fi compass
EAFRD

Financial needs in the agriculture and agri-food sectors in Ireland

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Glossary and definitions

Abbreviation	Explanation
AFB	Agri-food and Beverages
AIB	Allied Irish Banks
Agri-food survey	Survey of the financial needs of EU agri-food processing enterprises carried out in mid-2019 in the framework of study 'EU and Country level market analysis for Agriculture' and based on respondents' financial data from 2018.
CAP	Common Agricultural Policy
CFO	Chief Finance Officer
CGS	Credit Guarantee Scheme
CMO	Common Market Organisation
Coop	Cooperative
COSME	EU Programme for Competitiveness of Enterprises and Small and Medium-sized Enterprises
CPD	Continuous Professional Development
CRO	Credit Review Office
DAFM	Department of Agriculture Food and the Marine
DBEI	Department of Business, Enterprise and Innovation
DOF	Department of Finance
DPTC	Dairy Processing Technology Centre
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
EIP	European Innovation Partnership
EFSI	European Fund for Strategic Investments
EMFF	European Maritime and Fisheries Fund
ESIF	European Structural and Investment Fund
EU	European Union
EU 24	The 24 EU Member States covered by the *fi-compass* 'EU and Country level market analysis for Agriculture': Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

EU 28	All EU Member States: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, The United Kingdom.
EUR	Euro
FADN	Farm Accountancy Data Network
FDI	Food Drink Ireland
fi-compass survey[1]	Survey on financial needs and access to finance of 7 600 EU agricultural enterprises carried out by *fi-compass* in the period April – June 2018 and based on respondents' financial data from 2017.
FMDS	Farm Management Deposit Scheme
GFCF	Gross Fixed Capital Formation
GHG	Greenhouse Gases
GVA	Gross Value Added
ha	Hectare
ICMSA	Irish Creamery Milk Supplier Association
ICOS	Irish Co-operative Organisation Society
IFA	Irish Farmers Association
IPO	Initial Public Offering
ISIF	Irish Strategic Investment Fund
KT	Knowledge Transfer
LEO	Local Enterprise Offices
MSME	Micro, Small and Medium-Sized Enterprises
NTMA	National Treasury Management Agency
p.a.	Per Annum
PCF	Prepared Consumer Foods
PM	Profit Monitor
RDP	Rural Development Programme
R&D	Research and Innovation
SBCI	Strategic Banking Corporation of Ireland
SME	Small and medium-sized enterprise

1 *fi-compass*, 2019, Survey on financial needs and access to finance of EU agricultural enterprises, Study report, https://www.fi-compass.eu/publication/brochures/survey-financial-needs-and-access-finance-eu-agricultural-enterprises.

SO	Standard Output
TAMS	Targeted Agricultural Modernisation Scheme
UAA	Utilised Agricultural Area
UK	United Kingdom of Great Britain and Northern Ireland

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EXECUTIVE SUMMARY

This report gives an insight into agriculture and agri-food financing in Ireland by providing an understanding of the investment drivers, financing supply and financing difficulties as well as on the existing financing gap in the country.

The analysis draws on the results from two comprehensive and representative EU level surveys carried out in 2018 and 2019. These were the *fi-compass* survey on financial needs and access to finance of EU agricultural enterprises and a survey of the financial needs of EU agri-food processing enterprises. The report does not take into account the impact of the ongoing COVID-19 health crisis and/or the effect of any new support scheme being set-up by the Member State and/or changes in legal basis and/or policies at European level to mitigate the crisis, as surveys and data available covered a period prior to its outbreak. This would need to be subject to further analyses by interested stakeholders, administrations and/or researchers.

Financing gap for the agriculture sector in Ireland

Uncertainty in the agriculture sector in Ireland is high. While investments have been decreasing between 2015 and 2017, caused mainly by the uncertainty in connection with the Brexit, investments in 2018 have increased to the highest level over the last decade. Part of this sharp increase relates particularly to the investments made by large farms in measures to comply with environmental and safety standard requirements.

This is shown by the analysis, which highlights the main investment drivers of the Irish agriculture sector:

(i) **The need for working capital and cash flow**: As operating costs increase, the demand for finance to cover the high costs of energy, electricity, labour, fertilisers, etc., as well as the maintenance and development of a farm's infrastructure and buildings, also increases.

(ii) **The need to lease land and invest in livestock, machinery and equipment**. This is particularly the case for young farmers and new entrants that are facing more difficulties financing instalment investment, where the full investment is not made in a single amount or payment - but there is an agreement to pay/ invest in instalments. Agricultural land is mostly needed by farmers interested in engaging in grazing livestock activities and in horticulture.

(iii) **Upgrade of existing machinery** is also an investment driver for Irish farmers, as it reduces costs and improves efficiency.

(iv) **Compliance with sectoral environmental and safety standards** is considered as the fourth investment driver of the Irish agriculture sector. The environmental pressures include changes to land use, emissions of nutrients and losses of pesticides from soils to waters, changes to biodiversity impacting flora and fauna and their habitats, and emissions of greenhouse gases (GHGs) and air pollutants such as ammonia.

The Common Agricultural Policy (CAP) is an important vehicle for investments and can support demand and access to finance. The analysis shows that direct payments (Pillar I) and the rural development grants (Pillar II) play an important role in stimulating demand for finance. EUR 1.1 billion of direct payments are made annually under CAP. Cattle rearing and sheep farms registered the highest income dependency on CAP (above 110%), while dairy farms have the lowest.

Financing supply is dominated by two banks who each accounts for around 40% to 45% of all agricultural lending. Non-bank lenders, credit unions and cooperatives are gaining popularity between farmers especially, when facing loan application rejections from banks. Several financial instruments designed in collaboration with the European Investment Fund (EIF) have been developed and implemented for the agriculture sector in Ireland.

The total supply of finance to the agriculture is estimated at EUR 741 million in 2018. The dynamics of the bank loans in the period 2015-2017 indicate that despite the decrease in the total amount of bank loans, loans for the agriculture sector are increasing both in terms of amounts and in terms of share within the total volumes of loans. This trend is reversing in 2018 as the aggregate lending to the agriculture sector is down by EUR 49 million, due primarily to the presence of existing loans and the uncertainty related to the Brexit.

This report shows that there is a potential for new financial instruments, with a market gap estimated to be between EUR 822 million and EUR 1 billion. Around 68% of the gap value relates to medium-sized farms, which creates a serious obstacle to the development of the sector, since they represent a segment with significant growth potential. Their size growth and increased efficiency could be key for the overall competitiveness of the sector in the future. The high level of uncertainty related to the Brexit, and particularly its potential impact on the beef and dairy sub-sectors, will widen the gap for long-term loans for a longer period of time.

In terms of financial products, more than 60% of the gap relates to long-term investment loans followed by medium-term loans (21%). This market gap is comprised of separate components:

- A first component of the gap is constituted by the estimated value of loan applications submitted in the past years by **viable enterprises, which were rejected by banks,** or which resulted in loan offers being refused by the applicants due to non-acceptable lending conditions.
- The second component of the gap relates to the estimated value of loan applications that are **not submitted by farmers considered viable due to being discouraged by a possible rejection**. The *fi - compass* survey results reveal that this financing gap component is dominant, and it relates to all maturities. Being discouraged may be based on past rejection and/or farmers' awareness of their poor business planning. During interviews, it has been mentioned that being discouraged is also linked to the lack of understanding from banks regarding specificities of the cash flows of agricultural holdings (e.g. in relation to price volatility) and the terms and conditions offered to the sector (higher interest rates and poor terms offered).

The main problems that hinder farmers' access to finance are related to the economic unviability of the farm, the lack of appropriate immovable collateral and the risk associated to the farming sector, which is considered too high by the banks. For young farmers, lack of collateral and credit history are the main constraints. In addition, sometimes farmers lack the knowledge on how to present their farming practice as a viable business plan. The supply of finance to agriculture is constrained by lack of competition amongst key financial players, by their compliance and regulatory requirements, which often reduce their capacity to offer flexible products to farmers and from moving away from providing relationship management services at the local level. In addition, the interest rate for agriculture loans was approximately at 4% in 2017 for new lending, which is higher than the EU 24 average. This despite the fact that the agriculture portfolio is the best performing for all banks. The Brexit is also adding uncertainty regarding future investment and could affect demand for finance amongst farmers and increase the risk aversion of banks.

RECOMMENDATIONS

Even though Irish farmers can rely on existing financial instruments and various lending schemes, adjustments to the public interventions and the use of European Agricultural Fund for Rural Development (EAFRD) financial instruments in the next programming period may help to further facilitate access to finance for enterprises currently excluded (or more often self-excluded) from the market. In particular, the following recommendations can be considered:

- Since lack of collateral has been identified as one of the main constraints limiting the access to finance, the use of risk sharing instruments and guarantees supported by the EAFRD could be further developed, as the current offering seems to be insufficient to insure the full functionality of the market.
- The focus of future financial instruments should be on medium-sized enterprises, young farmers and new entrants. The opportunities offered by the new legal framework, such as the easier combination of financial instruments and grant support or the possibility to finance the purchase of land for young farmers,

might offer interesting opportunities to increase the effectiveness of the instrument towards those segments.

- The medium-sized farms are those which need to be supported to develop and grow further to ensure the sustainability of the farming sector. This sustainability requires adaptation of farms to meet the climate change targets, to improve efficiencies in their agricultural processes and to facilitate them to access new markets. Financing is critical to achieve this and additionally further upskilling in farm/business and financial management skills needs to be supported financially or by means of technical support under EU schemes or grants.
- Considering that financing cost for the agriculture sector is higher than the EU 28 average and above the average of all Irish economic sectors, instruments with a higher impact on reducing the cost for finance could be considered, including a possible combination with grant support under the EAFRD.
- Additional working capital instruments / schemes could be developed, given the reported success and general appreciation of a similar instrument deployed in Ireland in 2016-2017. In this context, the new flexibility on working capital introduced for financial instruments under the EAFRD legislation post-2020 proposal has to be evaluated.
- An enhancement of the technical support for famers to develop investment projects and sound business plans could also be beneficial, considering the lack of financial literacy still present in the sector.
- New initiatives in the field of financial instruments could be developed with a view to opening the market to new banks, including possible technical support for financial intermediaries, to increase their knowledge and understanding of the sector specificities.

Financing gap for the agri-food sector in Ireland

The investment dynamic is positive in the agri-food sector in Ireland. This is shown by the analysis, which highlights four main investment drivers of the Irish agri-food sector:

(i) **Investment in expansion capacity** to incorporate new processes and equipment and/ or to extend existing buildings or to build new ones. This type of investment is mainly driven by the dairy sector.

(ii) **Inventory and the need of working capital** are important for running and developing businesses.

(iii) **Digital transformation** will drive future demand in the sector and enterprises will have to modernise and digitalise their infrastructure to meet consumer exceptions (e.g. online food delivery).

(iv) **Diversification of** products to offset the impact of the Brexit and to conquer new markets (e.g. Asia).

According to the Agri-food survey, these drivers are influenced by the high cost of production and difficulties to access qualified labour in Ireland.

The supply of finance to the sector is provided by a group of financial intermediaries composed of banks, cooperative societies, credit unions, non-bank lenders, online financiers, state-agencies and investment funds. The market share of the four main banks (including their leasing subsidiaries) corresponds to approximately 98%. Financial instruments for the agri-food sector are similar to the ones implemented for the agriculture sector. Financial instruments dedicated to SMEs (SME Credit Guarantee Scheme) are also supporting SMEs from the agri-food sector.

The report shows that there is a potential for new financial instruments, with a market gap estimated to be around EUR 244 million. Unmet financing needs are concentrated in specific segments of the sector. Around 58% of the gap value relates to small-sized enterprises (below 50 employees). In terms of financial products, almost 79% of the gap relates to long-term investment loans, while important constraints exist also for medium enterprises and in accessing short-term financing. This market gap is comprised of separate components:

- The first component of the financing gap is constituted by the estimated value of loan applications submitted in the past year by viable enterprises, which were rejected by banks, or which translated into loan offers being refused by the applicants due to non-acceptable lending conditions. According to Agri-food survey results, this financing gap component accounts for almost one third of the total.

- The second component of the gap relates to the estimated value of loan applications that are not submitted by enterprises considered viable due to enterprises being discouraged because of a possible rejection.

Feedback from stakeholders suggests that difficulties in accessing finance in Ireland might be higher than suggested by the Agri-food survey and that the actual financing gap might be substantially underestimated. In particular, the rejection of viable enterprises might be much higher based on interviews.

The main reason for the rejection of investment loan applications is insufficient collateral and guarantees, the existence of previous loans, the risk aversion by the banks, as well as, the lack of understanding and skills to assess risks from the banks and the lack of financial literacy and dedicated personnel to manage the financials of the enterprise. Young entrepreneurs and start-ups are facing difficulties accessing finance due to their lack of repayment capacity, knowledge and experience and their limited credit history.

Enterprises tend to actively search for financing, and like the agriculture sector they are also facing challenges related to the 'blanket' approach (i.e. generic) taken by Irish banks to collateral. While collateral is provided against one specific loan, banks tend to apply it to all additional loans the enterprise may have. This has tied businesses into one specific bank. Banks need to have a bespoke approach towards borrowers and to be customer driven[2]. The lack of capital has thwarted planned investments and undermined the competitiveness of the sector and the severity of the funding challenge increases with company size.

Agri-food enterprises are being discouraged from applying as the application process is perceived as too long and complicated. Some agri-food enterprises are also discouraged from applying as they consider the loan application as too lengthy and/or complex to fulfil. Interviews reveal that the being discouraged to apply for finance is mainly related to the banks' requirements, in particular, the unfavourable terms and conditions for long-term loans and the limited range of products.

