EAFRD financial instruments in 2014-2020 Rural Development Programmes

Final report

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Executive Summary

Financial instruments have formed part of the European Agricultural Fund for Rural Development (EAFRD) legislation for more than 15 years. However, for most managing authorities they are a new way of using EAFRD resources to stimulate investments in agriculture, food processing, rural businesses and forestry. Recent years have seen rapidly growing interest from managing authorities for this type of support, especially in the aftermath of the 2007–2008 financial and economic crisis. This is substantiated by the possibilities for financial instruments to attract additional capital, reuse resources and address specific difficulties of EAFRD stakeholders, in particular farmers and agri-food businesses, to access finance. While paying greater attention to this form of support, EAFRD managing authorities also have to deal with completely new legislation for financial instruments that is significantly more detailed for 2014-2020 compared with the 2007-2013 programming period.

Against this background, this study provides the European Commission Directorate-General for Agriculture and Rural Development (DG AGRI) and other interested stakeholders with information on the implementation of the EAFRD support through financial instruments based on experience in Member States during the current programming period. This supports efforts to increase the use of financial instruments under the EAFRD in 2014-2020. This study reviews the subject of financial instruments and how the legal framework, practical experience and policy decision-making have affected financial instrument preparation and uptake by managing authorities. It pays attention not only to operational and ready-to-be-launched financial instruments, but also to actions by EAFRD managing authorities that prepare the ground for future activities in this area, especially ex-ante assessments.

This study is divided into three themes, addressing the preparatory work by managing authorities on financial instruments, the legal framework with its impact on managing authority activities in relation to financial instruments, and the programming of financial instruments in 2014-2020 Rural Development Programmes (RDPs). It gathered information through desk review of all RDPs and available ex-ante assessment documents, as well as through interviews with managing authorities and financial intermediaries. The interviews highlighted managing authority experience in the ex-ante assessment process and provided an overview of how managing authorities deal with the current regulatory framework. Tailored to the experience of each managing authority and their progress in implementing financial instruments, interviews also provided insight into current programming gaps and the potential for financial instruments. Additionally, this study collated and assessed experiences of EAFRD managing authorities in planning and implementing financial instruments to highlight areas where guidance, advisory services and other products could be enhanced, and to potentially identify specific EAFRD financial instrument support needs not yet addressed.

Most data processing and interviews took place from July to mid-October 2016. Due to continued progress of financial instrument preparations, the information collection phase was extended to February 2017. Although this study is a snapshot based on data available at the time, many of the findings are not affected by later activities undertaken by managing authorities.[1] However, the overall status of preparatory work and programming of financial instruments was updated using data made available by DG AGRI in November 2017. This highlighted the most recent developments in the rapidly changing landscape of financial instrument uptake amongst EAFRD managing authorities.

1 Under the 'Preparatory work by managing authorities on financial instruments' theme, and based on updated data from DG AGRI, there are: (a) 5 of 38 completed ex-ante assessments that were not addressed by this study desk review; (b) five RDPs which are preparing for, are or have undertaken an ex-ante assessment, but where not addressed by study interviews (35). Additionally, three RDPs with programmed financial instruments were not addressed by interviews under the 'Programming of financial instruments in 2014-2020 RDPs', as financial instruments were not programmed at the time the study data was collected.

Preparatory work by the EAFRD managing authorities on financial instruments and their ex-ante assessments

On this basis, this study identified that, as at November 2017, 42 ex-ante assessments had been completed, twelve more were in progress or at an advanced stage[2], and another ten managing authorities had expressed an interest. A review of the completed ex-ante documents provided insight into identified market failures and funding gaps, and the value added of financial instrument. In particular, asymmetry of information and credit restrictions were reported to be the most common market failures justifying the set-up of financial instruments. While greater difficulties for farmers to access finance were highlighted in many programme areas, a willingness of investors to maintain or increase their agriculture portfolio was indicated in isolated cases. The funding gap for agricultural enterprises was normally, but not always, specified. Against the identified funding gaps, ex-ante assessments supported the view that financial instruments can add value compared to other forms of public financial support in various ways, and especially through leverage, revolving resources and greater financial discipline, as well as better financial and technical assessments of projects. Other advantages included encouraging entrepreneurship and financial education in rural areas, as well as increased capacity through partnerships between public and private sectors. Some ex-ante assessments highlighted the difficulties of specific targets, such as young famers, start-ups and innovative enterprises. A few cases addressing a broader target proposed different implementing conditions for different categories of final recipients.

In addition to market assessment, specific proposals in ex-ante assessments cover financial instrument delivery and management. Loans and guarantees were the most commonly proposed financial products. Improved conditions such as lower than market interest rates, longer repayment terms, lower collateral requirements and grace periods were major features in all investment strategies. The need to finance working capital was strongly advocated in a number of ex-antes, outlining one of the specificities of the agricultural production.

Although investment strategies very often proposed loans or guarantees, they also identified other financial products that could help address market failures. In particular, some ex-ante assessments in France and Italy indicated that financial instruments could be used to prioritise the access of businesses to microfinance products. Instead, where equity support was analysed in the ex-ante assessments, it was always with reference to broader economic sectors and not specific to agriculture. Combinations of financial instruments and grants were proposed in a few cases, to enable a smoother transition from a grant to a financial instrument culture. A need to ensure complementary technical assistance to final recipients when structuring their business and financial plans was often identified, with particular emphasis in some cases on micro- and small-farmers and businesses.

The nature and process of the ex-antes varied broadly, also depending on their scope, including in isolated cases multi-RDP and/or multi-fund structures that were considered by Member States. This helps understanding the range of managing authority experiences, as EAFRD managing authorities undertaking multi-RDP and/or multi-fund ex-ante assessments were often less involved in the preparatory work than managing authorities from other Funds (the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF)) who were coordinating and influencing the process more. The few ex-ante assessments that covered SMEs in general addressed agriculture in specific chapters or analyses, but generally fell short of providing concrete conclusions on agriculture. Some ex-ante assessments considered agri-food separately from agriculture, while ex-ante assessments addressing forestry generally provided limited information on the specific sector. From an early stage, multiple stakeholders were involved, primarily financial intermediaries, but also final recipients, as well as DG AGRI and the European Investment Bank (EIB). Market failures and financial gaps were identified using various qualitative and quantitative methodologies, including macroeconomic models, analysis of financial data, surveys and focus groups.

2 The status of ex-ante assessments also influence progress with programming, as some managing authorities were waiting for the results of the ex-ante assessment before including budgetary information in their RDPs.

The legal framework and its impact on the implementation of the EAFRD financial instruments

In addition to providing information on the implementation of EAFRD support through financial instruments based on the experience of Member States, this study also gathered information on how EAFRD managing authorities deal with the current legal framework related to financial instruments and to what extent this facilitates their work in relation to financial instruments.[3]

Over half of managing authorities reported that the legislative provisions for financial instruments are more onerous than for grants, for instance when it comes to the ex-ante assessment requirements, and about two thirds agree that the EAFRD rules could do more to facilitate the use of financial instruments in RDPs. Implementing financial instruments is perceived to be very complex and there is a strong desire for greater clarity and flexibility in the legal framework. However, due to the timing of the study, managing authority responses did not consider the changes introduced through the Omnibus regulation, which lifted many of the previous limitations imposed on financial instrument investments, including in terms of eligible expenditure, scale and working capital. Additionally, a lack of experience contributed to this perception, as views of managing authorities who had started an ex-ante assessment were more positive. Additionally, interviews recognised that, regardless of progress with implementation, a general lack of financial instrument experience amongst EAFRD managing authorities affects financial instrument implementation, at least initially.

For specific regulatory provisions, the study gathered the EAFRD managing authority views on the applicability of 'off-the-shelf' instruments. These are based on standard terms and conditions that are already fully compliant with ESI regulations and State aid rules and were established by the Commission to accelerate and smooth financial instrument implementation. The majority of managing authorities did not consider the need for such instruments or could not find grounds for positively supporting them, and just over one third of managing authorities believed a specific 'off-the-shelf' instrument was needed. However, opinions differed depending on the stage of implementation. Managing authorities preparing or undertaking an ex-ante assessment stated a preference for an EAFRD 'off-the-shelf' instrument, while those further advanced with implementation thought that 'off-the-shelf' models were not required. This pointed to a limited capacity of the 'off-the-shelf' templates to address sector and context-specific conditions.

Managing authorities in the process of conducting their ex-ante assessment or who had completed it were asked about the ex-ante assessment process, the regulatory framework for ex-ante assessments and the results. The majority of managing authorities believed the ex-ante assessment was a challenging process, but especially helpful in facilitating financial instrument implementation at a later stage. Challenges outlined by managing authorities included a lack of prior knowledge, the need for comprehensive knowledge in various areas of expertise, the necessity to adapt to new regulations and difficulties with gathering complete data to inform policy making. Against this background, most managing authorities believed the guidance available on ex-ante assessments was adequate, and most of them found qualified ex-ante assessors.[4] This was identified as key to the process being a success. Similarly, many managing authorities were very positive about ex-ante assessment recommendations providing a sound basis for implementing financial instruments. However, not all managing authorities felt that recommendations would be closely followed, reflecting the political side of the decision-making process, and only a minority believed that their implementation would be straightforward.

Implementation progress limited the insight this study could gather on the difficulties and challenges faced by managing authorities further along the process of setting up financial instruments. Few managing authorities were

3 Timing of the study did not allow for detailed discussions with managing authorities on legal proposals presented by the Commission as part of the mid-term review of the multi-annual financial framework 2014-2020, referred to as the Omnibus regulation. However, managing authorities noted that the anticipated amendments could improve and facilitate financial instrument use under EAFRD.

4 However, managing authorities that openly procured often experienced mixed results reflecting the differing national/regional context.

in a position to comment on procedures for selecting implementing bodies and drafting funding agreements. Those who were, often found the provisions constraining or inflexible.

Programming of financial instruments in 2014-2020 RDPs

This study also mapped the status of financial instrument programming, including the major investment sectors selected for support, and assessed any untapped potential for financial instrument implementation under EAFRD supported investment areas. This analysis clearly highlighted increased attention from EAFRD managing authorities, as indicated by a substantially increased number of RDPs that were considering the possibility of using financial instruments in the 2014-2020 programming period. In particular, as many as 54 RDPs currently mention this option, compared to 14 that programmed financial instruments in the 2007-2013 programming period. Of the eleven Member States programming financial instruments, five are new (Germany, Estonia, Netherlands, Spain, Portugal and Slovenia).[5] Currently, most RDP resources allocated to financial instruments are for investments in agriculture and agri-food processing, followed by farm and business development, then forestry. This study has identified significant potential for further financial instrument deployment in agricultural holdings and the processing, marketing and development of agricultural products. Almost all RDPs intend to support these investments, but only a minority of managing authorities anticipate support through financial instruments. A significant untapped potential for financial instruments is also suggested by the fact that, although over EUR 460 million of RDP resources were allocated to financial instruments as at November 2017, these are just a fraction of the EUR 7 to 18.5 billion loan financing gap for agricultural SMEs identified by a recent *fi-compass* study.[6]

Conclusions and recommendations

Based on these findings, this study recommends that further efforts are made to raise awareness on the rationale and benefits of financial instruments to tap their full potential for investment in agricultural holdings and products. In particular, and although this study did not explore the motivations of managing authorities who did not programme financial instruments, this should help address any knowledge gaps potentially limiting the interest of managing authorities in exploring the possibilities of financial instrument support. Relatedly, a focus on financial instrument support as part of evaluation studies carried out at RDP or at European Union (EU) level could ensure that financial instruments are increasingly considered by managing authorities, thus potentially increasing their use.

Also concerning the potential for further adoption of financial instruments, this study found that while this type of support was increasingly considered for forestry and renewable energy investment, only a minority of managing authorities anticipated using financial instruments to support these investment areas. At the same time, the possibility to support other rural infrastructure through financial instruments remained underexplored by managing authorities and their ex-ante assessments. Considering the lack of experience in these areas, efforts should be made to disseminate the practices of managing authorities who are exploring the possibility of using financial instruments. Moreover, for investment areas with no experience of financial instrument support, such as for rural infrastructure, managing authorities could be supported through studies clarifying the scope of financial instrument support in such areas. These could look at experiences with financial instruments under other ESI Funds or national resources and highlight how these could be replicated under RDP support given the specific needs of EAFRD managing authorities. They could also investigate existing practice at the EIB and other multilateral development banks to build on their institutional knowledge base.

With regard to dealing with the current legal framework, an important part of managing authority concerns seemed to be related to uncertainties regarding the applicability of Common Provisions Regulation (CPR) rules for financial instruments to the EAFRD programmes. In particular, some managing authorities were in doubt about how CPR

5 There are also two Member States with earlier experience of EAFRD financial instruments in the previous programming period but no indications of financial instruments in the current period.

6 See https://www.fi-compass.eu/publication/factsheets/factsheet-financial-gap-eu-agricultural-sector

financial instrument rules coordinated with the EAFRD ones and, in a context of limited knowledge and experience, this might have contributed to discourage managing authority from considering financial instrument support. From this perspective, the changes introduced through the Omnibus regulation should address much managing authority uncertainty. For the future, a continued EAFRD focussed approach on legal provisions and their interpretation could further increase managing authority confidence in their ability to implement financial instruments, as well as their interest in specific solutions made available by the regulatory framework (such as off-the-shelf financial instruments).

For programming and managing authority preparatory work on financial instruments, this study found that managing authorities fully exploited the flexibility allowed by the regulations for setting up financial instruments. In particular, managing authority took different approaches in timing (indicative) financial instrument programming in the RDPs and undertaking ex-ante assessments. Some started the process directly from the ex-ante assessment and others preferred to include at least some indications in the programme from the beginning. Many managing authorities seemed to have initially preferred to focus on the RDP and only later focus on setting up financial instruments. Against this background, simplification by DG AGRI in 2016 of financial instrument programming and the respective modification of the RDPs can be expected to ensure that implementation of flexible approaches does not lead to unnecessary effort. For the future, stronger integration between appraisal of the rationale for financial instruments and RDP programming could streamline the process, improving efforts and the programming of RDP resources. This could be further enhanced by more thoughtful consideration in the ex-ante assessment, where in particular collection of sufficient evidence allowing a separate quantification of the funding gap for the specific sectors could be regarded as a minimum requirement.

The ability to commence the process of designing and setting up financial instruments increased with legislation in 2013 and 2014 clarifying requirements, as well as guidance and advisory services, such as through *fi-compass*, since then. In addition, any past experience should benefit financial instrument design and implementation. However, managing authorities generally need further advisory support, particularly after completing ex-ante assessments, especially for designing implementation options, monitoring and control, and reimbursement. This can be expected to be particularly needed by managing authorities who have expressed an interest in financial instruments as a form of support in their RDP but have not yet started or are still in the process of setting up a financial instrument. Support should also be beneficial for inexperienced Paying Agencies. In this regard, more face-to-face support, especially through seminars and workshops, European Commission training and targeted coaching, could be provided, which should help these managing authorities clarify their needs and remove obstacles to financial instrument implementation.

i. Introduction

Financial instruments (financial instruments) have been part of EU rural development policy since the 2000-2006 programming period, but their role has grown as a result of the economic and financial crisis. Moreover, the European Commission places more emphasis on efficient spending of the EU budget for supporting businesses through financial instruments. Gaining insight into the implementation of financial instruments supported by the European Agricultural Fund for Rural Development (EAFRD) is important since, for many, they remain a new tool for stimulating investments in agriculture, food processing, rural business and forestry. Furthermore, the context for implementing financial instruments varies widely across the EU, depending on the level of experience with financial instruments, local economic conditions, local needs, as well as agricultural and rural development conditions. Issues in financial instrument programming can arise from determining whether and where to implement them, eligibility criteria, the design of management systems, and ex-ante assessments that reflect the desired rural development trajectory.

This study is carried out under the request and supervision of DG AGRI (unit F3) and is undertaken in the framework of *fi-compass*, a technical assistance platform supporting European Structural and Investment Funds (ESIF) financial instruments under a framework contract between the European Commission and the European Investment Bank. The authors are a consortium of SWECO (lead partner), t33, University of Strathclyde – EPRC, Spatial Foresight and infeurope; and Österreichisches Institut für Raumplanung (ÖIR) as sub-contractor. The focus and content of the study was determined by specific Terms of Reference developed by DG AGRI to shed light on the processes related to the set-up of financial instruments by EAFRD managing authorities (managing authorities), based on their experience. The findings and outcomes of this study could be used for policy purposes related to the current and future implementation of the EU rural development policy and its financial instruments. In this context, the study collates and assesses experiences of EAFRD managing authorities in planning and implementing financial instruments under Rural Development Programmes (RDPs). The study also highlights areas where the use of guidance, advisory services and other similar products could be enhanced.

The sections of this report cover the rationale behind the selection of financial instruments, their characteristics and role in delivering EAFRD objectives, the methodologies that have been used to identify the needs for their establishment, the logic behind EAFRD managing authority decision-making on financial instruments, as well as common issues and concerns in financial instrument programming. The period covered is from December 2015 to October 2016. Additional data on the state of play until end 2017 was used whenever feasible.

ii. Methodology under the study work

Based on the Terms of Reference, the study is divided into three main themes, for which the take-up of financial instruments and the progress of ex-ante assessments evaluating their need are underlining features. The structure, methods, coverage, and aims of the three themes are described in Table 1.

Table 1: Themes, aims, methods and coverage of the study work

Theme	Preparatory work by managing authorities on financial instruments		Legal framework and its impact on managing authority activities in relation to financial instruments		Programming of financial instruments in 2014-2020 RDPs	
Method and Coverage	Desk Review	managing authorities which have or are undertaking ex-ante assessments. Available ex-antes /drafts and related material reviewed.	Interview	Where managing authorities have programmed financial instruments in the RDP; or are undertaking ex-ante assessments. Limited number of financial intermediaries.	Desk Review	All (109) RDPs.
Aim	- Identify general focus and conclusions of ex-ante assessment. - Gain understanding on ex-ante process, steps taken before and during the process, analyses, financial aspects, and stakeholders. - Enable comparison with CPR ex-ante requirements and *fi-compass* ex-ante guidelines.		- Provide an overview of how EAFRD managing authorities deal with the current regulatory framework and identify practical, administrative and legal obstacles to financial instrument implementation. - Review managing authority experiences with the current provision of advisory services and identify unfulfilled advisory needs.		- Identify financial instrument programming status in all RDPs. - Analyse programming in specific areas (financial instruments and grants), namely: a) renewable energy and energy efficiency, b) forestry, c) rural infrastructure other than a). - Create a fiche of financial instrument and grant characteristics, including beneficiaries/ final recipients, eligible costs, selection criteria, and co-financing options, to identify areas for future financial instrument application.	
Method and Coverage	Interview	Where managing authorities have or are undertaking ex-ante assessments, or if managing authorities have expressed interest in conducting ex-ante assessments and may or may not have started the process. Managing authorities and financial intermediaries (where possible).			Interview	RDPs with Fully, Partially Programmed, and Notions of financial instruments. Additionally, where managing authorities have or are undertaking ex-ante assessments, or if managing authorities have expressed interest in conducting ex-ante assessments and may or may not have started the process.
Aim	- Identify individual managing authority experience in ex-ante assessment process - Gain understanding of ex-ante process, steps taken before and during ex-ante process, analyses, financial aspects, and stakeholders. - Enable comparison with CPR ex-ante requirements and *fi-compass* ex-ante guidelines.				- Understand the programming decisions managing authorities make regarding financial instruments. - Understand the potential for financial instruments and current programming gaps.	

The theme **'Preparatory work by managing authorities on financial instruments'** covers programme areas where managing authorities have undertaken, are undertaking or have expressed interest in ex-ante assessments. All ex-ante assessments, drafts and related material available by mid-2016 were reviewed before detailed interviews with managing authorities. The main steps in the ex-ante assessment process were cross-referenced to the seven CPR[7] requirements and EC guidelines on financial instruments. This covers market analysis, value-added, an estimate of additional public and private resources, lessons learned, proposed investment strategy, expected results and provisions for updating and reviewing the ex-ante assessments. Each methodological step was examined to understand the logic behind the ex-ante assessment and the reasoning of the managing authority when deciding whether to introduce financial instruments or not. Interviews[8] under this theme focused on managing authority experience in the ex-ante process - from preparing to conducting the ex-ante - and finally the decision to implement financial instruments, or not.

The theme **'Legal framework and its impact on managing authority activities in relation to financial instruments'** provides an overview of how managing authorities deal with the legal framework for EAFRD financial instruments and to what extent it has facilitated (or otherwise impeded) the implementation. It builds on analyses of the other themes, looking at managing authorities that have started working on the subject (with programmed financial instruments and/or undertaking ex-ante assessments). To gain additional insights the work under this theme included in-depth interviews with these managing authorities based on a detailed, targeted questionnaire agreed with DG AGRI. To develop a clear understanding of the managing authorities' experiences at each stage of implementation, this theme distinguishes between managing authorities that have completed the ex-ante assessments, those with an assessment in progress and those who are in a preparatory stage. Reflecting this diversity, each questionnaire contained specific questions depending on the managing authority's progress. In addition to managing authorities, interviews with a limited number of financial intermediaries[9] gathered their views on the scope for EAFRD co-financed financial instruments and on any challenges which may hinder financial instrument implementation or are a disincentive to their involvement.

Under the third theme **'Programming of financial instruments in 2014-2020 RDPs',** all 109 RDPs were analysed through desk research and those with fully or partially programmed financial instruments screened to identify the financial instrument characteristics.[10] Links between grants and financial instruments were analysed for all RDPs which at least mention financial instruments (fully, partially programmed or 'notions'). In addition, managing authorities were interviewed where there are fully or partially programmed financial instruments, and where managing authorities have undertaken (or are undertaking) ex-ante assessments. The purpose of interviews under this theme was to understand managing authority programming decisions for financial instruments, identify practical and legal issues which influence managing authority decisions, and to assess the potential for financial instruments and current programming gaps.

To facilitate a systematic approach to the study, some key definitions forming part of the Terms of Reference were applied (see Table 2).

7 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

8 Full list of interviewees is provided in Annex 4, including both managing authorities and financial intermediaries.

9 These are Bürgerschaft (DE), Rural Development Foundation (EE), SAECA (ES), ISMEA (IT), EximBank (RO), in addition to the European Investment Fund (EIF).

10 Network and framework programmes were excluded.

Table 2: EAFRD financial instrument study definitions

RDP financial instrument programming	
Fully Programmed	Financial instruments are included in the RPD as an implementation mechanism/ type of support (section 8.1, 8.2 of the RDP and a (sub-)measure description); a budget is attached to the financial instrument.
Partially Programmed	Financial instruments are planned (i.e. specifically mentioned) within a specific measure (sub-measure) as an implementation mechanism/ type of support, but without detailed description for all required programming fields (this covers also provisions in sections 8.1 and 8.2 of the RDP), i.e. eligibility conditions, budget allocations, support rates, etc. are not all necessarily specified in the RDP.
Notions of financial instruments	Possible future use of financial instruments is mentioned in the RDP (in section 4.2, identification of the needs; 5. Description of the strategy; or 5.2 Measures). However, (unlike partially programmed, above), financial instruments are not linked to specific measures/ sub-measures and there no further details or planned budgets.
Ex-ante assessment status	
Ex-ante Completed	The ex-ante assessment is finalised and delivered to the managing authority (if it was outsourced).
Ex-ante Advanced	The ex-ante assessment is at its final stage; recommendations or conclusions are being drafted.
Ex-ante in Progress	The ex-ante assessment has been officially launched. The ex-ante assessor (internal or external) has started conducting activities in accordance with CPR key requirements.
Expressed Interest	For the purposes of this study, managing authorities who have stated their interest in conducting an ex-ante assessment for EAFRD financial instruments.

This report draws on data collected under the three themes, coordinated by the research team and gathered by national experts in 28 Member States. To ensure efficient and accurate data collection, this process was divided into two phases. In the first phase, covering elements of Themes 'Programming of financial instruments in 2014-2020 RDPs' and 'Preparatory work by managing authorities on financial instruments', desk research covered analysis of all RDPs, ex-ante assessments, drafts, and related material. Comprehensive guidebooks were prepared for national experts to guide their research work.

The second data collection phase, covering 'Legal framework and its impact on managing authority activities in relation to financial instruments' and the remaining elements of the other two themes, consisted of in-depth interviews with managing authorities and some financial intermediaries, on financial instrument programming within RDPs, and on the ex-ante assessment process. This phase built on the initial desk research, focusing on the most relevant managing authorities and asking targeted questions. To conduct this second phase, national experts were given detailed interview templates, adapted to the specific case.

Most of the data processing and interviews took place from July to mid-October 2016. However, due to the fluid nature of financial instrument preparations, the information collection phase was extended to February 2017 to capture up-to-date information on RDPs where financial instruments were being actively considered and/or implemented. As financial instrument programming is a moving target and managing authorities can update RDPs after ex-ante assessments are completed, this study should be considered a snapshot based on data available at the time. Still, many of the findings are not affected by later activities undertaken by managing authorities as they stem from a process development that every managing authority faces.[11] Additionally, DG AGRI has provided data to the research team at every stage of the study and through its implementation phases (programming, ex-ante assessments progress, budgets, etc.).

The remainder of this report is structured around the three themes and is complemented with Annexes.

11 Under the 'Preparatory work by managing authorities on financial instruments' theme, and based on updated data from DG AGRI, there are: (a) 5 of 38 completed ex-ante assessments that were not addressed by this study desk review; (b) five RDPs which are preparing for, are or have undertaken an ex-ante assessment, but where not addressed by study interviews (35). Additionally, three RDPs with programmed financial instruments were not addressed by interviews under the 'Programming of financial instruments in 2014-2020 RDPs', as financial instruments were not programmed at the time the study data was collected.

1 PREPARATORY WORK BY EAFRD MANAGING AUTHORITIES ON FINANCIAL INSTRUMENTS AND THEIR EX-ANTE ASSESSMENTS

This section addresses the process of setting up EAFRD financial instruments, from managing authorities preparing and conducting an ex-ante assessment to programming financial instruments, and is divided into the:

1) **status** of ex-ante assessments, based on research from this study and more recent data provided by DG AGRI, including updates until June 2017
2) **process** of making ex-ante assessments (preparation and applied methodologies)
3) **content** (market assessments, as well as management and delivery options)

The ex-ante assessment is an iterative process, with two 'building blocks', one for the market assessment and another for delivery and management. Within these two building blocks, Article 37(2) of the CPR further details the requirements, based on seven elements.

Figure 1: Key elements of the ex-ante assessment

Building block 1: Market assessment				**Building block 2: Delivery and management**		
Analysis of market failures, suboptimal investment situations and investment needs	Assessment of the value added of the financial instrument	Estimate of additional public and private resources to be potentially raised by the financial instrument	Assessment of lessons learnt from similar instruments and ex-ante assessments carried out in the past	Proposed investment strategy	Specification of expected results	Provisions allowing the ex-ante assessment to be reviewed and updated

The ex-ante assessment determines the scope for financial instruments to address market failures or suboptimal investment situations. Importantly, the assessment should also ensure that the rationale for financial instruments is in line with, and contributes to, the RDP measures and objectives. Accordingly, the ex-ante assessment must provide the managing authority with a sound analysis of the potential for financial instruments. To facilitate this process, DG AGRI and *fi-compass* developed a methodological handbook for ex-ante assessments in agriculture, which was launched in June 2016.[12]

12 European Commission and European Investment Bank (2016) Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD, *fi-compass*: https://www.fi-compass.eu/sites/default/files/publications/209775_EAFRD_EXANTE_ASSESSMENT_HANDBOOK_0.pdf

Key findings

Status and process of ex-ante assessments

- As at November 2017, 42 ex-ante assessments had been completed, three were at an advanced stage and nine were still in progress. In addition, ten managing authorities had expressed interest in conducting an ex-ante assessment.[13]
- The nature of ex-antes varies broadly, also depending on their scope, including in isolated cases multi-RDP and/or multi-fund structures that have been considered by Member States[14]. This helps in understanding the range of managing authorities' experiences, as EAFRD managing authorities involved in multi-RDP and/or multi-fund (i.e. ESI Funds) ex-ante assessments were often less involved in the preparatory work than managing authorities from the other Funds (ERDF, CF, ESF) who were coordinating and influencing the process more.
- From an early stage, multiple stakeholders were consulted, primarily financial intermediaries, but also representatives of final recipients, such as organisations of farmers, as well as DG AGRI and the EIB Group. Different qualitative and quantitative methodologies were used to identify market failures and financial gaps, including macroeconomic models, surveys and focus groups.

Ex-ante assessments

Thematic coverage

- Ex-ante assessments with a broader focus covering SMEs in general, include specific chapters or analyses addressing agriculture. Notably, some ex-ante assessments consider agri-food processing separately from agriculture (driven by the specificity of the agricultural primary production and state aid regimes).
- Ex-ante assessments addressing forestry usually only provide structural data about the sector, for example by reviewing the number and structure of enterprises and their turnover.
- Analysis of rural infrastructure and renewable energy and energy efficiency investment is less developed, with the noteworthy exception of Auvergne (FR).

Market failures

- The most common market failure, identified by the study, is the asymmetry of information. However, credit restrictions resulting from the credit crunch, and the new requirements under the Basel agreements have also blocked farmers' access to finance making banks resistant and more demanding to funding requests.
- Some ex-antes highlight greater difficulty for young businesses e.g. Estonia, Languedoc-Roussillon (FR) and Spain, or for innovative enterprises e.g. the Netherlands and Mecklenburg-Vorpommern (DE), in accessing finance from the market.

13 Study information was complemented regularly with updated data made available by DG AGRI. The majority of managing authorities were consulted during the first data collection period, i.e. up to October 2016. In January 2017, some interviews were carried out with managing authorities who could not be reached in 2016. These interviews did not lead to any updates of the status of ex-ante assessments not completed as at October 2016.

14 In Member States with regional programmes (Italy, Spain, the UK, Germany, etc.) the ex-ante assessments may cover more RDPs under a common analysis. Ex-ante assessments may also cover more programmes funded by different ESI Funds.

- Market failures imply worse financing conditions in many programme areas also due to higher administrative costs on smaller loans than seem to be typical for agriculture.
- In rare cases, ex-ante assessments indicated that the agricultural sector is regarded as reliable by the commercial banks and credit unions e.g. Lithuania. In isolated cases, e.g. Estonia, some commercial banks have been even looking to increase their agriculture portfolio, although this was presumably insufficient as the managing authority opted for a credit fund. In other places, e.g. Poland, there has been an extension of the financial offer and improved conditions for agri-businesses in recent years from some banks, but this was not enough to cover all demand and completely close the existing market gap.

Funding gaps

- Funding gaps were identified and quantified in all surveyed cases. The funding gap for agricultural enterprises was in general defined, but not always specified when ex-ante assessments treated agriculture businesses and SMEs as part of the economy as a whole (mostly regional).

Value-added

- The most common added value of financial instruments was through leverage, their revolving nature, greater financial discipline and better financial and technical assessment of projects.
- Other, less specified advantages included, for instance, encouraging entrepreneurship and financial education in agriculture and rural areas, as well as increased capacity through partnerships between public and private sectors.
- Several ex-ante assessments provided scenarios comparing leverage of different financial products (i.e. guarantees and loans) with grants. In this context, combinations of the two would also be possible.

Lessons learned from the past

- Most ex-ante assessments reviewed past experiences though only seven Member States programmed financial instruments under the EAFRD in 2007-2013. Lessons learned include, among others, the need to avoid fragmentation of public support, to streamline procedures and reduce the time needed to approve applications and disburse resources, as well as to raise awareness through information campaigns.

