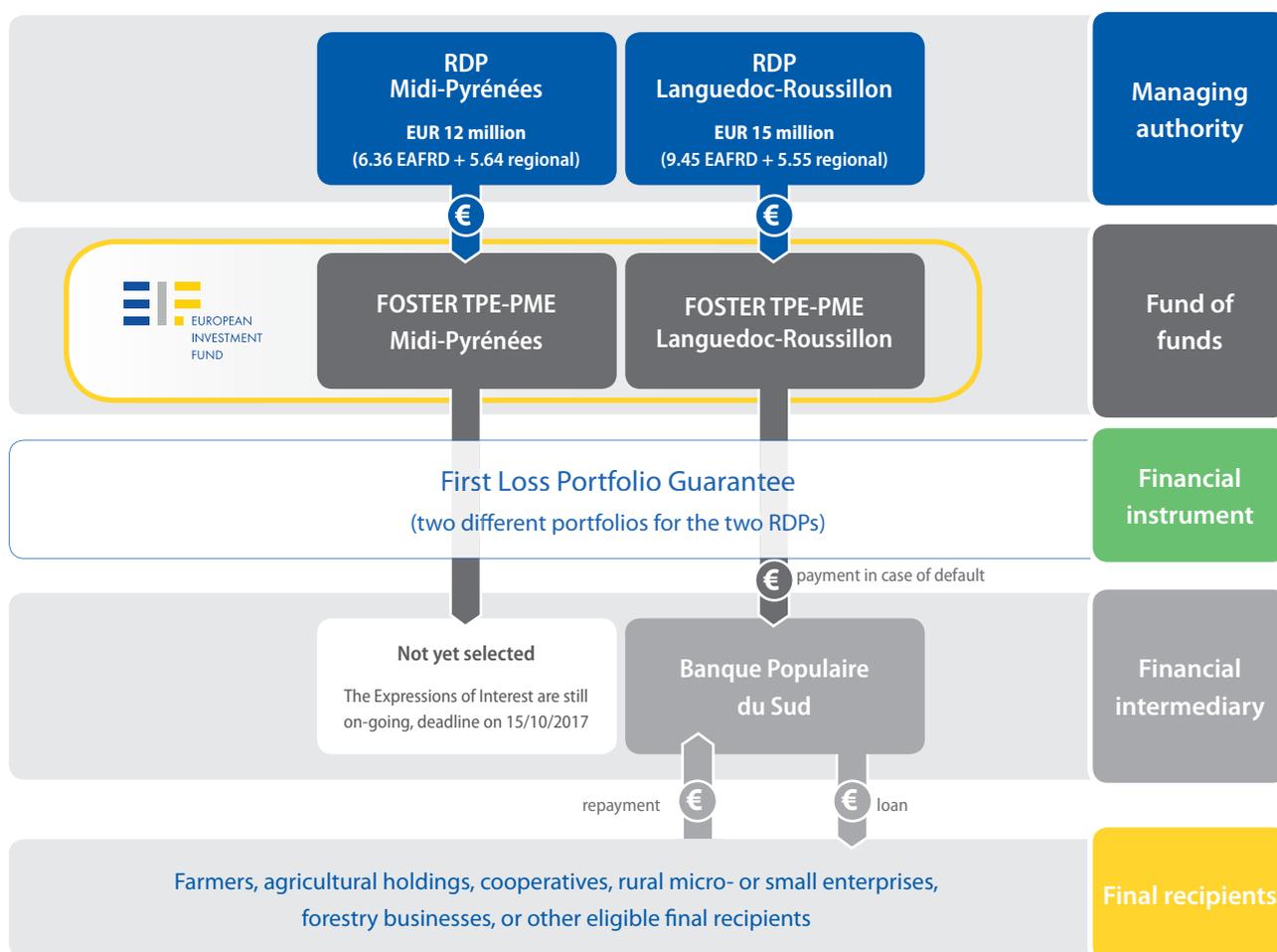
Source: adapted from EIF 'New EIF AGRI guarantee facility: How it works and who can benefit - Supporting the agricultural sector in Languedoc Roussillon Midi-Pyrénées (France)';



An Investment Board was set up by the managing authority in June 2016.¹³ The managing authority appoints the chairman, the members and the observers. These include the President of the region; the two vice presidents of the region (one for agriculture and forestry and one for the food industry and wineries); the Directorate (economy, agriculture, agri-food) and technical services (agriculture, agri-food, EAFRD). The Investment Board members express the position of the region, performing the tasks and responsibilities of the board, while the EIF acts as the Secretariat. The Investment Board's members are fully involved in defining and implementing the financial instruments. Strategic decisions are taken by the Investment Board on the investment strategy and its reorientation, as well as on call documentation, especially the main criteria and scoring to assess applications.