The main constraints to the supply of finance identified are: (i) market concentration, (ii) lack of fixed rate loans with sufficient maturity, (iii) lack of interest from the banks to finance micro, small and medium-sized enterprises and (iv) difficulties in financing micro enterprises and mid-caps met by financial intermediaries managing financial instrument schemes. In addition, banks consider the sector as risky and given the high levels of non-performing loans the agri-food sector. Also, interest rates offered by banks are high.

The financial needs in the next coming two or three years are likely to increase given the Brexit implications and the need to further adapt to climate change.

RECOMMENDATIONS

Even though Irish agri-food enterprises can rely on existing financial instruments / financing schemes, adjustments to the public interventions and the use of EAFRD financial instruments in the next programming period can be considered:

- Risk sharing instruments and guarantees:
  - A new Up-Scaling Fund could be established to support working capital demands, with longer terms and lower rates, combined with a guarantee against the risk of longer up-scaling timelines due to external local and global economic factors.
  - A special Agri-food Fund could be established with a long-term investment focus, greater flexibility, using both guarantees and loans with low interest rates, and also relying on EAFRD support.
  - New schemes and financial instrument products for new-entrants are needed, which factor in the specific challenges being faced by the new-entrants, especially those having a rather slow growth in their business cycle. Various funding sources could be considered, including the EAFRD support possibilities for the 2021-2027 period.

2 Interviews with banks, 2019.

1. INTRODUCTION

Objective

This document belongs to a series of 24 country reports and presents an assessment of the potential financing gap for the agriculture and agri-food sectors in Ireland. The assessment is based on the identification and evaluation of the supply of and demand for financing, on the one hand, and on the quantification of the currently unmet demand for financing for the two sectors, on the other hand. This report aims to contribute to a better understanding of the potential need for continuing currently operating financial instruments, or the creation of new or additional ones, supported by the European Agricultural Fund for Rural Development (EAFRD).

Approach

To conduct an analysis of the potential financing gap in the agriculture and agri-food sectors, the study, under which this report is prepared adopts the following three-step approach:

1. Assessment of the number of farms/firms participating in the credit market and analysis of the dynamics of their demand.
2. Mapping of the sources of finance and examination of the dynamics of supply of credit.
3. Assessment of the potential existence of a financing gap, whereby parts of the demand cannot be satisfied by the existing supply but could benefit from financial instruments.

Per definition, a financing gap (for a specific sector) arises from unmet financing demand from economically viable enterprises (operating in the same sector). This unmet demand includes two major elements:

(i) lending applied for (by the viable enterprises), but not obtained; as well as

(ii) lending not applied for (by the viable enterprises) due to expected (by the same enterprises) rejection of the application (by a financial institution).

The analysis draws on the results from two comprehensive and representative EU level surveys carried out in 2018 and 2019, namely the *fi-compass* survey on financial needs and access to finance of EU agricultural enterprises and a survey of the financial needs of EU agri-food processing enterprises. The latter survey was undertaken as part of this study. The analysis is further elaborated by desk research and enriched with secondary data from EU and national data sources.

The financing gaps for the two sectors are calculated using data from the above-mentioned surveys and additional data and statistical indicators from Eurostat. The calculated financing gaps for the two sectors are independent from each other. The report also outlines the drivers of unmet demand for finance as identified from desk research, and from interviews with key stakeholders from the agriculture and agri-food sectors, government representatives, and financial institutions, and as identified by two focus groups, one for each sector. Information on the supply side of finance was obtained from interviews with nationally or regionally operating financial institutions.

The report does not take into account the impact of the ongoing COVID-19 health crisis and/or the effect of any new support scheme being set-up by the Member State and/or changes in legal basis and/or policies at European level to mitigate the crisis, as surveys and data available covered a period prior to its outbreak. This would need to be subject to further analyses by interested stakeholders, administrations and/or researchers.

Report structure

This report is structured in two parts, each focused on one of the sectors of interest: Part I covers financing for the agriculture sector; and Part II discusses financing for the agri-food sector. Each part is structured in five sections: an overview of the market, an analysis of the demand for financing, an analysis of the supply of finance, an assessment of the financing gap, and conclusions and recommendations.

2. PART I: AGRICULTURE SECTOR

2.1 Market analysis

Key elements on the Irish agriculture sector

- Total agricultural output was EUR 8.7 billion in 2018, of which 31% is Ireland's agricultural Gross Value Added (GVA).
- Out of 137 500 active farms, 81% are classified as small-sized family farms (below 20 ha).
- Dairy accounts for 32% of all agricultural output value, followed by beef (29%) and arable crops (19%).
- Ireland exports around 90% of its net beef output and 85% of its dairy produce.
- Beef production is the most common farm type and represents 57% of all farms, followed by tillage and organic farming (20%), dairy (12%) and sheep (11%).
- Young farmers (aged under 40) represent 22.2% of the farming workforce.
- Irish farmers' face challenges from the Brexit, climate change, rising energy costs, food security and rural decline.

Agriculture output[3] had an agricultural Gross Value Added (GVA) of 30.6% in 2018. The overall value of goods output in Ireland was EUR 8.7 billion in 2018 with a 2% increase from the previous year, after three years of stagnation with output valued at about EUR 7.5 billion per annum. Much of the rise has been driven by the dairy sector, owing to the removal of milk quotas in 2015. Milk was the largest contributor to this growth with an increase of EUR 801 million between 2016 and 2017, which represents a price' increase of 32.6% and a volume growth of 9%. Pork and beef output increased by 10.8% (EUR 516 million) and 3.2% (EUR 72 million), respectively. The pork output growth is mainly related to the increase in prices.

Small-sized farms (81% of the farm population), play a vital role in Ireland. They are an important source of rural employment, are often located in remote and disadvantaged areas and are, in some case, the only source of economic activity in the area.[4] Small farms are responsible for both direct and indirect employment. Indirect employment is created in processing and ancillary sectors, such as dairy and meat processing, agri-tourism and fruit picking.[5]

The Utilised Agricultural Area (UAA) has slightly declined between 2010 and 2016 (-2.1%). The average farm size of agricultural holding was 32.4 hectares (ha) in 2016[6]. The number of farms has also declined over the same period (-1.7%). The majority (99.7%) of Irish farms are family owned. Farmland is generally passed on from one generation to the next and only a small portion of the land is placed on the market each year.[7] According to interviews with farmers' representatives, ownership of land was hard-won historically and farming is very traditional in Ireland.

The agriculture sector in Ireland has an ageing workforce and is male-dominated. The average age of a farmer is 57.5 years old and, in 2016, women accounted for 11.6% of the workforce[8]. According to Eurostat[9], the proportion of farmers aged under 40 years old represents 22.2% of Irish farmers, while the majority (56.1%) are in the 40-64 age bracket, and 21.7% are over 65 years old.[10]

3 Including forestry and fishing.
4 Teagasc, 2019, Teagasc. https://www.teagasc.ie/media/website/publications/2018/NFS2017_web.pdf.
5 Teagasc, 2019, Teagasc. https://www.teagasc.ie/media/website/publications/2018/NFS2017_web.pdf.
6 Agriculture in Ireland, Teagasc, 2018. https://www.teagasc.ie/rural-economy/rural-economy/agri-food-business/agriculture-in-ireland/.
7 Eurostat, 2019, https://ec.europa.eu/eurostat/statistics-explained/index.php/Agriculture.
CSO Ireland, 'Farm Structure Survey 2016' 2016, https://www.cso.ie/en/releasesandpublications/ep/p-fss/farmstructuresurvey2016/kf/.
9 Eurostat, 2019, https://ec.europa.eu/eurostat/statistics-explained/index.php/Agriculture.
10 Teagasc, 2019, https://www.teagasc.ie/media/website/publications/2018/NFS2017_web.pdf.

The most common production is beef production. Beef production continued to be the most common farm product, accounting for 57% (at 78 300 farms) of all Irish farms[11]. Dairy is the second most common farm type, accounting for 12% of all Irish farms. There are 18 000 dairy farmers in Ireland, producing mostly high-quality milk from over 1.2 million dairy cows. The South and East of Ireland are recognised as specialists in dairy, with 78.3% of farms located there.[12] The abolition of quotas in 2015 led to an oversupply of milk and a significant drop in milk prices, putting intense pressure on farmers. However, prices have, since 2017, stabilised and Irish dairy farmers are now earning a reasonable price of 34 cents[13] per litre. Sheep farming is the third most common farm type, accounting for 11% of all Irish farms.[14] The organic sector in Ireland remains very small in relation to agriculture as a whole.

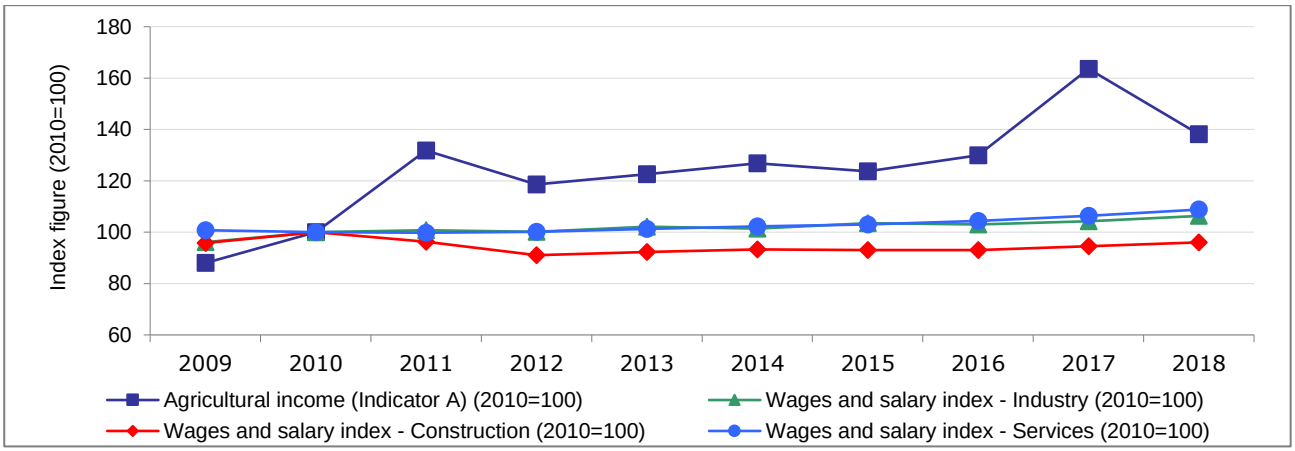
Approximately 90% of beef production net output is exported compared to dairy production with 85% of its output exported.[15]

The agricultural cooperatives play an important role in the development of the agriculture sector in Ireland. The Irish dairy sector is still predominately farmer owned and controlled, with 10 milk processors and 17 milk-purchasing cooperatives. The majority of Irish dairy cooperatives are multi-purpose operations with interests in milk processing, liquid milk, consumer foods, agri-trading and feed milling. Overall, stakeholders in the agriculture and agri-food sector are very interconnected and work in great co-operation.

Ireland's livestock mart sector today consists of over 60 cooperative mart centres[16] across the country. Marts provide many services to the farmer shareholders, in addition to the primary function of a transparent method of selling and guaranteeing payment for livestock.

Agricultural income has been above average over the last eight years (compared to other sectors of the economy) even though it has been fluctuating slightly more from 2017-2018 (Figure 1). In 2017, the salaries in the agriculture sector experienced a peak and slightly decreased in 2018.

Figure 1: Evolution of agricultural income compared to wages and salaries in other sectors of the economy, Ireland, 2009 - 2018

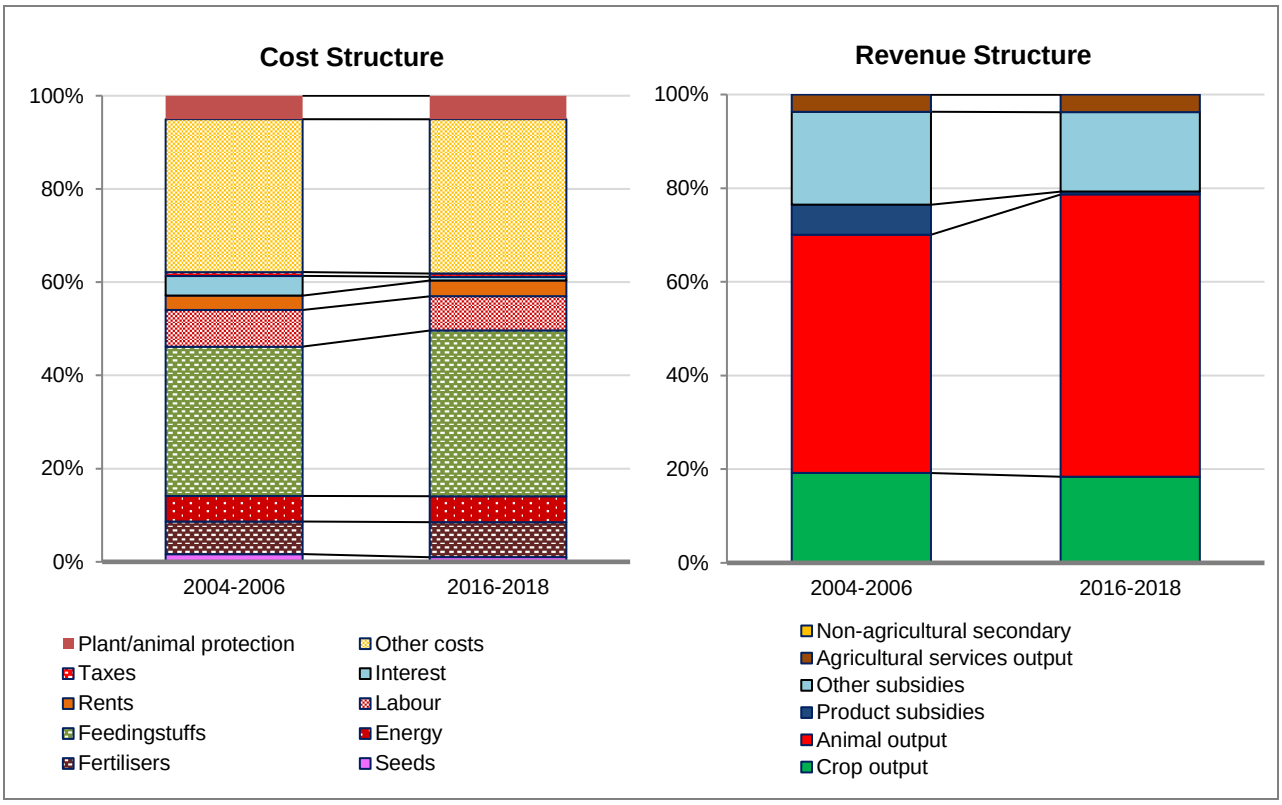


Source: European Commission, DG AGRI, Statistical Factsheet for Ireland, June 2019.