Products

- The most common financial products were loans and guarantees. Lower than market interest rates, longer repayment terms, lower collateral requirements and grace periods, are major elements from all EAFRD financial instrument proposals.
- In the different regions and Member States, the potential participation of financial intermediaries in risk sharing products differs. In Lithuania, for example, it is estimated to be about 25%, in Romania about 40%, in Estonia about 50%, for different schemes and under different eligibility conditions and management arrangements. Other ex-ante assessments highlight public procurement as a suitable option to set risk sharing parameters.
- The need to finance working capital was strongly advocated in a number of ex-antes, highlighting one of the specificities of agricultural production.
- Some ex-ante assessments in France and Italy indicate that financial instruments could be used to prioritise the access of businesses to microfinance products.

- Where equity support was analysed in the ex-ante assessments, it was always with reference to broader economic sectors, not specific to agriculture.
- A need to ensure complementary technical assistance to final recipients when structuring their business and financial plans was often identified, with particular emphasis in some cases on micro- and small-farmers and businesses.

Capacity aspects and programming

- Regional managing authorities may need more advisory support for carrying out ex-ante assessments, including from DG AGRI, compared to national authorities.
- The timing of ex-ante assessments and programming of financial instruments is not strictly connected.

Before going into the detailed discussions in this section, it is important to highlight some challenges with the data collection and analysis. First, determining the ex-ante assessment status involves tracking a 'moving target', as the position of some managing authorities was evolving over time. Partly reflecting this, data collection was more complicated than expected. In addition, while most managing authorities were very cooperative in disclosing the status of ex-ante assessments, some were less willing to contribute to the study.

A second set of issues concerns the launch of the ex-ante assessment. More specifically, when does an ex-ante assessment start and how can the preparatory steps be distinguished from the start of the assessment? In practice, there seems to be an overlap between (1) preparatory activities that are pre-ex-ante assessment and (2) actions during the ex-ante assessment writing process itself. Both can be seen as attempts to identify market failures, suboptimal investment situations and investment needs. These concerns are important since some managing authorities who expressed interest in financial instruments or an ex-ante assessment conducted preliminary analyses and then withdrew their interest.

A third question arises following completion of an ex-ante assessment. When and what can be considered as a 'positive decision' by the managing authority on the use of financial instruments? A related issue is that reviews of ex-ante assessment recommendations are separated from the process. If a managing authority conducts a review or reassessment, the ex-ante status remains 'completed' for the purposes of this study.

There are also limitations to the information available. Inevitably, less information is available where the ex-ante assessment is not completed. In addition, the amount of available information also varies depending on where the initiative for the ex-ante assessment lies. When an ex-ante assessment covers more than one fund, the managing authority initiating the process (ERDF in most cases) may have more insight and more decision-making power about the content of the ex-ante, its timing and approach. Indeed, for multi-fund ex-ante assessments, EAFRD managing authorities may know few details of the process since EAFRD generally only represents a very minor part of the assessment either due to the hands-on approach of ERDF managing authorities, rather general requirements for the consultants, limited knowledge of the consultants about agriculture and/or the general perception of SMEs that does not cover, in principle, the specificities of agricultural businesses.[15] In such cases, the managing authority's knowledge of the methodology may be limited, reducing the data available to the study.

15 For example, the managing authority of Champagne-Ardenne never saw the final document, only a presentation of the main conclusion regarding EAFRD.

1.1 Ex-ante assessment status

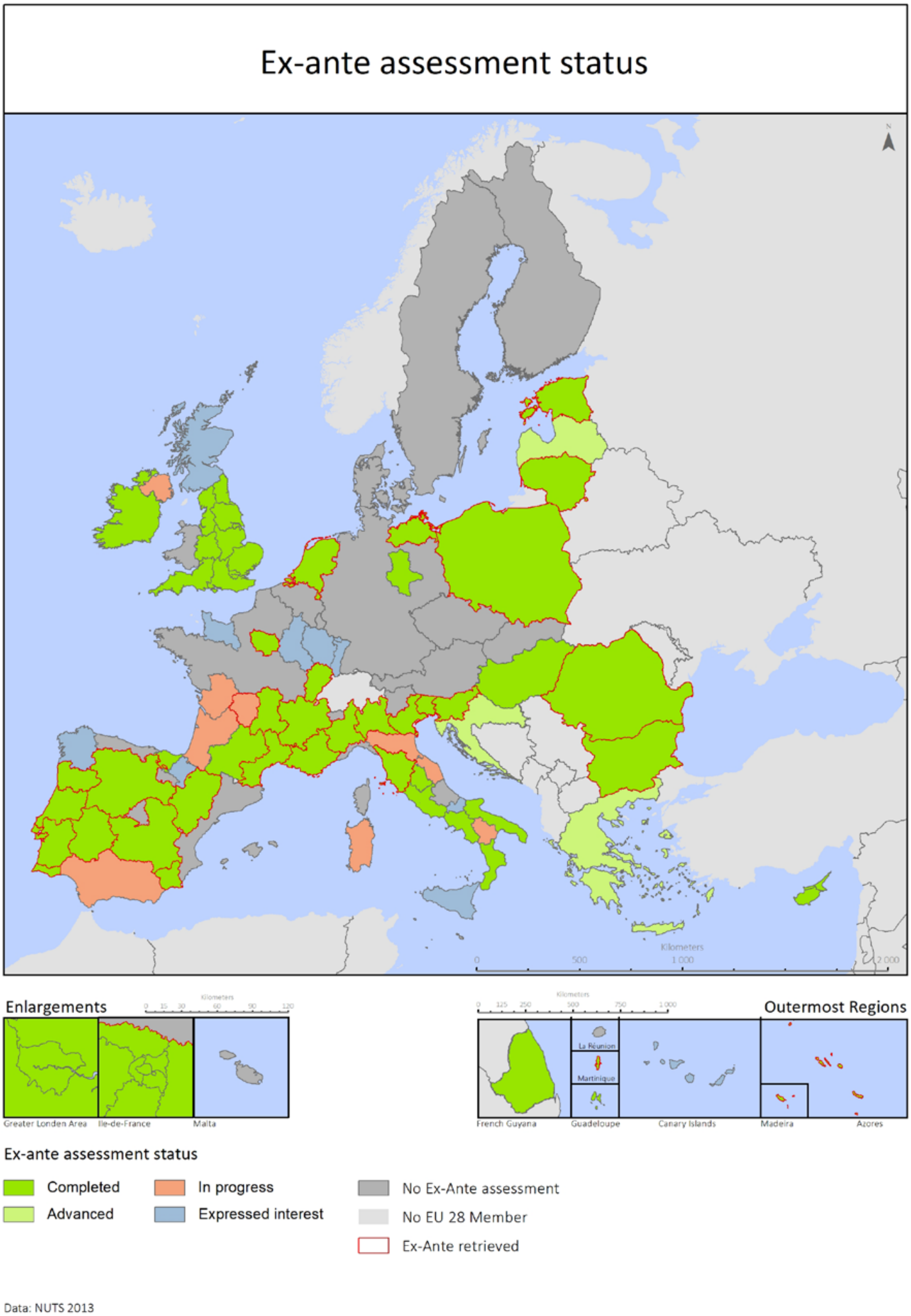
Based on the Terms of Reference for the study and the information initially provided by DG AGRI, the ex-ante assessments are categorised as:

- **Completed:** When the ex-ante assessment is finalised and delivered to the managing authority (if it was outsourced). In general, although an ex-ante assessment may be completed, the managing authority may still be reviewing and assessing its recommendations and conclusions.
- **Advanced:** The ex-ante assessment is at a final stage with recommendations and/or conclusions being (or about to be) drafted. Moreover, the ex-ante assessment process may, for various reasons, be interrupted or reviewed before being completed.[16]
- **In progress:** The internal or external assessor has formally started activities in accordance with CPR requirements and a draft or interim reports may be available.
- **Expressed interest:** For the purposes of this study this covers managing authorities who had stated their interest in conducting an ex-ante assessment for EAFRD financial instruments. This interest is reflected in preliminary initiatives conducive to an ex-ante assessment. For example, discussions on feasibility studies to analyse market needs, expressed desire for market testing or scoping, or internal to the managing authority reflections on the use of financial instruments. These types of analyses are not considered as an ex-ante assessment *per se*. In other words, 'notions' concerning financial instruments are interpreted as a potential interest in undertaking an ex-ante assessment without taking a concrete step consolidating this position.

As illustrated in Figure 2, as at November 2017, 42 ex-ante assessments were complete, three were at an advanced stage, nine were still in progress. An additional ten managing authorities had expressed interest in conducting an ex-ante assessment.

16 In Latvia or Bulgaria, for instance.

Figure 2: Ex-ante assessment status[17]



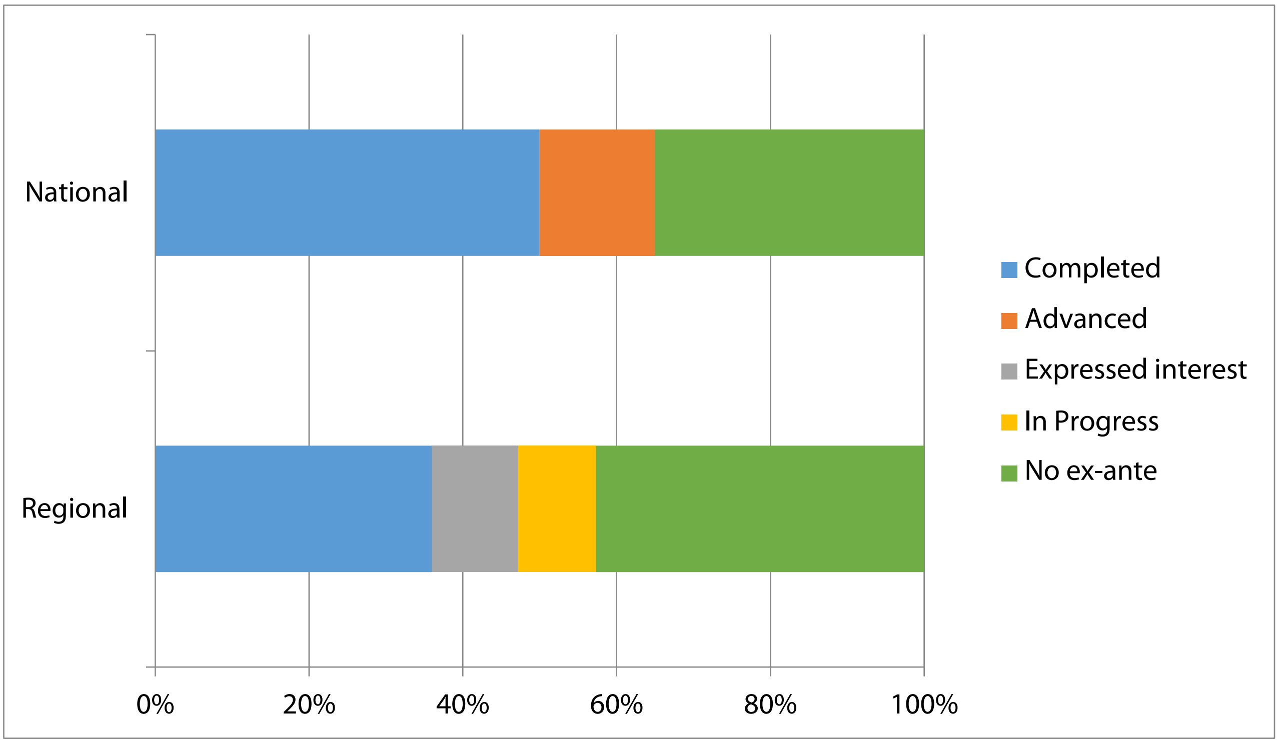
Source: fi-compass interviews and DG AGRI data

17 Red borders indicate that the relevant ex-ante document could be retrieved by the study team.

The research team analysed 29 completed ex-ante assessments during the study period (until October 2016). Some managing authorities were unwilling to provide copies of the ex-ante assessment because the reports, and especially the conclusions and recommendations, had not yet been fully analysed and / or considered. It is important to note that two of the ex-ante assessments falling in the scope of this study cover more than one RDP, for Spain (five RDPs) and Portugal (three RDPs). In addition, the legal basis does not impose on managing authorities any time limits for carrying out the ex-ante assessment or for taking a decision afterwards. This may drag the process for months or even years as the practice shows.

Figure 3 displays the ex-ante assessment status broken down by regional and national RDPs. Among the 109 RDPs reviewed, 89 were regional RDPs (Spain, Italy, France, Germany, Portugal, Finland, the UK) and 20 national. Among the regional RDPs, only 36% had completed or almost completed an ex-ante assessment, compared to 65% of national RDPs with closed assessments. This suggests that regional authorities may need more support for carrying out ex-ante assessments.

Figure 3: Ex-ante assessment status by regional and national RDP



Source: fi-compass interviews and DG AGRI data

Naturally, the ex-ante assessments follow national centralised – decentralised approaches based on the programming in rural development. In Romania one ex-ante assessment covered the whole country, while in Italy ex-antes are at regional level. However, in Italy, a national study paved the way for easier undertaking of regional ex-antes by providing a methodological and analytical framework, including an overview of the agricultural situation. The Ministry of Agricultural and Forestry Policies developed an ex-ante assessment[18] covering the national territory. The study provided a model to estimate the financial gap and a multi-objective analysis to quantify the added value. In Spain one ex-ante assessment carried out by the national government covered several regions with stand-alone RDPs (for the purpose of setting up a multiregional instrument with the same conditions).

18 MIPAF (2015), Strumenti finanziari nello sviluppo rurale 2014-2020 – Valutazione ex-ante nazionale.

At the same time, it is worth noting the analytical angle of an ex-ante assessment. Most ex-ante assessments were strictly related to a specific RDP and focused on agriculture and agri-business. The starting point was the economic context for agriculture followed by an analysis of financial gaps for farmers and agricultural SMEs.

However, in a very few cases based on centralised decisions by the governments, some ex-ante assessments cover different ESI Funds (ESF, ERDF, EAFRD). For example, Languedoc Roussillon (FR) provided a comprehensive analysis of different forms of financial support for different types of SMEs and their related financial gaps. In parallel the ex-ante included a separate demand analysis for SMEs in the agricultural sector. Similar joint-assessment assessments in Slovenia and the French region of Provence-Alpes-Côte d'Azur (PACA) did not provide concrete conclusions on agriculture (forcing managing authorities to spend further time and resources for a focused analysis of their target group).

Finally, the timing of ex-ante assessments and programming of financial instruments is not strictly connected. The CPR requires an ex-ante assessment before the managing authority makes programme contributions to a financial instrument.[19] However, RDPs may indicate the intended use of financial instruments[20] and this may pre-date the ex-ante assessment. Consequently, the ex-ante assessment could be finalised and then the financial instrument included in the RDP, which is the normal sequence. But the opposite also could happen – due to political and situational aspects a managing authority may prefer to signal its intentions from the start, at the time of first adoption of the RDP, e.g. in the Netherlands.[21] However, this can only indicate intentions or planned spending linked to a financial instrument, unless the ex-ante assessment is finalised. After potential market testing and finalisation of the ex-ante, this can be improved. In short, programming a financial instrument under the EAFRD is detached from preparing and launching a financial instrument (although this is a necessary condition for transferring resources from the RDP to the financial instrument and starting implementation).

19 CPR, Article 37(3).

20 Annex I to Implementing Regulation (EU) No 808/2014 on the application of Regulation 1305/2013, OJEU L227/18 of 31 July 2014.

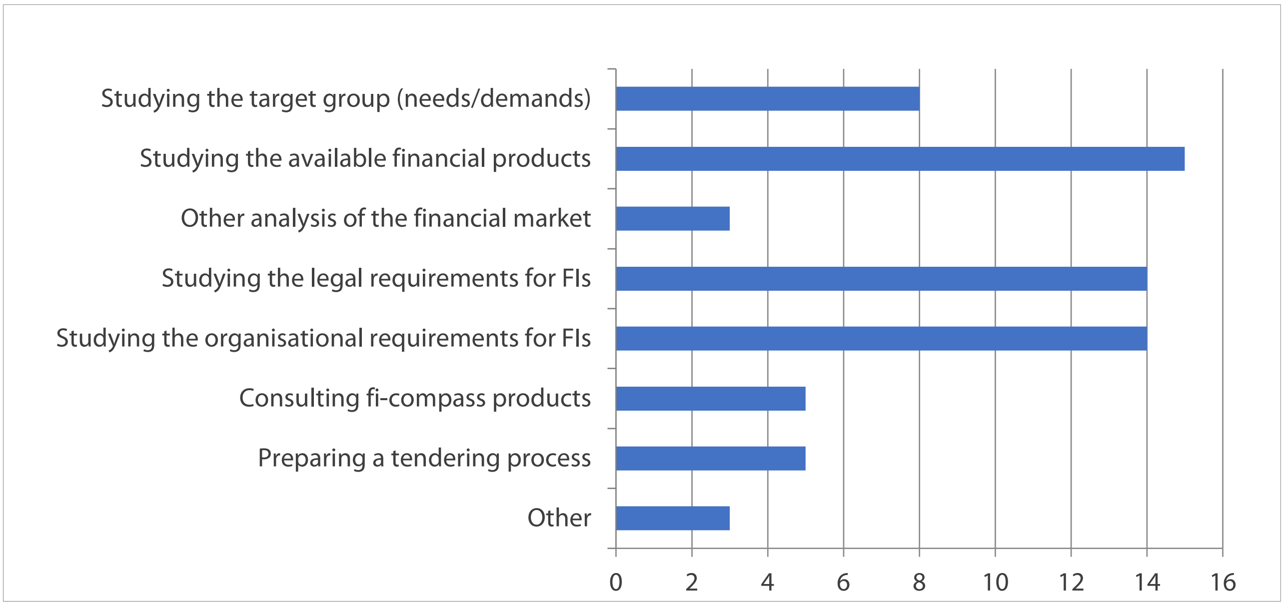
21 This and multiple versions of RDPs, together with the fact that ex-ante assessment completion dates are not tracked systematically, complicates the task of determining the status of financial instrument planning and implementation.

1.2 The ex-ante assessment process

1.2.1 Steps before an ex-ante assessment

This section examines the steps from the decision to investigate the suitability of a financial instrument and carry out an ex-ante assessment until the kick-off meeting at its launch. Several respondents, however, could not recall whether the activities were carried out before or after the official launch as some of the operations may have overlapped.

Figure 4: Activities each managing authority undertook prior to carrying out an ex-ante assessment (number of responses)



Note: respondents could select up to five activities.

Source: fi-compass interviews

Figure 4 presents the main activities undertaken by the managing authority before the official launch of the ex-ante assessment (e.g. launch of call for tender, signing a contract with in-house body, etc.), while Figure 5 describes the details of those activities.

An initial step is to review the available financial products. This study found that managing authorities conduct a literature review, organise meetings, workshops and consultations, and may even undertake surveys to identify specific financing needs. Approaches such as computer-assisted telephone interviewing, or quantitative research collect the views of farmers, experts and institutions. Another option is telephone interviews with representatives of NGOs or organisations working in agriculture. Stakeholders, such as local banks and potential final recipients, may also be invited to contribute. These processes, such as consultation with stakeholders may also be carried out during the ex-ante assessment or afterwards, depending on the approach of the managing authority.

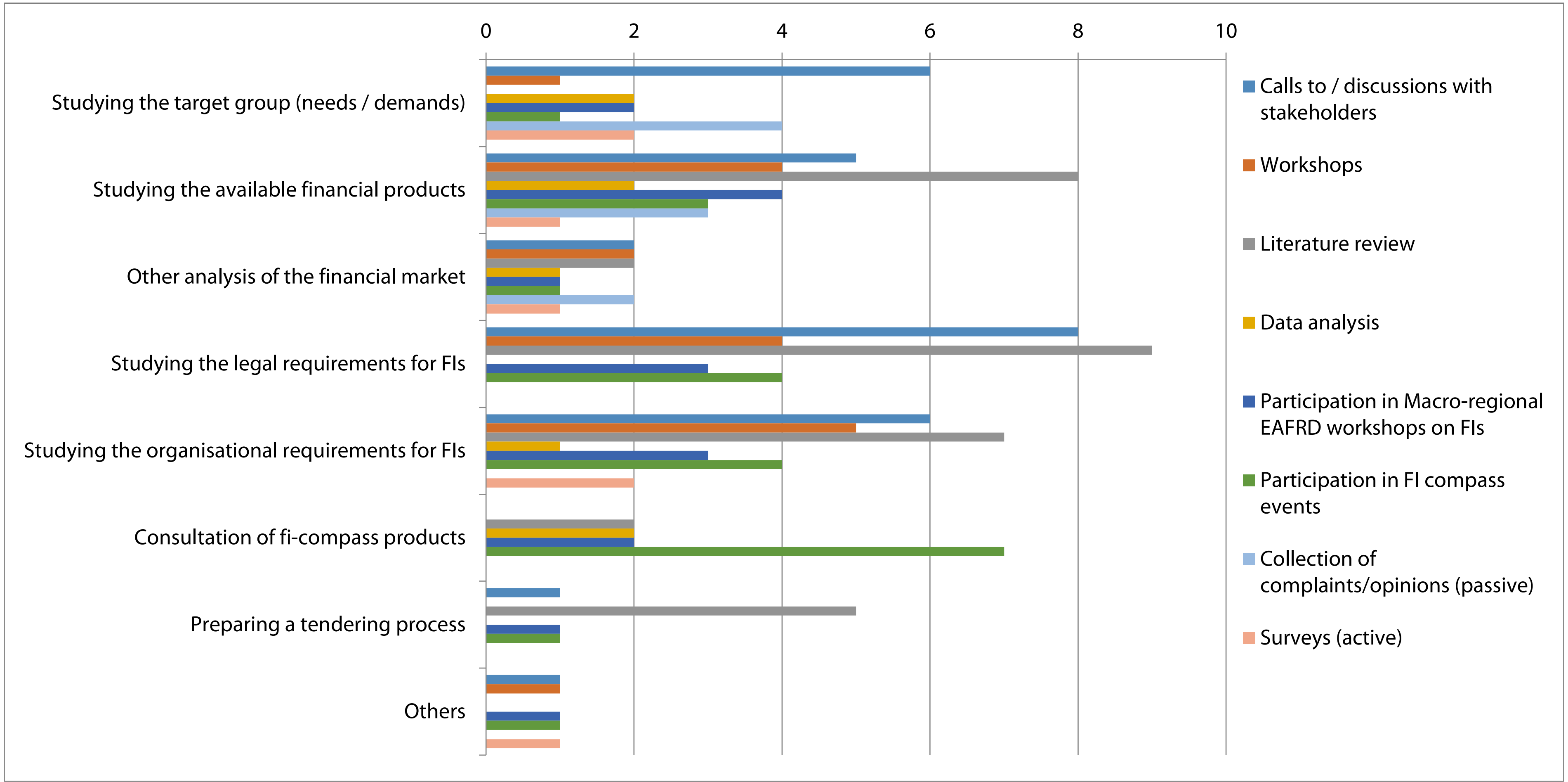
A review of measures implemented in the previous programming period can provide insight into financing needs. In some cases, a feasibility study or market analysis provided information to the managing authority, as did a literature review of financial instruments and the Farm Accountancy Data Network data.

Another critical step entails studying the regulatory requirements for financial instrument implementation to understand the process and options available. Calls and discussions with stakeholders helped complete the study of possible organisational arrangements. Similarly, legal requirements were reviewed to draft the ex-ante assessment terms of reference as managing authorities need to follow public procurement rules when selecting the consultant. Managing authorities also used methodological guidance from the Commission and *fi-compass* to identify the required steps and contents of an ex-ante assessment.[22]

Some other managing authorities pointed to the importance of attending conferences and workshops, such as under *fi-compass*, to improve understanding, exchange ideas and experiences, as well as to have direct contact with DG AGRI and the EIB.

22 See, for example, EC (2014), Financial instruments in ESIF programmes 2014-2020: A short reference guide for managing authorities, or EC (2014), Guidance for Member States on Article 37(2) CPR– Ex-ante assessment. See *fi-compass* resources at https://www.fi-compass.eu/resources

Figure 5: Specific actions undertaken prior to conducting an ex-ante assessment (number of responses)

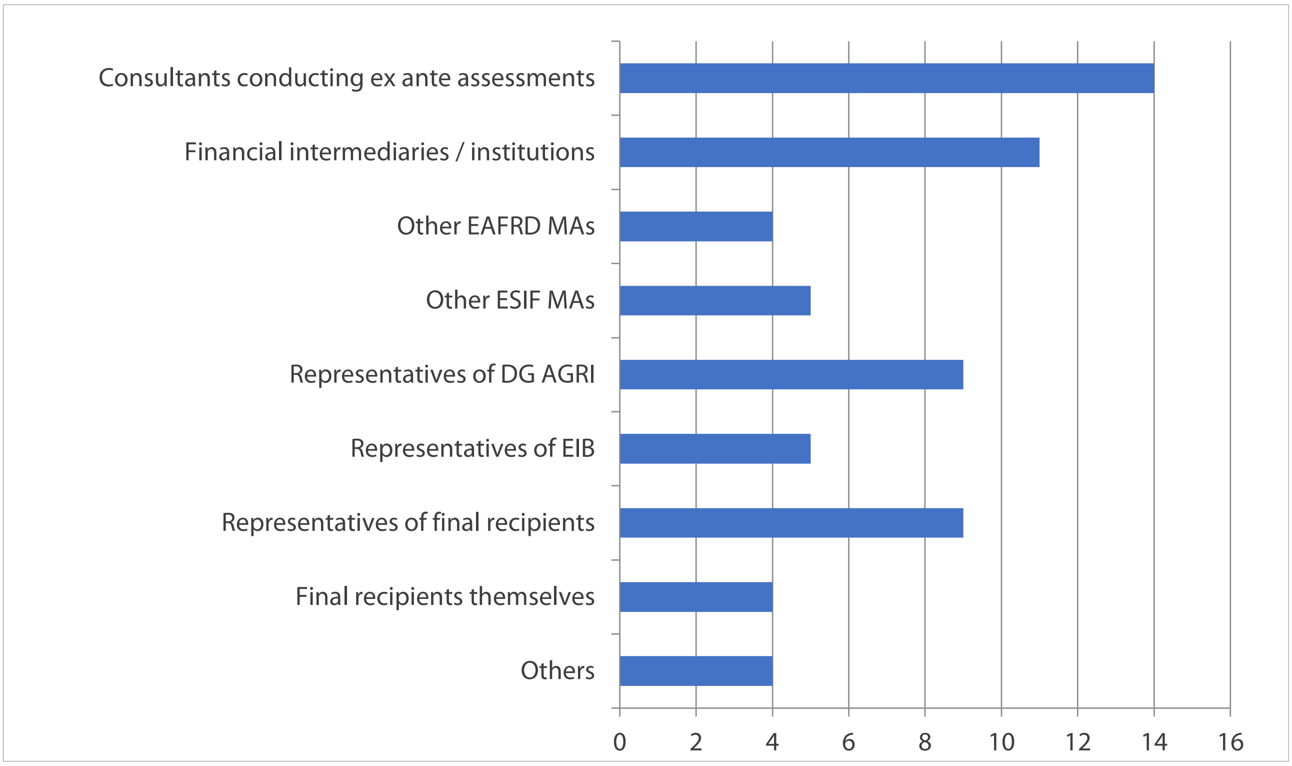


Note: respondents could select more than one action per main activity

Source: fi-compass interviews

A key step before launching the ex-ante assessment involves a review of literature on financial instruments. This was complemented by more interactive steps, notably consultation with key stakeholders. Figure 5 highlights consultations with stakeholders while reviewing the target group, financial products, legal and organisational requirements for financial instruments. Accordingly, Figure 6 presents the types of stakeholders consulted.

Figure 6: Stakeholders consulted prior to an ex-ante assessment



Note: Respondents could identify more than one stakeholder.

Source: fi-compass interviews

It is interesting to note that most managing authorities felt it was crucial to 'understand' the financial ecosystem and the market appetite by involving potential financial intermediaries. Consultants and financial intermediaries provide more operational and technical support, sharing hands-on experience of market needs and methodological approaches. Institutional actors have a more strategic role, being mainly senior decision-makers (ministries at national or regional level, or EU institution representatives). The EIB Group also plays a role in creating a bridge between the financial world and decision-making authorities. Final recipients are consulted more indirectly, for example, through surveys or representative bodies.

1.2.2 Ex-ante assessment methodology

This section examines the methodological approach adopted by managing authorities or those carrying out the ex-ante assessments, with a focus on sectors or types of investment specified in their terms of reference.

Table 3 presents an overview of methodologies to identify economic sectors which could benefit from financial instruments.,

Table 3: Overview of the methodologies used to identify economic sectors

	Macro-economic analysis	Sub-sector analysis	Consulting financial intermediaries	Consulting interest groups / specialist organisations[23]	Farm surveys	Financial data analysis
Bulgaria	√		√	√	√	√
Mecklenburg-Vorpommern (DE)		√	√	√		√
Estonia			√	√		√
Aragón (ES)[24]	√	√	√	√	√	√
Castilla-La Mancha (ES)[24]	√	√	√	√	√	√
Castilla y León (ES) [24]	√	√	√	√	√	√
Extremadura (ES) [24]	√	√	√	√	√	√
Región de Murcia (ES) [24]	√	√	√	√	√	√
Martinique (FR)	√	√	√	√		√
Île-de-France (FR)		√	√	√		√
Franche-Comté (FR)			√	√		
Limousin (FR)	√	√	√	√		√
Rhône-Alpes (FR)	√		√	√	√	√
Auvergne (FR)		√				
Languedoc-Roussillon (FR)	√		√	√	√	√
PACA (FR)	√		√	√		√
Friuli-Venezia Giulia (IT)	√		√			√
Lombardia (IT)	√					√
Piemonte (IT)	√					√
Toscana (IT)	√	√				√
Veneto (IT)	√	√	√			√
Lithuania		√	√	√		√
The Netherlands			√	√		
Poland		√	√	√		√
Azores (PT)			√	√	√	√
Continental Portugal (PT)			√	√	√	√
Madeira (PT)			√	√	√	√
Romania	√	√	√		√	√
Slovenia	√	√		√		√
Total (#)	18	16	24	22	12	26
Total (%)	62	55	83	76	41	90

Note: '√' means that the methodology was used at least once.

Source: fi-compass desk analysis

23 Such as organisations providing specific professional or technical expertise.

24 A joint ex-ante assessment was carried out in Spain covering the five RDPs.

Macro-economic analyses framed the economic context, helped identify market failures and quantify financing gaps. Indicators such as the gross domestic product (GDP), employment, imports and exports also analysed the effect of the credit crunch on the agricultural sector (62% of all assessments).

Surveys covered interest groups across the main targeted sectors, agriculture predominated with 41% of the cases. For example, the Spanish multiregional ex-ante assessment includes surveys of 429 agri-food industries (in Castilla y León) and 1 546 farmers (in Aragón). In Estonia, non-agricultural businesses, including wood processing and manufacturing companies, as well as land improvement associations and harbours were surveyed through a web-questionnaire and phone interviews. In Languedoc-Roussillon (FR), an online questionnaire with 22 questions was addressed to 37 000 SMEs (17% of the region´s SMEs), including agricultural businesses.[25]

Financial data analysis is an underlining backbone of the process as represented by 90% of the surveyed managing authorities. In the case of Spain, for example, the data comes from a report on the status of financing for agriculture, published by the Spanish Ministry of Agriculture, Food and Environment (MAPAMA). The data distinguishes between agricultural products and livestock. More specifically, in the regions of Murcia, Aragón, and Castilla y León, farm structure analyses also used data from the Spanish statistical office (INE). Another example was Mecklenburg-Vorpommern (DE), where data on the indebtedness of farm holdings and food processing companies was reviewed. In Italy, several ex-antes analysed agricultural company defaults before and after the crisis, compared to the general trend.