Both parties (the region and the EIF) work in cooperation to ensure full alignment with EU Regulation. They organised the fund of funds in two separate parts, enabling separate blocks of finance and clear tracking of funding sources (one for ERDF instruments and one for EAFRD instruments). This was based on a clear and visible investment strategy which had to be very coherent as well as in line with market demands and policy objectives. During the preparatory phase, the EIF also made an important effort to raise awareness of the guarantee instrument for agriculture among the region's civil servants responsible for EAFRD to ensure their understanding of the instrument and to smooth approval of the operation by the region.

Figure 3.2: Governance structure of the FLPG



13 In Languedoc-Roussillon; in Midi-Pyrénées it was set up in July 2017.



Resources from the EAFRD and public funding are split between three different measures across the two former regions: 'Physical investments' (measure 04), 'Development of agricultural holdings and enterprises' (measure 06), and 'Investments in the development of forest areas and to improve the viability of forests' (measure 08).

Figure 3.3: Funding, RDP measures and types of operation

Measure	Type of operation	Languedoc-Roussillon	Midi-Pyrénées
MEASURE 04 Physical investments	4.1.1 – 'Investment in agricultural holdings'	✓	
	4.1.1 – 'Investment in livestock modernisation'		✓
	4.1.5 – 'Investment in specialised crops'		✓
	4.2.1 – 'Development of agricultural holdings that process and market farm products'	✓	✓
	4.2.2 – 'Investment in enterprises that process and market farm products'	✓	✓
MEASURE 06 Development of agricultural holdings and enterprises	6.4.2 – 'Development of primary wood processing enterprises in the market of wooden construction'	✓	
MEASURE 08 Investments in the development of forest areas and to improve the viability of forests	8.6 – 'Support for logging and wood mobilisation enterprises'	✓	
	EAFRD resources	EUR 9.45 million	EUR 6.36 million
	Public resources	EUR 5.55 million	EUR 5.64 million
	Total	EUR 15 million	EUR 12 million



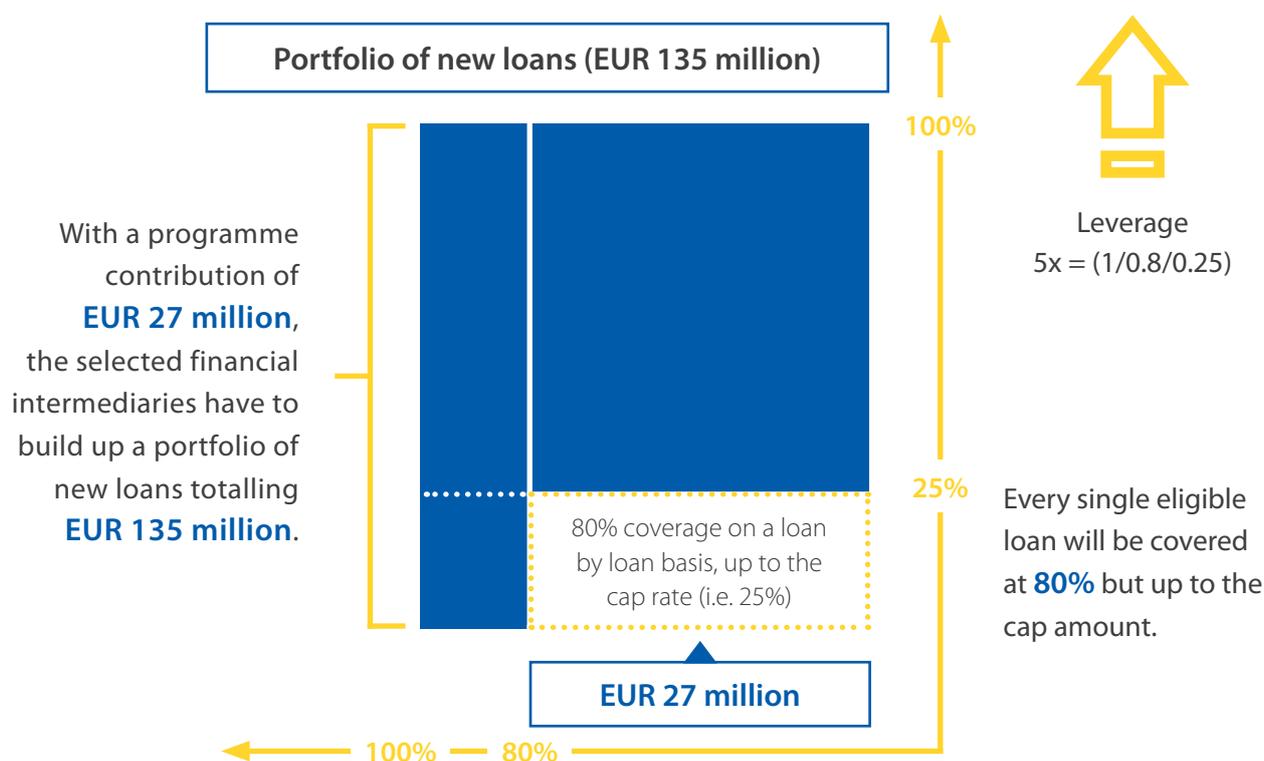
4 Implementation

The financial intermediary has between 24 and 36 months to build the portfolio, starting from signature of the operational agreement (funding agreement in accordance with Art.38(7)(b) of the CPR) with the EIF. The risk of each individual loan is covered 80%, within the portfolio cap according to its risk profile (i.e. 25%).