11 CSO Ireland, 2016, Farm Structure Survey 2016, https://www.cso.ie/en/releasesandpublications/ep/p-fss/farmstructuresurvey2016/kf/.
12 CSO Ireland, 2016, Farm Structure Survey 2016, https://www.cso.ie/en/releasesandpublications/ep/p-fss/farmstructuresurvey2016/kf/.
13 House of the Oireachtas, 2019, https://www.oireachtas.ie/en/debates/question/2019-05-09/9/.
14 CSO Ireland, 2016, Farm Structure Survey 2016, https://www.cso.ie/en/releasesandpublications/ep/p-fss/farmstructuresurvey2016/kf/.
15 Ministry of agriculture, 2019, www.agriculture.gov.ie-tradeandstatisics.
16 A 'mart centre' is a central location for the buying and selling of livestock, for more information visit: http://icos.ie/members/livestock/.

The cost structure for the last 15 years has largely remained the same in the agriculture sector. When comparing the cost and revenue structures in the agriculture sector from 2004-2006 and from 2016-2018 (Figure 2), interest rate costs and the costs for seeds have slightly decreased, other costs have slightly increased, but the remaining cost component are fairly similar. On the revenue side, the share of the revenues from animal output has slightly increased, while all other revenues have slightly decreased, especially those relating to public support.

Figure 2: Agricultural income – cost and revenue structures in Ireland, 2004-2018



Source: European Commission, DG AGRI, Statistical Factsheet for Ireland, June 2019.

For the last three years the consumer price index for food products was below the consumer price index for all goods in 2018, so farmers' economic margins were squeezed. The consumer price index for food products has dropped sharply in the last three years. At the same time, the output prices have only marginally been higher than the input prices leaving farmers with small profits (the exception being 2017).

Statistical factsheet Ireland, 2019

More data on agriculture indicators from Ireland can be found in the **Statistical factsheet Ireland 2019** of the Directorate-General for Agriculture and Rural Development, Farm Economics Unit and in Annex A.6.

2.2 Analysis on the demand side of finance to the agriculture sector

This section describes the drivers of demand for finance in the agriculture sector and analyses the met and unmet demand. It elaborates the main reasons for farm enterprises to request financing and identifies the agricultural sub-sectors with the largest need for finance. The section also provides an analysis of the type of producers that face the greatest constraints to accessing credit. The analysis of the demand for agricultural finance is based on the findings from the *fi-compass* survey of 151 Irish farms, as well as interviews with key stakeholders in the agriculture sector combined with information obtained from the Farm Accountancy Data Network (FADN).

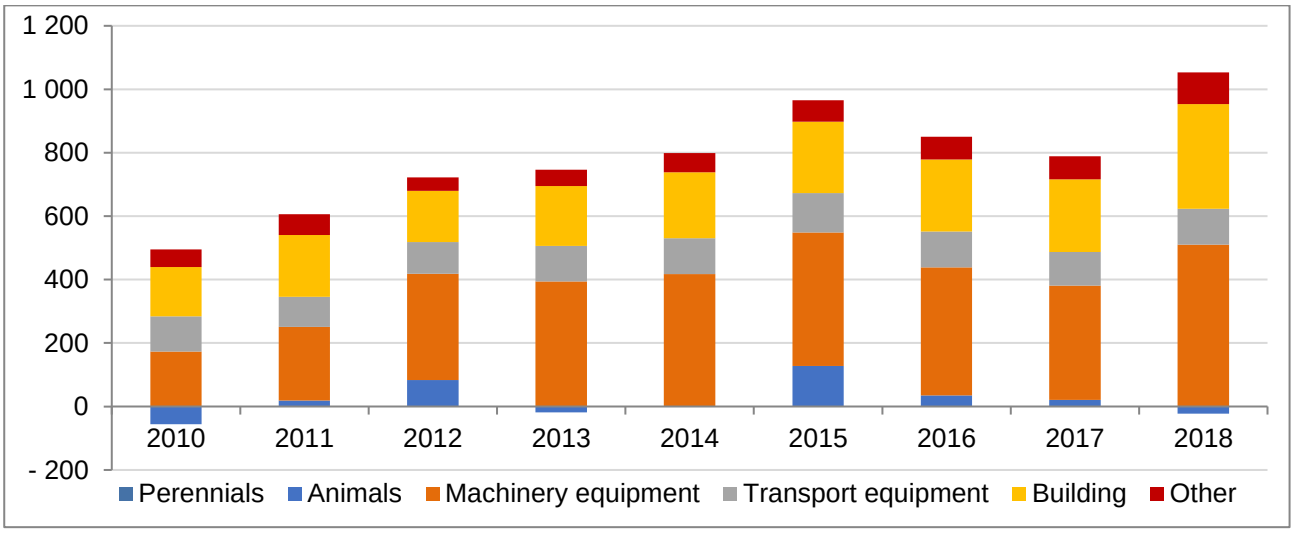
Key elements on finance demand from the Irish agriculture sector

- Agricultural investments are on the rise, registering a 135% increase of their Gross Fixed Capital Formation (GFCF) since 2010.
- Drivers of the demand are (i) the need for working capital and cash flow, (ii) investment in farm infrastructure, livestock and machinery, and (iii) climate change adaptation measures. For young farmers and new entrants, the drivers are: (i) upgrade of existing machinery, (ii) leasing of land, (iii) continued expansion, especially in the dairy sector, (iv) working capital and (v) compliance with sectoral environmental and safety standards.
- Especially following the abolition of the dairy quota in 2015, the dairy sub-sector is dominant in demand for finance.
- Main difficulties faced by Irish farmers are related to production costs and purchasing price of their production.
- Farmers' operational costs are volatile, and a significant negative factor is the inability to find temporary labour for peak seasons.
- CAP payments are generally considered to facilitate farmers' access to credit.
- Although the agriculture portfolio is the best performing one for all banks, the sector is under-valued and under-appreciated by the same banks in terms of the collateral provided.
- About 27% of Irish farmers applied for bank finance in 2017.
- The rejection rate of loan applications was on average 11.6% for Irish farmers.
- Based on the *fi-compass* survey, the main reasons for rejection of loan applications are: (i) economic unviability of the farms, (ii) the lack of collateral and investment risk, (iii) high cost and inflexibility of the bank's offer, (iv) lack of collateral and credit history for young farmers; and (v) the lack of professional skills and knowledge.
- Farmer's refusal of the bank's financial offer is due to high interest rates, high administrative costs and the lack of flexibility from the banks to adjust their products to farmers' needs.
- Between 4-7% of farmers (depending on the loan maturity) did not apply for a loan in the previous year due to the fear of being rejected.
- Based on the *fi-compass* survey, the main reasons for not applying for a loan relate to (i) past rejections, (ii) high interest rates and (iii) farmers' awareness of their poor business planning.
- Market uncertainty related to the Brexit is already impacting the investment performance of the agriculture sector and might impact even more the farmer's investment appetite and financing in the near future.

2.2.1 Drivers of total demand for finance

The development of the Gross Fixed Capital Formation (GFCF)[17] for agriculture has decreased between 2015 and 2017, **but increased again in 2018 to its highest level over the last decade**. Between 2012 and 2015, investment increased due to the financial and economic recovery after the 2008/2009 crisis[18] and also following the abolition of the milk quotas. One of the components driving this change of trend for investment could be related the referendum campaign followed by the result of the referendum on 23 June 2016 that announced the withdrawal of the United Kingdom (UK) from the EU (Brexit). Between 2016 and 2017, a drop of 9% in investments in physical assets in the agriculture sector was recorded, decreasing from EUR 871 million in 2016 to EUR 796 million in 2017. The Brexit generated uncertainty and kept farmers from investing. While acknowledging this uncertainly, there has been investment in farm infrastructure, equipment and machinery and new farm systems in 2018. Farmers needed to align the high-growth farms with the environmental and safety standards requirements. These initiatives are also supported by state grants, which take some financial pressure off the farmers. It is hence no surprise that between 2017 and 2018 GFCF increased by 31%. This stems from an increase in investments in machinery and equipment, buildings and other while investments in animals declined (Figure 3).

Figure 3: Gross Fixed Capital Formation in the Irish agriculture sector, 2010-2018, EUR million



Source: Eurostat – Economic Accounts for Agriculture, 2019.

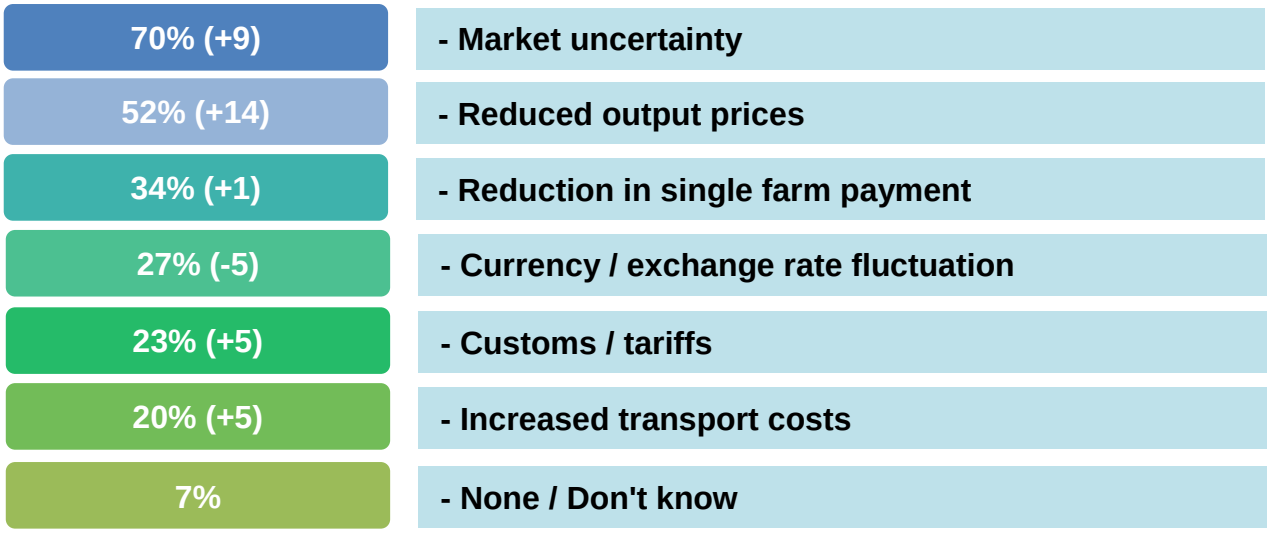
The agriculture sector in Ireland will probably be the most affected by the Brexit. The (+) and (-) variations in Figure 4 show the change in terms of the severity of the challenges faced by Irish farmers in comparison to 2016. Market uncertainty is the most significant challenge for 70% of the Irish farming population followed by the reduction of output prices (52%) and the reduction in single farm payment (34%). There are increasing concerns around the price farmers will be paid for their cattle after the Brexit, for instance, by

17 GFCF measures the value of acquisitions of new or existing fixed assets. GFCF/GVA is used as a measure for how much of the new value added in the economy is invested rather than consumed. Increase of the GFCF is a measure of business confidence, a belief in that investments will be profitable in the future. In times of economic uncertainty or recession, typically business investment in fixed assets will be reduced, since it ties up additional capital for a longer interval of time, with a risk that it will not pay itself off.

18 The financial crisis was primarily caused by deregulation in the financial industry which permitted banks to engage in hedge fund trading with derivatives. When the values of the derivatives crumbled, banks stopped lending to each other. That created the financial crisis that led to the Great Recession. The Great Recession of 2008 and 2009, which technically lasted for 18 months, was the longest period of economic decline since World War II. However, the Irish economy only began to grow again in 2012 and this recovery has continued to date. The tradable sector was less damaged than initially thought, but private individuals are still suffering the effects to this day.

processors, and the uncertainty of future market conditions (e.g. standards, customs regulation, etc.). The Irish agriculture sector is dependent on the UK market and once the UK is not a part of the European Union (EU), a preferential market will be lost. During interviews with farmers' representatives, concerns have been expressed about the need to reduce prices to compete for new markets. The CAP reform is underway, and farmers are concerned about the potential reduction of their direct payments. In addition to these concerns, uncertainty about trade and exchange rates (British Pound /Euro), which will make Irish and EU exports to the UK less competitive (and vice versa), is being mentioned by farmers but also by those negotiating the Brexit deal. Regardless of a soft or hard Brexit, it is expected that there will be new customs tariffs[19] for all Ireland-UK trade and for goods either imported or exported across the UK land bridge. This will negatively affect profit margins and increase prices.