Sub sector analyses were also conducted, principally in Spain, Lithuania and France (55% of the cases). In the Spanish regions of Murcia, Aragón, and Castilla y León, Extremadura and Castilla la Mancha, sub-sector analyses reviewed the number and structure of forestry enterprises as well as their turnover, along with on-farm diversification trends. In Languedoc-Roussillon (FR), workshops with representatives from the agriculture and food industry sectors helped better identify and comprehend specific subsector needs and the financial situation. In the Lithuanian ex-ante assessment, economic sub-sectors were analysed by assessing the suitability of financial instruments to support cattle breeding.

Interest groups were very often consulted to integrate the needs/demands of economic sectors into the ex-ante assessment, including consultations with financial intermediaries (76% and 83% respectively). Public, semi-private and private body interest groups include regional and national chambers of agriculture, regional and national chambers of industry and commerce, confederations of agricultural cooperatives, federations of dairy cooperatives, farm organisations, forestry associations, local action groups, business development organisations, associations for business innovation, cluster representatives and sector lobbying groups.

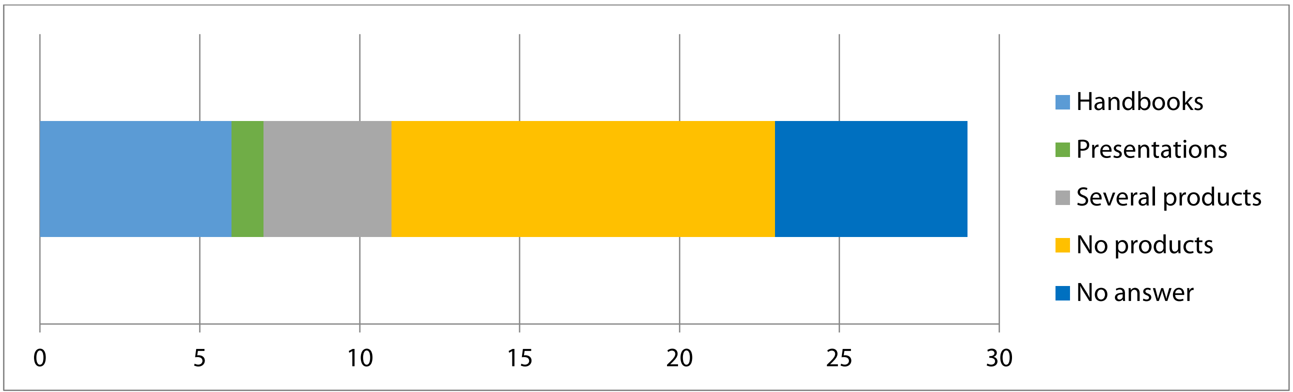
In the five regions covered by the Spanish multi-regional ex-ante assessment, for instance, a focus group consisting of national and some regional farm organisations with a special interest towards the financial instrument was set up (after carrying out a survey with 1 546 respondents). Discussions during this focus group highlighted that access to financing was particularly problematic for young farmers and small farm holdings. Another focus group with forest associations highlighted the need for financial resources to cover technical management plans, which however cannot be subject to financing with financial instruments (but with technical assistance resources).

Consulted public institutions included ministries and other ESIF managing authorities, while discussions with DG AGRI have also been held in some cases. For example, the ex-ante assessment in Lithuania consulted the Ministry of Agriculture, the Ministry of Economy, the Ministry of Social Security and Labour, and the National Rural Credit Guarantee Fund.

Figure 7 shows how much *fi-compass* products were used in the ex-ante assessment to inform EAFRD financial instrument selection and implementation decisions.

25 The Languedoc Roussillon analysis addressed all relevant sectors, so these figures refer to all SMEs in the region. There were 39 replies from agricultural or forestry SMEs.

Figure 7: *fi-compass* product(s) used in the ex-ante assessment (number of responses)



Note: 'Several products' indicates that multiple fi-compass products were used.

Source: fi-compass interviews

As in the pre-ex-ante assessment phase (see Figure 4), a minority of managing authorities used *fi-compass* or European Commission products in preparing their ex-ante assessments. This is mostly due to the fact that only a general SME methodology assessment was available at the time, with its content not fully suitable to the specificities of agriculture. Lack of knowledge of what *fi-compass* is or what it has produced could have also played a role in the responses displayed on Figure 7. In any case, it is clear that the first managing authorities to start ex-ante assessments had almost no products at their disposal when preparing to use financial instruments, which was also confirmed in the EAFRD *fi-compass* conferences in 2015 and 2016.[26]

The *fi-compass* products used or mentioned, were primarily guides and volumes I, II, III, IV (2014) of the ex-ante assessment methodology. A specific methodological guide for agriculture ex-ante assessment was published in June 2016 by *fi-compass*, but that was late for the advanced managing authorities falling under this study. Still, and as an example, the Romanian authorities report that *fi-compass* products were systematically used throughout their ex-ante assessment. The continuously increasing number of ex-ante assessments throughout 2017 also means that more managing authorities would benefit from the specific *fi-compass* ex-ante assessment handbook for agriculture.

26 These include a range of conferences and seminars on financial instruments under the EAFRD that were held in Dublin (23-24 June 2015), Vienna (1 October 2015), Riga (29 October 2015), Madrid (31 May 2016), Rome (13 June 2016), Warsaw (24 October 2016), Brussels (25 November 2016). See www.fi-compass.eu/events/past

1.3 Ex-ante assessment content

Most ex-ante assessments focused on a specific economic sector or sub-sector and many refer to the agricultural sector in general. For example, the ex-ante assessment in the Netherlands identified agriculture as a targeted sector, and more precisely dairy farming, horticulture, poultry farming and pig farming as sub-sectors of interest. Île-de-France (FR) identifies financing needs for the development of organic agriculture. In Estonia this focus was extended to cover also non-agricultural businesses, especially timber processing, furniture production and catering.

Very few EAFRD ex-ante assessments are broader in approach, and cover SMEs in general, such as in Languedoc-Roussillon (FR) or Rhône-Alpes (FR). These include specific chapters or analyses addressing agricultural enterprises, but the predominant focus remains on general SME analysis (as farms are a very minor share of the surveyed samples). Only some ex-ante assessments consider agri-food separately from agriculture, such as in the Netherlands or Lombardy (IT).

Ex-ante assessments addressing forestry usually only provide structural data about the sector, for example by reviewing the number and structure of enterprises and their turnover. However, Limousin (FR) quantifies the expected yearly financing need of the sector.

Analysis of rural infrastructure, renewable energy and energy efficiency investment is almost missing or only considered as part of on-farm investment, with the noteworthy exception of Auvergne (FR) which, however, still addresses business support in that area.

Box 1: Ex-ante assessment in Auvergne (FR)

The ex-ante assessment of the Region Auvergne (France) identified issues linked to the supply side of investments for the development of bio energies (methane). Initial investments in the sector are significant, e.g. an average of EUR 7 500/KWe for a unit of 30KWe. Likewise, multiple factors can impact project profitability e.g. biogas recovery method or payment for waste treatment. Banks are reluctant to provide financing for such projects in the light of the numerous risks linked to bioenergy, resources, and new technology. Furthermore, a higher financial contribution is usually required from project promoters, which limits the attractiveness of this type of investment.

A guarantee instrument is recommended to encourage financial intermediaries to finance small agricultural modernisation projects (less than 250 KWe). The guarantee would cover between 20 and 50% of the loan and up to EUR 100 000.

This sub-section examines the major focus of 29 ex-ante assessments. More specifically,

- Sub-section 1.3.1 focuses on market analyses, identified market failures, funding gaps, added value of potential financial instruments, and lessons learned from past and existing financial instruments.
- Sub-section 1.3.2 address the investment strategies, including potential financial products and implementation options.

1.3.1 Market assessment analysis

Most of the ex-ante assessments analysed specific features of the agricultural sector, identifying particular issues in relation to:

- fragmentation and inefficiency in the production chain;
- difficulties in accessing technology, innovation and qualified workforce;
- specific risks of agricultural activity;
- volatility of commodity prices.

A combination of the above factors highlights information asymmetry as the main market failure. Financial institutions cannot obtain or process the information to assess the risk of certain investments, especially for smaller, young and innovative enterprises. For instance, the ex-ante assessments in Toscana (IT) and Calabria (IT) estimate that approximately 95% of the agricultural enterprises do not have formal documentation for their earning capacity and financial situation, making access to credit in the sector difficult. The fact that the assets are often not easily distinguishable from those of farmers also adds to the difficulty. Ex-ante assessments in Estonia, Languedoc-Roussillon (FR) and Spain highlight the greater difficulty for young businesses, while ex-ante assessments in the Netherlands and Mecklenburg-Vorpommern (DE) emphasise the extremely high bank requirements for innovative agri-businesses and the lack of financing options to launch innovative food industry products.

The asymmetry of information limits market access and means higher costs for farmers. Most ex-antes compared access to credit in agriculture with other sectors and found that:

- **Farmers access finance less than other sectors do;**
- **Farmers must pay higher interest rates;**
- **Farmers are required to provide more collateral.**

For smaller farms, higher costs sometimes relate to higher administration fees on smaller loans and their more limited bargaining power. However, in Lithuania, the agricultural sector is generally regarded as reliable by the commercial banks and credit unions. Credit unions even regard agriculture as their priority, which is an isolated case in Europe. In Estonia, the analysis revealed that commercial banks have a clear interest to increase their loan portfolio in the agriculture and fisheries sectors. Representatives of both the demand and the supply side in Poland stressed that recent years have seen a significant extension of the financial offer with improved conditions for agri-businesses. However, a recent EAFRD *fi-compass* conference confirmed the need for financial instruments where farm unions and financial intermediaries expressed their common need for such a tool for Polish farmers under the EAFRD.

On the other hand, farmers are often not aware of all the opportunities for finance or the conditions attached. This is confirmed, for instance, by a survey carried out by Istituto di Servizi per il Mercato Agricolo Alimentare (ISMEA) in Italy where almost 30% of farmers were not aware of how the banking credit system functioned.[27]

The study's analysis of the ex-antes also revealed a contingent market failure due to the credit crunch. The crisis affected the agricultural sector with credit restrictions. For example, the ex-ante for Lombardy (IT) notes that during the crisis the share of secured loans increased from 60% to about 65%, although the average market guarantee remained stable at about 85% of the amount lent. From 2011 to 2014, the volume of guaranteed loans to agricultural holdings (with less than 20 employees) in Veneto (IT), grew faster (+10%) than for non-guaranteed loans (+4%).

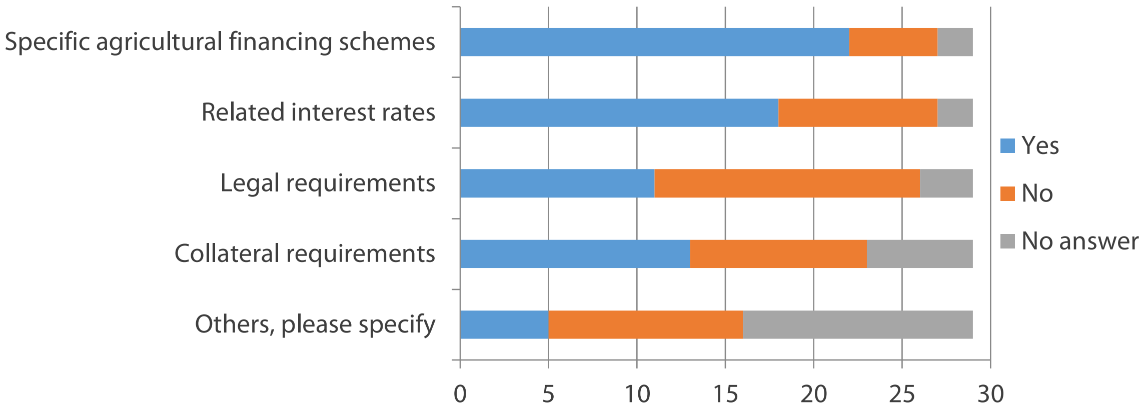
27 ISMEA (2015), L'accesso al credito delle imprese agricole nel 2014.

However, it is interesting to note that this affected agriculture less than other sectors. Farmers proved to be more resilient to the exogenous shock of 2008-2009. For example, in Italy, the total value of outstanding loans to farms continued to grow from the second half of 2011 to the end of 2014, although more slowly, leading to an increased share of the sector (from 4.3% to 5% of total loans in the same period).

In other cases, such as Tuscany (IT), the financial crisis led to a reduced supply of finance for investment, compensated by increased financial support for working capital. The ex-ante assessment also indicated that the Basel international bank agreements created further obstacles for farmers in accessing finance. In general, stricter liquidity and capital requirements increased the reluctance of banks to assume risks. The introduction of rigid parameters to assess credit risks impacted agricultural businesses especially.

After defining structural and contingent market failures, ex-ante assessments consider **specific aspects of the credit market**. Most ex-ante assessments review existing agricultural financing schemes and, to a lesser extent, interest rates. Collateral and legal requirements are less prominent.

Figure 8: Financial market aspects addressed



Source: fi-compass interviews

Based on analysis of the financial market, all the ex-antes identify and quantify the funding gap under two approaches:

- **Estimate financial gaps specifically targeting the agricultural sector.** In Italy, for example, a quantitative model was developed as part of the national study. This paved the way for regional ex-antes, which estimated the gap for each region. In Spain (for a multi-region instrument), the estimate was based on three steps: 1) quantify potential recipient small agri-businesses - agriculture enterprises 2) identify the number of enterprises with difficulties in getting finance 3) average size of a loan. Combining 1,2 and 3 provides the financial gap.
- **Estimate financial gaps for specific types of financial instrument and / or size of SME**. For Languedoc-Roussillon (FR) and Rhône-Alpes (FR), the financing gap was calculated for each financial product and by SME size. The existing financing supply (estimated based on the expertise and knowledge of actors consulted) was subtracted from potential demand (approximated using a survey). The approach in this ex-ante assessment relies on the definition of viable businesses and accordingly excludes SMEs in a relatively fragile financial situation. The financing gap for agriculture is not quantified. In the Slovenian ex-ante assessment, the SWOT analysis indicated high interest rates and a difficulty in accessing finance as issues for agriculture and rural development. Funding gaps were identified for microfinance, short, medium and long-term loans, and equity, covering all sectors, not just the agricultural sector.

Box 2: A quantitative model to estimate the funding gap for agriculture (Italy)

A national study by ISMEA, undertaken in the framework of the National Rural Network 2007-2013, in Italy, paved the way for successful follow-up by regional ex-antes. The study implemented an econometric model of supply-demand disequilibrium inspired by the Schmidt and Zwick model.[28] Starting from the credit volume disbursed in the period, the model estimates credit demand and supply based on determinants for these two components. This helps understand the actual credit volume, which is the lower of the two.

The model estimates an annual average credit gap for the years 2010 to 2012 of over EUR 115 million across the entire country, with about half estimated to be in the Northern regions. This estimate considers only medium and long-term loans and has a margin of error of ± 5%. The study concluded that, although it is impossible to make a reliable future estimate, macroeconomic projections point to existing difficulties continuing in the years up to 2018.

ISMEA also developed a web tool[29] allowing managing authorities to assess the added value of financial instruments. The tool allows simulation and comparison of different scenarios for the implementation of RDP measures by adopting different forms of support: subsidies, loans, and guarantees. Results are given in terms of financial impact on the programme and potential beneficiaries.

Parameters related to financial products have default values for ease of use, however, users can change these if required.

Value-added of financial instruments and leverage

Most ex-ante assessments devote a specific chapter to value-added and sometimes references to added value appear throughout the assessment. Several of the ex-ante assessments assess the added value qualitatively and quantify the **leverage effect**. All but four of the ex-ante assessments clearly show the added value of financial instruments.

The **revolving nature** of financial instruments and **greater financial discipline** for final recipients are most often mentioned as factors that can add value. Many ex-ante assessments also emphasise how financial intermediary expertise can lead to **better financial, technical, and contractual assessment of project proposals**. The ex-ante assessment in Romania indicates encouraging entrepreneurship and financial education in agriculture and rural areas as an important advantage. The ex-ante assessment in Tuscany (IT) refers to an evaluation study indicating that financial instruments can help prevent rent seeking behaviour in firms with resources to implement the investment project on their own.[30] On a more institutional level, the capacity of financial instruments to build capacity through partnerships between public and private sectors, is often mentioned, as well as increased competition between financial intermediaries and other credit institutions, which may lead to better credit conditions for targeted final recipients.

The ex-ante assessments, which clearly define the added value, use leverage as a benchmark. In Languedoc Roussillon (FR), the EAFRD is expected to contribute EUR 15 million to the guarantee instrument (including national co-financing). The financial instrument is expected to make available EUR 45 to 60 million of financing, with a leverage of 3 to 4 times. Interestingly, there seems to be more certainty about the capacity to attract private

28 Schmidt, T. e Zwick, L. (2012), In search for a credit crunch in Germany, RUHR Economic Papers, N. 361, Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI).

29 See simulatoresf.ismea.it/Home.php

30 Bodonio, D. Martini, A. (2012), Counterfactual Impact evaluation of Cohesion Policy: Impact, cost-effectiveness and additionality of investment subsidies in Italy.

resources under the EAFRD financial instrument than the ERDF guarantee (expected leverage from 3 to 5 times). In Slovenia, the expected leverage for the proposed guarantee (Guarantees for companies in agriculture and agri-business) is 1.5 to 4 times. In Portugal, the expected leverage is about 5. In the recently established Italian agricultural multi-regional Guarantee Platform under the EAFRD, the leverage differs between regions and varies from 4 to 8 times.

In Spain, the leverage for guarantees and loans in four autonomous regions was compared to grants. This quantification also considers the reuse of resources and shows a tremendous advantage from using financial instruments, even in the form of loans, where leverage varies from 5 to 9 times. For guarantees, the expected leverage reaches an astonishing 28 to 45 times, which could be explained by assumptions made concerning the re-use of resources.

Table 4: Added value quantification for a new multi-regional financial instrument in Spain

	Grants	Loans	Guarantees
Castilla – La Mancha	1.5	5.7	28.4
Extremadura	1.7	6.4	32.2
Castilla y Leon	2.0	7.7	38.3
Aragon	2.4	9.1	45.5

Source: Government of Spain, Ministry of Agriculture, Food and Environment (2016), Ex-ante assessment for a new multi-regional financial instrument for EAFRD 2014-2020

Types of support and combinations between financial instruments and grants

In Veneto (IT) and Tuscany (IT), ex-ante assessments provide scenarios for grants only, different types of financial instrument (i.e. guarantees and loans), combination of financial instruments, and a combination of grants and financial instruments. The benefits for final beneficiaries / recipients and leverage were analysed under each scenario. Lombardy (IT) compares a combination of financial instruments and grants with other forms of support used in the previous programming period, i.e. grants and interest subsidies.

Interesting combinations in Italy and Romania were also identified. In Lombardy (IT), the ex-ante suggested combining a loan (80% of the total eligible cost) with a grant (20%). The loan is to be provided by a private financial intermediary contributing 60% of the resources. This combination should allow a smoother transition from a grant to a financial instrument culture. Interestingly, although support is provided to enterprises processing and marketing agricultural products, the investment programme is expected to deliver a positive impact also on primary producers, mostly through spill-over effects.

Lessons learned

Finally, **lessons** from specific agricultural financing in the past were reviewed, for example:

- In Estonia, guarantees from public providers are considered ‘too expensive’, and therefore not interesting for co-lending, especially when loans are small.
- In Lithuania, the impact of the National Rural Credit Guarantee Fund on agriculture and agri-food, is examined. The fund also implements an interest rate compensation scheme where interest rate payments are partially compensated (30% for agricultural and agri-food, and 40% for young farmers).
- In the Netherlands, existing guarantees for a specific list of innovative projects or energy related investments were considered.

- In Veneto (IT), an existing regional financial instrument is considered suitable as the main support to agricultural enterprises through financial products. However, the assessor suggested a deep restructuring of existing procedures to speed up approval of applications and disbursement of resources. This should also lead to a reduction of guarantee fees. The assessor also recommended an information campaign addressing both enterprises and the credit industry.
- In Limousin (FR), existing financial instruments have not provided sufficient leverage to impact many SMEs.
- In France (RDP – Rhône-Alpes), an interesting lesson is that a broad offer of publicly supported financial products and - sometimes - their fragmentation can create confusion among target SMEs, possibly leading to non-optimal use of the available financing.

1.3.2 Investment strategies, suggested management policies and delivery modes

According to assessment by this study, in 20 of the 29 ex-ante assessments an investment strategy is clearly set out.

Types of products

Typically, ex-ante assessments include a discussion of different financial products and their relevance to the specific market challenges. Often, an analysis of the most common type of investment in agriculture identified the most appropriate financial product. For example, among the ex-antes, the analyses identified financial needs related to:

- medium to long-term investment e.g. in Tuscany (IT);
- ensuring continued business operations, e.g. Friuli Venezia Giulia (IT);
- focus only on innovative projects in agriculture and agri-food processing, e.g. Mecklenburg-West Pomerania (DE), Martinique (FR), and the Netherlands, as well as on better coordination between clusters and incubators, e.g. Rhone-Alpes (FR);
- medium to long-term investment for infrastructure, e.g. irrigation in Spain.

Guarantees and debt support are most often suggested, where various types of debt products included:

- soft loans (containing risk sharing element);
- growth loans for farmers and SMEs (Estonia);
- long-term investment loans (above 10 years), e.g. in Portugal, Martinique(FR), Estonia;
- conditional loans at zero interest rates, e.g. Martinique (FR);
- loans to business angels, e.g. Azores (PT).

Some ex-antes recommend different conditions for different target groups to some extent (Estonia), or loans to specific types of final recipients (ES multi-regional ex-ante). The need to finance young farmers, start-up and seed companies as well as young innovative companies in an early stage of development are proposed in several ex-antes, e.g. Martinique (FR). Limousin (FR) identifies the need to support the creation phase of first transformation factories through financial instruments. PACA (FR) further aims using guarantees to support start-ups by new farmers who do not benefit from young farmers' setting up grants or provide risk-sharing loans to any agricultural start-up in the region.

Longer grace periods compared to private loans, longer repayment terms, lower guarantee requirements, e.g. Île-de-France (FR), reduced interest rates, etc. are major elements from all proposals related to setting up credit funds and direct lending support for agriculture through EAFRD financial instruments. In different regions and Member States, the risk that financial intermediaries can take differs. In Lithuania, for example, it is estimated to be about 25%, in Romania about 40%, in Estonia about 50%, for different schemes and under different eligibility conditions and management arrangements. Reliance on public procurement as a basis for determining all parameters associated with the intermediaries is expressed in other ex-antes, e.g. Bulgaria.

Some interesting suggested features for guarantee instruments could be noticed in some ex-antes (e.g. guarantee in favour of suppliers). The Lithuanian ex-ante recommends combining soft loans with individual guarantees and compensation of the guarantee payment (financed from national funds). Mutual guarantee mechanisms are covered in Portugal.

Equity was proposed in Estonia, Portugal, Languedoc-Roussillon (FR) and Slovenia, but so far no such financial instrument has been created under the EAFRD.

Rarely is attention paid to some more innovative financial products such as quasi-equity / mezzanine solutions, though Azores (PT) is an example.

Stand-alone grants, in some ex-antes such as in Lithuania, are suggested to be applied only where implementation of a certain activity contributes also to other public goals, e.g. solving environmental issues.

Some ex-ante assessments also suggest microfinance products, as in Tuscany (IT). Languedoc-Roussillon (FR) proposed a guarantee favouring microloans and younger enterprises. Martinique (FR) recommends strengthening the supply of loans for established SMEs (aged above three years) to finance strategic growth projects, and financing of microenterprises (aged less than three years) when they are engaged in non-technological innovation. Limousin (FR) indicates that financial instruments could be used to prioritise the access of businesses to microfinance products, which is similar to the proposal in the Rhone-Alpes (FR) ex-ante assessment.

Working capital needs

The need for working capital financing has been strongly advocated in a number of ex-antes, highlighting one of the specificities of agricultural production. The Martinique (FR) ex-ante, for example, specifies that one of the primary objectives of the instrument should be to support the financing of investments generating substantial working capital due to extended production cycles, especially for poultry and pig farming. Facilitation of the access to short-term loans financing working capital has been proposed in Limousin (FR). A need for improved conditions for working capital finance was also noted in Rhone-Alpes (FR).

Governance / management options

The advantages and disadvantages of each governance option were also considered in the ex-ante assessments. There are also final recommendations on various aspects of strategy. In Romania for instance, investment strategies are addressed and evaluated. Implementation options are also discussed. These include whether to contribute to EU level financial instruments, to invest in the capital of a new or existing entity, to use an international financial institution, or whether the managing authority should opt for direct implementation.

In Auvergne (FR), options for a guarantee are reviewed, under internal or external management. The contribution could be provided to an existing guarantee, a new guarantee fund or a guarantee company. The managing authority could be responsible for managing the instrument and therefore considered as the beneficiary. Definition of the governance and co-financing structure as well as selection of the most appropriate implementation arrangements are to be established during the preliminary phase of financial instrument implementation.

In Île-de-France (FR), the benchmark used to model the guarantee fund is the Brussels Guarantee Fund.[31] The coverage rate will be aligned with the fund´s governance policy and should vary based on market needs and credit risks. The operational costs will be 5% and commissions on the guarantees can be collected up-front or periodically.

In Slovenia, a fund of funds structure is recommended. Within this, the suggested product for the EAFRD financial instrument is a guarantee provided to a financial intermediary – selected through public procurement.

In Spain, several management options were compared: i) direct execution by MAPAMA; ii) implementation delegated to a single financial institution specialising in rural areas, or in a financial product; iii) implementation delegated to the EIB group; iv) implementation delegated to various national financial institutions. Direct management by MAPAMA was found to be the most favourable option.

In several cases to reduce risk, the ex-ante assessment suggests using:

- existing structures and proven professionals, e.g. Estonia, Veneto (IT), and Portugal.
- existing financial instruments (or even reduce the number of existing financial instruments), e.g. Friuli Venezia Giulia (IT). The aim is to widen the sector scope and simplify/standardise financial instruments to enhance their impact and optimise their use.

Off-the-shelf instruments

In general, ex-antes did not recommend the use of off-the-shelf instruments. The reasons differed, but in general **tailor-made instruments were seen to better address the specificities of local agricultural and rural sectors.** In Languedoc-Roussillon (FR), a tailor-made financial instrument was largely inspired by the DG AGRI and EIB Group's guarantee model instrument.[32]

Recommendations' overview

More general recommendations from the ex-antes related to:

- **Better integration of financial instruments in the business environment**. Synergies with existing governance structures and mechanisms supporting SME development should be sought and exploited. This would contribute to investment strategies for SME development being aligned at regional level and enhancing the leverage effect of financial instruments, increasing opportunities to access private resources. For instance, the ex-ante assessment in PACA (FR) provides a detailed analysis of the actors and the needs in relation to the size of the investment and the enterprise development stage.
- **Specific RDP measures under which financial instruments could apply** driven by the fact that investment measures under the EAFRD are specifically defined and split per type of intervention (investment, advisory, area payment, etc.) in the EU legal basis. Such recommendations are made, in particular for RDPs where only 'notions' of financial instruments have been identified, such as Bulgaria, Lithuania and Veneto (IT), or no financial instruments are programmed, as in Martinique (FR).

31 The Brussels Guarantee Fund provides credit institutions with guarantees, sharing risk of professional loans to SMEs and self-employed persons in the Brussels-Capital Region. This was created to help SMEs and the self-employed in the Brussels-Capital Region access credit more easily by issuing guarantees to credit institutions.

32 Developed in the context of the MoU signed between the European Commission (DG AGRI) and the EIB for their co-operation in the EU in the field of agriculture and rural development.

In addition to these most commonly met recommendations, recurring themes include the need for:

- **Complementary technical assistance** to final recipients when structuring their business and financial plans, with particular emphasis on micro- and small farmers and businesses, e.g. Limousin, Rhone-Alpes, Languedoc-Roussillon (FR), Azores (PT). Where needed, this could also cover technical and professional support for fund managers, including the banking sector and stakeholders. Ad hoc training courses are another option considered by some ex-antes, e.g. Friuli Venezia Giulia (IT).
- Ongoing regular **evaluation and feedback once the financial instrument is launched**, which may lead to improving the investment strategy and stakeholder awareness. In this context, interviews with final recipients could be used for receiving feedback on implementation of the instrument, e.g. Estonia. Regional workshops focusing on local economic contexts, e.g. Auvergne (FR), or undertaking information campaigns, e.g. Languedoc-Roussillon (FR), were also proposed. PACA (FR) goes even further by identifying a need for better coordination between financial intermediaries and regional administration, which may be facilitated by an integrated information system with real-time transfer of data on investments, to allow for timely information on the implementation and impact of the financial instrument.
- Enhanced **communication and information dissemination** to help potential final recipients access financial instruments and improve cooperation with financial intermediaries as necessary for financial instrument implementation, e.g. Limousin (FR).

2 THE LEGAL FRAMEWORK AND ITS IMPACT ON THE IMPLEMENTATION OF THE EAFRD FINANCIAL INSTRUMENTS

The overall objectives of this theme are twofold:

1) First, this section provides an overview and assessment of how EAFRD managing authorities deal with the current legal framework for financial instruments and how far it facilitates, or not, the implementation of financial instruments.

   It also develops a timeline to assess how the rules affect managing authorities at various financial instrument planning and implementation stages.

2) Second, the study reviews managing authority experiences with the current provision of advisory and other support services, highlighting areas where specific needs are currently unfulfilled and how this may be addressed to facilitate the uptake, design and implementation of EAFRD financial instruments.

The methodology for the research conducted under this theme involved a detailed, targeted questionnaire to gather the views of managing authorities with experience of the EAFRD financial instrument regulatory framework. It focused on managing authorities with financial instruments programmed in their RDPs, as identified under the theme 'Programming of financial instruments in 2014-2020 RDPs', and all managing authorities conducting ex-ante assessments. The survey included managing authorities with a completed ex-ante assessment, an assessment underway or at a preparatory stage. Reflecting this, answers to the survey questions depended on the managing authority's progress, so the analysis in this chapter distinguishes between answers from each type of managing authority.

Key findings

Ex-ante assessment

- Most managing authorities believed that the **ex-ante assessment was a useful exercise**, although there were mixed views on the ease of implementing the results.
- Most managing authorities could find qualified ex-ante assessors and concluded that **the ease of the process and the quality of the output is directly related to the quality of the assessors.**
- Although the ex-ante assessment process was found to be time-consuming, it was **helpful in facilitating financial instrument implementation at a later stage.**

Implementation of EAFRD co-financed financial instruments

- Over half of the surveyed managing authorities report that **the legislative provisions for financial instruments are more onerous than for grants** and implementing financial instruments is perceived to be very complex. The traditional use of grants under EAFRD and a consequent lack of experience with financial instruments contribute to this perception. Once managing authorities start the process of conducting an ex-ante assessment, their views change, and some of the rules are then found to be less constraining.
- There is a **strong desire for greater clarity and flexibility in the legal framework.**
- Managing authority views about 'off the shelf' financial instrument provisions were mixed, with some conflict evident with the desire for flexibility. **A lack of knowledge and awareness of the SME Initiative was evident**. The option of contributing to this initiative should be better publicised**.**

- Relatively few managing authorities were sufficiently far along the implementation process to comment on procedures for selecting implementing bodies and drafting funding agreements, but those who could, found the provisions constraining or inflexible.

Advisory support

- **Guidance and training sessions by the EC** related to ex-ante assessments **were considered very effective**, although sometimes the timing of guidance was an issue.
- Managing authorities identified **a significant general need for further advisory support**, especially for managing authorities who had completed ex-ante assessments.
- **Monitoring and control of financial instruments as well as aspects related to reimbursements and implementation options** were quoted as areas where advisory support was most required.