4.1 Financial products and terms

The guarantee instrument for agriculture is a free of charge FPLG which aims to ease access to finance for agricultural holdings and SMEs. The guarantee provides 80% credit risk coverage on a loan by loan basis for a portfolio of new loans and leases up to a maximum loss (cap). The instrument is expected to generate new loans of EUR 135 million, creating significant market impact.

Figure 4.1: Indicative scheme of the guarantee instrument



Source: EIF 'New EIF AGRI guarantee facility: How it works and who can benefit - Supporting the agricultural sector in Languedoc Roussillon Midi-Pyrénées (France)'.



The maximum amount per loan (see Figure 4.2) is based on the diversification of the entire portfolio.

The eligibility criteria are based on EAFRD Regulation and the RDP. The final recipients include farmers, agricultural holdings, cooperatives, rural micro- or small enterprises, forestry businesses and other eligible final recipients. Eligible costs include the purchase of new equipment, construction, renovation of real estate, intangible investments and working capital to the limit as laid down in EU Regulations. Purchase of land, up to the limit as laid down in the EU Regulations, can be eligible under sub-measure 4.1.1 (investment in agricultural holdings). There are limitations to sub-sectors as well, for instance wine-producing activities are not eligible.

The first disbursement of loans to final recipients in Languedoc-Roussillon under the guarantee instrument for agriculture started in April 2017.

Figure 4.2 – FLPG in the RDP Languedoc-Roussillon

Guarantee instrument for agriculture, agri-food industry and forestry RDP Languedoc-Roussillon	
Body implementing the financial instrument	European Investment Fund
Financial intermediary	Banque Populaire du Sud
Amount of public funds	EUR 15 million (Banque Populaire du Sud manages EUR 13.5 million)
Agreed portfolio of loans	EUR 67 million
Guarantee	80% (covering final losses on individual loans up to the cap)
Cap rate	25%
Period	36 months (to build the loan portfolio, starting from signature of the operating agreement)
Eligibility	Agricultural holdings, food industry and forestry SMEs in Languedoc-Roussillon
Maximum loan amount (assuming a guarantee rate of 80%)	<ul style="list-style-type: none">• Up to the aid intensity and State aid• EUR 930 000 (< 10 years)• EUR 1 875 000 (< 5 years)
Term of loans	12-120 months



Brin D'Air Bio

Julie is a 35-year-old farmer based in Elne (Pyrénées Orientales) who believes she has the profession in her blood and had a small portion of 1.6 hectares of land where she produced organically farmed aromatic plants. The demand for high quality, certified, and/or organic herbal products has increased significantly and very often she fails to meet the demand. She decided to develop her business and double the size of her farm. The FOSTER loan allowed her to substantially enhance her business with new investments in installations and equipment. The loan was for EUR 109 000, with a maturity period of 7 years and a total investment of EUR 126 000. The advantages for her include a reduced interest rate of 1.85% instead of 2.25% and the personal guarantee reduced to 20% of the loan amount instead of the usual 130%.



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Le Jardin de la Clairette

Le Jardin de la Clairette is a family-run farmhouse set up in 1998 in Roubia (Aude), managing the entire food chain process, from the field to the plate. The fruits and vegetables are seasonal, grown in 'Culture Raisonnée', and picked at full maturity. The parents of the final recipient are currently agricultural producers and have developed a small scale facility for processing their own vegetables and arboriculture products. Their son wanted to explore innovative ways of doing business that would lead to a new source of growth for the family farm. With his experience and a diploma in pastry-making, he wishes to further develop his parents' agricultural products by investing in new processing and canning facilities and materials. The goal of this project is twofold: to enhance the family business and production through this niche, and to respond to new markets and growing demand from a farmer's shop for products such as tarts, soups, cakes, fruit juices and ice cream. The FOSTER loan is for EUR 150 000 with a maturity of 7 years, and a total investment amount of EUR 180 000. The advantages for the beneficiary include an interest rate reduced to 1.89% instead of 2.30% and a personal guarantee reduced to 20% of the loan instead of the usual 130%.