Figure 4: Key Challenges for Irish farmers from the Brexit as of 2018



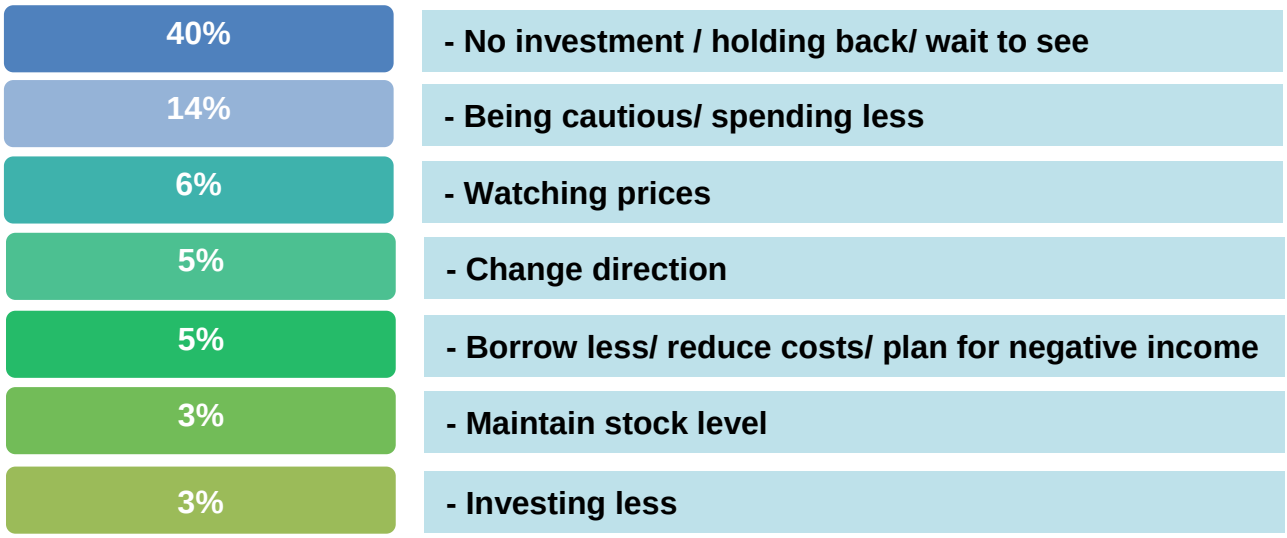
Source: Estimates based on survey conducted by leading Irish bank and interviews[20].

The estimated impact of the Brexit on the Irish farmers would be a drastic reduction of investment by 40% of them (Figure 5) as some might either stop investing, holdback their investment or wait to see how the situation will evolve. About 14% of farmers intend to continue investing but will be more careful and will probably invest less than they would have in other circumstances.

19 Teagasc, 2018, Impact of Brexit on the Irish agricultural sector. https://www.teagasc.ie/media/website/publications/2018/BSAS_Hanrahan_Brexit_Ireland.pdf.

20 Estimates based on year-on-year trends and annual survey by leading Irish bank.

Figure 5: Ways the potential impact is being factored into the Irish farms' plans as of 2018

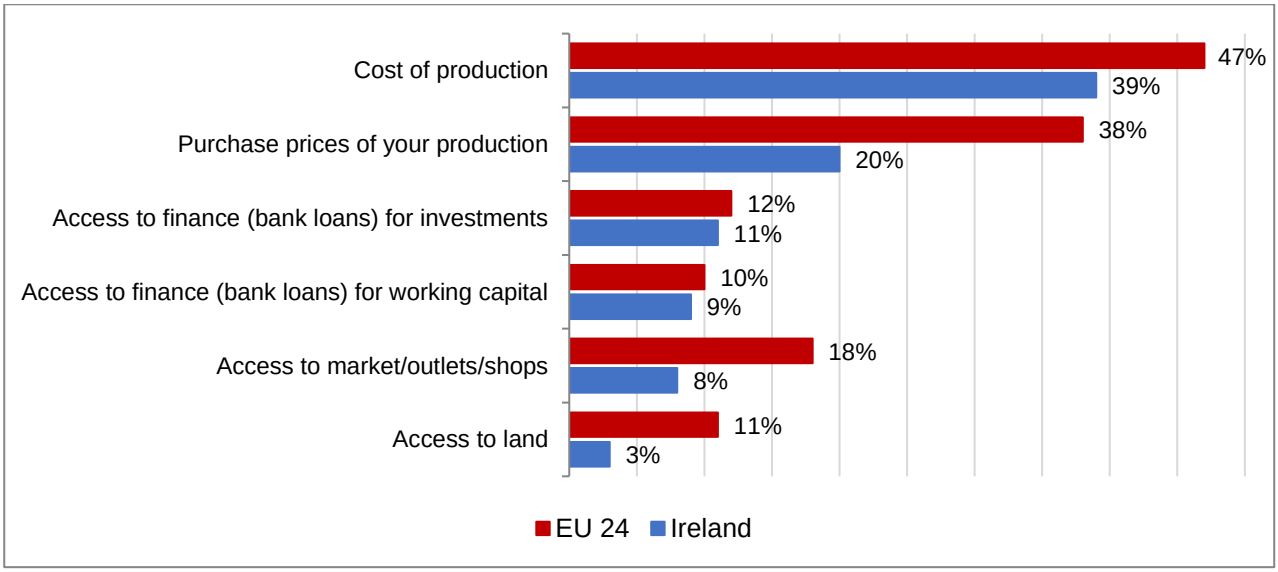


Source: Estimates based on survey conducted by leading Irish bank and interviews.

Rising costs of production[21] stand out as the most important concern for Irish farmers alongside the level of the selling prices. According to *fi-compass* survey, 39% of survey respondents have been negatively affected by a rise in production costs[22] (Figure 6) and 20% by the selling price of their production.

At the same time, Irish farmers are concerned with access to finance for investments and for working capital. Access to land seems to be less of a concern as land is mostly available through leasing / renting, with land sales being very rare (due to family ownership traditions). Additionally, given the changing landscape of the farming structure in Ireland, very large-sized farms are expected to increase further and some of the less sustainable farms may cease to function independently, and as a result, their land may become available for purchase.

Figure 6: Difficulties experienced by farmers in 2017



Source: fi-compass survey.

21 It includes both, direct and indirect costs, relating to land improvement, labour, purchase of concentrates, fertilisers, seeds, livestock, machinery and operating and depreciation costs, etc.

22 *fi-compass* survey.

A majoring of Irish farmers consider that their financial needs of the sector will remain stable or will increase in the coming years. In the *fi-compass* survey, 67% of Irish farmers considered that farms' financial needs will remain unchanged, 10% are expecting an increase in the coming two to three years, only 6% are estimating that there will be a decrease and 17% noted 'do not know'.

Forecast of farms' financial needs is directly linked to two areas of serious concern to Irish farmers, which are the potential impact of the Brexit, and the impact due to weather changes and climate change. Farmers, especially those in the beef and dairy sub-sectors, feel that both of these factors, the Brexit and climate change, will have a negative impact on their enterprises, including their financing needs.

Data from a bank's survey provided to us during the interviews with financial stakeholders shows that, because of the Brexit, most of farmers' investments are expected to be funded using their own resources or by selling their assets (61%), also including livestock. The number of those that intend to look for a bank loan remains high at 47%. Those willing to apply for EAFRD support under sub-measure 4.1, named 'Targeted Agricultural Modernisation Scheme II (TAMS II) Grant'[23] in Ireland, are 13%. The TAMS II scheme, which is for the building of outhouses[24] or farm buildings, is co-funded by the National Exchequer and the European Union under 2014 - 2020 Ireland's Rural Development Programme (RDP). Payments to date under the TAMS II scheme exceed EUR 155 million with an average rate of EUR 1.5 million per week issued continuously.[25]

A very small number of respondents (4%) have said that they will consider non-bank lending, 3% would consider a loan from family or friends or asset finance, and 2% would apply for a Strategic Banking Corporation of Ireland (SBCI) loan, which is available through partnered on-lenders with SBCI's support, subject to the financial institutions' own credit policies and procedures[26] (SBCI support is further detailed in section 2.3.1). Other forms of financing could come from the sale of non-farm assets such as personal real estate, shares, or the sale of agricultural land as a last resort.

Overall, Irish farmers' demand for finance is mainly driven by:

(i) Working capital needs;

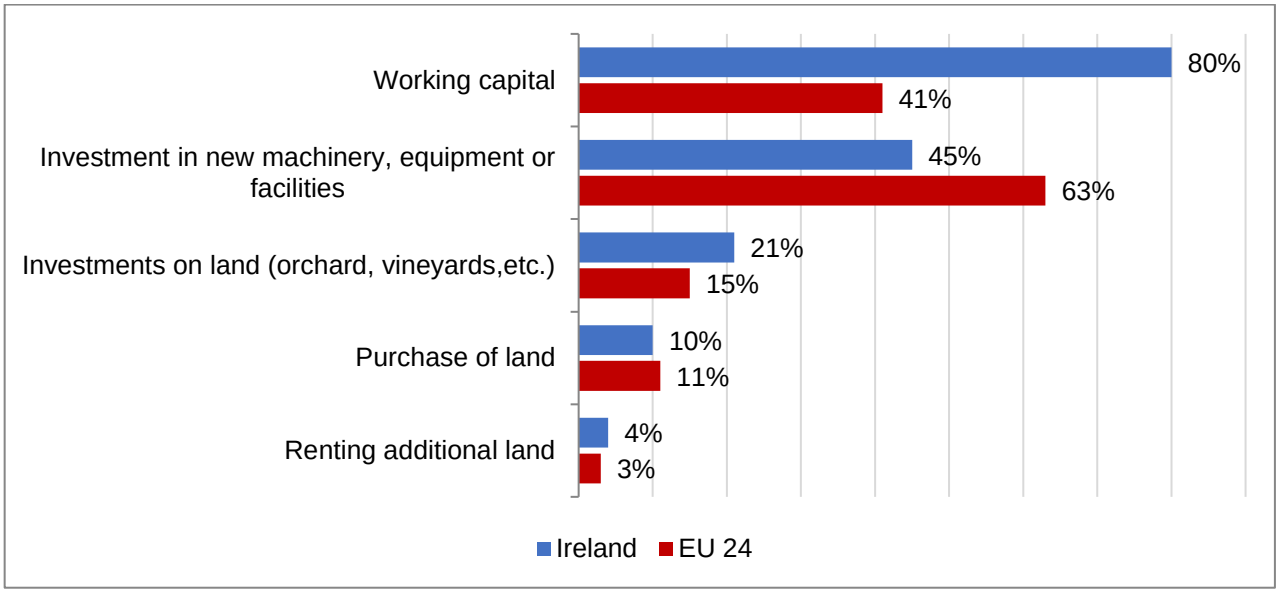
(ii) Investment in facilities, new machinery and equipment; and

(iii) Investment of land.

The use of loans to finance working capital investment is twice as high in Ireland compared to the EU 24 (Figure 7). The most common loan purpose for Irish farmers was working capital investment (80%) much and almost twice higher than the EU 24 average (41%). Apart from the rising production costs, which affect the lending for short-term liquidity, and according to interviews conducted, this high share is also due to the farmers using working capital loans for small-value investments. The second most common purpose was investment in new machinery, equipment and facilities (45%). Farmers are also investing to increase the efficiency of their production and in 21% of the cases to invest in the land, i.e. to improve the conditions / fertility of land, which is already owned. The purchase of land remains at much lower levels (10%) and close to the EU 24 average (11%).

23 DAFM, 2019, https://www.agriculture.gov.ie/farmerschemespayments/tams/.
24 A building such as a shed or barn that is built onto or in the grounds of a house.
25 According to the information obtained during interviews, there are still over 10 000 approved applications with farmers who have yet to submit their payment requests for the grant. These outstanding payment requests are worth approximately EUR 110 million.
26 SBCI, 2019, Agriculture Investment Loans, https://sbci.gov.ie/products/agriculture-investment-loans.

Figure 7: Purpose of bank loans in the Irish agriculture sector in 2017



Source: fi-compass survey.

Working capital loans and cash flows generated from sales are used for paying farms' operating costs and some smaller investments. The increasing operating costs that are driving the farmer's demand for short-term finance stem from the high costs of energy, electricity, labour, the carbon tax on green diesel, fertilisers, and additional fodder. Other operating costs' increases incurred as a result from crisis management in response to adverse weather events and the maintenance and development of farm buildings and infrastructure. During the interviews, it was mentioned that operating costs are volatile, and a significant factor is the inability for farmers to find temporary labour for the peak parts of the seasons. The recent unusual weather events have had a huge negative impact on grass growth causing a spike in the demand for fodder. The environmental and climate change requirements are causing farmers to adjust and upgrade their farm buildings and to look at their medium to long-term infrastructure needs. While there are some grants available to famers from the state, they must finance the cost of these investments up-front before they can draw down their related grants. This increases further the need for short-term finance.