  Seminars/workshops, European Commission's training and targeted coaching were the preferred formats for meeting unfulfilled advisory needs, demonstrating **managing authorities' preference for face-to-face advice.**

In total 41 managing authorities from 15 Member States responded to the questionnaire. Those who decided not take part and provided an explanation stated that they were not suitably qualified to answer questions on the legislative framework for EAFRD financial instruments. In the majority of the cases, these are managing authorities with no experience on this subject.

At the same time, although in some isolated cases, one interview for a single ex-ante assessment could cover more than one RDP as described previously in the case of Spain. Although the regional managing authorities were willing to take part in this study, they had limited involvement in the ex-ante assessment itself, so were unable to answer some of the questions. Responses from managing authorities who did not know or respond to a question have been removed from the sample to avoid creating bias in the results. So the number of responses to each question differs.

The study team also interviewed six financial intermediaries[33] with direct experience of agriculture financial instruments. While this may seem limited, it is a first attempt and a step towards involving financial intermediaries more thoroughly in this process and bring approaches closer to real market practices. Their views on the scope for EAFRD co-financed financial instruments helped identify hindrances to implementation or disincentives to their involvement.

Analysis of the data and opinions is structured in sections:

- Section 2.1 considers **views and experiences with the EAFRD legislative framework** focusing on EAFRD's suitability to support financial instrument implementation. It identifies the broad issues managing authorities encountered, including whether off-the-shelf instruments and Union level instruments are suitable.
- Subsequent sections focus on particular elements of financial instrument implementation within the regulations. Section 2.2 focuses on the **requirement to conduct an ex-ante assessment** and managing authority experiences with the process itself. Section 2.3 analyses the **implementation options available to managing authorities** followed by Section 2.4 on the provisions for the selection of implementing bodies, focusing on whether this provides sufficient flexibility and clarity. Section 2.5 discusses managing authority experiences with the provisions on **drafting funding agreements and setting management costs and fees**.

33 These are Bürgerschaft (DE), Rural Development Foundation (EE), SAECA (ES), ISMEA (IT) and EximBank (RO), in addition to the EIF.

- Thereafter, the analysis draws together the findings to **determine the advisory needs of managing authorities,** and consider the various forms of support they require at the differing stages of financial instrument implementation (Section 2.6).
- Last, Section 2.7 details the **opinions of financial intermediaries**, including their views on specific provisions of the regulatory framework for 2014-2020 and the level of awareness of EAFRD co-financed financial instruments.

2.1 Suitability of the EAFRD regulatory framework for financial instruments

The first issue for the survey was to investigate the views of all managing authorities, regardless of the stage of their ex-ante assessment, concerning the suitability of EAFRD and its regulatory framework for the use of financial instruments.[34] Managing authorities were asked:

- whether implementing financial instruments entailed a greater administrative burden than using grants,
- whether EAFRD rules constrained financial instrument use, and
- whether the current rules could do more to facilitate the use of financial instruments.

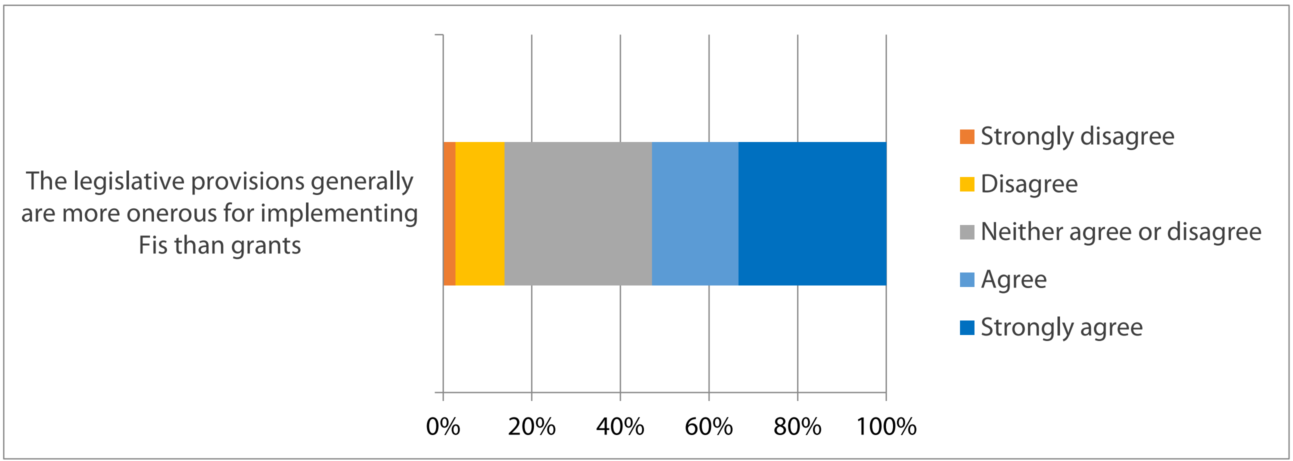
In addition, views were sought on the suitability of new regulatory provisions for 'off-the-shelf instruments' and the SME Initiative for use under EAFRD.

2.1.1 Impact of the legislative provisions in implementing financial instruments compared to grants

The legal framework for financial instruments appears to be more demanding than for grants. As Figure 9 shows, over 50% of managing authorities either agree or strongly agree that the legislative provisions are generally more onerous for implementing financial instruments than grants. Fewer than 20% have the opposite opinion. This finding appears to hold true regardless of the stage of implementation reached by managing authorities. However, those at an early stage – preparation or with an ex-ante in progress – are more wary of the relevant regulatory provisions e.g. the need to identify market failures and funding gaps, which is not the case for grants. Managing authorities who have completed the ex-ante assessment and are further along the process, developing a better understanding of the rules, are somewhat more positive, but still significantly criticising.

34 'EAFRD regulatory framework' refers to the provisions relevant to financial instruments in the following legal documents: Common Provision Regulation (CPR) 1303/2013, Regulation (EU) 1305/2013, Delegated Regulation (EU) 807/2014, Implementing Regulation (EU) 808/2014, Delegated Regulation (EU) 640/2014, Implementing Regulation 809/2014.

Figure 9: Views on legislative provisions being more onerous for implementing financial instruments than grants



Note: managing authorities unable to respond to the question have been removed from the results

Source: fi-compass interviews

The results from the interviews allow some quantification of the perceived legislative burden associated with financial instruments, supplemented by more qualitative analysis from respondents' follow-up comments. A key issue, regardless of the implementation progress achieved by managing authorities, is **a general lack of experience amongst EAFRD managing authorities of using financial instruments** and the recognition that this, at least initially, affects negatively implementation.

At the time of undertaking this study, EAFRD managing authority experience and use of financial instruments was limited and there was a long history of using grants and sometimes interest-rate subsidies.[35] **This strong preference for grants** was identified as a factor in explaining unfamiliarity with the regulations for financial instruments. Similarly, it was noted that a change of mentality among managing authorities and stakeholders was needed for switching from grants to financial instruments and that, at the moment, more familiar rules can contribute to grants being the preferred form of support.

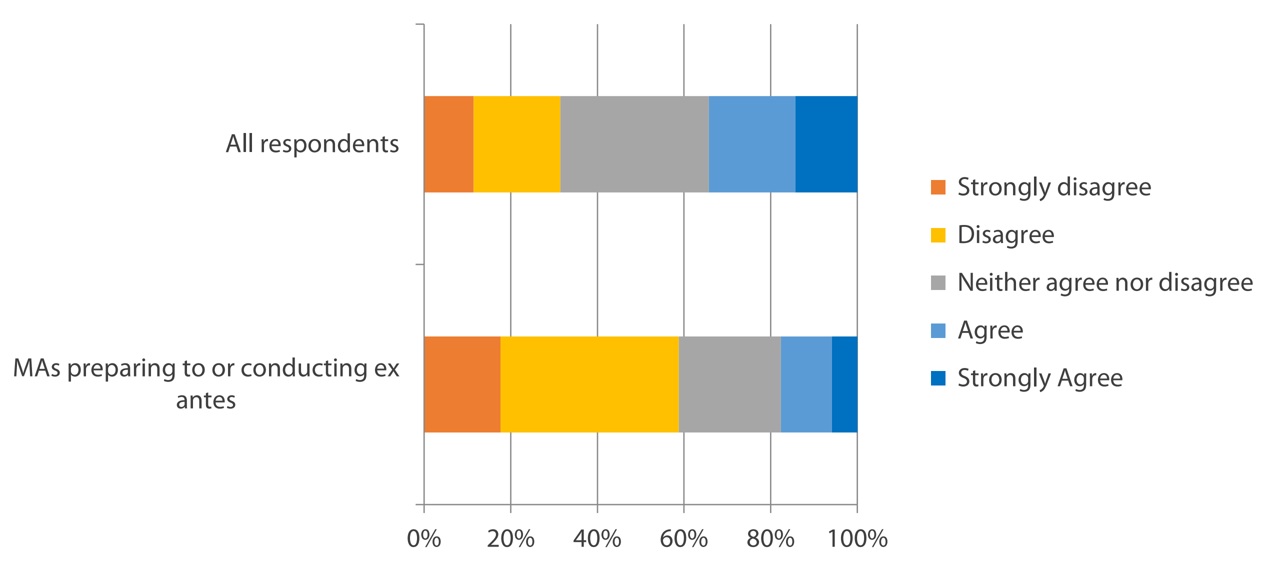
Other managing authorities highlighted the particularities of financial instruments that make the legislation burdensome or recognise that **financial instruments are simply more complex than grants**. One of the striking aspects withholding managing authorities' decision for using financial instruments is the need to assess a market (failure), something which is not required for grants. The involvement of financial intermediaries between the managing authorities and final recipients is also regarded as an issue in some cases.

2.1.2 Role of EAFRD rules in supporting the use of financial instruments in the RDPs

There are mixed views on the role of EAFRD rules. When asked if the EAFRD rules constrained the use of financial instruments in RDPs, managing authorities were evenly split, with 31% disagreeing, 34% neither agreeing nor disagree and 35% in agreement. This differs substantially when only the views of managing authorities preparing to conduct an ex-ante assessment are considered, where close to 60% do not feel that EAFRD rules constrain the use of financial instruments in RDPs.

35 This situation is typical for many policy areas in the EU with exception of research & development (DG RTD) and enterprise support (DG GROW).

Figure 10: Views on EAFRD regulatory framework constraining the use of financial instruments in RDPs



Note: managing authorities unable to respond to the question have been removed from the results

Source: fi-compass interviews

While the managing authorities were divided over EAFRD rules constraining financial instrument use, many still identified significant shortcomings with the regulatory framework, highlighting **the lack of clarity and restrictive nature of EAFRD rules**. The latter impacts on the implementation of financial instruments as it makes it more complicated and reduces flexibility. For managing authorities making their first steps in this area, some confusion about financial instruments and EAFRD, and which rules apply when was displayed, which was further increased by the lack of information in the EAFRD rules on the use of financial instruments in the RDPs. **This restrictive nature of the EAFRD rules was largely changed in 2017 through the Omnibus proposal.** Many of the limitations imposed on investments were lifted with regards financial instruments (scale of investments, ineligible expenditure, restrictions on purchase of animals or annual plants, working capital restrictions, etc.), with exception of irrigation, the rigidity of which has been kept for policy purposes.

Another issue identified was the rigidity of EAFRD rules, especially **the difficulties of modifying an RDP**. However, **the programming of financial instruments and the respective modification of RDPs has been simplified by DG AGRI** following the Commission Implementing Regulation (EU) 2016/669 amendment to the Implementing Regulation (EU) No 808/2014 in April 2016, allowing for unlimited modifications and less content required compared to grants, with specific changes for financial instruments. However, it is notable that some managing authorities were not much aware of this change by late summer 2016, although it has been presented to Member States in the respective committees. In the context of these discussions, it seemed that managing authorities perceive RDPs as more complex and rigid compared to other ESIF programmes.

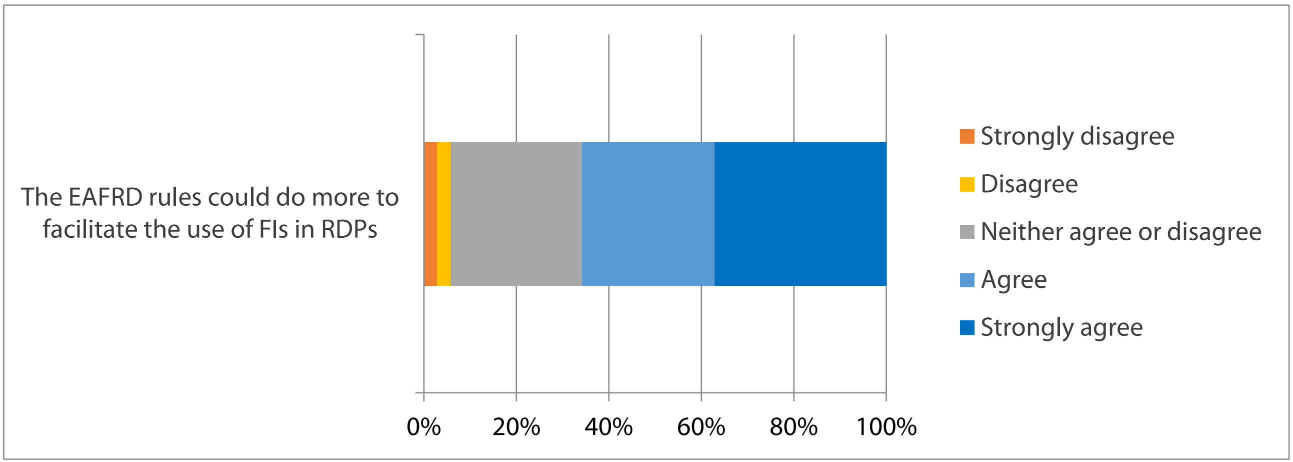
In addition, managing authorities highlighted an issue with **the selection criteria[36] used under EAFRD which prevents financial instruments from being used**. The issue here lies in the fact that final recipients under a financial instrument are selected by intermediate institutions based on their eligibility (e.g. registered farmers) and value-added of the business proposal on a first-come first-served basis, which is different than the selection for grants where the EAFRD rules require the use of pre-defined selection criteria within a given call for project

36 This refers to Article 49 of Regulation 1305/2013 'Selection of operations'.

applications i.e. within a limited time period. The omnibus has released that condition and clarified the process related to financial instruments.

Some respondents distinguished additional elements of EAFRD rules which constrain financial instrument use such as the compatibility between grants and the financial instruments, driven by the lack of knowledge on how to combine them, and private financial sector engagement in the financial instrument.

Figure 11: Views on whether the EAFRD rules could do more to facilitate the use of financial instruments in RDPs



Note: managing authorities unable to respond to the question have been removed from the results

Source: fi-compass interviews

Despite being split over whether EAFRD rules constrained financial instrument use or not, **managing authorities were more certain that EAFRD rules could do more to facilitate the use of financial instruments in RDPs**, with more than 60% of managing authorities agreeing or strongly agreeing on that aspect, and only 5% disagreeing**. The main requirement is greater clarity and flexibility in the rules**, with many stating that the European Commission should provide more details on how financial instrument provisions apply to EAFRD, particularly on implementation. However, it has to be noted that for the first time there are rules at EU level applicable for all ESIF policies allowing an equal approach and similar understanding of processes among the various managing authorities as opposed to the 2007-2013 programming period. It is also considered that some guidance on the CPR cannot be directly considered relevant for RDPs.

2.1.3 Suitability of EU-level and specific 'off-the-shelf' instruments

For 2014-20, the Commission introduced several options for managing authorities to implement financial instruments quickly through:

1) a strictly defined model.[37]

   These 'off-the-shelf' instruments are already fully compliant with ESI regulations and State aid rules (with the exception of rural development and Annex I product support) and aim for quicker and smoother implementation of financial instruments, encouraging managing authorities to use revolving financial support rather than grants. As of October 2016, five such instruments have been established by the European Commission. These include a risk-sharing loan, sharing risks between public and private

37 In accordance with the regulations, as laid out in Article 38(3)(a) of the CPR and Commission Implementing Regulation (EU) 2016/1157 amending Implementing Regulation (EU) No 964/2014.

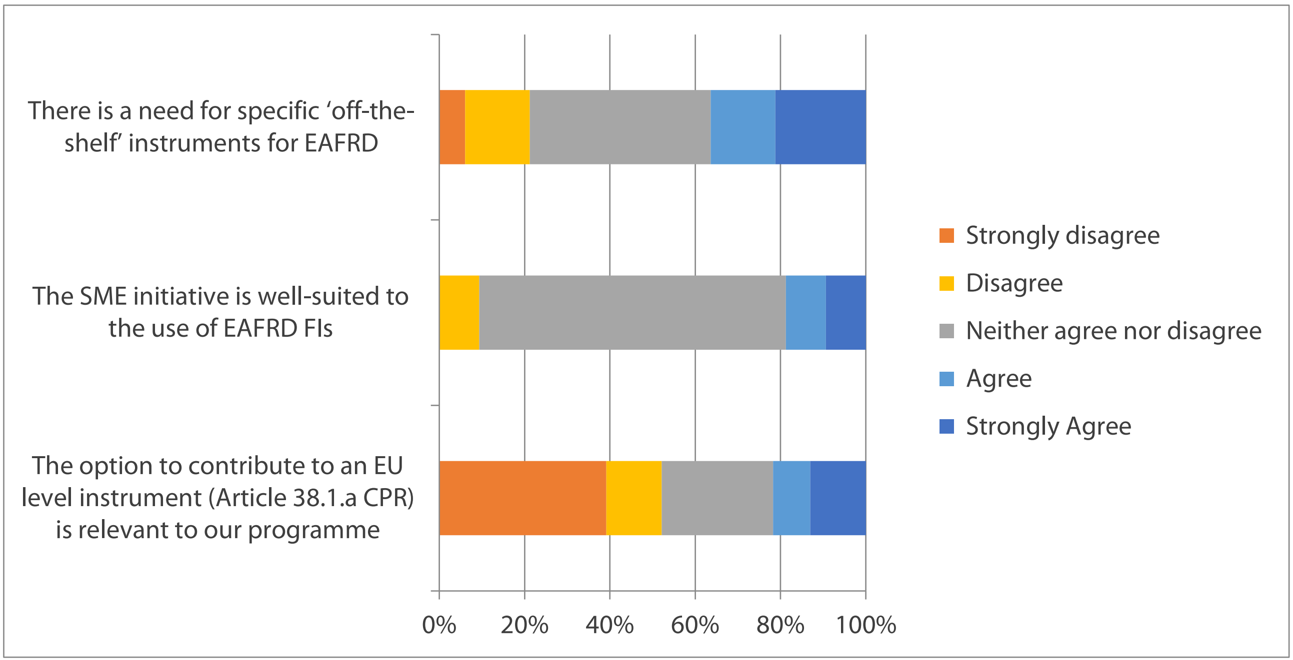
resources, and a capped guarantee instrument, where ESI Funds act as a guarantee for bank loans. The third instrument is a renovation loan for projects to improve energy efficiency and renewable energy in the residential buildings. The two most recently adopted instruments are a co-investment facility to provide funding to start-ups and SMEs and Urban Development Funds.

2) contributions to EU-level financial instruments without the need for private contribution.

This option of contributing to a Union-level or joint instrument, as laid out in Article 38(1)(a) CPR, managed directly or indirectly by the Commission covers also the 'SME Initiative', which is a joint uncapped guarantee and securitisation financial instrument for SMEs, supported by ERDF and EAFRD and implemented by the EIB, outlined in detail in Article 39 of the CPR.

In order to gauge the applicability of EAFRD for implementing financial instruments, the questionnaire included questions on these 'off-the-shelf' instruments in addition to the new option for EU-level instruments, including the SME Initiative, as demonstrated in Figure 12.

Figure 12: Views on EU level and 'off-the-shelf' instruments for EAFRD (All managing authorities)



Note: Instances where managing authorities could not respond to the question have been removed from the results

Source: fi-compass interviews

Off-the-shelf instruments

There appears to be limited need for off-the-shelf instruments under the EAFRD. The majority of the respondents (60%) do not consider such instruments necessary or cannot find grounds for positively supporting them. Only a third thought them helpful.

Differences of opinion were found between managing authorities at different stages of implementation. Those preparing or undertaking an ex-ante assessment stated a preference for an EAFRD-specific 'off-the-shelf' instrument, while those further advanced with implementation thought that 'off-the-shelf' models were not actually needed. The underlining thought has been that agriculture is a specific sector with lots of peculiarities that need to be taken into account. Still, the binding nature of every single rule under the off-the-shelf instruments' regulation seems to have kept away all managing authorities that have looked into these models.

Aspects such as national economic and sectorial circumstances as well as implementation bodies have also turned into a bottleneck when it comes to off-the-shelf instruments. One case stated that using off-the-shelf instruments should have spared the time and effort of the MS for conducting the ex-ante assessment.

EU level instruments and the SME Initiative

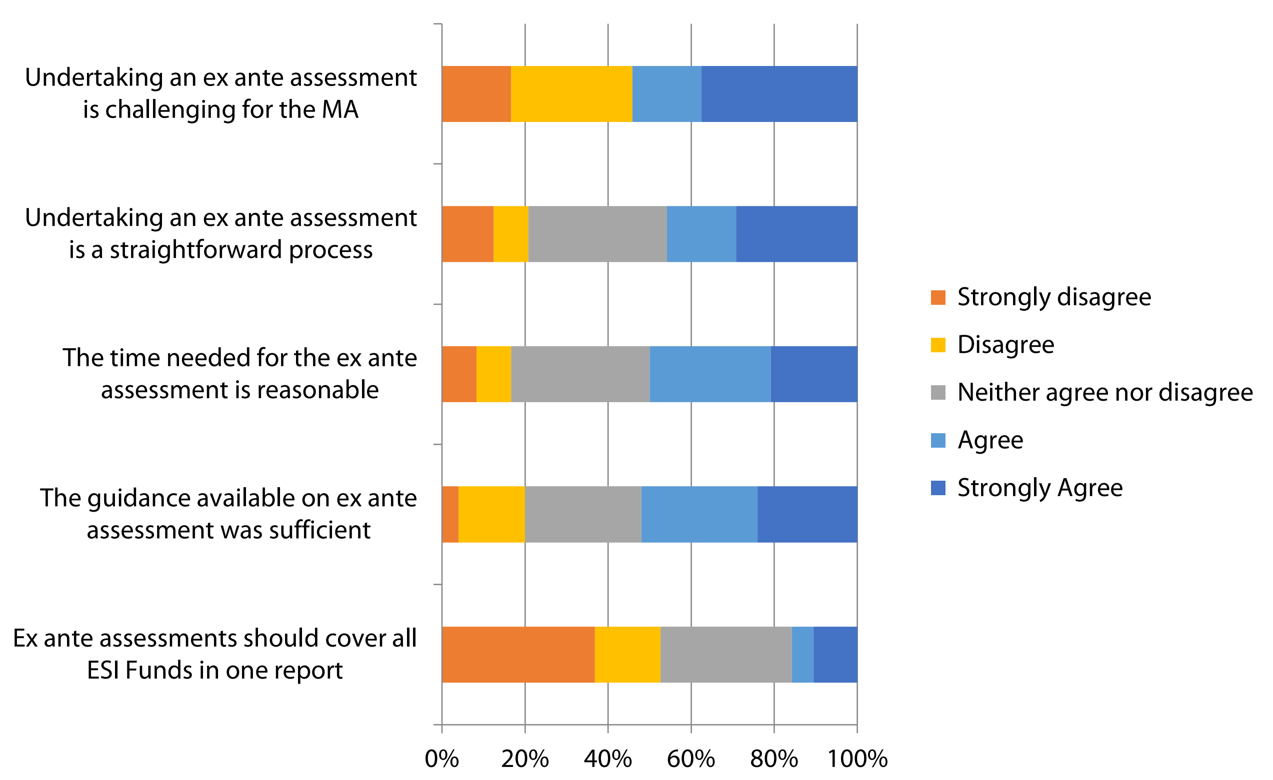
There is a similarly muted support for EU-level instruments and the SME initiative. Managing authorities were first asked about the option to contribute to an EU-level instrument under Article 38(1)(a) of CPR. As Figure 12 shows, close to 40% strongly disagreed that such an instrument would be relevant to their programme, with only 20% accepting it as an option. Very few were positive about the SME initiative as in most of the cases it was considered not suitable to the local environment, with inappropriate and complex models. This led to the option not being considered in early stages. The survey also found that those managing authorities that have heard of the SME Initiative knew it only as an EU-level instrument, and were not aware of other options, and that even such knowledge was missing in 70% of cases. The latter only underlines how important shared management is with regards to the EAFRD, and how necessary is to have instruments addressing local circumstances. However, better communication of the SME Initiative, including by the EIB Group, may have increased the knowledge about it among managing authorities.

2.2 Ex-ante assessment process

In the 2014-2020 programming period, managing authorities who seek to use financial instruments are required to conduct a detailed ex-ante assessment. This ultimately seeks to demonstrate the need for financial instruments to address an identified market failure or suboptimal investment situation for the targeted group of final recipients (such as poor financing conditions, high interest rates, very high collateral required). The ex-ante assessment also ensures that the financial instrument will contribute to the delivery of the RDP and ESI Fund, respectively RDP, objectives. Managing authorities in the process of conducting an ex-ante assessment or who had completed it were asked about the ex-ante assessment, the regulatory framework for ex-ante assessments and the results.

2.2.1 General views on the ex-ante assessment process

Figure 13: Views on the ex-ante assessment process (managing authorities with a complete or underway ex-ante assessment)



Note: Instances where managing authorities could not respond to the question have been removed from the results

Source: fi-compass interviews

Challenges of conducting an ex-ante assessment

There are major differences in the experiences of managing authorities conducting an ex-ante assessment, depending on prior knowledge as well as their access to external support.

As indicated in Figure 13, marginally more managing authorities considered conducting an ex-ante as a challenge with 54% agreeing or strongly agreeing and 46% disagreeing or strongly disagreeing. This difference of opinion is echoed in the qualitative information with some managing authorities outlining **challenges such as lack of prior knowledge, adapting to new regulations and gathering sufficient information**. **Lack of sufficient internal capacity** to deal with the ex-ante process, driven also by the **need for comprehensive knowledge** of various fields (agriculture, economy, State aid, finance, regulations, etc.) and the need to gather complete data to ensure informed decision making, were also stated as reasons preventing or slowing down the ex-ante process.

The use of an external ex-ante assessor was identified as being key to success, with this mostly going smoothly, but still taking significant time. However, there is a recognition that **the choice of ex-ante assessor** is crucial for making the process straightforward as less experienced assessors would find it much more difficult to perform and reach sound results. The latter was found individually problematic when the assessor for the RDP also carried out the ex-ante assessment for financial instruments.

It is notable that **managing authorities who had completed their assessment found it to be more challenging**, with more of those currently underway disagreeing. This could suggest that **the more difficult elements of the process come in the later stages**, potentially from combining many complex elements towards the end of the assessment, including the design of the financial instrument and the investment strategy.

About half of the managing authorities described the ex-ante assessment as a straightforward process with the majority of these being managing authorities with assessments underway, while those with completed ex-antes had a very different and more cautious opinion.

Time needed to conduct the ex-ante assessment

Managing authorities generally considered that the time spent was reasonable, with only 16% disagreeing. The ex-ante assessment **keeping pace with implementation of the RPD** was identified as a key factor. Some analyses took a couple of weeks or a month, but some ex-antes took more than a year, or longer than initially expected, with both managing authorities and consultants asking for extensions. The ex-ante process, in general, didn't intervene with RDP implementation or affect it negatively.

Some managing authorities noted that although the ex-ante assessment was time-consuming, **the time was justified**, reflecting a lack of experience. It was helpful to facilitating financial instrument implementation at a later stage. This time also helps build up consensus among stakeholders, which makes acceptance of the financial instrument easier.

Guidance on conducting the ex-ante assessments for financial instruments

The European Commission in collaboration with the EIB through the *fi-compass* platform has produced extensive guidance on the ex-ante assessment process. There is a five-volume methodology for conducting ex-ante assessments[38] and a specific methodological handbook for ex-ante assessments of agricultural financial instruments under the EAFRD.[39] This guidance was accompanied by conferences and workshops where experiences and regulatory requirements on the ex-ante assessment process were presented by the Commission, Member States / managing authorities and the EIB Group.

Overall, **managing authorities considered that the guidance was adequate**. About 54% agreed or strongly agreed that it was sufficient for their needs; only one-fifth (21%) found it insufficient. The helpfulness of the guidance on ex-antes stems from clarification of procedures by which the financial instrument ex-ante assessment is made, which has helped some managing authorities to even revise their action plans.

However, the **timing of the guidance** was identified as a problem. The specific methodological handbook for EAFRD ex-ante assessments for financial instruments for agriculture was only published in June 2016 and for several managing authorities this guidance was not available when they were conducting their own assessments. In specific cases, when knowledge about the forthcoming guidance was there, it **led to a delay in the ex-ante assessment being finalised** as further support was required. At the same time, one third of managing authorities finalising their ex-ante assessments before publication of the methodological handbook were worried about whether they had followed the right path towards assessing the issue, suggesting that managing authorities feel more comfortable when guidance materials are there.

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38 European Commission and European Investment Bank (2015), Ex-ante assessment methodology for financial instruments in the 2014- 2020 programming period; General methodology covering all thematic objectives; Vol. 0-5, *fi-compass*. However, these volumes have not been revised and some parts of them are outdated.

39 European Commission and European Investment Bank (2016) Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD, *fi-compass* https://www.fi-compass.eu/sites/default/files/publications/209775_EAFRD_EXANTE_ASSESSMENT_HANDBOOK.pdf

Inclusion of all ESI Funds in the ex-ante assessment

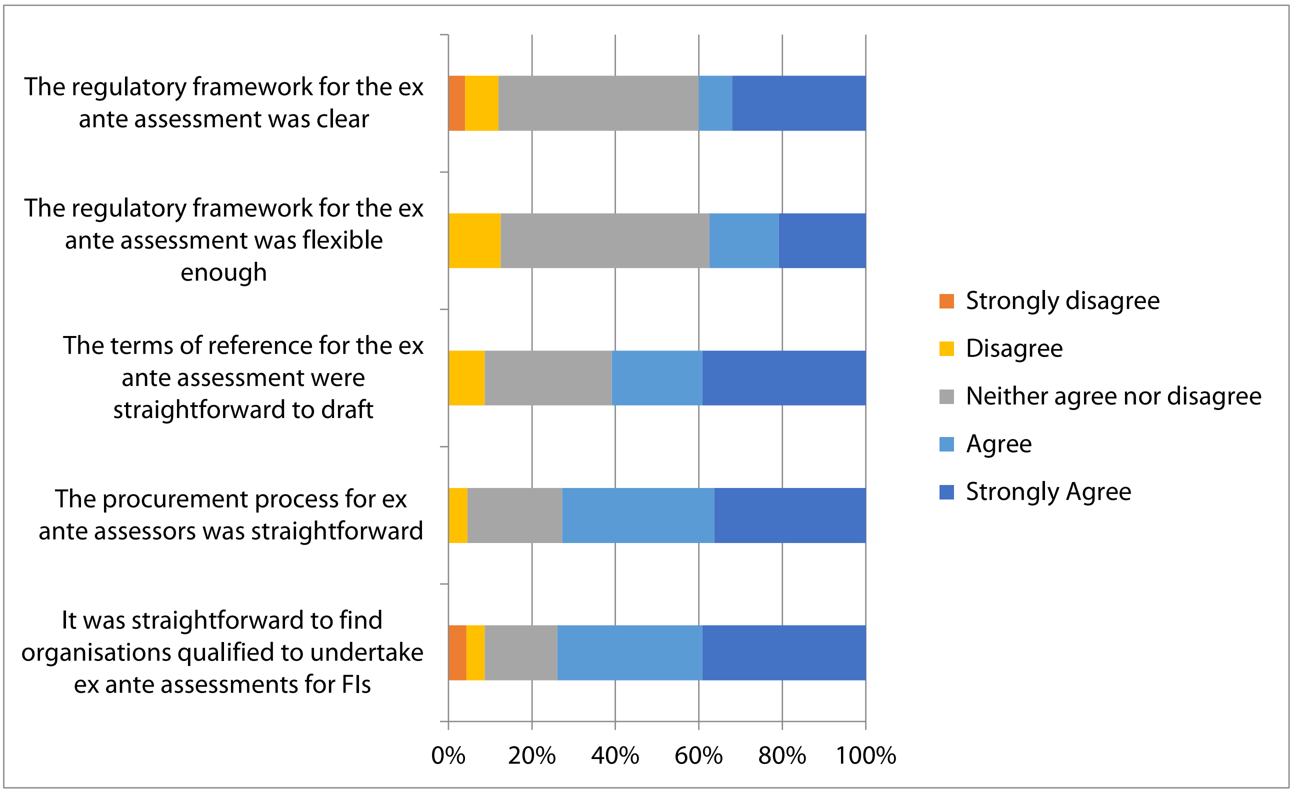
Managing authorities can cover multiple or all ESI Funds in their ex-ante assessments for financial instruments. Managing authorities were asked if they believed that all ESI Funds should be covered by a single ex-ante assessment and from those who responded, as displayed in Figure 13, 85% were against this, with only 15% agreeing or strongly agreeing. The underlying reason is that managing authorities considered **EAFRD to be separate from other ESI Funds, thus requiring its own ex-ante assessment** to address its specificities. This comes from the specificity of agriculture as a sector, the diversity of RDPs and their target groups, the rural dimension, or sometimes even because of the unique programming structure under the RDP.