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4.2 State aid

Public grants declared by the final recipient and public aid in the form of financial instrument guarantees, when cumulated with grants, must not exceed 40% of the eligible costs for a single investment project. For this financial instrument the guarantee is converted into a Gross Grant Equivalent (GGE). If the project involves processing an agricultural product into an agricultural product, no further check relating to State aid regulations is necessary. However, if the project involves transforming an agricultural product into a non-agricultural product, the transaction falls under the scope of the *de minimis* regulation. Therefore, in addition to the verification relating to the 40% public aid threshold for such a project and pursuant to this measure, the GGE of the guarantee, together with any other aid received by the final recipient over three years must not exceed EUR 200 000.

4.3 Financial flow and appraisal process

Loans to SMEs are provided via the financial intermediary through its standard procedures. Payment under the guarantee will be within 60 days of the request being submitted.

5 Output

The first disbursement of loans in Languedoc-Roussillon was in April 2017. Since then, around 20 final recipients have been supported under the financial instrument, through loans of approximately EUR 3 million. The EIF and Occitanie/Pyrénées-Méditerranée Region expect that disbursement will increase gradually in the coming months. It is already evident that the instrument has enabled final recipients with limited banking track records to access finance at better conditions.

Moreover, the financial instrument is also expected to provide added value not only for final recipients in terms of easier access to bank finance or more opportunities to invest, but also for the region, including more diversification of public intervention or more efficient use of EU funds and for financial intermediaries, including credit risk protection and access to new clients.

Figure 5.1 Added value for the parties involved in this instrument

For final recipients (i.e. farmers/SMEs)	Easier/better access to bank financing enhancing their competitiveness	Significant transfer of financial advantage to entrepreneurs (interest rate reduction as well as collateral requirements reduction)	More opportunities for final recipients to invest	Helps mitigate financial market deficiencies by improving credit conditions
For the Occitanie/ Pyrénées-Méditerranée Region	Significant leverage (doing more with limited resources)	Efficient answer to both regional and EU key objectives to diversify public intervention	Final recipient credit growth may drive economic growth	More efficient use of EAFRD and transition from a subsidy culture to revolving financial instruments
For financial intermediaries	Excellent risk protection (80% of up to 25%, guarantee free of charge, 60 days for payment)	More comfort for the financial intermediary to issue loans to final recipients	Access to new clients/segments	High visibility for agricultural support



6 Lessons learned

Experience highlights the importance of conducting an ex-ante assessment in translating policy objectives in the programme into market instruments. It is especially relevant in the design and set-up phases, as the financial instrument needs to be based on market conditions. It shows the importance of extensive and precise cooperation of the managing authority with local partners and professional organisations in gathering information.

A permanent dialogue between region, the fund of funds and the financial intermediaries helps align public and private sector interests and effectively channel the public contribution to final recipients. This dialogue has covered objectives, characteristics of the instrument, Q&A during set-up, communication and promotional activities.

For Languedoc-Roussillon RDP, Occitanie/Pyrénées-Méditerranée Region foresaw the use of guarantee instruments since first drafting the RDP in 2015, with specific resources allocated for RDP measures. These were based on a previous SWOT analysis and a good understanding of agriculture, agri-food and forestry sector needs. The former region developed an investment strategy for using financial instruments to address agricultural enterprise financial needs, including an FLPG. For the Midi-Pyrénées RDP, it was another challenge to introduce financial instruments three years after the beginning of the programme, since no specific resources had been allocated initially and there was no investment strategy for guarantee instruments. The managing authority has been unified for more than a year, with a single team, which should help harmonise activities. Managing two separate programmes, however, required a lot of preparatory work to maximise consistency in strategy, targets and timing. Both former regions aimed for a clear and visible investment strategy under the Occitanie/Pyrénées-Méditerranée Region.

The use of an open and transparent procedure for the selection of the body implementing the financial instrument, compliant with the EU and national rules on public procurement, represents not just a regulatory obligation but it is fundamental to ensure a full transfer of benefit to final recipients and ensure the most efficient use of public resources. It is important that calls are based on a clear investment strategy and are approved by the Investment Board. They also have to be very detailed and comprehensive, and include documents such as the investment strategy of the intermediary, the team dedicated to the instrument, financial statements and the advantage that the intermediary will pass on to final recipients.

For Occitanie/Pyrénées-Méditerranée Region, the managing authority decided to entrust implementation to the EIF, a AAA-rated institution that has a proven track record of managing multiple funds, avoiding conflicts of interest and offering a wide range of financial instruments, as well as a transparent selection procedure. The fund of funds is an extremely powerful set-up and enables the region to support all types of activities, not only SMEs as before. Moreover, during the preparatory phase, the EIF also supported with awareness raising among the region's civil servants responsible for EAFRD, to ensure appropriate understanding of the financial instrument and to smooth approval of the operation by the region.



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