According to the aforementioned data from the bank's survey, the upgrade of the existing infrastructure is the current main investment trend in Irish agriculture. Nearly half (46% on average) of all Irish farmer's plan to invest over the next three years[27] in the general upgrading of their existing infrastructure. The main investments reported by Irish farmers are:

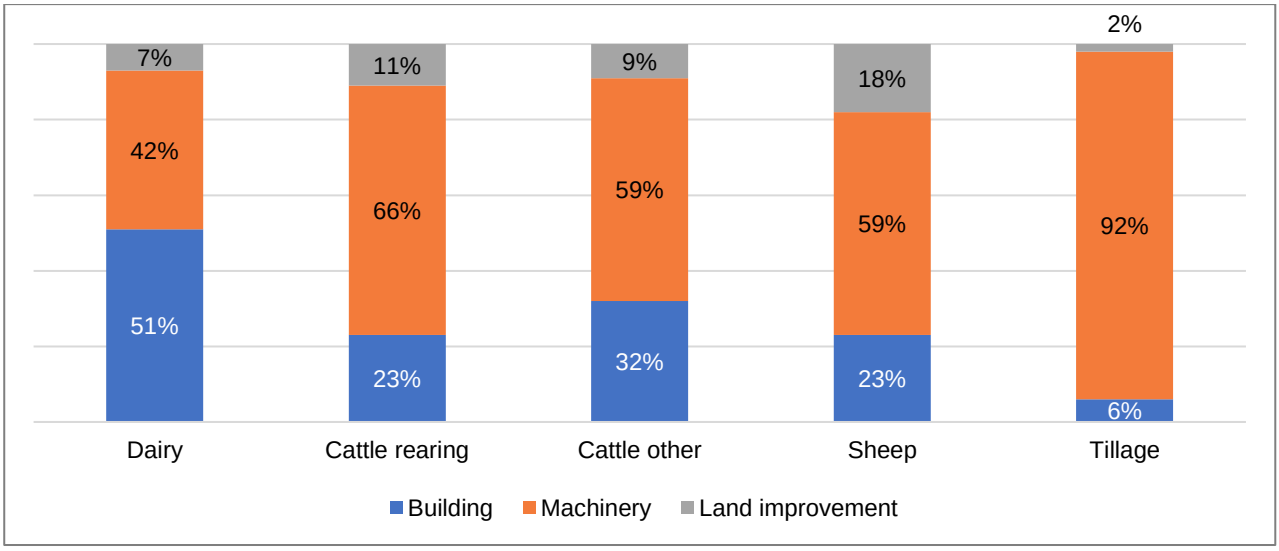
- Upgrading of existing equipment and/or machinery, farm safety improvements and introducing labour saving technologies (33% on average);
- Buying and/or leasing tractors and other farm vehicles, and expanding output capacity, without buying more land (25%);
- Meeting environmental and compliance issues, improving farm efficiency (18% on average) and buying additional land;
- Changing existing farm systems and start-up of off-farm activities to supplement farm incomes (less than 10%).

In terms of investments in the fixed assets of farms, investments in machinery represent the highest share of investments in farming systems. Figure 8 shows that in 2018, funds were primarily invested in machinery (63% on average across all sectors) followed by buildings (27%) and land improvement (9%). Due to the abolition of the milk quota in 2015, there has been significant growth in the dairy sector. This is evidenced

27 Based on interviews with Irish banks, which reported results of an internal survey on farmers.

by the significant investment in buildings (51%), compared to farms in other sectors (21% on average) which allows the dairy sector to increase its production capacity.

Figure 8: Average composition of farm investment by farming system in Ireland, 2018



Source: Teagasc, National Farm Survey, 2018.

From the Irish farmer's perspective, the primary purpose of investment in agricultural land is the production of food**.** The role of technology is to measure and increase the agricultural and non-agricultural outputs produced. In recent years, growth in technology has expanded into all areas of farming and Teagasc[28] is exploiting new technologies to support land management in order to improve outputs, whilst minimising inputs, reducing negative environmental impacts and promoting actions that are environmentally beneficial.[29]

The main drivers of demand for finance for young farmers and new entrants, according to the interviews**, are the need to lease land and to invest in livestock, machinery and equipment**. Young farmers and new entrants need also working capital to cover administrative costs, business and financial planning, and to satisfy the legal requirements for collateral[30] for both their leases and their financing.

Climate change also contributes to the demand for finance with particularly large-sized farms already investing in adaptation measures. It represents a challenge for Irish agriculture both in the context of GHG emissions and the need for adaptation of farming practices to be more resilient to the impacts of climate change. The main climate change impacts expected for the agriculture sector will result from changes in air and soil temperature, changes in rainfall patterns and more extreme events. For farming, climate change and their adverse weather effects will require adaptation, and this will have an impact on farmers more directly than most other sectors of society. Farmers interviewed expressed a concern regarding the needs for support to face the required changes, while waiting for approval for related supporting grants. There is a feeling amongst the farm society that there is a need for the state agencies and the banks to work together in order to support the up-front costs of these initiatives.

The CAP obviously supports the development of the agriculture sector and increases the demand for finance. The CAP provides income support, which enhances farmer's repayment capacity, stimulating investment. In some cases, this support (e.g. direct payments) is considered as a form of guarantee for banks, and according to the interviews, it is used as a means to access finance when applying for loans. Currently,

28 The semi-state authority in the Republic of Ireland responsible for research and development, training and advisory services in the agri-food sector.

29 Teagasc, 2019, https://www.teagasc.ie/media/website/publications/2018/Land- Review- and- Outlook- Report- 2018 .pdf.

30 Collateral for land lease refers to the collateral which is sometimes required against the possible non-payment of rent for the leased land.

Irish farmers benefit from EUR 1.1 billion direct payments annually (78% of total annual subsidies), while EUR 0.03 billion (2% of annual support) was allocated to market measures, and EUR 0.3 billion (20% of total annual support) to RDP. Most of the market measures support the milk and dairy sector (1.3%) followed by fruits and vegetables (0.3%).[31]

Disparities between agricultural sub-sectors exist when it comes to the distribution of the CAP payments. According to Teagasc, the average total CAP payment received per farm in 2017 was EUR 17 659 (Table 1). This accounted for approximately 56% of average farm income. Dairy enterprises had, on average, the highest income of EUR 86 069 and the lowest dependency on direct payments at 22%. Tillage[32] is the second sector receiving the highest income with EUR 37 027 and the second lowest dependency on direct payments (63%). Conversely, sub-sectors such as cattle-rearing and sheep farming had the lowest incomes and largest dependency on CAP payments. For these sub-sectors, CAP support accounted for 114% and 115% of average farm income, respectively. A dependency of over 100% of income indicates that the sub-sector is economically vulnerable and trading at a loss. On average, dairy farms were the most profitable farm systems, with an average income per ha of EUR 1 529. Sheep farms were the least profitable system, with EUR 323 per ha.

Table 1: Average farm income and direct payment by sub-sector in Ireland, 2017

Farm system	Family farm income (in EUR)	CAP Supports (in EUR)	Income dependency on CAP	Size (ha)	Income per hectare (in EUR)
Dairy	86 069	19 328	22%	56	1 529
Tillage	37 027	23 239	63%	60	617
Cattle Other	17 199	16 436	96%	37	461
Cattle rearing	12 529	14 242	114%	35	354
Sheep	16 586	19 145	115%	51	323
Total (average)	31 412	17 659	56%	45	693

Source: Teagasc National Farm Survey Report 2017.

Under Pillar II, rural development, the EAFRD execution rate by May 2020 was already 76.5%[33] for the whole rural development programme, which shows a significant interest and quite a high take-up, as programmes run by 2023 with a potentially one or two further year extension allowed by the EU transitional rules.

RDP investment support also facilitates farmers' ability to undertake an investment. Interviews indicated that the support contributed to an uptake in loans, but concrete quantification could not be provided.

One of the key RDP grants provided to Irish farmers is under the TAMS II based on sub-measure 4.1 of the programme. The objective of this scheme is to encourage capital investment in a number of target areas, which will promote, in particular, increased competitiveness and sustainability in those sectors in which grant-aid will be made available. The areas prioritised for investment under TAMS II contribute to a number of central themes in the farming sector, including: enabling growth and competitiveness, environmental and climate change issues, supporting increased efficiency of holdings, improving animal health and welfare and supporting young

31 European Commission, DG AGRI, June 2019, Statistical Factsheet for Ireland.
32 Tillage is the agricultural preparation of soil by mechanical agitation of various types, such as digging, stirring, and overturning.
33 European Commission, DG AGRI, June 2019, Statistical Factsheet for Ireland.

farmers wishing to enter the sector or improve their holdings.

TAMS is a capital investment grant scheme and a general 40% rate of aid is available. However, this will be increased to 60% in the case of young farmers. In order to ensure that the available budget is respected, an upper ceiling for investment of EUR 80 000 per holding over the lifetime of the RDP is in place.

Table 2: Total public (EAFRD + national co-financing) budget consumption for sub-measure 4.1 in the Irish rural development programme, 2014-2019

Sub-measures	Amount requested (EUR million)	Amount approved within the available budget (EUR million)	Amount not supported (EUR million)	Number of Applications received	Number of non-supported Applications	Number of Applications approved
4.1 Support for investments in agricultural holdings	476.0	445.5	30.5	33 897	7 714	26 183

Source: Ministry of Agriculture, 2020. Preliminary data.

Note: The total amount requested is calculated based on all received applications before any administrative check regarding eligibility or selection criteria to have taken place. Applications that have not been approved could have been non-eligible, and/or with insufficient or missing information not allowing their evaluation, and/or with insufficient value-added, and/or ranked at a place for which budget under the call has not been anymore available.

In the period 2014-2019, almost half a billion of euro were launched under 16 calls for applications for sub-measure 4.1. Almost a quarter of the applications were not supported and an amount of approximately EUR 30.5 million has not been met by the available budgets. By the end of April 2020, Measure 4, which in general, also covers support for non-productive investments, had an execution rate of 52%, which equals about EUR 118 million as declared expenditure (against EUR 226 million of EAFRD resources planned under the measure).

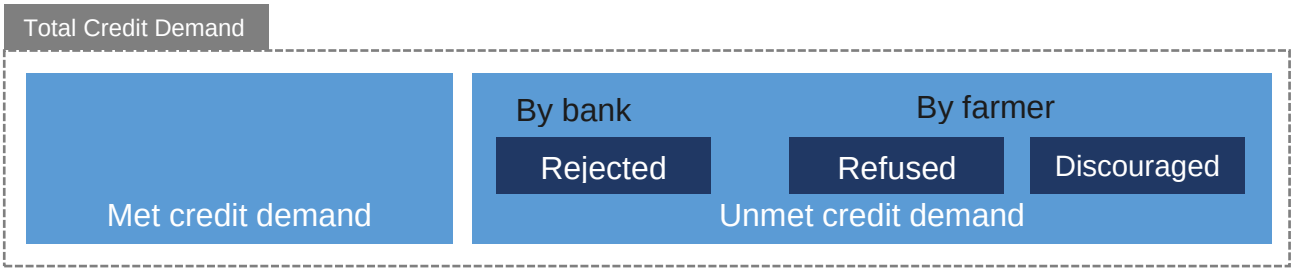
Ireland has not programmed sub-measures 6.1 for start-up aid for young farmers into its RDP.[34]

34 Ibid.

2.2.2 Analysis of the demand for finance

The potential total demand for finance combines both met and unmet demand. The met demand consists of the value of all applications for finance which were accepted by the financial institutions in the relevant year. The unmet demand consists of the assumed value of applications rejected by a financial institution, offers of credit refused by farmers, alongside cases where farmers are discouraged from applying for credit due to an expectation of rejection or refusal (Figure 9).

Figure 9: Schematic overview of the demand side of agriculture sector

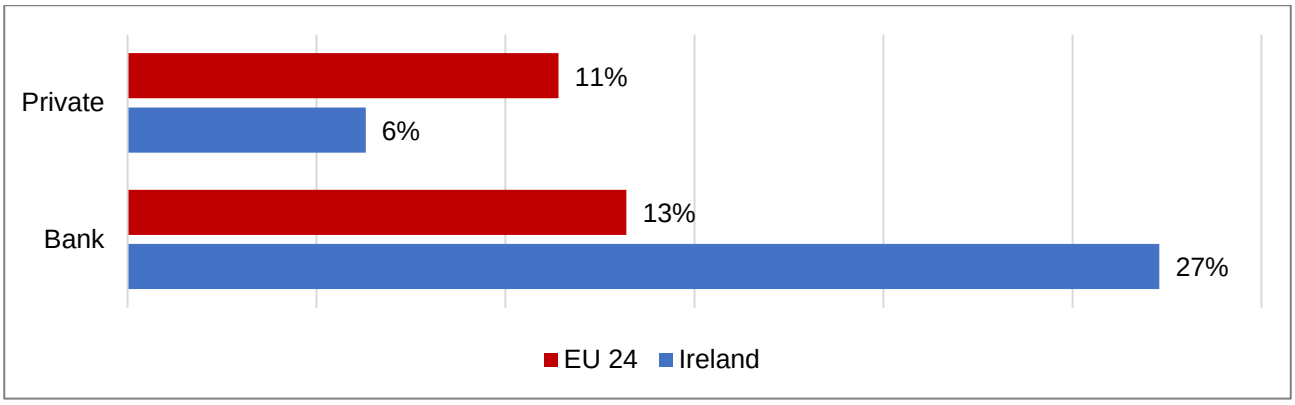


Source: Ecorys, 2019.

Based on the results of the *fi-compass* survey, the unmet demand for the agriculture sector in Ireland is estimated at EUR 1.4 billion.

Irish farmers are mainly requesting financing from banks. According to the *fi-compass* survey (Figure 10), 27% of Irish farms applied for bank finance in 2017, which is twice as many as the EU 24 (13%). Regarding private finance[35], 6% of respondents only requested financing from family or friends. This percentage is lower than the EU 24 average of 11%. Nevertheless, the fact that 6% of farmers seek finance from private individuals suggests that they do not find the right conditions from the financial market.