Very few managing authorities supported the idea of a common ex-ante assessment to provide a more rounded view of what ESI Funds are doing and to consider opportunities for collaboration between the Funds, mostly at regional level. The practice shows that apart from taking a long time, specific information or an assessment covering agriculture is often missing as the focus is on SMEs in general. This has in some cases forced EAFRD managing authorities to launch their own ex-ante assessments later, which further delayed financial instrument implementation.

2.2.2 Regulatory framework for ex-ante assessment

CPR Article 37(2) lays out of the requirements for an ex-ante assessment with the content grouped into seven sections. Managing authorities were surveyed about the flexibility offered by the legislation and their experience with the procurement process for contracting external evaluators.

Figure 14: Views on regulatory requirements for ex-ante assessments (managing authorities with an ex-ante assessment complete or underway)



Note: Instances where managing authorities could not respond to the question have been removed from the results

Source: fi-compass interviews

Clarity of the regulatory framework for ex-ante assessments

The regulatory framework for ex-ante assessments is considered to be relatively clear (40%), although half of the interviewed managing authorities could not provide a firm assessment. Only 12% perceived it as insufficiently developed or unclear. Managing authority interest was attracted in particular by the **detail and structure** of legal requirements for ex-ante assessments.

Flexibility of the regulatory framework for ex-ante assessments

Managing authorities were similarly positive about the regulatory flexibility for ex-ante assessments, which to a large extent derives from the managing authority's stage of development at the time of the interviews. Half the managing authorities were not able to firmly state whether flexibility has been given or not by EU law.

Preparing the Terms of Reference for the ex-ante assessment

With most managing authorities contracting external evaluators to conduct their ex-ante assessments, writing the Terms of Reference (ToR) is often the main and pivotal role played by the managing authority in the ex-ante assessment process, defining its direction and focus. Among the managing authorities who responded, **over 60% either agreed or strongly agreed that drafting the ToR was straightforward**, although a demanding process. This also reflects managing authority experience in procuring similar activities, as this area is very sensitive and always strictly monitored. When procuring the ex-ante, some managing authorities highlighted how they made use of support from the EIB and DG AGRI as well as from the various advisory support products such as trainings, conferences and the EAFRD handbook for ex-ante assessments in agriculture to help draft the ToR.

Procurement process for ex-ante assessments

A procurement process would generally be required for managing authorities when they intend using external evaluators. Direct appointment of an assessor was possible when **using an in-house public organisation/body,** the EIB, other public-sector organisations, or building on an existing relationship between the assessor and the managing authority within a pre-existing framework contract for similar activities.

In one case, a managing authority stated that they opted to combine the ex-ante assessment with the ex-ante evaluation to save their limited technical assistance budget. Such an approach can always be questioned as the body undertaking the programme's evaluation may not necessarily be the most appropriate to undertake an ex-ante assessment for a financial instrument.

For those that used a formal public procurement process, this was described as not being different to any other procurement and being easy to handle. Indeed, over 70% of managing authorities who responded agreed or strongly agreed that the procurement process for ex-ante assessors was straightforward, with only one managing authority not sharing this opinion.

Quality of organisations undertaking ex-ante assessments

As noted, several managing authorities stated that they used the same assessors for the ex-ante evaluation of the RDP, so offered little opinion on potential issues of finding qualified organisations. More than 75% agreed that it had been straightforward to find skilled assessors, but this cannot necessarily be considered reflective of wider availability in each Member State or region with many of the managing authorities stating that they directly appointed assessors.

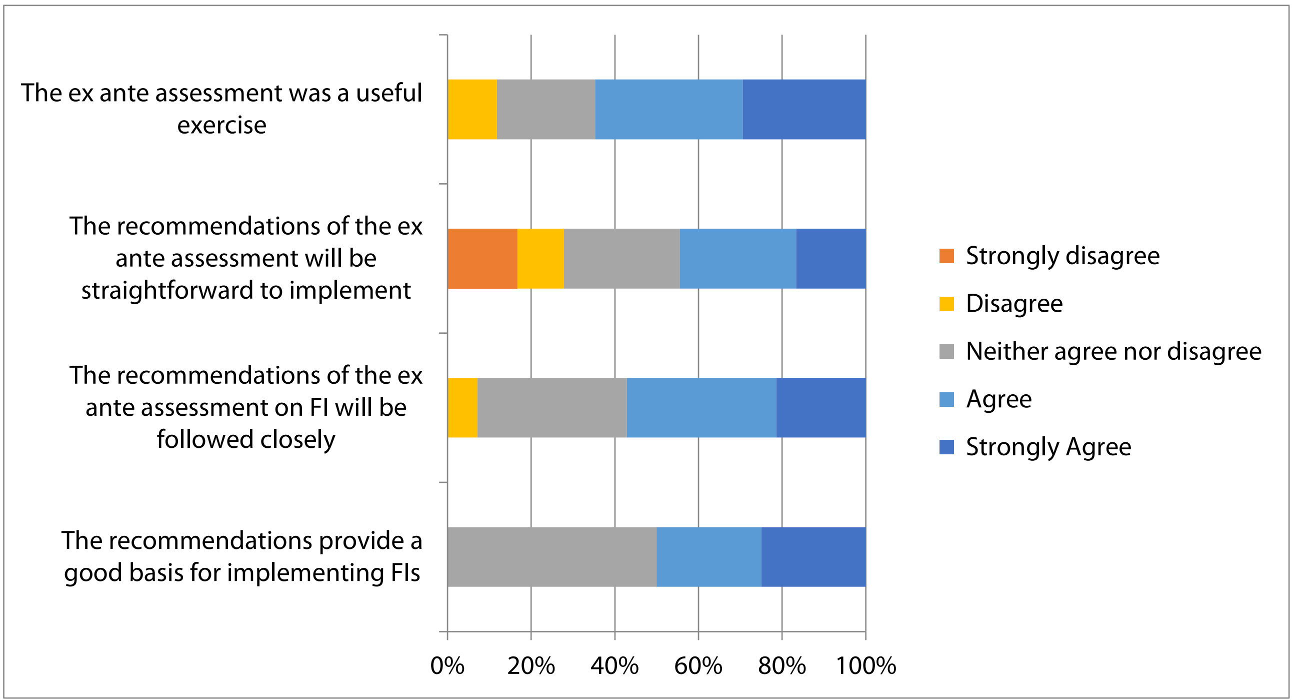
However, for those that did openly procure, **they experienced mixed results reflecting the differing national/regional context.** Some managing authorities stated that they **only had a single or very limited number of organisations bidding for the contract** and in one case the assessor chosen was unable to complete the ex-ante assessment satisfactorily. Still, some quality results and multiple bidders were also observed, but not frequently.

In an isolated case, a managing authority was concerned that it may need to conduct another ex-ante assessment due to issues with the external assessor and his lack of understanding of some of the tasks, while acknowledging its own inexperience in preparing the ToR played a role.

2.2.3 Results of ex-ante assessments

Managing authorities who had completed their ex-ante assessments were surveyed on their views of the recommendations and how they will be implemented, and on the value of the ex-ante assessment process as whole.

Figure 15: Views on value/results of ex-ante assessments (managing authorities with a complete ex-ante assessment)



Note: Instances where managing authorities could not respond to the question have been removed from the results

Source: fi-compass interviews

How useful is the ex-ante assessment?

Experience with the ex-ante process was generally positive. On reflection, most managing authorities believed that the ex-ante assessment had been a useful exercise. Overall, managing authorities were pleased to have an analysis even though the recommendations of the ex-ante assessment may not be immediately implemented, as these decisions often depend on other factors, e.g. political, budgetary.

Managing authorities supported ex-ante assessments as this allowed **the involvement of stakeholders and raising their awareness about financial instruments, supporting existing financial instrument plans and helping wider implementation of the RDP**.

Implementing the results of the ex-ante assessment

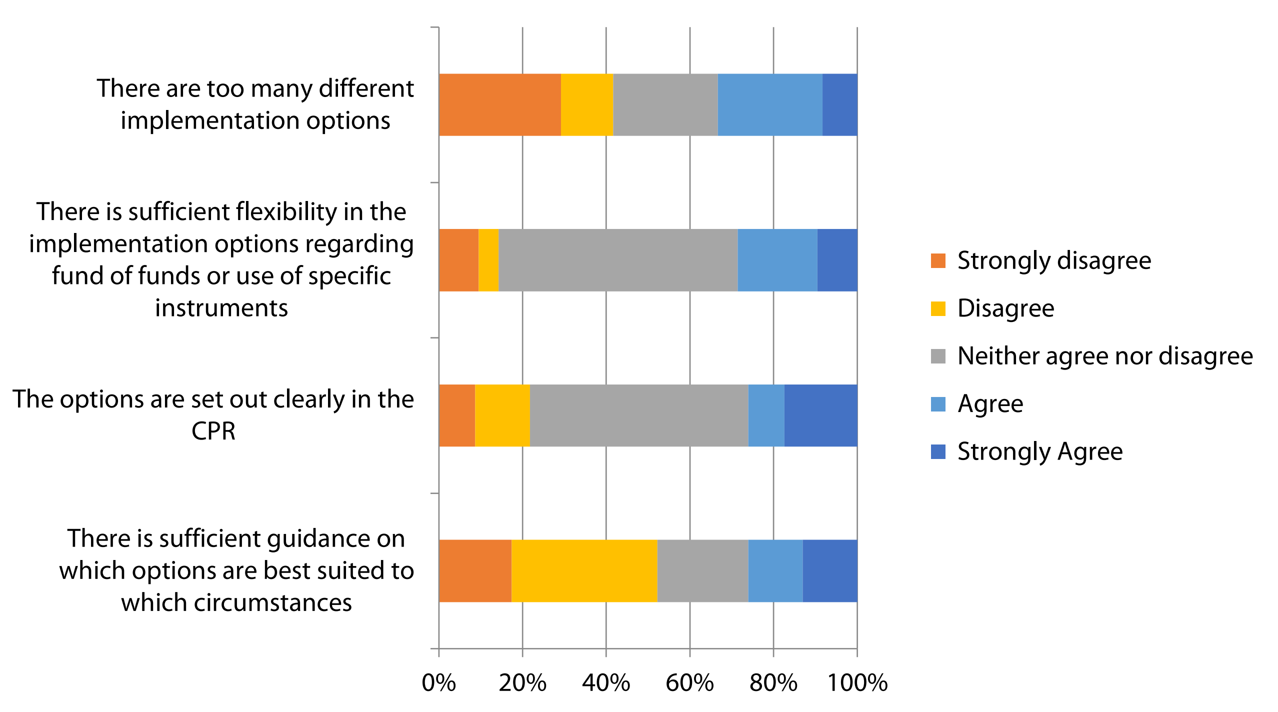
Many managing authorities were very positive about **the recommendations of the ex-ante assessment providing a sound basis for implementing financial instruments**, with none disagreeing. However, **not all managing authorities felt that all recommendations should be implemented**, with 30-40% being unsure if the follow-up would result or not in a financial instrument. This reflects the political side of the decision-making process related to financial instruments. One-third of the managing authorities (28%) thought that implementing the results from the ex-ante would not be an easy and straightforward process.

2.3 Implementation options for EAFRD co-financed financial instruments

For 2014-20, the CPR offers managing authorities different implementation options for financial instruments. These include investing in the capital of an existing or a newly created legal entity under Article 38(4)(a); entrusting implementation tasks to another entity under Article 38(4)(b); undertaking implementation tasks directly under Article 38(4)(c) for loans and guarantees only or contributing EAFRD resources to EU-level financial instruments under Article 38(1)(a).

EAFRD managing authorities who had made more progress with their ex-ante assessments (either underway or complete) were consulted on their views of the number of implementation options available, the flexibility and clarity of these options and the availability of guidance on implementation options.

Figure 16: Views on implementation options for EAFRD co-financed financial instruments (managing authorities with an ex-ante assessment complete or underway)



Note: Instances where managing authorities could not respond to the question have been removed from the results

Source: fi-compass interviews

There is no consensus on the choice of implementation options available. Over 40% of managing authorities either disagreed or strongly disagreed that there are too many options and 33% considered there are too many. However, surveyed managing authorities stated they were **fully in favour of the current number of implementation options** and expressed a belief that **they were suitable for implementing EAFRD financial instruments**.

Indeed, some **managing authorities considered there should be more and different implementation options** to allow them to adapt their specific situations or in one case, more options which do not include the involvement of the EIB. This was rather driven by the type of final recipient targeted (small farms) and their location (ultra-peripheral regions).

Managing authorities were undecided about the flexibility offered by the implementation options, with more than half (57%) being neutral on that aspect, the rest being almost equally divided. Similarly, managing authorities were split over the clarity of implementation options in the CPR where again more than half of them (52%) neither agreed nor disagreed that they were set out clearly. In some cases, it was clear that **the managing authorities' understanding of the options was based on their familiarity (or lack thereof) with them** and the regulations more widely.

Managing authorities were more critical of the guidance for selecting the (best) implementation option. Half of them (52%) disagreed that the guidance at their disposal was sufficient.[40] From the managing authority statements it becomes clear that there are two overarching issues. First, for many managing authorities, particularly those with complete ex-ante assessments, the guidance was not available when they were making decisions over which implementation option to use.

Second, the existing guidance is considered to be unclear by many. In this context, choosing an option such as entrusting the management to a private sector body would have required further need of technical support and advice, at least for some of these managing authorities.

Such views can in part be explained by the nature and focus of the guidance that has been produced. Some *fi-compass* products discuss the implementation options available to managing authorities[41] and the European Commission regulatory guidance on selecting implementing bodies (see section 58) touches on the implementation options, but there appears to be little advice on how a managing authority should choose the most suitable option. Undoubtedly, given different national and regional contexts, this is a complex and delicate subject on which to provide advisory support, but it may be possible to provide criteria or guiding principles for use by managing authorities when making a decision.

40 Managing authorities have very different knowledge on what guidance is available on financial instruments and where to find it, although all of them have equal access to it.

41 Such as 'Developing an action plan: Design, set-up, implementation and winding-up of financial instruments' and 'Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period; General methodology covering all thematic objectives; Vol. 0-5'

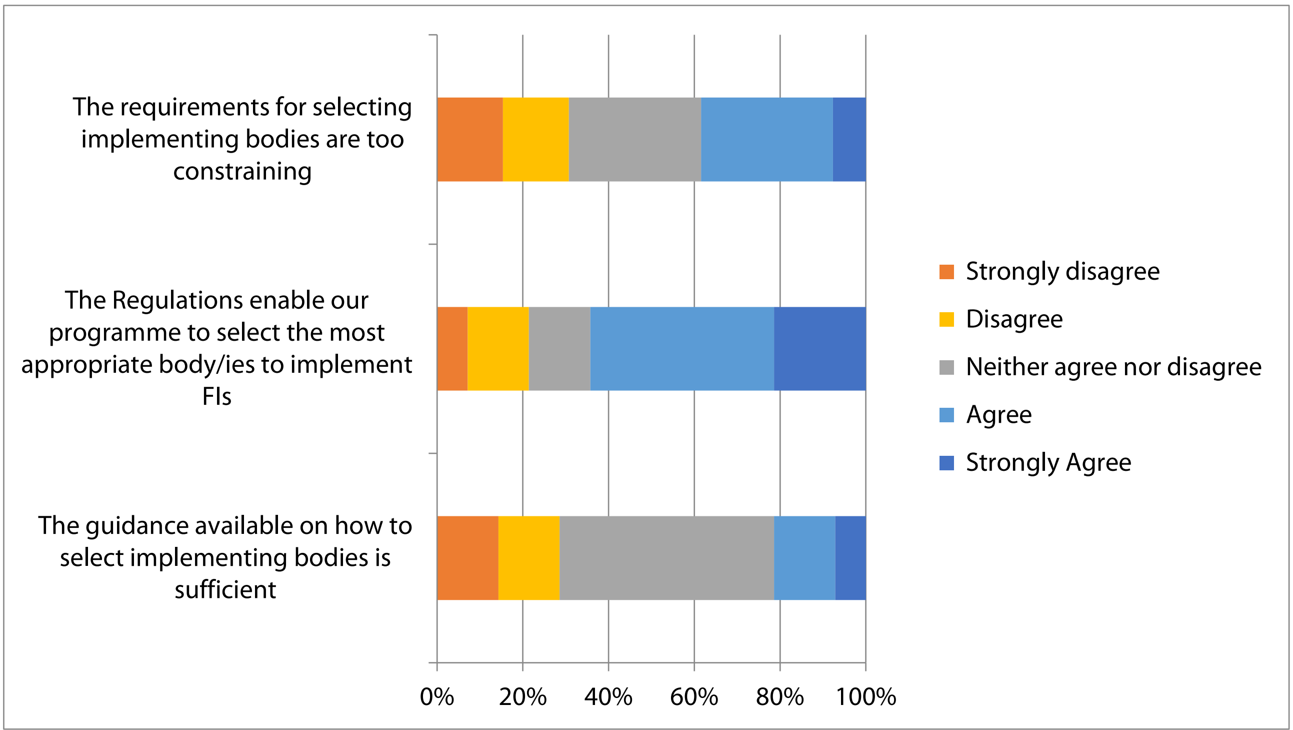
2.4 Selection of implementing bodies

Following the ex-ante assessment and selection of the implementation option, the managing authority must choose the most suitable bodies for implementation and this is a key stage in the design process for financial instruments. This concerns the selection of bodies to implement a fund of funds and/or the bodies implementing specific financial instruments i.e. financial intermediaries. The managing authority or the Intermediate Body is responsible for the selection of bodies implementing the fund of funds and specific financial instruments. For the selection of financial intermediaries under a fund of funds, this responsibility falls to the fund manager.

Selection of the implementing bodies must be in accordance with the law, including on public procurement and meeting the criteria laid down in Article 7 of Delegated Regulation 480/2014. This includes *inter alia* economic and financial viability, capacity to implement the financial instrument, effective and efficient internal control and accounting systems, robust methodology for selecting final recipients and the ability to add financial resources.

Managing authorities with an ex-ante assessment complete or underway were asked for their views on the provisions for selecting these implementing bodies. By ‘implementing bodies’ this refers to Article 37(1) and Article 38(4)-(5) of the CPR, Article 7 of the Delegated Regulation 480/2014 and the options to implement financial instruments directly or entrust/invest in a legal entity, and the process for selecting financial intermediaries.

Figure 17: Views on provisions for the selection of implementing bodies (managing authorities with an ex-ante assessment complete or underway)



Note: Instances where managing authorities could not respond to the question have been removed from the results

Source: fi-compass interviews

As demonstrated in Figure 17, close to 40% of managing authorities agreed that that the requirements for selecting implementing bodies are too constraining, compared to 28% who disagreed. **It is clear from the related statements that managing authorities' views depend very much on their unique experiences to date**. In some cases, problems with the Paying Agency were reported, while others had different experiences of appointing state institutions.

Despite the perception of provisions being a constraint, over 60% of the managing authorities agreed that **the regulatory framework allowed them to choose the most appropriate bodies to implement financial instruments**. **The limited experience of EAFRD managing authorities with financial instruments and the early state of implementation is evident with several managing authorities feeling unable to answer the questions**, resulting in a smaller sample (14). However, the sample still provides some useful insights into their experience of applying these provisions.

2.4.1 Guidance on the selection of implementing bodies

The European Commission published guidance on the selection of implementing bodies in July 2016, which aimed at assisting with the interpretation of Article 37(1) and Article 38(4)-(5) of the CPR, Article 7 of Delegated Regulation 480/2014 and the EAFRD Regulation 1305/2013.[42]

EAFRD managing authorities were divided in their views on the guidance for selecting implementing bodies, with slightly more disagreeing or strongly disagreeing (29%) that guidance is sufficient than agreeing or strongly agreeing (21%). However, it was clear from the smaller number of respondents (14) that managing authorities had limited experience of using the guidance, potentially due to its very recent publication. Some managing authorities stated there were **aspects where further clarification would be welcome, such as using state bodies and specific financial instrument structures such as fund of funds**. Additional training on those aspects has been considered a need by some managing authorities.

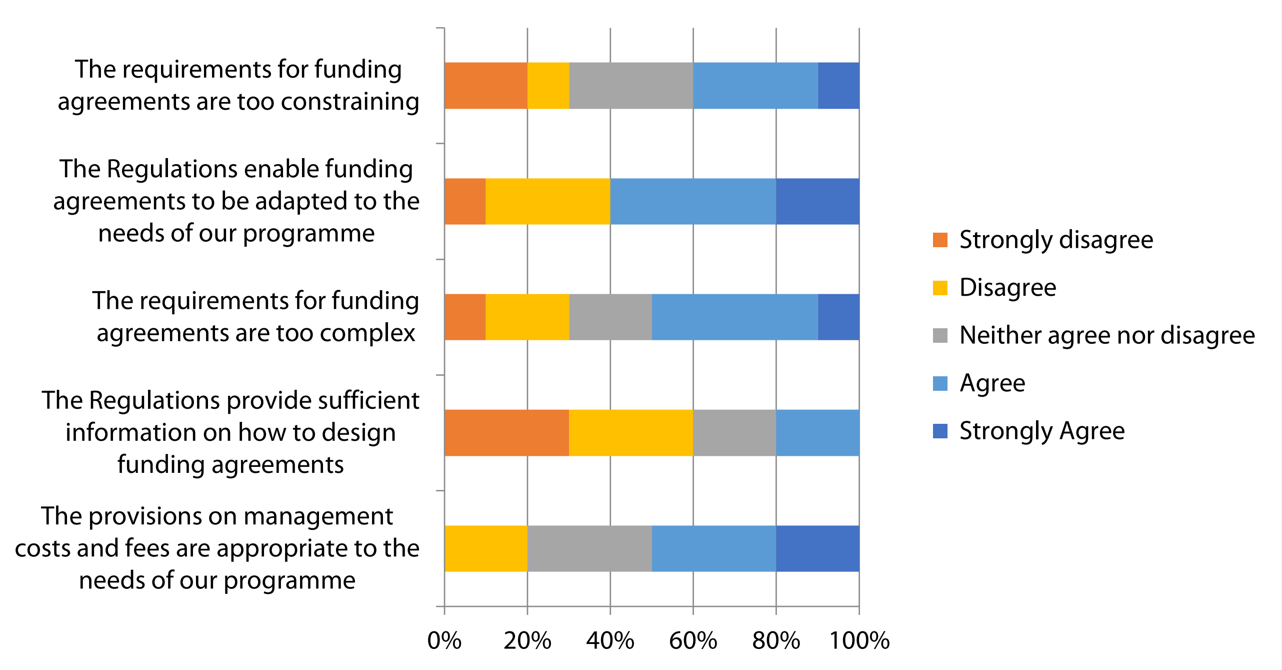
42 European Commission, 'Guidance for Member States on the selection of bodies implementing financial instruments' (2016/C 276/01). July 2016 – http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016XC0729(01)&from=EN

2.5 Provisions for funding agreements

Under Article 38(7) of the CPR, managing authorities are required to set out the terms and conditions for contributions from programmes to financial instruments in funding agreements between the managing authority and any bodies that implement the financial instrument. The funding agreement acts as the legal commitment between the managing authority and the fund of funds manager or where applicable between the fund of funds manager and the financial intermediary. Annex IV of the CPR sets out the minimum contents of a funding agreement. including the investment strategy (covering implementation arrangements, financial products offered, target financial recipients, any possible combination with grants) and a business plan (detailing the expected leverage effect).

Only managing authorities who had completed their ex-ante assessments were surveyed on the provisions for drafting funding agreements as it was assumed that only they would have the necessary experience to comment. Managing authorities were also asked a separate question on their view of the provisions for management costs and fees as being appropriate.

Figure 18: Views on provisions for drafting funding agreements (managing authorities with a complete ex-ante assessment)



Note: Instances where managing authorities could not respond to the question have been removed from the results

Source: fi-compass interviews

2.5.1 Complexity and constraints of requirements for funding agreements

The requirements for funding agreements are broadly considered to be adequate. As Figure 18 demonstrates, managing authorities were divided on whether the provisions on funding agreements are too constraining; 40% agree or strongly agree that they present too many constraints, but 30% disagree or strongly disagree. Despite this, 60% considered that the regulations were sufficiently flexible to be adapted to the needs of their programmes.

Few managing authorities opted to provide qualitative evidence on the adaptability of the regulatory framework for funding agreements **with complexity of the provisions clearly a major issue**. Half of the surveyed managing authorities agreed that the requirements were complex compared to only 30% who disagreed, while 60% disagreed that the regulations offered sufficient information on how to design funding agreements.

It was also noted that the lack of knowledge in the Paying Agencies on financial instruments and their functioning creates a situation where Paying Agencies can refuse to sanction the transfer of funds from the RDP to the financial instrument when there is no certainty they would be invested, i.e. no certainty that the next step will be achieved. The lack of guidance on the involvement of Paying Agencies in the set up and control of financial instruments has been considered a weakness.

2.5.2 Provisions on management costs and fees

A key factor in the success of a financial instrument is performance of its implementing bodies and this is in part dependent on balanced remuneration in the form of performance-based management costs and fees. In the previous programming period, management costs and fees were calculated based on percentages of the total contribution to the financial instrument and were not related to performance such as disbursements to final recipients, with high limits for management costs and fees considered eligible. For 2014-2020, the European Commission established a new approach with provisions on management costs and fees outlined in Article 42(1)(d), (2), (5) & (6) of the CPR and further stipulated in Articles 13, 14 and 15 of the Delegated Regulation 480/2014. This covers what can be considered eligible expenditure for costs and fees, the thresholds that apply and a new performance orientation. The European Commission published guidance on these provisions in November 2015, to assist managing authorities in applying the new approach to management costs and fees for bodies implementing financial instruments.

In general, managing authorities were positive that the provisions on management costs and fees are appropriate to the needs of their RDP with 50% agreeing or strongly agreeing compared to 20% who disagreed. Managing authorities provided little further information on their views and this perhaps reflects the lack of experience. However, two managing authorities shared their thoughts, with one stating a preference for the calculation method applied in the previous programming period, where the financial intermediary/fund manager received a set proportion of the financial instrument value.

2.6 Advisory support

As identified in previous sub-sections, managing authorities highlighted areas where further support and guidance is needed, such as the selection of implementation options. To fully understand any unaddressed or insufficiently addressed advisory needs and improve the provision of EAFRD-specific advisory products, all EAFRD managing authorities were asked if they required further support in 14 areas, covering topics from the design and set-up of financial instruments to implementation and eventual winding-up. With each managing authority categorised by the status of their ex-ante assessment, this enables their advisory needs to be compared depending on the stage of implementation and allows the development of targeted support. Subsequently, all managing authorities were asked in what format they would like to receive support, focusing on topics they had identified as having unfulfilled advisory needs, and offered the choice of 12 different formats. This data was then combined to show where most managing authorities need further support and in what format they wish to receive it.

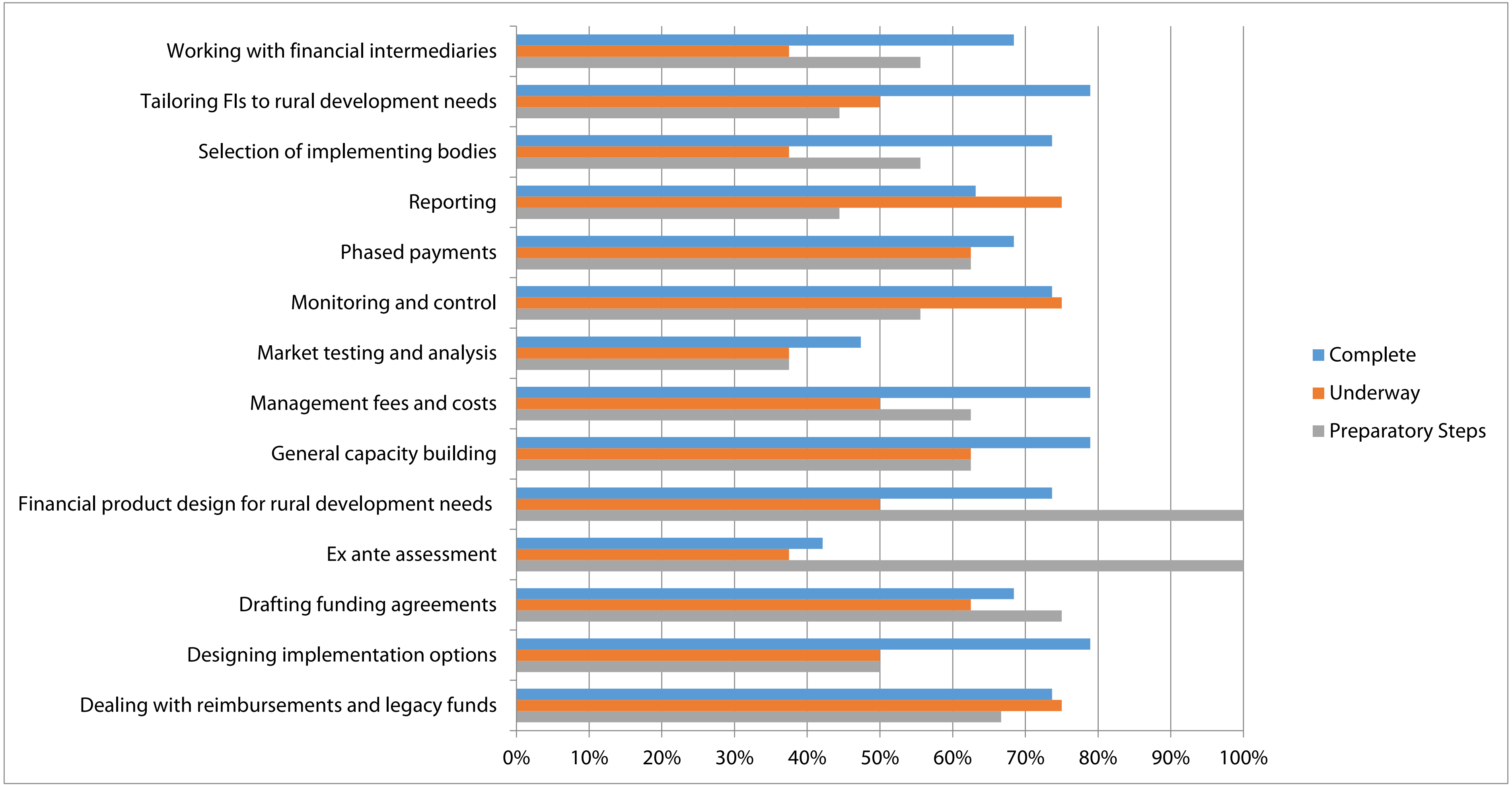
2.6.1 Topics of advisory support

The study's main finding on this sub-theme is that there is a broad need for advisory support to managing authorities and maybe even Paying Agencies across a range of technical topics. Figure 19 shows the percentage of managing authorities who stated that they required advisory support for each topic. This includes support in working with financial intermediaries, tailoring financial instruments to rural development needs, selection of implementing bodies, reporting requirements, phased payments, monitoring and control, market testing and analysis, management costs and fees, general capacity building, designing financial products for rural development needs, ex-ante assessments, drafting funding agreements and designing implementation options.

The results are categorised by the status of the ex-ante assessment to show what support is required for each stage of financial instrument implementation. This analysis presents a number of insights into managing authority advisory needs.

- Overall, there is a clear general need for advisory support across all topics. When looking at the sample as a whole, an average of 66% of managing authorities needed more support, across all stages of implementation and across all topics. For each topic and regardless of the stage of implementation, at least 35% of managing authorities stated that they need more support.
- For eight of the 14 topics, managing authorities who had completed their ex-ante assessment required further support and **for some topics, over 75% of managing authorities with completed ex-ante assessments said more support was needed such as monitoring and control, dealing with reimbursements and designing implementation options**.
- Of the three stages of ex-ante assessment, **managing authorities currently underway with their assessments required the least additional support.** This could suggest that, while managing authorities are conducting the ex-ante assessment, they are not aware of other areas where they might need support. Further, managing authorities who had completed an ex-ante assessment and were entering the implementation phase recognised the need for help with tasks such as designing implementation options or tailoring their financial instruments. Similarly, those at a preparatory stage and therefore starting out may have many unanswered questions and so stated only that they require further support.
- For managing authorities with a completed ex-ante assessment, the most pressing issues were tailoring financial instruments to rural development needs (79%), management costs and fees (79%) and general capacity building (79%).
- When managing authorities had an ex-ante assessment underway, the highest proportion requested additional support with financial instrument reporting requirements (75%), monitoring and control (75%) and dealing with reimbursements and legacy funds (74%).
- As may be expected, all managing authorities with an ex-ante assessment at a preparatory stage stated they needed further support with the ex-ante assessment. All of them required support on design of the financial product, while a high proportion (75%) required additional help in drafting funding agreements.

Figure 19: Percentage of managing authorities who required advisory support, by topic and by status of ex-ante assessment

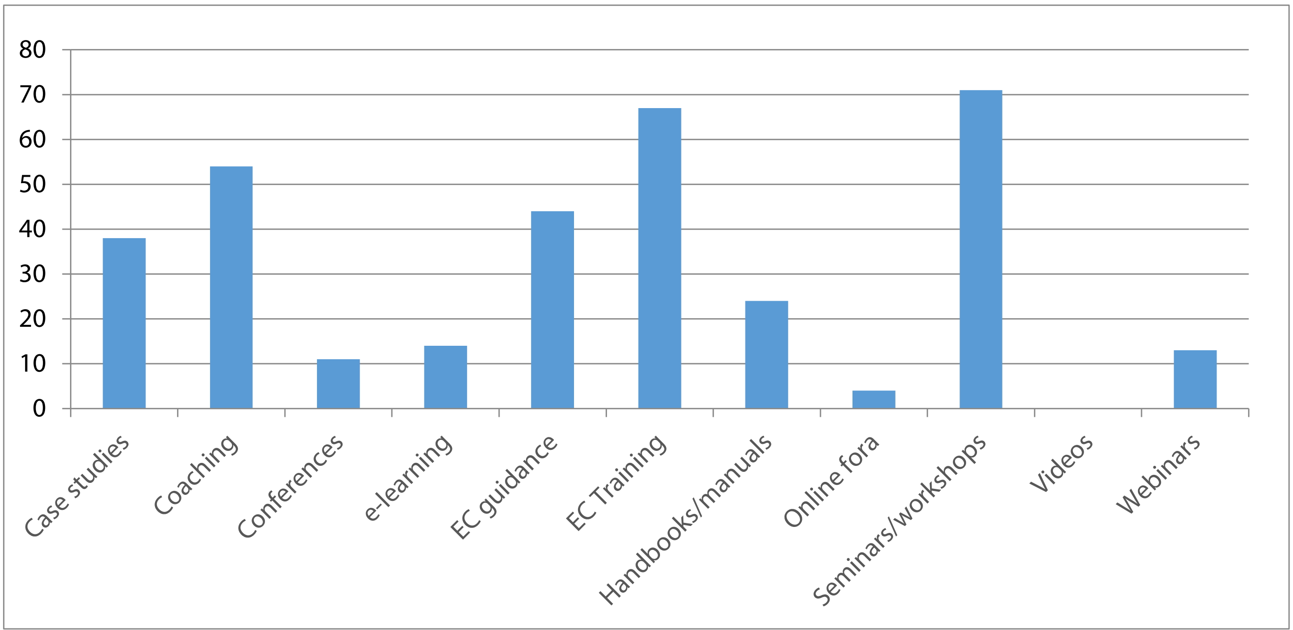


Source: fi-compass interviews

2.6.2 Format of advisory support

Managing authorities who identified an outstanding need for advisory support were then asked in what form they would wish to receive this support, being asked to choose between 12 formats.

Figure 20: Managing authorities preferred format of support, total number of mentions



Note: available options were not explicitly defined by the study but refer to formats available under fi-compass or other widely used advisory support formats

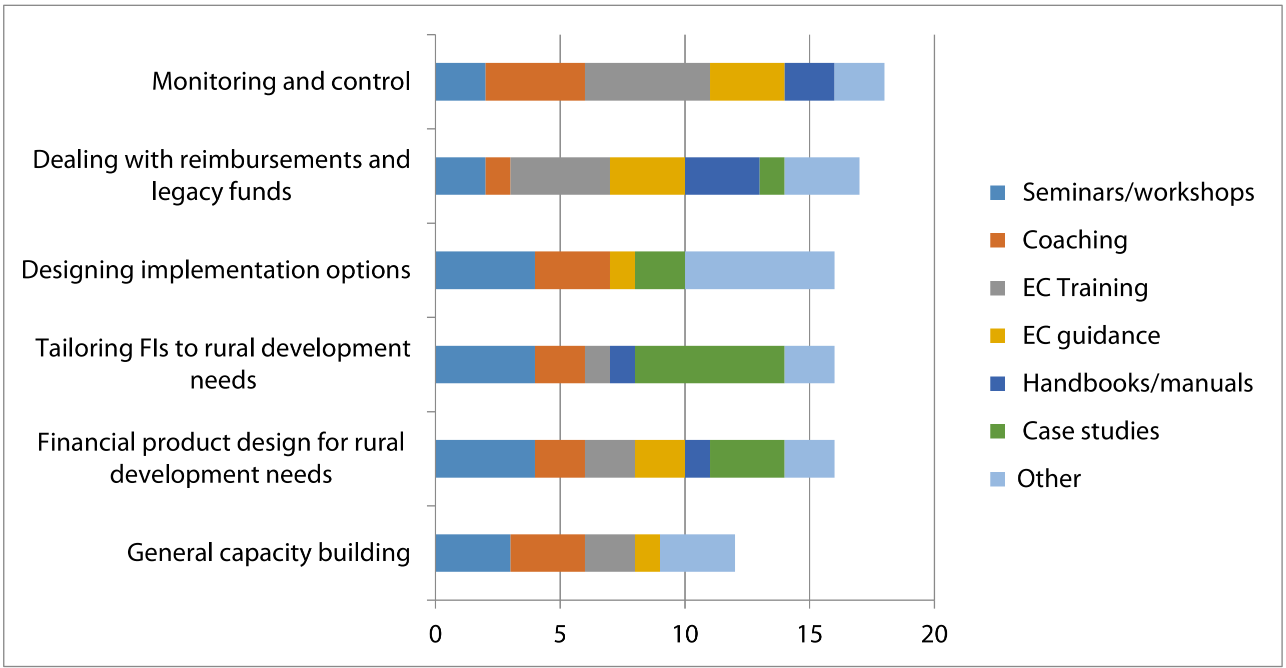
Source: fi-compass interviews

- Overwhelmingly, **managing authorities prefer to receive advisory support through face-to-face events** with 'Seminars/workshops' being the most popular (70%), closely followed by formal 'EC training' (68%), reflecting managing authorities' experience of attending such events. Similarly, targeted 'Coaching' sessions featured highly (54%).
- **Publication of case-study and guidance materials was also considered a suitable format** with 'EC guidance' (42%) and 'Case studies' of Member State experiences (38%) popular among the managing authorities.
- Despite some managing authorities stating that they had attended financial instrument conferences, these were not deemed suitable for meeting outstanding advisory needs, potentially indicating that they prefer a more targeted format when they need further help. However, the split with seminars/workshops influenced that result.
- Demonstrating again how managing authorities prefer face-to-face advisory support, **managing authorities did not request significant online resources** with 'e-learning', 'Webinars' and 'Online fora' receiving very limited, if any, interest.

To assist in the development of targeted guidance and advisory services, the managing authorities' preferred formats are shown with the topics for additional support in Figure 21. Focusing on these six topics (monitoring and control, dealing with reimbursements, designing implementation options, tailoring financial instruments to rural development needs, financial product design for rural development needs and general capacity building) and on the most popular support formats, gives a clear analysis of how advisory support should be delivered for each topic.

Videos are not considered that relevant as they remain mostly a communication tool for a wider audience, including relevant stakeholder groups/farmers or people unfamiliar with the subject. However, video recordings from presentations at specialised conferences provide the opportunity for those setting up financial instruments at later stage to hear and listen to previous experience and catch-up autonomously in building their knowledge and capacity on the subject.

Figure 21: Managing authorities preferred form of support, managing authorities most common need for advisory support (all managing authorities)



Note: 'Other' covers less popular forms of support – Conferences, e-learning, Online fora, Videos and Webinars.

Source: fi-compass interviews

- 'Seminars/workshops' is the most popular format for 'Designing implementation options' and 'Financial product design for rural development needs'.
- 'Coaching' is a popular choice for all six topics, except for 'Dealing with reimbursements and legacy funds' which managing authorities prefer to receive through 'EC Training' and guidance.
- 'EC Training' is the most popular option for 'Monitoring and control' of financial instruments but is not seen as suitable for 'Designing implementation options'
- Managing authorities consider 'Case studies' and using other managing authorities experience as the best way to build capacity in 'Tailoring financial instruments to rural development needs'
- Handbooks/manuals, while popular overall, are not considered appropriate for every topic with managing authorities feeling 'Designing implementation options' and 'General capacity building' to be better served through a combination of the other formats.

When examining managing authorities' advisory preferences in areas where they require the most help it is again clear that they prefer face-to-face support and value the opportunities to share best practice through seminars and case studies.

2.7 Views of financial intermediaries

As mentioned above, this study also gathered the views of financial intermediaries on the scope for EAFRD co-financed financial instruments and sought to identify any provisions which may act as a disincentive to their involvement.

2.7.1 Suitability of the regulatory framework for financial instruments

Generally, financial intermediaries considered the logic of EAFRD to be more suitable to grants, also due to the specificities of EAFRD beneficiaries. However, others offered alternative views, emphasising improvements over the previous programming period, but some rules remain complex, including eligibility requirements.

Financial intermediaries highlighted a particular change under EAFRD for 2014-2020 which supports financial instrument use. Article 45(5) of Regulation 1305/2013 permits **working capital** that is ancillary and linked to a new investment in the agriculture or forestry sector which receives EAFRD support through a financial instrument established in accordance with Article 37 of Regulation (EU) No 1303/2013 as eligible expenditure. The link with the investment item is reduced by the Omnibus regulation[43] further facilitating the use of working capital under EAFRD financial instruments. The inclusion of working capital linked to investment is very useful mainly for start-ups and higher risk innovative projects that have reduced access to bank loans. It could significantly enhance the value of the creation process and promote not only greater use of financial instruments but often could also be the only possibility to finance viable innovative projects in rural areas.

As with managing authorities, financial intermediaries also expected that changes envisaged in the **Omnibus regulation** will improve and facilitate financial instrument use under EAFRD. The latter sometimes may be considered as a necessary condition for some managing authorities to launch a process for assessing the need for financial instrument support or establishing financial instruments.

2.7.2 Specific provisions in the regulatory framework for 2014-2020

Financial intermediaries offered mixed opinions regarding the value of **'off-the-shelf' instruments**, but generally stated that they had the potential to be effective tools, **provided that a degree of flexibility remains possible**. Standardisation achieved by the off-the-shelf instruments is sometimes considered risky and not the right tool to address specific national or regional circumstances as they offer no flexibility. To great extent this overlaps with the opinions of managing authorities and statements in ex-ante assessment, i.e. that there is very limited use for such products.

For the compulsory requirement to carry out an **ex-ante assessment** before setting up a financial instrument, financial intermediaries commented that, under certain conditions, this could be **a useful exercise** through which support is tailored to the needs of final recipients in RDP areas not only based on an RDP expenditure approach. What remains important is for it to be good quality and conducted according to requirements.

Financial intermediaries **agreed that the implementation options were clear and sufficient in number**. Additionally, they considered that the flexibility of the options was not the problem but rather that the **implementation process has to be adaptable**. So the implementation process has to be adapted to peculiarities and expectancies of final recipients and financial intermediaries in each market in terms of flexibility and documentation.

43 Regulation (EU) 2017/2393 of the European Parliament and of the Council available at:
http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1517574230140&uri=CELEX:32017R2393

The financial intermediaries were more united than managing authorities in their view that **provisions for the selection of implementing bodies are not too constraining**. They considered the criteria for tendering processes transparent and appropriate. However, some concerns exist about **the potential burden of regulations on less-experienced and small financial intermediaries.** At the same time, it is clear that not all financial intermediates should or would be interested to take part in a financial instrument.

Financial intermediaries, including those with already signed funding agreements or with one being negotiated, were also generally positive about the provisions for drafting funding agreements, believing they were detailed but justified.

2.7.3 Advisory support

Financial intermediaries were also surveyed for their views on general awareness of other financial intermediaries and final recipients regarding EAFRD co-financed financial instruments and whether more action was required to increase their involvement.

Generally, financial intermediaries considered the **awareness of EAFRD co-financed financial instruments to be very low**:

However, this appears to differ between Member States with certain financial intermediaries stating that recipients were aware. This seemed to depend on how active the managing authority and financial intermediaries had been in promoting EAFRD financial instruments as a financing option and how familiar they are themselves.

Although most financial intermediaries revealed only very limited use of *fi-compass* products relating to EAFRD financial instruments, they commented that **further support would be beneficial**:

Indeed, *fi-compass* activities including workshops and conferences on EAFRD financial instruments were appropriate for financial intermediaries, but there was never a specific targeted event where aspects related to their position in the financial instrument chain could have been discussed. To a certain extent this is driven by the timing for setting up financial instruments as well as a lack of requests by financial intermediaries for such events.

For financial intermediaries, monitoring, evaluation and reporting requirements, as well as quick and effective implementation and delivery of financial instruments, need more guidance and explanation.

3 PROGRAMMING OF FINANCIAL INSTRUMENTS IN 2014-2020 RURAL DEVELOPMENT PROGRAMMES

Under this theme, all 109 RDPs were analysed through desk research. RDPs with fully or partially programmed financial instruments were screened to identify characteristics of the financial instruments. Links between grants and financial instruments were analysed for all RDPs with fully, partially programmed or notions of financial instruments. Where possible, findings were supplemented with EAFRD budgetary information from DG AGRI RDP factsheets.

In addition, managing authorities were interviewed where there were fully or partially programmed financial instruments, and where managing authorities had undertaken (or are undertaking) ex-ante assessments. The purpose of interviews was to understand the programming decisions managing authorities made regarding financial instruments, identify practical and legal issues which influence managing authority decisions, understand the potential for financial instruments and explore programming gaps.

Key findings

Financial instrument programming

- Financial instrument programming under EAFRD seems to be increasing significantly in comparison to the 2007-13 period with fully programmed financial instruments in 28 RDPs, partially programmed in nine RDPs and 'notions' in another 17.[44]
- Eleven Member States have RDPs with programmed financial instruments or 'notions' of them. Among these, some (Germany, Estonia, Netherlands, Spain, Portugal and Slovenia) did not set up financial instruments in the 2007-2013 programming period. In contrast, Latvia and Lithuania established financial instruments in the previous programming period but have not done so in the current one.
- The largest share of RDP resources allocated to financial instruments is for investments in physical assets in agriculture followed by agri-food processing, farm and business development, and then investments in forestry. Where financial instruments are intended to contribute to energy efficiency (FA5B) or renewable energy (FA5C), they generally also target the economic performance of farms (FA2A) or food chain integration (FA3A).
- A few RDPs have programmed financial instruments that target rural infrastructure. The investments mostly relate to development, modernisation or adaptation of agriculture and forestry. Only Galicia (ES) programmed a financial instrument to enhance specifically the accessibility to, use and quality of information and communication technologies (ICT).

Financial instrument potential

- If the current financial instrument programming choices reflect their suitability to support certain types of EAFRD investment, then investments in agricultural holdings and the processing/marketing and/or development of agricultural products show significant potential for further financial instrument support. While almost all managing authorities intend to support these type of investments, suggesting that they can generate revenue, only a minority anticipate doing so through financial instruments.

44 Study data as of end October 2016. This was complemented with data provided by DG AGRI in November 2017.

- Although over EUR 460 million of RDP resources are allocated to financial instruments as of November 2017, the SME Initiative ex-ante assessment identified a loan financing gap of EUR 1.5 to 9 billion for agricultural SMEs in the EU28 (that can be addressed with financial instruments set up at Union, shared management (national, regional), transnational and/or cross-border level). Since 2013 this gap has doubled to reach almost EUR 18.5 billion as published in a recent *fi-compass* gap assessment. Even though not directly comparable due to differences in the methodologies, these estimates seem to confirm an untapped and growing potential for financial instruments in agriculture. This study did not contact managing authorities who did not programme financial instruments under the relevant sub-measures, so the rationale for the 'non-use' of financial instruments among this group is unclear.
- While managing authority interviews confirmed that agriculture is the most important focus for financial instruments, they also indicated that financial instruments are increasingly considered as useful for forestry and renewable energy investment. Indeed, managing authorities in Hungary, Lithuania, Italy, and the United Kingdom without programmed financial instruments identified them as a possible form of support in these two areas.

Managing authority experience with financial instrument programming

- Managing authorities highlighted that determining the budget for financial instruments in RDPs was particularly demanding and many wait for the results of the ex-ante assessment before including budgetary information.
- Eligibility rules for financial instruments are often similar to grants in the same sub-measure and RDP, and in many cases the rules are even identical. Where differences arise, eligibility rules for financial instruments are more specific or focus on certain aspects of the sub-measure. More than half of managing authorities who responded did not expect barriers to defining eligibility criteria for financial instruments, with most also stating they had the capacity to manage this.

In considering these objectives, the remainder of this section is structured as follows:

- Subsection 3.1 covers previous and current programming period uptake of EAFRD financial instruments: information on the current programming period is based on desk research from this study and data provided by DG AGRI in November 2017; this gives account of the most recent developments in the rapidly changing landscape of financial instrument uptake amongst EAFRD managing authorities, after the study data collection was undertaken.
- Subsection 3.2 presents the types of financial instruments currently programmed discussing sub-measures, final recipients and focus areas.
- Subsection 3.3 provides information on experiences of managing authorities with financial instrument programming.
- Subsection 3.4 combines findings on grants from several sources and, based on that as well as managing authority interviews, discusses financial instrument programming potential.

3.1 EAFRD financial instrument programming: level of uptake

Financial instruments have been used in RDP implementation in three successive programming periods, firstly in EU rural development policy in 2000. The rules for EAFRD financial instruments in 2007-13 were set out in Regulation (EU) No 1974/2006, enabling managing authorities to use loan funds, guarantees and venture capital funds.[45] In the

45 Articles 50 – 52.

2007-13 programming period, only seven Member States implemented financial instruments through EAFRD (Bulgaria, France, Greece, Italy, Latvia, Lithuania and Romania). Of the financial instruments implemented, 11 were guarantee funds and three were loan funds.[46]

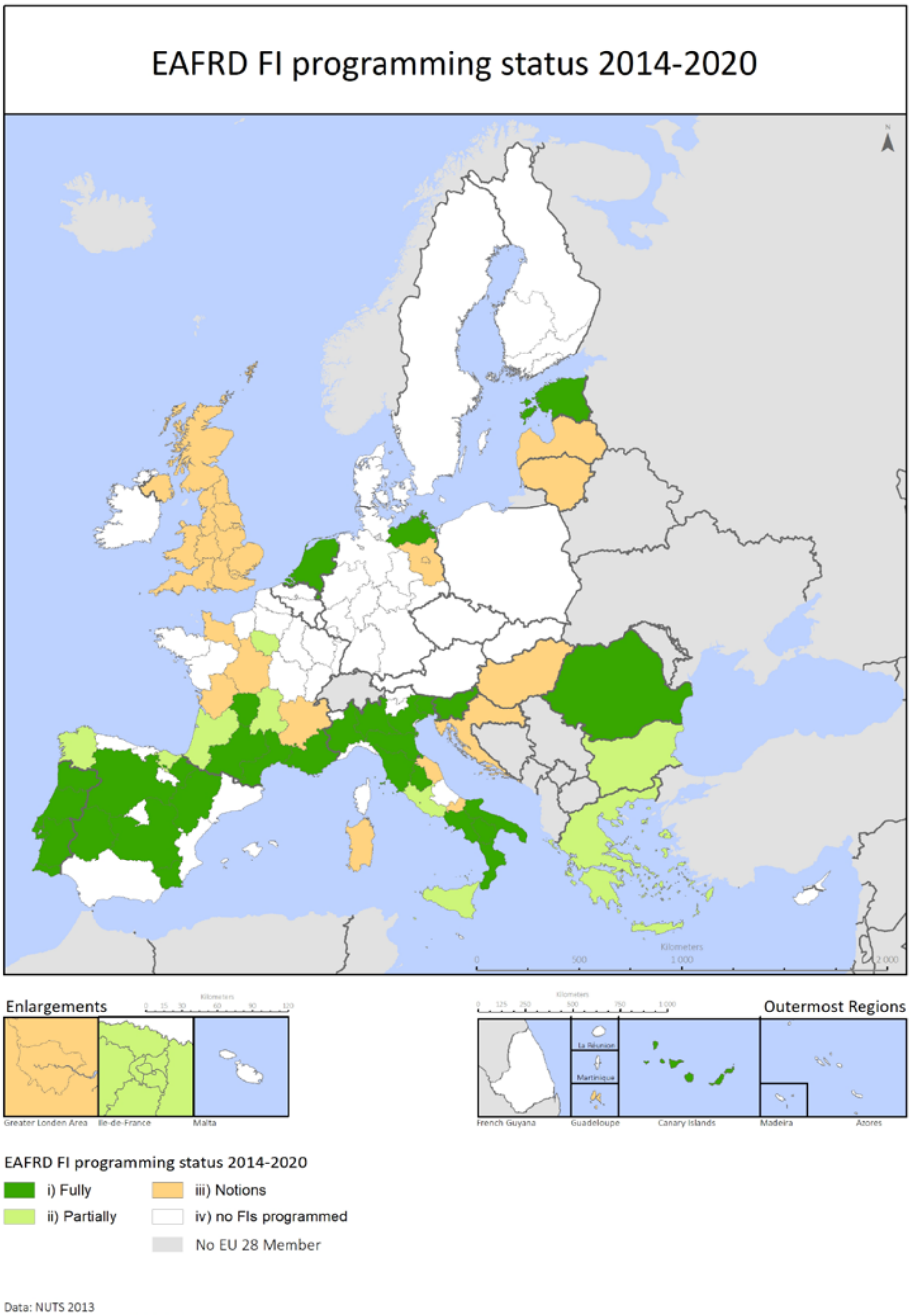
The extent of financial instrument programming under EAFRD increased substantially in 2014-2020. More managing authorities are programming financial instruments and more measures are targeted. However, financial instrument programming in this period is at various stages of development. In particular 28 RDPs have fully programmed financial instruments, 9 have partially programmed financial instruments, while 17 RDPs have 'notions' of financial instruments.[47] An illustration of the status as at November 2017 and based on DG AGRI data and desk research from this study[48] is provided in Figure 22.

46 European Court of Auditors (ECA) (2015), 'Are financial instruments a successful and promising tool in the rural development area?' Special Report No 05 – http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/SR15_05_EN.pdf

47 For definitions of these terms see Table 2.

48 A detailed list of financial instrument programming status at the RDP level, based on study research, is provided in Annex 1.

Figure 22: Financial instrument programming status



Source: fi-compass analysis of RDPs and DG AGRI data

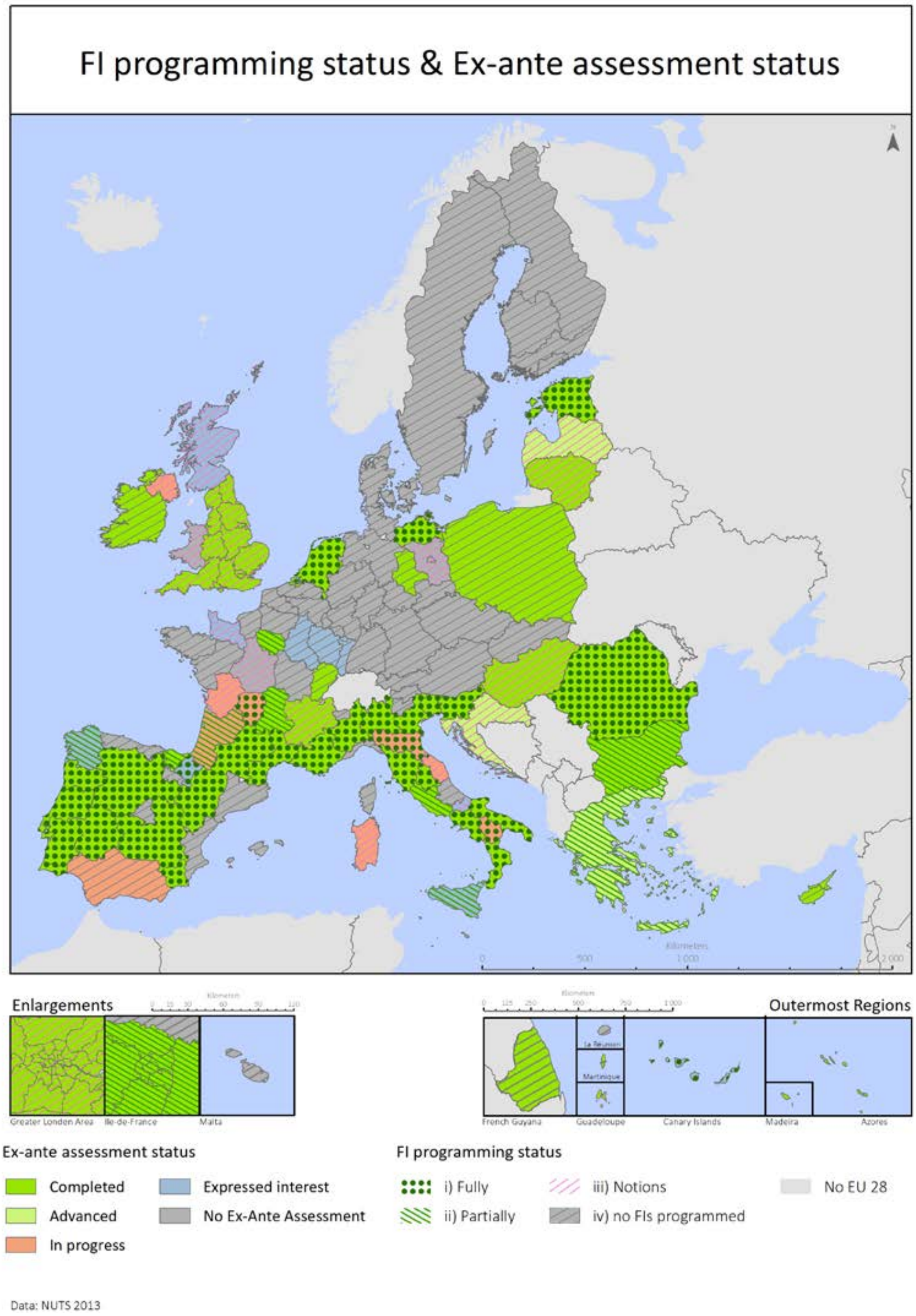
Programming status reflects limited experience from the previous programming period and the implication that some managing authorities are taking tentative steps to financial instruments, without full commitment – for example, undertaking an ex-ante assessment *before* deciding on whether to continue or not with a financial instrument and later on introducing financial instruments in the RDP, rather than signalling an intention to use financial instruments from the outset.

Of the RDPs with fully programmed financial instruments, four are national (Estonia, Romania, the Netherlands and Slovenia). On a sub-national level, regions show high levels of autonomy when opting for programming financial instruments. For instance, in Italy eleven regions have fully programmed financial instruments, whereas two are partial and three have only notions of financial instruments.[49]

Combining the three financial instrument programming categories (full, partial or 'notions' – see definitions in section ii) with the ex-ante assessment status (expressed interest, in progress, advanced, completed – see section 1.1 for more details on the ex-ante assessment status), offers a good overview of financial instrument implementation. As an example, a 'fully programmed' RDP combined with a completed ex-ante assessment, assuming the ex-ante assessment has recommended the use of financial instruments, means the financial instrument is ready to be implemented.

49 This was later embedded in a process called Italian Agricultural Platform, which groups eight regions under EIF management of separate regionalised financial instruments supporting agriculture.

Figure 23: Ex-ante progress and financial instrument programming



Source: fi-compass analysis of RDPs and interviews, and DG AGRI data

In addition to the programming status, financial instrument proposed allocations for all 2014-2020 RDPs for which information was available as of November 2017 was provided by DG AGRI[50] (see Table 5). By that time, the proposed allocation to financial instruments was about EUR 465 million, of which over two thirds were in Spain (EUR 170 million), Romania (EUR 88 million), and Italy (EUR 68 million).

Table 5: Financial instrument budget per RDP and measure

MS – RDP	Measure	financial instrument amount (EUR million)
Germany - Mecklenburg-Vorpommern	M04	10.0
Estonia	M04	20.7
	M06	11.7
Spain – Aragón	M04	8.5
	M19	3.2
Spain – Canarias	M04	36.9
Spain - Castilla-La Mancha	M04	15.0
	M08	1.3
	M19	2.5
Spain - Castilla y León	M04	78.1
	M08	1.9
Spain - Extremadura	M04	6.5
	M06	5.5
	M08	1.3
Spain - Región de Murcia	M04	1.3
	M19	0.6
Spain - Comunidad Foral de Navarra	M04	7.0
France - Limousin	M04	0.5
France - PACA	M04	5.0
France - Midi-Pyrénées	M04	6.4
France - Languedoc-Roussillon	M04	9.3
	M06	0.1
	M08	0.1
Italy - Emilia-Romagna	M04	2.6
Italy - Friuli-Venezia Giulia	M04	5.6
Italy - Lombardia	M04	14.3
Italy - Piemonte	M04	2.2
Italy - Toscana	M04	4.3
Italy - Umbria	M04	7.8
	M06	0.4
Italy - Veneto	M04	6.5
Italy - Basilicata	M04	3.0
Italy - Calabria	M04	6.1
Italy - Campania	M04	6.1
Italy - Puglia	M04	8.6
	M06	0.5
Portugal - Continental Portugal	M04	18.5
	M08	8.4
Romania	M04	86.8
	M06	1.0
Slovenia	M04	12.8
	M06	26.3
	M08	10.3

Source: DG AGRI, data as at November 2017

50 Managing authorities are not required to publish financial instrument budget data in the RDPs if they wish to signal their intentions.