Figure 10: Irish farms applying for finance in 2017



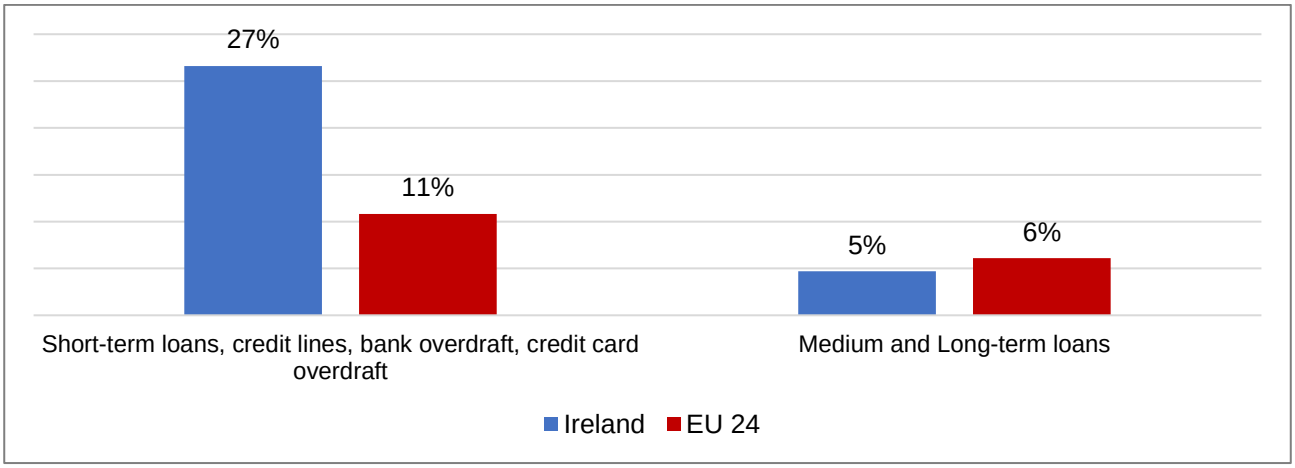
Source: fi-compass survey.

Short-term loans are mainly requested by Irish farmers. Regarding the demand for financial products (Figure 11), short-term loans[36] aggregated with credit lines, bank overdrafts, and credit card overdrafts are the most requested (26.6% against 10.8% at the EU 24 level). The use of medium and long-term loans[37] is less demanded (4.7%) and is slightly below the EU 24 average (6.1%). Traditionally, Irish farmers do not like being in debt and they tend to pay off their loans quickly. Short-term lending is also used for working capital and small value investments (as discussed earlier) and where possible, farmers tend to use their own funds either

35 Financing provided by the farmer himself, by friends or family.
36 The duration of short-term loans are less than 18 months.
37 The duration of medium and long-term loans are more than 18 months.

entirely or to reduce the amount of the loan being requested. In more recent years, the level of distrust in the banks has risen, which is coupled with the lack of personal attention and support being provided by the banks. As a result, the farmers rely more heavily on the EU and State grants with bank lending being considered more of a last resort.

Figure 11: Irish farms applying for finance in 2017, by financial product



Source: fi-compass survey.

Dairy farm's demand for finance is the highest in comparison to other sub-sectors. It represents almost half of the total on-farm investment in the country. About 62% of dairy farms have debts, due to the growth in the dairy sub-sector, which is significantly greater than the debt of other farm sub-sectors, with an average of 31% (Table 3).[38] Due to the Brexit, the other sub-sectors might have postponed their investment push, which could be one of the reasons for that low level.

Table 3: Percentage of Irish farmers with borrowings and average debt, 2017

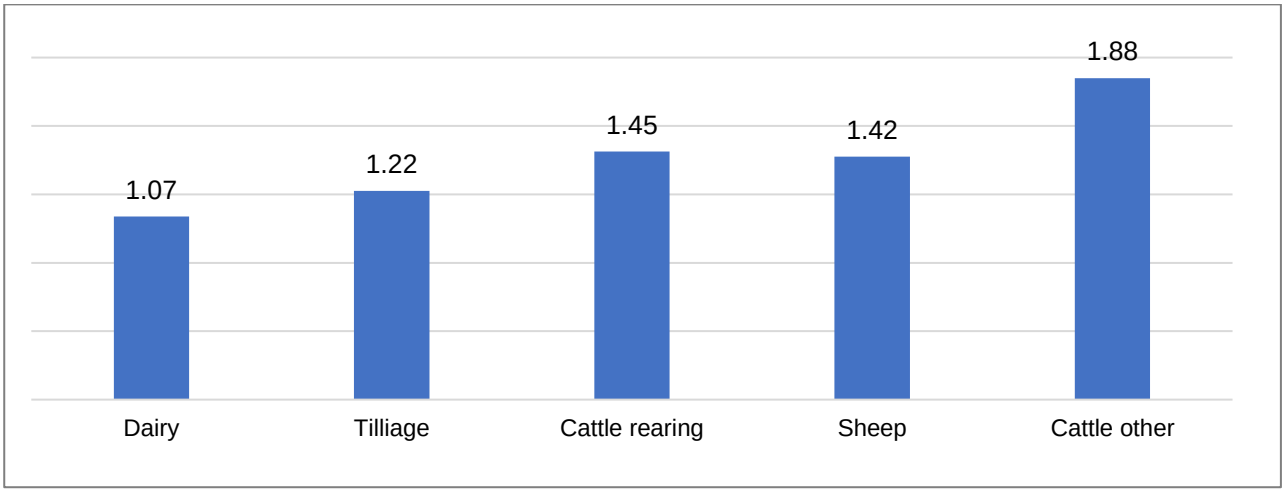
	Farms with borrowings (in %)	Average debt (farms with debt) (in EUR)
Dairy	62%	101 160
Cattle rearing	27%	24 781
Cattle other	34%	40 675
Sheep	29%	23 399
Tillage	34%	66 859
All	37%	58 975

Source: Central Bank of Ireland, Economic Letter no. 8, 2018.

Yet, the dairy sub-sector still has the lowest debt-to-income ratio, as shown in Figure 12. Cattle rearing had debt-to-income ratio just below 1.2 and Sheep farming close to 1.6.

38 Teagasc, 2019, https://www.teagasc.ie/media/website/publications/2018/NFS2017_web.pdf.

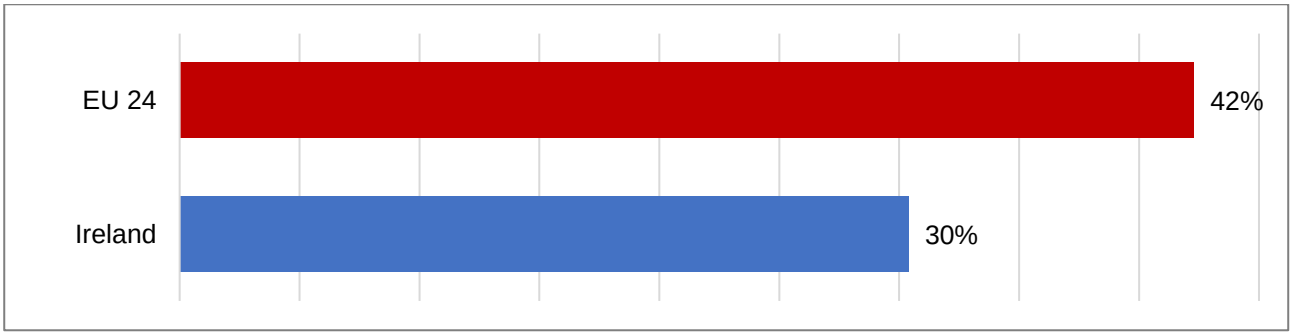
Figure 12: Debt-to-income ratios for farms with debt in Ireland, 2017



Source: Teagasc National Farm Survey 2017.

Collateral is required for agriculture loans. Based on the *fi-compass* survey, 30% of farmers that demanded financing, where asked (e.g. by banks) to provide guarantees (Figure 13). While short-term lending and overdraft facilities are generally not collateralised, once farmers get lending for plant, equipment, development work on infrastructure, or to increase the size of their herd etc., they must provide collateral. This would apply specifically for medium and long-term lending. However, an issue that farmers have is that once collateral has been provided for a long-term loan, the banks then apply the collateral across their entire loan base, including the short-term loans, which is driving this figure up. The applications reported in the survey relate mostly to short-term financial products, which are usually less collateralised. This could explain the lower share of borrowers requested to provide collateral in the *fi-compass* survey.

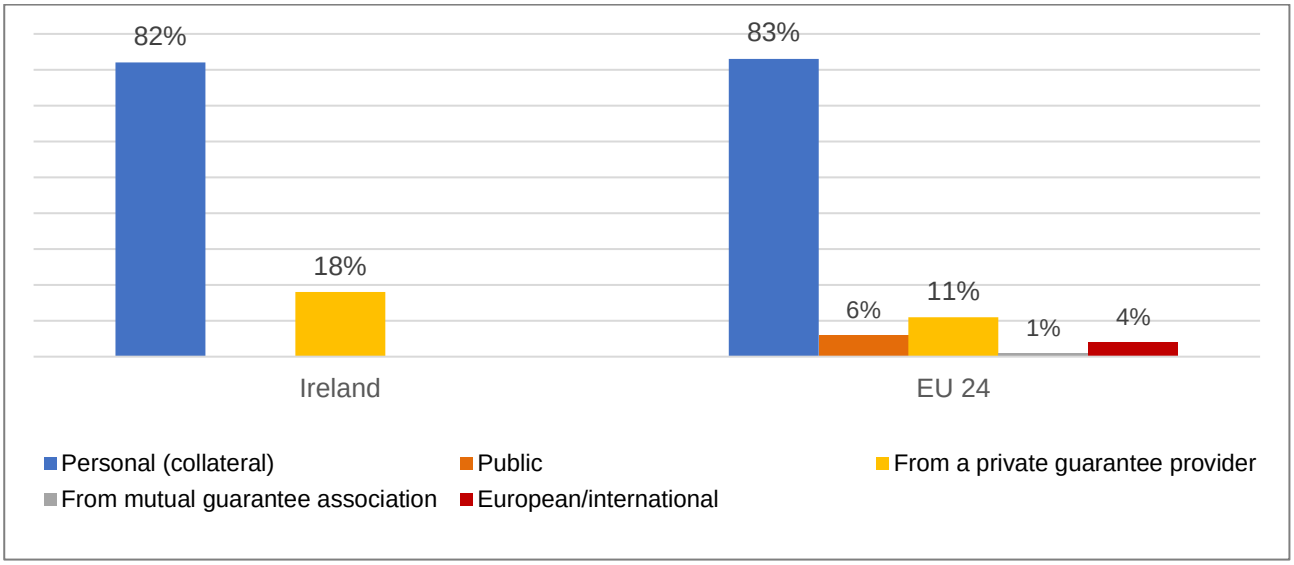
Figure 13: Share of Irish farmers where the bank requested a guarantee, 2017



Source: fi-compass survey.

Most of the collateral provided by farmers is personal guarantees. This holds true for both Ireland and the EU 24, 82% and 83%, respectively (Figure 14). The remaining guarantees (18%) are private guarantees offered by a provider. This may relate to young farmers and new entrants, who have no credit history or experience, and who need to have their investments guaranteed by a third party. During the interviews, this aspect was discussed at length and the personal guarantees provided to banks by young farmers and new entrants come, most of the time, from their parents or family members, or even from their own funds primarily.

Figure 14: Information related to guarantees requested by Irish agriculture producers, Type of guarantee used in 2017

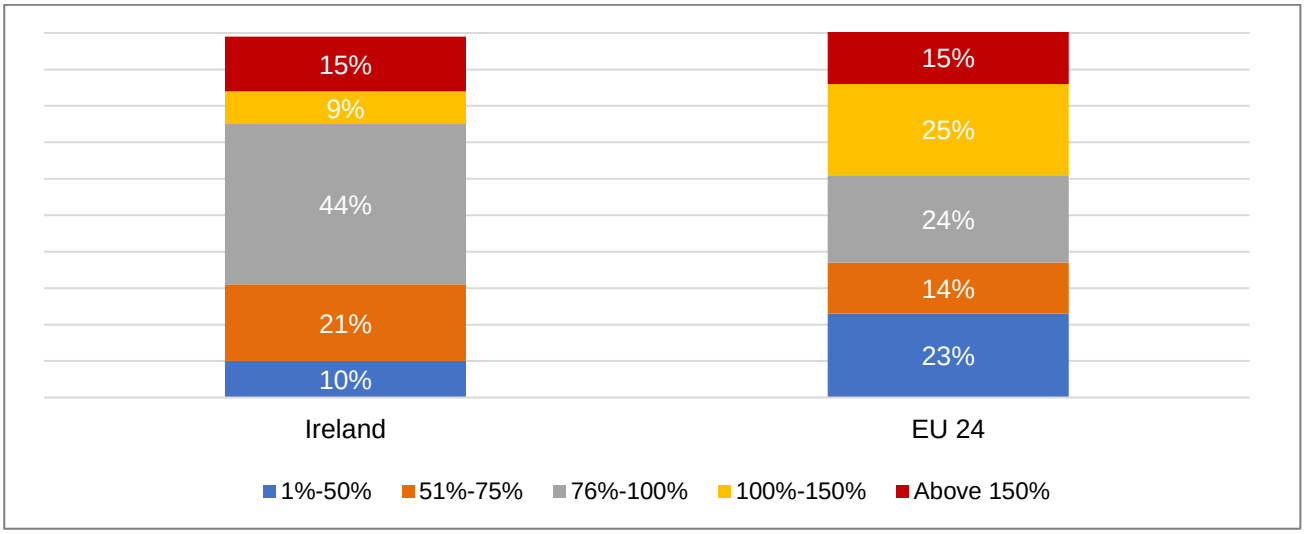


Source: fi-compass survey.