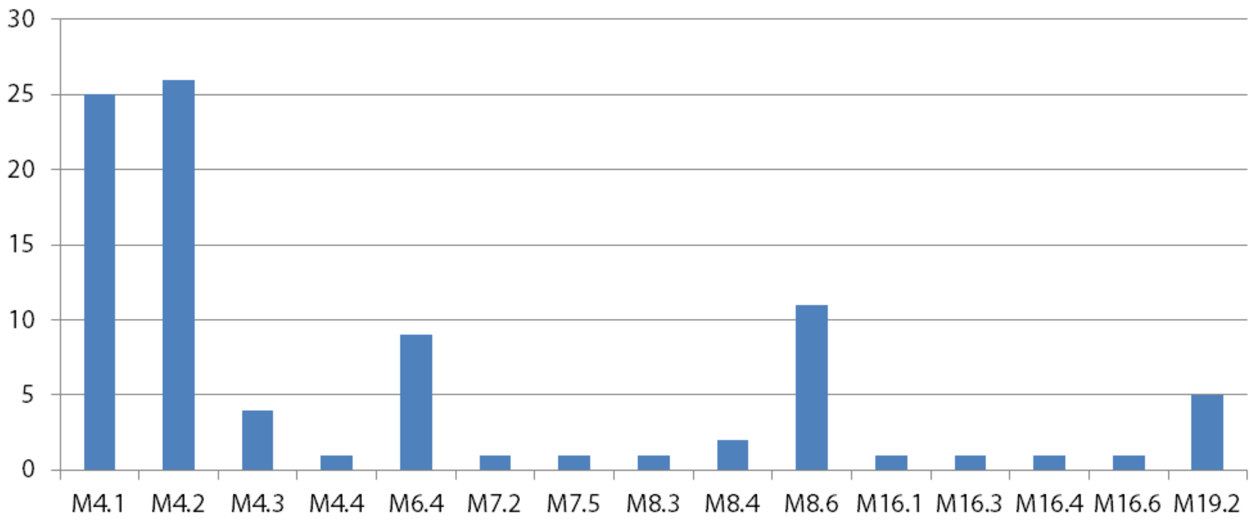
3.2 EAFRD financial instruments programming: state of play (October 2016)

This section provides information on financial instruments fully and partially programmed in 32 of the 109 RDPs reviewed. These financial instruments contain well-developed programming information (i.e. measure, sub-measure, and focus area information). This section only discusses financial instrument programming according to sub-measures, final recipients and focus areas. Annex 2 'financial instrument characteristics' contains a complete list of fully and partially programmed financial instruments including the corresponding Member State and region.

3.2.1 Sub-measures

Individual measures or sub-measures can be used to deliver one or more EAFRD strategic priorities and focus areas. The EAFRD breakdown comprises 20 possible measures, further divided into sub-measures. Sub-measures provide important information on the intended use of rural development funds. Figure 2 shows that the frequency of sub-measures with programmed financial instruments varies significantly.

Figure 24: Number of sub-measures with programmed financial instruments[51]



Source: fi-compass analysis of RDPs

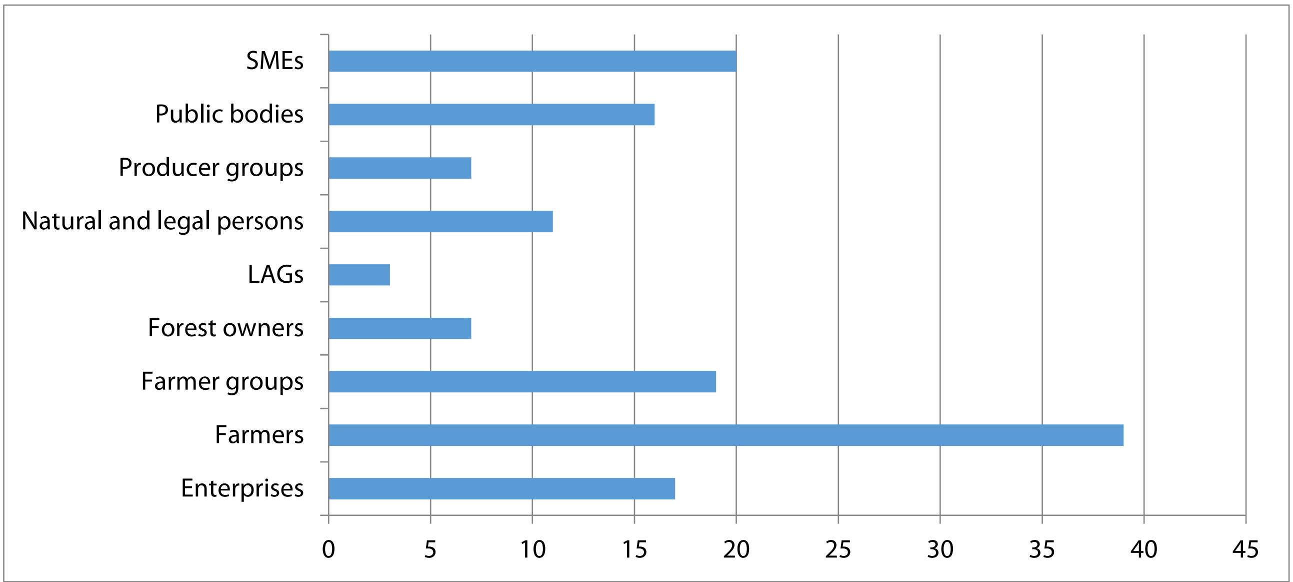
51 M4.1: Support for investments in agricultural holdings; M4.2: Support for investments in the processing, marketing and development of agricultural products; M4.3: Support for investments in infrastructure related to development, modernisation or adaptation of agriculture and forestry; M4.4: Non-productive investments linked to the achievements of agri-climatic objectives; M6.4: Investment in the creation and development of non-agricultural activities; M7.2: Investments in the creation, improvement or expansion of all types of small scale infrastructure, including investments in renewable energy and energy saving; M7.5: Support for investments for public use in recreational infrastructure, tourist information and small scale tourism infrastructure; M8.3: Support for prevention of damage to forests from forest fires and natural disasters and catastrophic events; M 8.4: Support for restoration of damage to forests from forest fires and natural disasters and catastrophic events; M8.6: Support investments in forestry technologies and in processing, mobilising and marketing of forest products; M16.1: Support for the establishment and operation of operational groups of the EIP for agricultural productivity and sustainability; M16.2: Aids to pilot projects and design of new products, practices, processes and technologies; M16.3: Cooperation on the marketing of rural tourism; M16.4: Short supply chains and development of local markets; M16.6: Support to supply-chain cooperation for the sustainable provision of biomass for food production, energy and in industrial processes; M19.2: Implementation of operations under the community-led local development strategy.

Financial instruments are most frequently programmed for investments in farm holdings (M4.1) or in processing/marketing and/or development of agricultural products (M4.2). Financial instruments supporting investments in forestry technologies and in processing, mobilising and marketing forest products (M8.6) are the third most common, and are programmed in Greece, Spain, France, Italy, Portugal and Slovenia. Financial instruments that support investment in the creation and development of non-agricultural activities (M6.4) are programmed in Estonia, Spain, France, Italy, Romania, and Slovenia. Only a few RDPs (e.g. in Spain) have programmed financial instruments that target rural infrastructure. These investments are in most cases related to development, modernisation or adaptation of agriculture and forestry (M4.3).

3.2.2 Final recipients

Figure 25 provides an overview of potential final recipients of the financial instruments, based on sub-measure information. Farmers and SMEs are the most frequently targeted final recipients, reflecting the fact that these are the groups most likely to be undertaking revenue-generating activities. SME support is for both agricultural and non-agricultural activities, as well as for investments in forestry technologies and products. Enterprises in general are also targeted under the relevant RDP sub-measures, often explicitly including large enterprises. These are mainly supported for their investments in processing, marketing and/or development of agricultural products. Public bodies are most often targeted to support investments in infrastructure (M4.3), forestry (M8), or for the implementation of operations under Community Led Local Development (CLLD) strategies (M19.2). Farmer groups, in addition to being a potential target of financial instruments supporting investments in physical assets (M4), are also a potential target of cooperation (M16) and support for LEADER local development (M19). Financial instruments under the latter measures can, however, also support individual farmers and companies. Natural persons and local action groups (LAGs) are only rarely mentioned by the sub-measures under which financial instruments are programmed.

Figure 25: Financial instrument Number of RDPs with sub-measures targeting specific final recipients



Note: A large number of very detailed and heterogeneous lists of final recipients targeted under each sub measure were gathered from the RDPs. It was accordingly decided to aggregate and code, per RDP (n=32), the answers initially collected at sub-measure level. The purpose of the aggregating and coding exercise is to outline the main types of final recipients selected. Specific naming could derive from different sub-measures in some cases, as well as potentially from Member State specific legal definitions.

Source: fi-compass analysis of RDPs

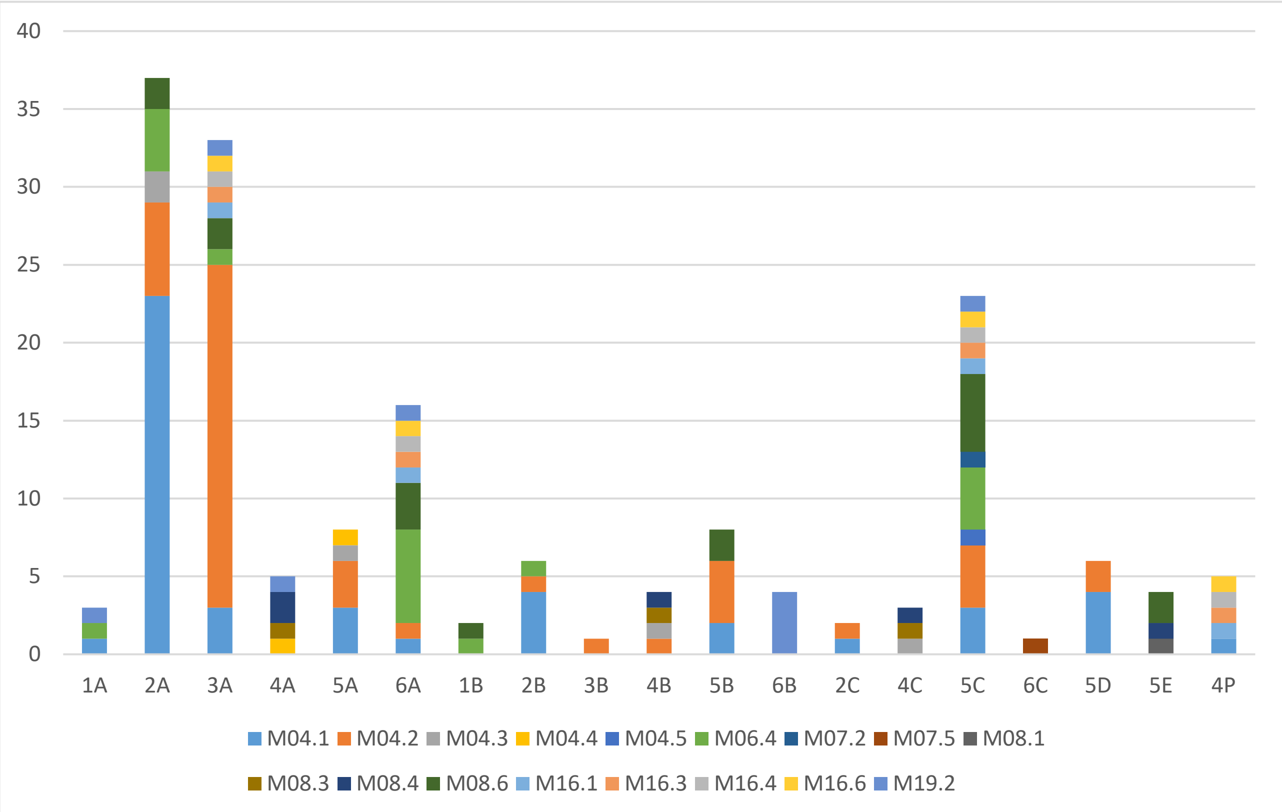
3.2.3 Focus areas

RDP priorities and focus areas provide the foundation for programming and are important for the allocation of EAFRD resources. Figure 26 shows the frequency a focus area was targeted in a programmed financial instrument, and the sub-measures in which they were mentioned.

Most programmed financial instruments intend to improve the economic performance of farms (FA2A) and food chain integration (FA3A). Interestingly, where financial instruments are intended to contribute to renewable energy/energy efficiency (FA5B and FA5C), they usually do so by jointly aiming at improving the economic performance of farms or food chain integration as they are programmed under sub-measures M4.1 or M4.2, i.e. this is rather seen through agricultural perspective, not through general rural infrastructure one (under measure 7). Financial instruments contribute to diversification, creation and development of small enterprises and job creation (FA6A) in various Member States i.e. Estonia, Greece, Spain, France, Italy, Romania, and Slovenia. While only RDP Galicia programmed a financial instrument to enhance the accessibility, use and quality of ICT in rural areas (FA6C). ICT may still be supported under other measures such as M 4.1 and M 16.

Since focus areas 2A, 3A, 5C, 6A, 5A and 5B were the most frequently targeted, and due to their scope in supporting economic performance and diversity, resource efficiency and renewable energy related activities, they are explored in greater detail in this report. In particular, budgetary information for these focus areas is considered when estimating the potential for financial instruments (see subsection 3.4).

Figure 26: Focus areas targeted by sub-measures with programmed financial instruments, and related sub-measures[52]



Note: As per RDP programming regulation, one sub-measure can target more than one focus area.

Source: fi-compass analysis of RDPs

52 A list of all focus area names can be found at: https://enrd.ec.europa.eu/policy-in-action/rural-development-policy-figures/priority-focus-area-summaries_en

3.3 Managing authority experiences in programming financial instruments

This section discusses findings from the interviews of EAFRD managing authorities about their experiences with financial instrument programming, focusing on the process and timing of financial instrument budgeting, definition of eligibility rules, and identification of risks and mitigation measures.

3.3.1 Determining financial instrument budgets

As illustrated in section 3.1, this study shows that as many as 26 RDPs have partially programmed financial instruments or include 'notions' of financial instruments.[53] Study interviews investigated why many managing authorities did not programme their financial instrument in full, and in particular why there was no budgetary information in the RDPs.

According to article 37 of the CPR, financial instruments are based on an ex-ante assessment which has to establish evidence of market failure(s) and/or suboptimal investment situations, and the estimated level and scope of public investment needs, including types of financial instruments to be supported. At the beginning of the programming period, most efforts and resources of managing authorities were devoted to preparing and submitting RDPs for approval, to limit delays in the implementation of RDP measures. This meant that, even where the option to develop financial instruments was programmed, many managing authorities were not ready to develop a specific budget or target possible financial instruments while initially programming RDPs.

Another reason why financial instruments were not budgeted concerns the administrative challenge. This factor was specifically mentioned by policymakers in País Vasco (Spain) and Rhône-Alpes (France). The complexity of the instrument, which requires detailed information about needs and financial markets, as well as understanding how financial instruments might interact with other financial products, including State financed products, means the budgeting process requires considerable administrative capacity and time. Several managing authorities reported a lack of skilled staff in this area, especially those managing authorities programming financial instruments for the first time.

In addition, several respondents stated that the ex-ante assessment process had been put on hold until the CPR was approved at the end of 2013, when the initial RDP programming was almost finished. For instance, in Lithuania the managing authority noted that the main reason for the late start on the ex-ante assessment was the delay in issuing regulations and guidance, which meant they could not select the measures for which financial instruments would be used.

In Latvia, financial instruments could not be budgeted due to difficulties in carrying out the ex-ante assessment. The managing authority intended to programme financial instruments after the first version of the RDP was approved. However, the ex-ante was delayed due to difficulties in obtaining data for the assessment. In the end the parties agreed to stop the process of the ex-ante assessment and re-focus their attention to national support schemes.

3.3.2 Eligibility rules and interplay with grants

RDP measures contain eligibility rules and provisions that must be respected by financial instruments established under those measures. Eligibility rules for financial instruments may differ from those for grants and since April 2016, when the implementing rules changed, requirements for programming financial instruments under the EAFRD have been simpler.

53 The number of RDPs with partially programmed financial instruments or including 'notions' of financial instruments was even higher at the time desk research and interviews were undertaken by this study.

Eligibility rules encompass conditions that a final recipient must meet, such as farm size, or type of applicant, or category of expenditure. Where relevant, and for grants, selection criteria are used to evaluate and rank eligible proposals by addressing aspects such as, for instance, the contribution to programme strategy objectives. As a principle, selection criteria for financial instruments may differ from those for grants, due to the nature of the financial instrument. Only at the end of 2017 did the Omnibus regulation clarify the application of selection criteria for financial instruments under the EAFRD. Additionally, the regulatory provision addressing ESIF-supported financial instruments also needs to be complied with. As part of this study, managing authorities were asked to comment on the process of setting eligibility rules.

Firstly, managing authorities were asked about the process of translating grant eligibility rules into financial instrument eligibility rules, and to identify difficulties in achieving this. Some 75% of managing authorities considered translating eligibility rules from grants to financial instruments to be straightforward. However, almost all respondents listed concerns around specific aspects.

In Estonia, the managing authority expects differences in the type of eligible investments in sub-measures 4.1, 4.2 and 6.4. The managing authority was also uncertain about the full compatibility of certain financial instrument provisions with EAFRD rules, for example the eligibility of the costs of transferring proprietary rights in enterprises.

The managing authority in Friuli-Venezia Giulia (Italy) raised concerns about different approaches to project selection. Under the measures of their RDP using financial instruments, grant proposals would be assessed based on a call for projects, while selection of final recipients would work for financial instruments on a first-come first-served basis. There was also uncertainty about whether the managing authority, which intends to undertake implementation tasks directly, could become the beneficiary of RDP measures that address private farms. Additionally, an ongoing discussion between the managing authority and the Paying Agency concerns the implementation of controls for the financial instrument.[54] Provided that specific conditions are met, these may stop at the level of the managing authority or the bodies that implement financial instruments. However, the fear that this may lead to farms undertaking similar projects being subject to different levels of scrutiny, depending on the form of support, i.e. grant or financial instrument, and the approach undertaken (combination of support or stand-alone financial instrument) has not yet been overcome in the Paying Agencies.

In Languedoc-Roussillon (FR), for example, one important concern was in setting eligibility rules for financial instruments that are strict enough, to prevent over-reliance on public funds by final recipients. This managing authority stated that this resulted in a very long list of non-eligible costs, although this is not required by the legal basis. In addition, it was complex to cross-check eligible costs with other funds (such as ERDF) which also support SMEs. It has to be noted that such practices are rather influenced by the grant approaches applied in the programme areas and the way a managing authority operates rather than the applicable legal basis.

In many cases, eligibility rules in partially programmed financial instruments have not yet been defined, and managing authorities are waiting for additional information, or they have not made a final decision on financial instrument programming to fully specify these rules. For example, in Aragón (Spain) it was considered that the rules for grants with the most similar aims (or strategic approach) as the proposed financial instruments could be used. However, it was noted that these rules could be reviewed if the financial intermediary considered this necessary. In Toscana (Italy), no specific barriers were identified but the relevant regulatory provisions were considered to be unclear. However, the managing authority has not yet proceeded with establishing financial instrument eligibility rules.

54 See Article 40 of the CPR.

3.4 EAFRD grant programming and potential for financial instrument

Understanding grant programming under the RDPs provides indications on the potential role of financial instruments in EAFRD. After providing information on the programming of grants, this section compares grant and financial instrument programming under the relevant sub-measures and focus areas to derive the potential for financial instruments. This analysis builds on the EAFRD regulatory provisions, which do not require budget commitments to be detailed at the sub-measure level, but only at the measure level and per focus area.

3.4.1 Rationale behind grant programming and financial instrument potential approach

This section sets out the approach to data collection and the analysis of grant information. This includes the rationale underlying the approach, limitations as well as solutions.

The study team collected information on both grants and financial instruments to compare their respective characteristics. The ultimate goal was twofold:

- to describe how the approach to programming grants affects and interplays with financial instruments;
- to identify the potential for financial instruments in EAFRD supported investment areas, and clearly identify any targeting gaps in the use of financial instruments.

A targeted approach identified this potential programming gap. This involved filtering the sub-measures[55] that, based on RDP information, have a clearer potential for financial instrument programming (M4.1, M4.2, M6.4, M8.6), and analysing grants that could be substituted or complemented with financial instruments under the same sub-measures.

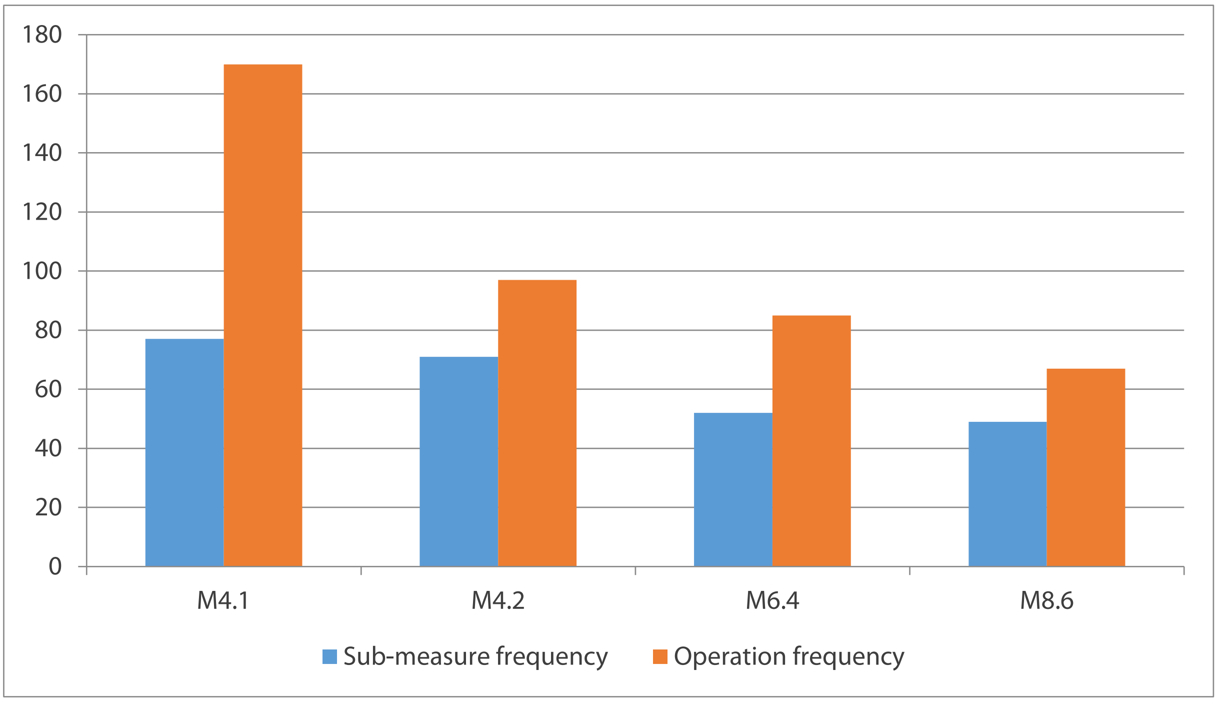
Additionally, analysis of grant programming is based on budgetary information from DG AGRI for each of the 109 RDPs. Budgetary information is considered for the combination of three measures (04, 06, 08) and six relevant focus areas. As mentioned in section 3.2, financial instrument programming most frequently contributes to these measures and likewise, incorporates the target focus areas.

3.4.2 Sub-measures

Analysis of the RDP documents explored the extent of grant programming in the four sub-measures most prevalent in financial instrument programming (sub-measures 4.1, 4.2, 6.4, and 8.6). The 77 RDPs with no partially or fully programmed financial instrument were reviewed, counting the number of programmed sub-measures. Where one sub-measure contained several types of operations, these operations were also taken into account.

55 Separately, the study team collected information of programming through grants under a number of sub-measures supporting infrastructure investment. This can support any future more in-depth analysis of financial instrument potential in that investment area. A summary of the data gathered is given in Annex 3 Programming of sub-measures supporting infrastructure.

Figure 27: Programming of relevant sub-measures for RDPs with no financial instruments



Note: As per RDP programming regulation, one sub-measure may contain more than one type of operation.

Source: fi-compass analysis of RDPs

Interestingly, all 77 RDPs that did not programme a financial instrument have at least one operation programmed to support investments in agricultural holdings (M 4.1). Similarly, 71 RDPs (92%) plan to support investments in processing/marketing and/or development of agricultural products (M 4.2). While somewhat smaller, investments in the creation and development of non-agricultural activities (M 6.4) and investments in forestry technologies and in processing, mobilising and marketing forest products (M 8.6) are programmed in approximately two thirds of the RDPs considered (53 and 50 respectively).

The 77 sub-measures supporting investments in agricultural holdings (M 4.1) established by RDPs that did not programme a financial instrument include 172 operations, denoting a wide diversity of intervention areas. In comparison, sub-measure 4.2, while also programmed in nearly all RDPs, is significantly less diversified, with 98 operations in total.

3.4.3 Focus areas and budgeting

This study reviewed DG AGRI data[56] on budgetary allocations under three measures (M04, M06, M08), as concerns their contribution under six focus areas (2A, 3A, 5A, 5B, 5C, and 6A).

According to the RDP rationale, measures and sub-measures can be mixed and combined under focus areas in a way that better reflects their specific rural development needs. In other words, individual measures and sub-measures can be used to serve one or more focus areas and priorities. Since EAFRD measures have different types of operations and activities, it is possible for grant support to be given for one type of operation, with support under financial instrument given for another type of operation, both within the scope of a single measure. Such flexibility is likewise visible with programming expenditure, i.e. the RDP budget of one measure can be allocated across different focus areas and priorities. Similarly, one focus area can receive contributions from more than one measure.

56 As at November 2017.

Table 6: Budget per key measure / per key focus area (EUR million)

FA Code	FA Name	Measure	EUR million
2A	Improving the economic performance of farms	M04	18,217
		M06	2,271
		M08	218
3A	Improving food chain integration	M04	6,315
		M06	15
		M08	19
5A	Water efficiency	M04	2,833
5B	Energy efficiency	M04	968
		M08	1
5C	Renewable energy	M04	426
		M06	326
		M08	143
6A	Diversification, SME and job creation	M04	608
		M06	2,505
		M08	221
Total			**35,087**

Source: fi-compass calculations based on DG AGRI financing plan data

Analysis shows that, if it is assumed that financial instruments are more likely to be established under the combination of measures and focus areas considered, then **improving the economic performance of farms (FA2A) has by far the highest potential, with a total budget of almost EUR 21 billion**. Clearly, this figure cannot be considered as indicative of the financial instrument potential, as the related measures could target interventions that are not suitable to financial instruments. The need for financial instrument support would also need to be verified at the level of the individual programme area.

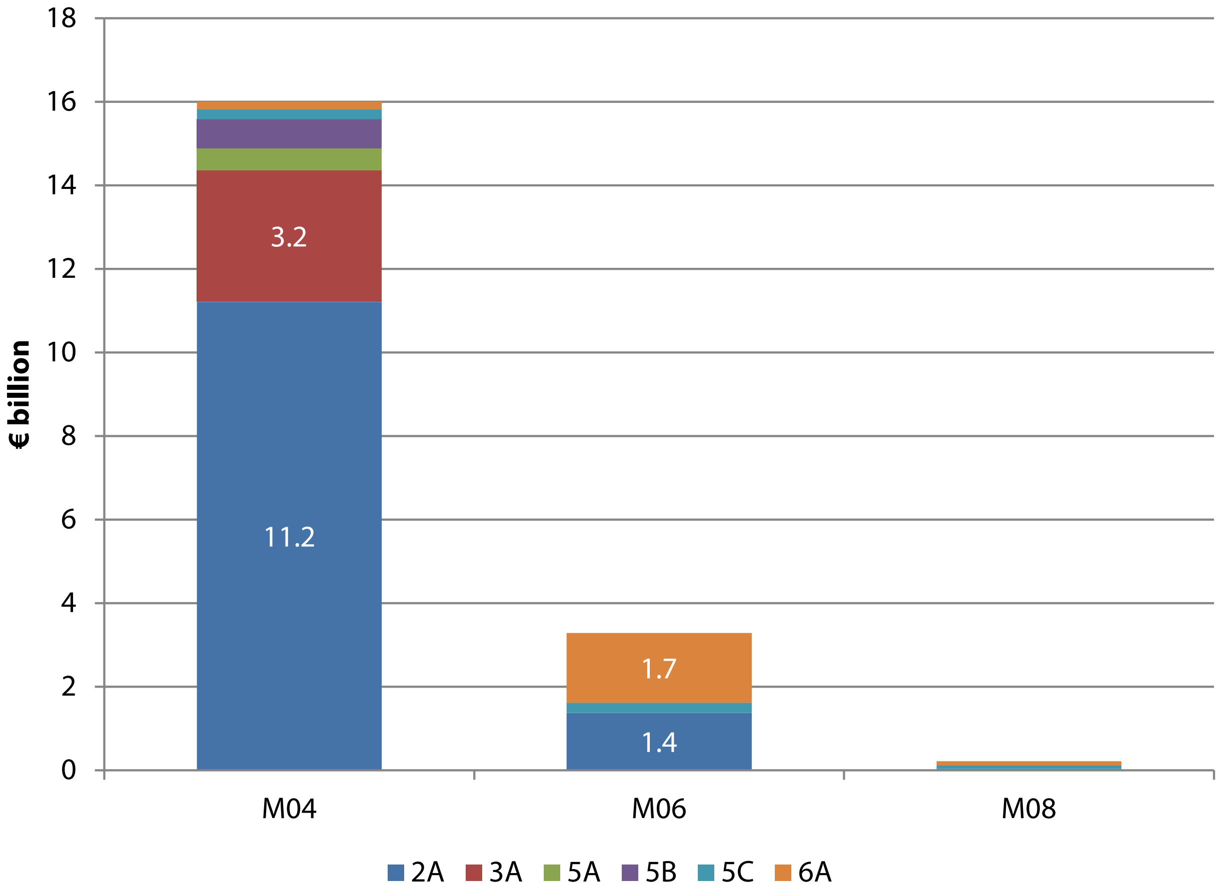
Improving food chain integration (FA3A) also has an important budget under the relevant measures (over EUR 6 billion), as well as low carbon and climate resilience (priority 5, almost EUR 5 billion), and diversification, SME and job creation (FA6A, more than EUR 3 billion). Within low carbon and climate resilience, water efficiency (FA5A, EUR 2.8 billion) has the largest share of the budget, while energy efficiency (FA5B) and renewable energy (FA5C) are allocated approximately 40% of the priority resources (or EUR 1.9 billion).

The budget for forestry investments (MO08) is lower at approximately EUR 600 million. If this also reflects the fact that improving the economic performance of forestry (FA2C) was not considered in the analysis, the result is mainly a consequence of the overall lower budget of the measure and the major role ecosystem management (priority 4) and carbon conservation and sequestration (FA5E) play under the measure.

Territorial differences also need to be taken into account. For example, farm and business development (MO06) contribute to the economic performance of farms (FA2A) especially in Italy, Poland and Romania. Investments in physical assets (MO04) are used for renewable energy (FA5C) especially in Croatia.

As shown in Figure 28, limiting the analysis to only RDPs with no partially or fully programmed financial instruments gives similar results. Economic performance of farms (FA2A) still has by far the largest budget across the three measures, as well as investments in physical assets (M04). The analysis also indicates the important share of RDPs with no financial instruments out of the total budget allocated to a combination of the measures and focus areas.

Figure 28: Measure budgets by FA in RDPs with no financial instruments (EUR billion)



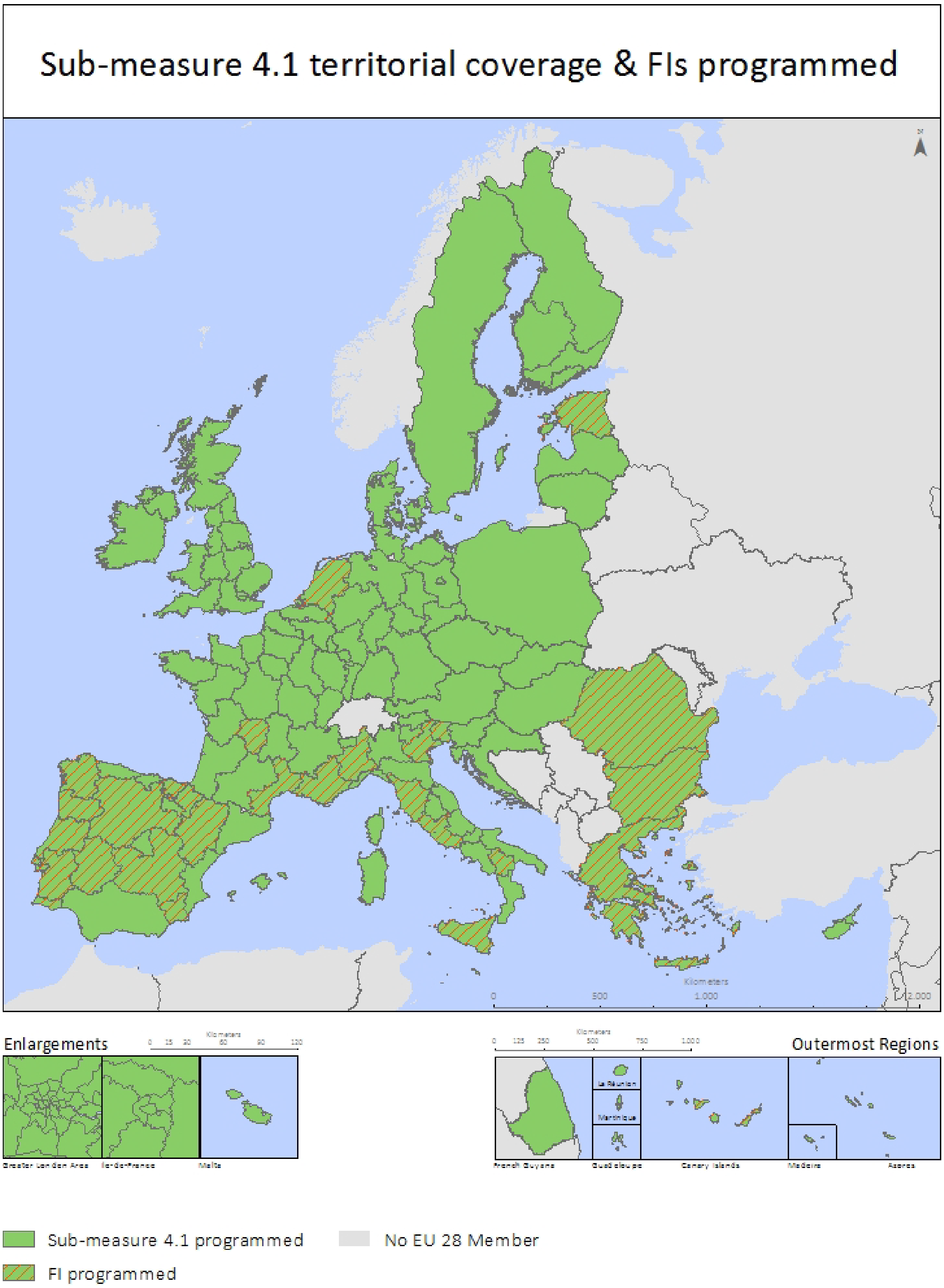
Source: fi-compass calculations based on DG AGRI financing plan data

3.4.4 Mapping financial instrument potential

The following figures show where each of the four sub-measures that have so far been more important for financial instrument programming[57] were adopted by the RDPs. A second layer of information (hatching) highlights where financial instruments have already been programmed. When one sub-measure is programmed but a financial instrument is not foreseen in the RDP, financial instrument potential can be identified. This corresponds to areas that are just green in the map. Clearly, such potential would need to be confirmed by ex-ante assessments of market failures and investment needs addressing the individual programme areas. These would also need to assess the critical mass of potential financial instruments. Note that an ex-ante assessment could be in progress or completed in the RDP. In other words, the potential for financial instruments may already be under investigation without prior programming in the RDP.

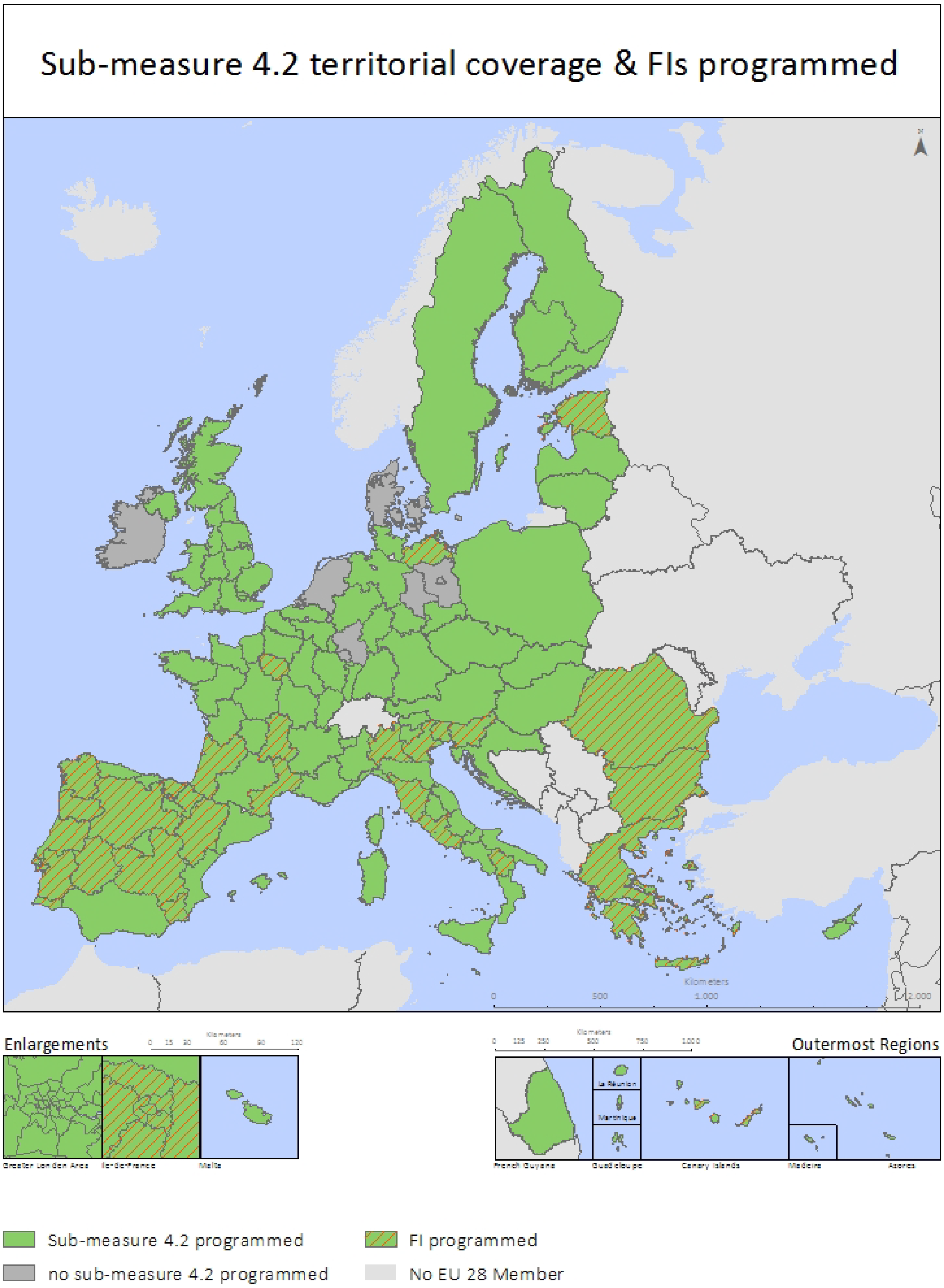
57 As at end October 2016, based on study survey of RDPs. Thus, figures in this sub-section do not compare to Figure 23.

Figure 29: Sub-measure 4.1 territorial coverage & financial instruments fully and partially programmed



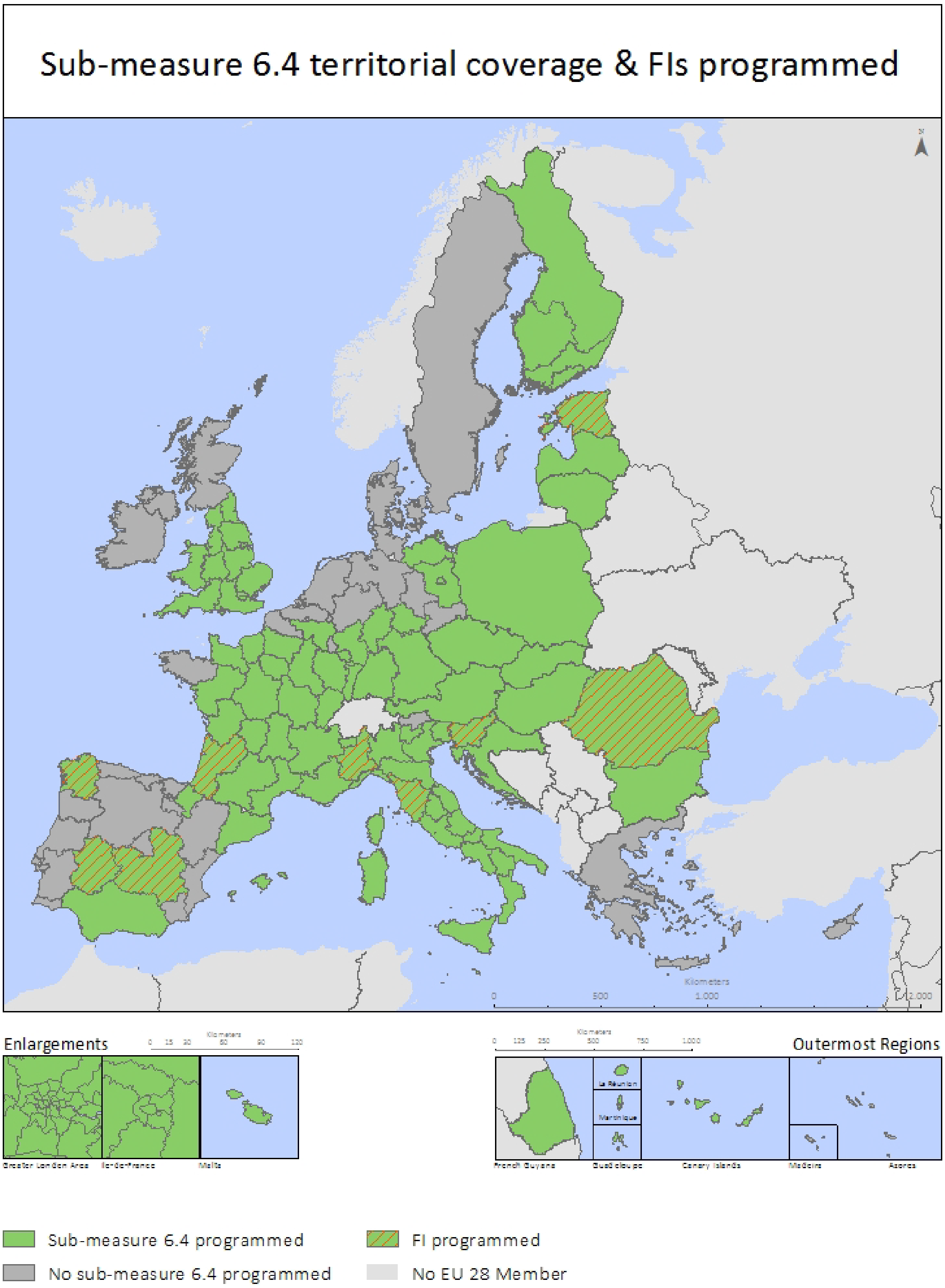
Source: fi-compass analysis of RDPs

Figure 30: Sub-measure 4.2 territorial coverage & financial instruments fully and partially programmed



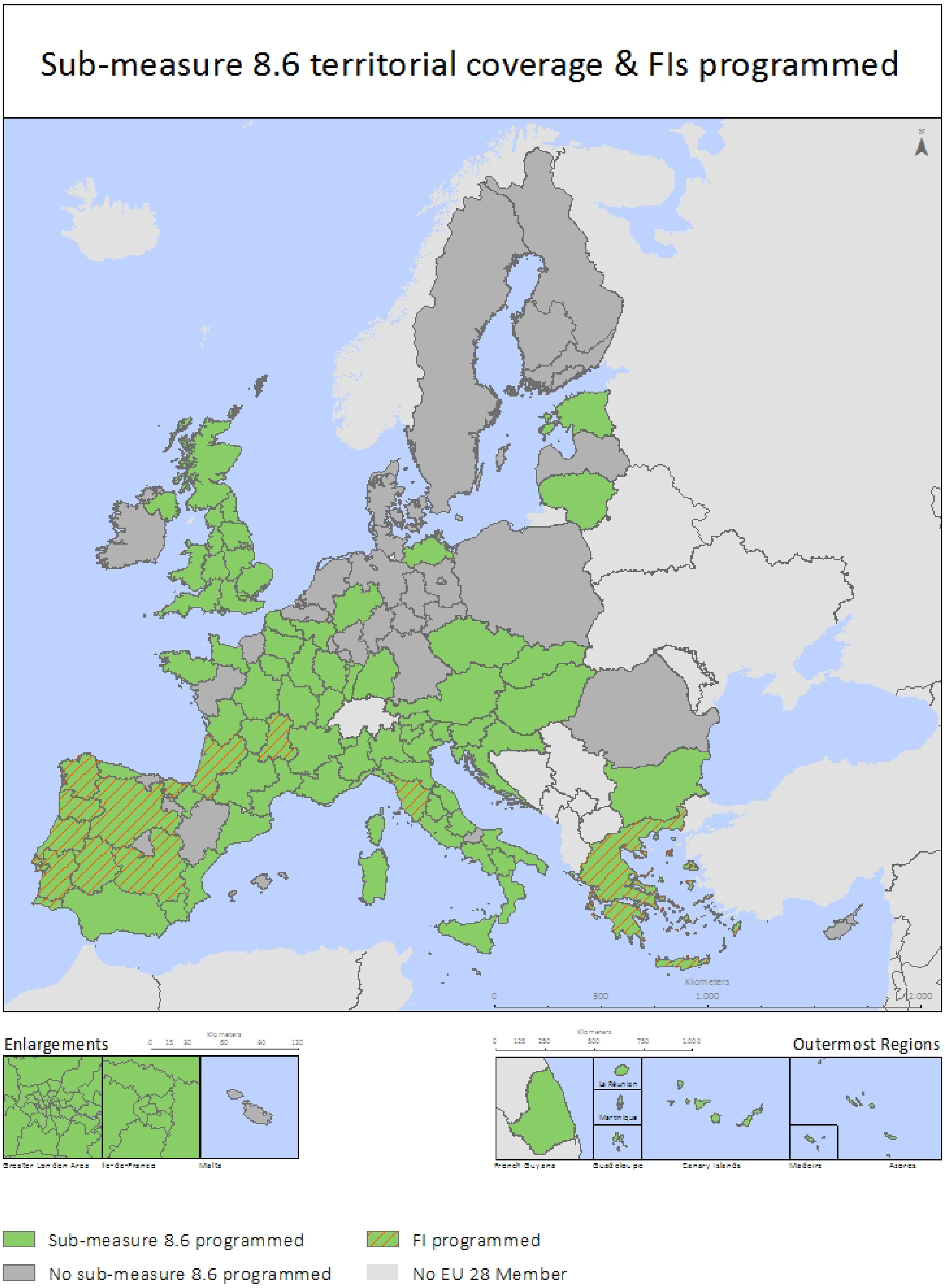
Source: fi-compass analysis of RDPs

Figure 31: Sub-measure 6.4 territorial coverage & financial instruments fully and partially programmed



Source: fi-compass analysis of RDPs

Figure 32: Sub-measure 8.6 territorial coverage & financial instruments fully and partially programmed



Source: fi-compass analysis of RDPs

3.4.5 Potential for financial instrument: summary of findings from managing authority interviews

The potential for programming new financial instruments in sectors of interest was explored during interviews with managing authorities. Additionally, managing authorities were also asked to consider the sub-measures under which financial instruments could be used. On this basis, national experts combined interview results, RDPs and ex-ante assessments to identify potential new sub-measures.

Table 7 lists activities where managing authorities with partially or no programmed financial instruments, considered that financial instruments could be used. It also details the relevant (sub-)measures, where these are available from the analysis. It should be noted that where financial instruments were programmed but firm decisions on implementation have not yet been made, the sectors and activities indicated by the managing authorities during the interviews may just reconfirm those initially identified in the RDP. Where differences exist between the intended programming areas according to managing authorities and the RDPs, these may be due to changes proposed in ex-ante assessments conducted after programming. Sub-measures under which financial instruments have been partially programmed are included in the table to allow an easier comparison between managing authority feedback and RDP information. Shading in the table groups sub-measures to improve readability.

Table 7: New activities for which financial instruments could be used

MS	RDP	Status															New sector/activity (measure)
		Programmed	M04.1	M04.2	M04.3	M04.4	M06.4	M07.2	M07.5	M08.3	M08.4	M08.6	M016.1	M016.3	M016.4	M016.6	M019.2	
DE	Berlin + Brandenburg	No																Agriculture (M4)
LT	Lithuania	No																Agriculture (M4.1, M4.2)
																		Forestry (M8.6)
																		Non-agricultural economic activities (M6.1)
ES	Aragón	Partially	√	√													√	Agriculture
																		Rural Business
ES	Castilla-La Mancha	Partially	√	√	√		√					√						Agriculture
																		Forestry
ES	Castilla y León	Partially	√	√								√						Agriculture
																		Agri-food
																		Forestry
ES	Extremadura	Partially	√	√	√		√					√					√	All sectors with investment projects
ES	Región de Murcia	Partially	√	√													√	Agriculture
																		All Rural Sectors
ES	Canarias	Partially	√	√	√	√												Agriculture
																		Agri-food
ES	País Vasco	Partially	√	√	√							√						Agriculture and

MS	RDP	Status																New sector/activity (measure)
		Programmed	M04.1	M04.2	M04.3	M04.4	M06.4	M07.2	M07.5	M08.3	M08.4	M08.6	M016.1	M016.3	M016.4	M016.6	M019.2	
																		Agri-food Forestry and Rural Firms
ES	Navarra	Partially	√	√														Agriculture Agri-food industry
financial instrument	Mainland Finland	No																Infrastructure (M7.3)
financial instrument	Åland	No																Agriculture (M4.1, M4.2)
IT	Piemonte	Partially	√				√											Agriculture
IT	Calabria	No																Agriculture (M4.1, M4.2) Forestry (M8.5)
IT	Marche	No																Agriculture
IT	Umbria	Notions																Agriculture (M4.1, M4.2) Non-agricultural economic activities (M6.1, M6.2)
IT	Puglia	Partially																Agriculture (M4.1)
IT	Toscana	Partially	√	√			√					√						Energy Efficiency and Forestry
IT	Veneto	Partially	√	√														Infrastructure Agri-food
FR	PACA	Partially	√															SME Agri-food industries Livestock Farms Creation of farms
BG	Bulgaria	Partially	√	√														Agriculture Agri-food
HU	Hungary	No																Energy Efficiency and Renewable Energy Food Production and Food-chains
UK	Scotland	No																Agriculture (M4.1, M4.2)

MS	RDP	Status																New sector/activity (measure)
		Programmed	M04.1	M04.2	M04.3	M04.4	M06.4	M07.2	M07.5	M08.3	M08.4	M08.6	M016.1	M016.3	M016.4	M016.6	M019.2	
																		Non-agricultural economic activities (M6.1) Infrastructure (M7) Forestry (M8.6) CLLD (M19.2)
UK	England	No																Agriculture (M4) Non-agricultural economic Activities (M6) Infrastructure (M7) Forestry CLLD (19)
UK	Northern Ireland	No																Farm businesses (M4) Forestry (M8) CLLD (19)
EL	Greece	Partially	√	√						√	√	√					√	Agriculture and Manufacturing Renewable Energy and Forestry

Source: fi-compass analysis of RDPs (status); fi-compass analysis of RDPs and interviews (new sector/activity).

While the analysis confirmed that agriculture and agri-food are the most important focus for financial instruments, it also indicated the potential for financial instruments to support off-farm and business development in rural areas. Additionally, the analysis also revealed that financial instruments are increasingly considered as useful for forestry and renewable energy investment. Managing authorities in Hungary, Lithuania, Italy, and the United Kingdom without programmed financial instruments identified them as a possible form of support in these two areas. A few managing authorities in Finland, Italy and the United Kingdom considered that financial instruments could be used for infrastructure investment.

4 Conclusions and recommendations

Although financial instruments have formed part of the EAFRD legislation for more than 15 years, for most managing authorities they are a new way of using EAFRD resources to stimulate investment in agriculture, food processing, rural businesses and forestry. Recent years have seen rapidly growing interest from managing authorities for this type of support, especially in the aftermath of the 2007–2008 financial and economic crisis. This is substantiated by the possibilities of financial instruments to attract additional capital, reuse resources and address specific difficulties of EAFRD stakeholders, in particular farmers and agri-food businesses, to access finance. While paying greater attention to this form of support, EAFRD managing authorities also have to deal with completely new legislation for financial instruments that is significantly more detailed for 2014-2020 compared with the 2007-2013 programming period.

Against this background, this study provides DG AGRI and other stakeholders with details of the implementation of EAFRD support through financial instruments based on experience in Member States during the current programming period. This supports efforts to increase the use of financial instruments under the EAFRD in 2014-2020. This study reviews financial instruments and how the legal framework, practical experience and policy decision-making have affected financial instrument preparation and uptake by managing authorities. It pays attention not only to operational and ready-to-be-launched financial instruments, but also to actions by EAFRD managing authorities that prepare the ground for future activities in this area, and especially undertaking ex-ante assessments.

Rapidly growing interest of managing authorities in financial instruments

This study highlighted a rapidly growing interest of managing authorities towards this type of support. There is a substantial increase in the number of RDPs across the EU considering at least the possibility of using financial instruments in the 2014-2020 programming period. As many as 51 RDPs currently mention this option, compared to 14 that programmed financial instruments in the 2007-2013 programming period. Additionally, as at November 2017, 42 ex-ante assessments had been completed, three were at an advanced stage, nine were still in progress and ten managing authorities had expressed an interest. The level of uptake is especially remarkable given that managing authority efforts at the beginning of the programming period focused mainly on designing RDPs.

Raising awareness on the rationale and benefits of financial instruments to tap their full potential for investments in agricultural holdings and products

Despite the growing interest, this study has identified significant potential for further financial instrument deployment, especially for investments in agricultural holdings as well as the processing, marketing and development of agricultural products. A significant untapped potential for financial instruments is also suggested by the fact that, although over EUR 460 million of RDP resources were allocated to financial instruments by June 2017, these are just a fraction of the EUR 7 to 19 billion loan financing gap for agricultural SMEs identified by a recent *fi-compass* study.

This study did not explore the motivations of managing authorities who did not programme financial instruments, so the rationale for ‘non-use’ is unclear. However, a lack of awareness about the rationale and benefits of financial instrument support could have held back some managing authorities. In this regard, further efforts to raise awareness should help address existing knowledge gaps encouraging managing authorities to explore the potential of financial instrument support. Additionally, a focus on financial instrument support as part of evaluation studies carried out at RDP or EU level could ensure that financial instruments are increasingly considered by managing authorities.

Promote pioneers and further investigate the scope for financial instruments in other investment areas

On the further potential for financial instrument support, this study found that financial instruments are increasingly considered as ways to support forestry and renewable energy investment. However, only a minority of managing authorities anticipate their use under these investment areas. At the same time, the possibility to support other rural infrastructure through financial instruments currently remains unexplored by managing authorities and their ex-ante assessments. Considering the lack of experience in these areas, efforts should be made to disseminate the practices of managing authorities who are exploring the possibility of using financial instruments. Moreover, for investment areas with no experience of financial instrument support, such as for other rural infrastructure, managing authorities could benefit from studies clarifying the scope of financial instruments in such areas. These could look at experience under other ESI Funds or national resources, to understand the extent to which financial instruments could be replicated under RDP support, given the specific needs of EAFRD managing authorities. They could also investigate existing practice at the EIB and other multilateral development banks and build on their institutional knowledge base.

A more EAFRD focussed approach on legal provisions and interpretation

In addition to providing knowledge on the implementation of EAFRD support through financial instruments in Member States, this study also gathered information on how EAFRD managing authorities deal with the current legal framework related to financial instruments and to what extent this facilitates their work in relation to financial instruments.[58] In this regard, over half the managing authorities report that legislative provisions for financial instruments are more onerous than for the more traditional grants, for instance when it comes to the ex-ante assessment requirements, and about two thirds agree that the EAFRD rules could do more to facilitate the use of financial instruments in RDPs. Implementing financial instruments is perceived to be very complex and there is a strong desire for greater clarity and flexibility in the legal framework. However, due to the timing of the study, managing authority responses did not consider the changes introduced through the Omnibus regulation, which lifted many of the previous limitations imposed on financial instrument investments in terms for example of eligible expenditure, scale and working capital restrictions. Additionally, as highlighted above, a lack of experience contributes to this perception, as a high proportion of managing authorities could not answer specific questions. Once an ex-ante assessment starts, managing authority views improve. Additionally, interviews showed that, regardless of implementation progress, a general lack of experience of using financial instruments amongst EAFRD managing authorities, at least initially, affects implementation.

An important part of managing authority concerns seems to be related to uncertainties regarding the applicability of CPR rules concerning financial instruments in EAFRD programmes. In particular, some managing authorities were in doubt about how CPR financial instrument rules coordinated with the EAFRD rules and, in a context of limited knowledge and experience, this might have contributed to discourage managing authorities from considering financial instrument support. This suggests that a more EAFRD focussed approach on legal provisions and their interpretation could increase managing authority confidence in their ability to implement financial instruments.

For specific regulatory provisions, a missing focus on agriculture and a limited capacity to address context-specific conditions seem to explain the apparent lack of interest for standardisation through off-the-shelf instruments. Nevertheless, a lack of knowledge may have influenced the views of some managing authorities. In other cases off-the-shelf instruments may have contributed to financial instrument design as with other ESI Funds.

Given the limited progress of implementation this study offers few insights on the difficulties and challenges faced by managing authorities in setting up financial instruments after the ex-ante assessment. Few managing authorities

58 Timing of the study did not allow for detailed discussions with managing authorities on legal proposals presented by the Commission as part of the mid-term review of the multi-annual financial framework 2014-2020, referred to as the Omnibus regulation. However, managing authorities noted that the anticipated amendments could improve and facilitate financial instrument use under EAFRD.

were in a position to comment on procedures for selecting implementing bodies and drafting funding agreements. Those who could often found the provisions constraining or inflexible.

Closer integration of the ex-ante assessment and overall RDP programming could optimise deployment of financial instruments

managing authorities fully exploited the flexibility allowed by the regulations for setting up financial instruments. For example, they took different approaches in timing (indicative) financial instrument programming in the RDPs and undertaking ex-ante assessments. Some started the process directly from the ex-ante assessment and others preferred to include at least some indications in the programmes from the beginning. Many managing authorities seemed to have initially preferred to focus on the RDP and only later focus on setting up financial instruments, including managing authorities who detailed financial instrument information in the RDP from the beginning.

Against this background, it should be taken into account that financial instrument programming and the respective modification of the RDPs was simplified by DG AGRI in 2016. Additionally, stronger integration between appraisal of the rationale for financial instruments and RDP programming could be considered in the future to further streamline the process, improving efforts and the programming of RDP resources.

Ex-ante assessment: a challenging but useful process which could be further enhanced by more thoughtful consideration of sector specificities

Although most managing authorities considered undertaking an ex-ante assessment as challenging, most believed the assessment was useful as a learning process and especially helpful in facilitating financial instrument implementation at a later stage. This also helped by raising the interest and awareness of RDP stakeholders.

Challenges outlined by managing authorities included a lack of prior knowledge, the need for comprehensive knowledge in various areas of expertise, the necessity to adapt to new regulations, and difficulties with gathering complete data to inform policy making. Against this, most managing authorities believed the guidance on ex-ante assessments was adequate, and most found qualified ex-ante assessors.[59] This was identified as a key to success. Similarly, many managing authorities were very positive about ex-ante assessment recommendations providing a sound basis for implementing financial instruments. However, not all managing authorities felt that recommendations would be closely followed, reflecting the political side of the decision-making process, and only a minority believed that their implementation would be straightforward.

As identified in ex-ante assessments, asymmetry of information and credit restrictions are the most common market failures justifying the set-up of financial instruments, while specific difficulties for young businesses and innovative enterprises are emphasised in some programming areas. Against such failures, the added value of financial instruments compared to other forms of public financial support was seen in leverage, their revolving nature and greater financial discipline, as well as better financial and technical assessments of projects.

Other advantages include encouraging entrepreneurship and financial education in rural areas, as well as increased capacity through partnerships between public and private sectors. Greater difficulties for farmers to access finance are indicated in some regions and the willingness of investors to maintain or increase their agriculture portfolio is highlighted in isolated cases, clarifying the importance of territorial specificities. The funding gap for agricultural enterprises was normally, but not always, specified. Some ex-ante assessments found that financial needs for agricultural enterprises did not differ substantially from those of SMEs in the region and did not quantify the funding gap separately. More generally, the few joint ex-ante assessments covering multiple ESI funds went short of providing concrete conclusions on agriculture.

59 However, managing authorities that openly procured often experienced mixed results reflecting the differing national/regional context.

Overall, there is room to further enhance the ex-ante assessment process by more thoughtful consideration of sector specificities, where in particular a separate quantification of the funding gap could be regarded as a minimum requirement. This would also match the needs expressed by managing authorities for attention to sector peculiarities when undertaking ex-ante assessments.

Face-to-face advice to support managing authorities throughout the process of making financial instruments operational

This study clearly suggests that a substantial lack of knowledge of financial instruments, especially by managing authorities responsible for regional RDPs, limits their deployment under the EAFRD. Further efforts could be made to improve the knowledge of managing authorities about how financial instrument support works in practice, including modifications in the Omnibus regulation.

When setting up financial instruments, EAFRD managing authorities could benefit from past experiences, as illustrated in ex-ante assessments. Among others, these should help them to avoid fragmented public support, to streamline procedures, speed up application approval and resource disbursement, as well as ensure suitable information campaigns to raise awareness. However, managing authorities generally need further advisory support, particularly after completing ex-ante assessments and especially for designing implementation options, monitoring and control and reimbursements. More support, which should also address the involvement of Paying Agencies in the set up and control of financial instruments, could be provided through seminars and workshops, European Commission training and targeted coaching. These formats were preferred by managing authorities to meet unfulfilled advisory needs, demonstrating their preference for face-to-face advice. Written documents and guidelines are considered as useful when addressing legal interpretation or when related to practical experience. Additionally, a lack of knowledge about the SME Initiative was evident among managing authorities, implying that publicity could be improved.

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