Banks accept legal mortgage over land and buildings as collateral for farm loans, but they do not take livestock. In relation to lending for agricultural land purchases, according to the interviews with banks, some policies require a loan to value ratio of 70%. Banks will fund 100% of land purchases if there is additional land (e.g. already owned) to bring the overall loan value to 70% (of the entire land owned). In terms of lease to own financing, banks take the leased goods of machinery/equipment as collateral.

Regarding the value of the guarantee, the *fi-compass* survey highlighted that for 68% of the farmers who had to provide a guarantee, it represented 76% to above 150% of their loan amount (Figure 15). Based on feedback from interviews, the agricultural lending policy of some banks requires collateral and a 1:2 debt service cover ratio to be available at all times. Still, the share of loans requiring more than 150% collateral is substantial. As in EU 24 this needs to be addressed by any future analyses or financial instrument placed for agriculture.

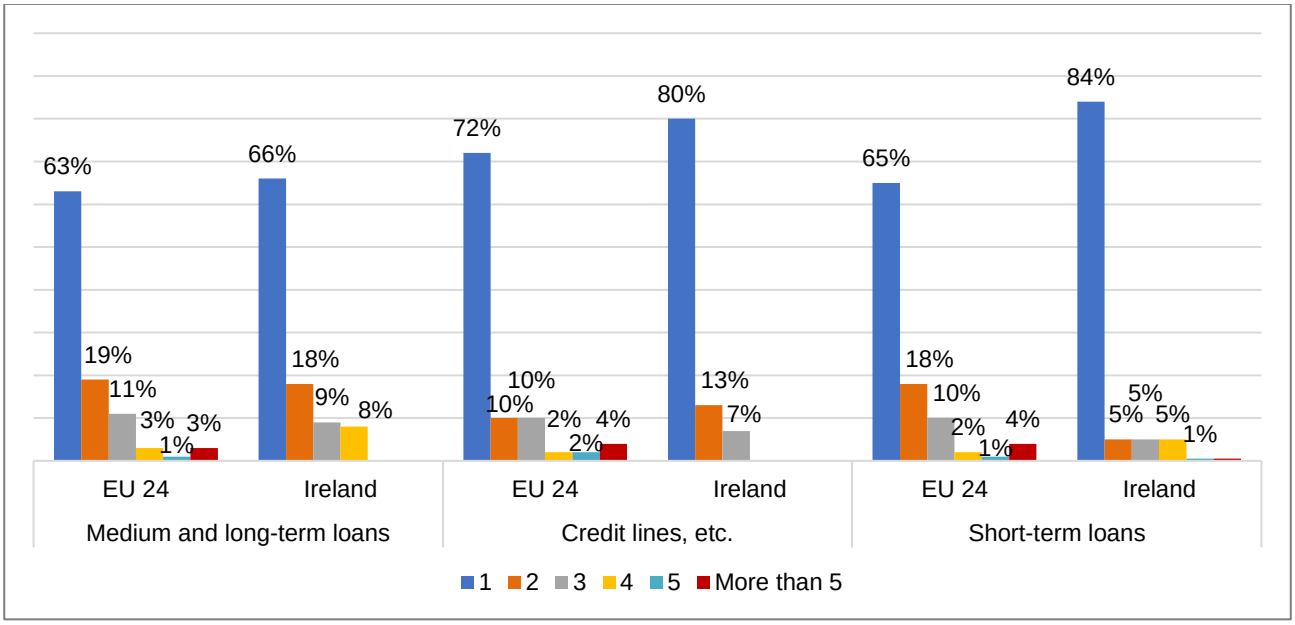
Figure 15: Value of guarantee requested by banks to Irish farmers, as percentage of loan amount in 2017



Source: fi-compass survey.

Irish farmers are mainly applying to only one bank. On average, the majority of Irish farmers (77%) apply to just one bank for all credit products. The primary reason for this, based on the interviews, is the 'blanket' approach (generic or mass-market approach) applied by Irish banks to collateral. While collateral is provided by a farmer against one specific loan, the respective bank tends to apply that same collateral to all additional loans the farmer may ask for and have. This situation ties the farmer to one specific bank. Additionally, the legal costs of changing banks related to registering title deeds is at the expense of farmers and is estimated to be around EUR 4 000. This extra cost acts as a deterrent and does not encourage farmers to apply for loans in more than one bank. The final points mentioned during our interviews is that, in many cases, banks which already hold the farms' land as collateral for long-term loans also rely on this for the shorter-term stocking or farm development loans. This points to the reason why there is a significant market concentration of financing supply in Ireland (see section 2.3.1.3). Only 18% of Irish farmers requested medium to long-term loan from up to two banks to finance their projects (Figure 16).

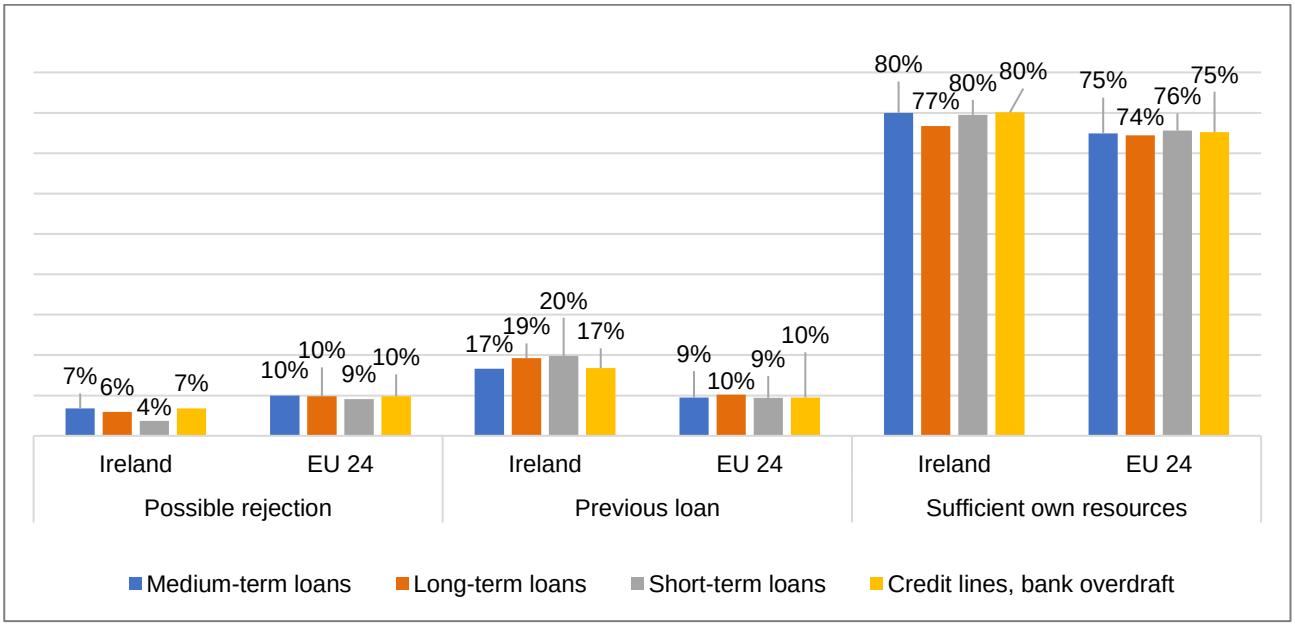
Figure 16: Number of banks approached by farmers seeking finance in 2017



Source: fi-compass survey.

Fear of possible rejection is a factor to consider while assessing the unmet demand for agriculture in Ireland. According to the *fi-compass* survey (Figure 17), between 4 and 7% of all farmers (a percentage that varies with the variation of the loan maturity) did not apply for a loan in the previous year due to fear of being rejected and are thus being discouraged. Interviews provided some explanation about the reasons for the fear of possible rejection. For interviewees, the fear of possible rejection stems from past rejections, high interest rate and from farmer's awareness of their poor business planning. It is also due to a lack of specialised expertise and experience amongst banks in terms of farming and understanding the cash flows of agricultural holdings. Other reasons for not applying, cited in the interviews were the attitude of some banks towards small-size farms and the bank's inability to understand the volatility and specific business needs of farming enterprises. This is mainly due to the inflexibility of banks' products and their rather generic profile (see section 2.3.1).

Figure 17: Reasons for not applying for loans in the agriculture sector in 2017

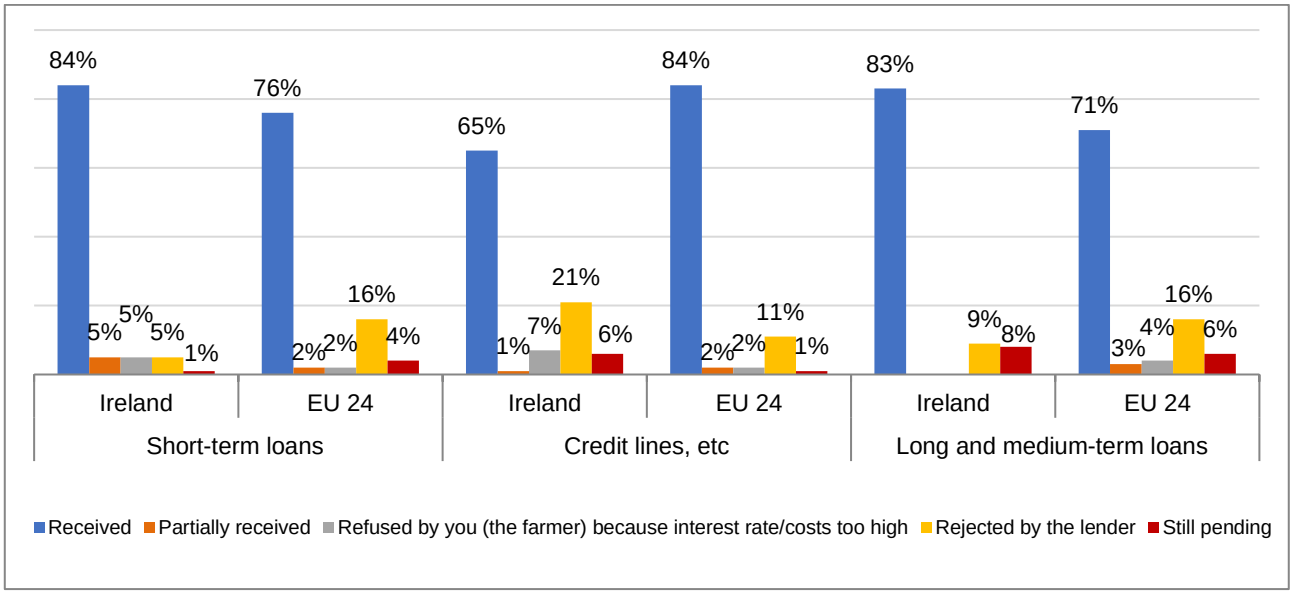


Source: fi-compass survey.

Since the financial crisis, Irish banks have been increasingly risk averse, and as an outcome a number of loan applications from farmers have been rejected. Although this figure is lower than the EU 24 average (Figure 18), its breakdown shows that Irish farmers are facing twice more rejections of their applications while requesting a credit line, a bank overdraft and/or credit card overdraft than the EU 24 (21% against 11%), followed by a smaller divergence when it comes to long and medium-term loan applications (9%). On the opposite, it seems much easier for them to have their short-term loan (84%) approved compared to the EU 24 (76%).

Apart from the share of enterprises fearing a rejection of their loan application, 79% of Irish farmers indicated sufficient own funds as a reason for not having applied for finance in 2017 (Figure 17), followed by sufficient former loan taken before 2017.

Figure 18: Results from applications for finance in the agriculture sector in 2017



Source: fi-compass survey.

Risk, repayment capacity, lack of collateral and questionable management skills may explain the banks' rejections of the farmers' loan applications. The *fi-compass* survey (Figure 19) shows that the three main reasons for having applications rejected were due to:

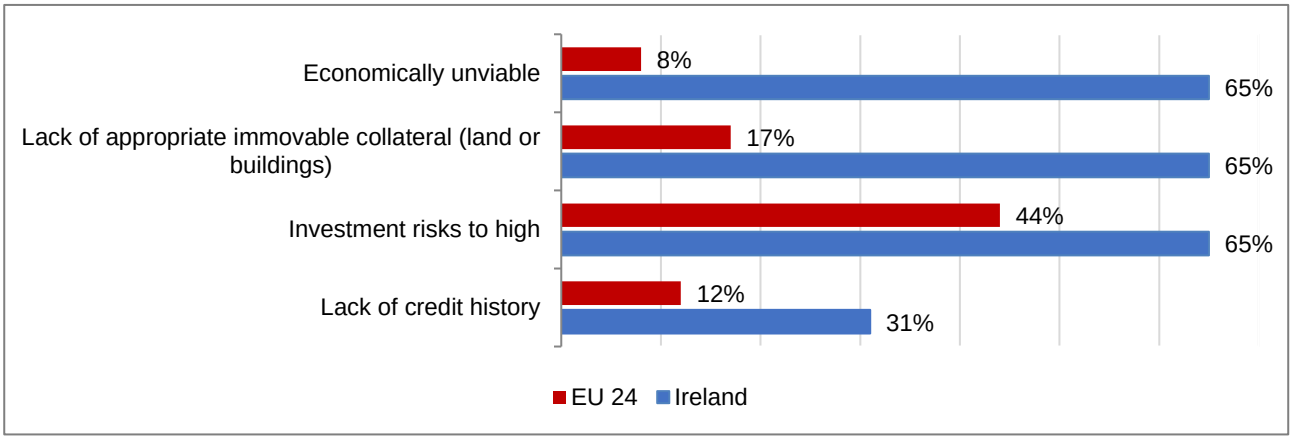
(i) economic non-viability;

(ii) the lack of collateral; and

(iii) the fact the investment to be financed is too risky (all three reasons represent 65% of the respondents).

Interviewees highlighted that rejections could be further linked to poor management skills of some farmers, the low quality of submitted business plans and insufficient or poor cash flow projections, all of these inter-playing with the above reasons. The mixed level of financial literacy, a lack of time to develop a robust and comprehensive business plan with supporting cash flow projections, and a lack of funds to engage a professional to develop such plans may have caused additional difficulties for some of the applicants.

Figure 19: Reasons for applications' rejection in the agriculture sector in 2017



Source: *fi-compass survey.*

Lack of collateral and credit history are the main constraints for young farmers and new entrants. Risk profiles of young farmers appear higher due to their lack of credit history, lack of experience in the sector and/or the lack of financial literacy[39]. To overcome this potential barrier, trainings on farm management skills are available to develop young farmers' capacity in this area. It is provided via Teagasc[40], the Agricultural and Food Development Authority, which can guide farmers in the various stages of financial planning[41].

High cost and lack of flexibility behind the refusal of loan offers by farmers. Regarding loans application refused by farmers themselves, Irish farmers mainly refused the conditions offered for credit lines (7% against 2% at EU 24 level) and short-term loans (5% against 2% at EU 24 level) (Figure 18). The main reasons for having the loans refused by farmers include high interest rates, high administrative costs and also the lack of flexibility with banks not being able or willing to adjust the product to the specific needs of the farmers and the inability of the banks to meet the needs of agricultural holdings.

39 Interviews with banks, 2019.

40 Teagasc, 2019, Farm Business Planning, https://www.teagasc.ie/rural-economy/farm-management/financial-analysis/farm-business-planning/.

41 The training is focusing on the establishment of financial plan of the farm owner. The training is divided in two steps ('thinking process' and 'financial process') which aim to support the farmer in the elaboration of its financial plan. The training is divided in four stages: Stage 1: thinking about where you are going; Stage 2: Thinking about what you have to do; Stage 3: Extra costs, extra revenues and extra risks; and Stage 4: Developing a financial plan.

Concerns expressed on the lack of knowledge and understanding by banks
The financing needs of dairy farms, for example, vary based on the fluctuating milk prices, the seasonality of their business, any sectoral crisis and the cost of funding. During interviews, concern was expressed on the lack of real knowledge and understanding by banks, inter alia, on the following: 1) how farm enterprises work in reality; 2) the volatility they are exposed to; 3) how they use their cash flow; 4) why high levels of early loan repayment occur (causing penalties for farmers); and 5) banks' inability to respond quickly and innovatively in a crisis, and in their overall approach to this sector.

In general, access to finance and relationships between banks and small and medium-sized enterprises (SMEs), including farmers, are perceived overall as difficult in Ireland, and this has led to the creation of a Credit Review Office (CRO)[42], which is meant to provide a review process for SMEs and farm enterprises who have had their credit rejected by banks (see box below).

Credit Review Office[43]
The CRO was established by the Government in 2010 to provide a simple and effective review process for SMEs and farm enterprises who were refused credit from the banks. Its role is to provide an independent, impartial opinion on the credit decision. The view is based on the viability of the farm and its ability to generate sufficient cash to repay the debt. All applications are treated with the strictest confidence. The time to complete the review depends on factors such as the complexity of each case and the availability of all the necessary information. A four-to-six-week turnaround from time of receipt of the application to the bank responding and the CRO issuing an opinion would be typical.

Technical support programmes have already been implemented in Ireland, but additional support is needed. Farmers feel that the Knowledge Transfer (KT) programme offered by the DAFM is beneficial. However, there is a need for the programme to be extended into more practical one-to-one advice, as each farm is different. The objective of the KT Programme is to increase the skills of Irish farmers, encourage efficiency and effectiveness in their work, and to ensure farmers engage in a process of continuous improvement, in order to develop their farms and to contribute to the overall development of the agri-food sector as a whole. As part of their commitment under the programme, farmers attend meetings held by their KT Group.[44] Farmers need significant training and support in terms of business and financial planning and management. The Profit Monitor (PM)[45] developed and provided by Teagasc is invaluable to farmers in this regard, but more basic training on business and financial planning and management and support is required, again on an individual basis.

42 Not all farm credit applications have been overturned by the CRO.
43 Creditreview, 2019, www.creditreview.ie.
44 DAFM, 2019, https://www.agriculture.gov.ie/farmerschemespayments/knowledgetransferktprogramme/.
45 The electronic PM is a very useful management tool that will help farmers evaluate the performance and output of their farm over the three years of the KT Programme. It is a complex exercise to complete. A professional Agriculturist, such as a Teagasc Adviser or Agricultural Consultant who is familiar with the PM, is needed. As the PM must be completed for each year of the KT programme, farmers can look back on the progress and the profit or loss made on their farm. Source: https://www.teagasc.ie/publications/2017/the-profit-monitor---what-does-it-mean-to-you.php.

Main findings of the ex-ante assessment for the use of financial instruments within Ireland's European Agricultural Fund for Rural Development, and European Maritime and Fisheries Fund Operational Programmes[46]

- Several difficulties in accessing finance for the agriculture sector were identified:
  - The challenges faced by agricultural and seafood enterprises in accessing capital is likely to be related to the capital constraints facing the Irish banking sector following the 2008/2009 financial crisis, which occurred in the Irish economy and international banking markets.
  - Higher interest rates than those charged to other client segments.
  - Insufficient collateral levels.
  - Lack of credit history (specifically for young farmers).
- Young farmers and start-ups are particularly constrained in their access to finance as they do not have a credit history.
- The gap between supply and demand in the agriculture sector is estimated at EUR 100 million for 2016. This is potentially rising to over EUR 300 million by 2025.
- Recommendation: Proposed financial instruments should combine grants, partial loan guarantees and interest subsidies. The partial loan guarantee aims to overcome the lack of sufficient collateral and to increase the supply of funds for viable projects. Given the relatively high cost of funding in the sectors, an explicit interest rate subsidy provides a targeted policy tool to lower borrowing costs.

Source: Ex-ante assessment carried out by Indecon International Economic Consultants, 2017.

46 Indecon International Economic Consultants, June 2017, Ex-ante Assessment of the Use of Financial Instruments within Ireland's European Agricultural Fund for Rural Development, and European Maritime and Fisheries Fund Operational Programmes.

2.3 Analysis on the supply side of finance to the agriculture sector

This section provides an overview of the financial environment in which the agriculture sector in Ireland operates. It describes the main financial products offered, including any currently operating financial instrument targeting agriculture, with national and/or EAFRD resources. The section draws its information from interviews with financial institutions, as well as from national statistics and the FADN database.

An attempt is made to give a description of the general conditions for accessing finance, such as interest rates and requirements for collateral and the availability of funding for agricultural producers. Potential differences in the availability of financial products across different types of agricultural producers are reviewed and analysed.

Key elements of the supply of finance to the Irish agriculture sector

- Agricultural finance is dominated by Allied Irish Banks (AIB) and Bank of Ireland, who each account for around 40 to 45% of all agricultural lending.
- In addition to banks, lending to the agriculture sector in Ireland is provided through coop societies, credit unions and non-bank lenders.
- The level of debt in the cooperatives is rising as they are more responsive to their suppliers' needs, more innovative and work more collaboratively with funders.
- Typical products include short-term stocking loans, credit lines and overdraft facilities, term loans, leasing, farm mortgages, merchant credit and credit against purchases.
- Financial instruments dedicated to agriculture sector were introduced in 2016 (outside the EAFRD) and are proving to be very successful in some cases.
- The banks are restricted by their compliance and regulatory requirements and from having moved away from providing relationship management services at a local level. These requirements are the main reasons for the lack of flexibility of the banks' products.
- Interest rates for agriculture loans in Ireland are, on average, 1.8% higher than the EU 24 average.
- Lack of relevant expertise in agricultural amongst the employees in the banking system lead banks to refuse loan applications from farmers.
- The key constrains faced by the supply side (banks and financial institutions) of finance are: (i) lack of competition amongst banks, (ii) high interest rates and high commissions cost of the loan, (iii) lack of expertise, and (iv) the lack of flexibility in the financial products offered to farmers.

2.3.1 Description of finance environment and funding availability

This analysis is based on data from national statistics and from an overview of, and discussions with, the key financial institutions in Ireland who offer financing to the agriculture sector. This financing occurs through their banks' products, financial instruments, or through payments from dairy cooperatives to farmers for their milk.

2.3.1.1 Finance providers

In the Irish agricultural lending market, there is currently a lack of competition amongst the key financial players. Irish banks are increasingly affected by regulatory rules and liquidity constraints. Prior to the financial crisis in 2008/2009, many financial institutions had insufficient deposits on their books to fund their balance sheet growth. Hence, they became increasingly reliant on short and medium-term funding from the wholesale money markets to provide the liquidity they needed. This became out of control and was one cause of the financial crisis. Since then, financial institutions have been working to repay the state for their bail-outs, improving their risk and compliance systems while easing back into the inter-bank and wholesale money markets.

Allied Irish Banks (AIB) and Bank of Ireland have a near-dominant position in the retail banking market. Both have around 40 to 45% share of agricultural lending. Ulster Bank and Permanent TSB, who follow, are also involved in agricultural lending, but to a lesser degree. All four banks have nationwide branch networks, which is crucial for Irish farmers in terms of having local support, particularly when submitting loan applications.

As banks lack flexibility in terms of the type of products they provide for agricultural lending, new state-owned and private non-bank financial service providers have emerged and support the Irish agriculture sector. Amongst others, the Strategic Banking Corporation of Ireland (SBCI), credit unions, and cooperatives, are instrumental in providing lending support to the agriculture sector. These lenders are particularly helpful where farmers have their loan rejected by the main banks or when they have themselves declined loans due to unfavourable terms (because of high interest rate, non-flexibility of products, etc.). The descriptions of these non-bank lenders are presented below (see also Table 4:):

- **SBCI** – The SBCI is a strategic SME funding company, established in 2014, which provides access to flexible funding products for Irish SMEs. These products offer longer maturities, capital repayment flexibility and a lower cost of funding to financial institutions, the benefit of which is passed on to the farmers. The loan schemes developed by SBCI are delivered into the market via the main banks and some new non-bank lenders.
- **Credit Union** – The Credit Union movement has only recently entered the agricultural lending market, with a pilot product in selected branches.
- **Glanbia and Kerry** – The two leading production cooperatives, Glanbia and Kerry, provide significant credit support to their members. They are the main cooperatives in Ireland and are key players in the area of agriculture credit.

Table 4*:* Irish Finance Providers relevant for agriculture sector

Name of Financial Institution	Geographic Area Covered
Bank of Ireland	Nationwide (branches throughout the Republic of Ireland)
AIB Bank	Nationwide
Ulster Bank	Nationwide
Permanent TSB	Nationwide
Strategic Banking Corporation of Ireland[47]	Nationwide via the main banks who act as intermediaries
Finance Ireland Ltd[48]	Nationwide Team of Sector Experts, no branches
Microfinance Ireland[49]	Nationwide Team of Sector Experts, no branches
First Citizen Finance[50]	Nationwide Team of Sector Experts, no branches
Credit Unions (26 in total)	Piloting farm loans in specific regions
Glanbia dairy Cooperative	South, Southwest base
Kerry Foods dairy Cooperative	Southwest base
Credit/Mortgage cooperatives (66 in total)	Nationwide coverage
Leasing Company of Ireland	Nationwide Team of Sector Experts

Source: Elaborations based on interviews and data from finance providers' websites, 2019.

47 Private company limited by shares.
48 Non-bank lender.
49 Not for profit lender established by the Government.
50 Non-bank lender.

2.3.1.2 Financial products

Irish financial institutions offer loans to farmers for both working capital and investment. These loans range over short, medium and long-term maturities. The interest rates for these products vary based on the client, loan purpose and maturity. The typical loan products are detailed in Table 5.

Table 5: Overview of financial products offered to Irish farmers from Financial Service Providers

	Type of Product	Purpose	Maturity	Interest Rates %
(i)	Overdraft / Working Capital	Cash flow management	Short-term	7.5 - 12.00
(ii)	Stocking Loan	Purchase of stock	Short-term	5.00 - 6.5
(iii)	Special discount offers for asset finance[51]			3.75
(iv)	Term Loan	Capital investment	Medium and long-term	5.00 - 6.20
(v)	Farm Mortgage	Capital investment	Long-term	3.75 - 5.10
(vi)	Merchant Credit	Purchase of stock using debit and credit cards	Short-term	9.00 - 18.5

Source: Interviews with banks, 2019.

Ireland has conducted an ex-ante assessment[52] which was finalised in February 2018. The decisions taken by the Minister of the Department of Agriculture Food and the Marine (DAFM) after the finalisation of the ex-ante assessment were:

- A financial instrument will not be introduced for either the RDP or the EMFF Operational Programme at this time;
- Lessons learnt from conducting the financial instruments ex-ante assessment and consultation exercise will be taken into consideration in the design of the CAP Strategic Plan 2021-2027; and
- An update of the ex-ante assessment for the use of financial instruments will be considered in the context of the preparation of the CAP Strategic Plan 2021-2027.

In recent years, national banks in cooperation with the European Investment Fund (EIF) have developed and implemented some financial instruments for the agriculture sector. The financial instruments presented below have been developed based on the collaboration of the Irish Government and banks/non-banks lenders.

Financial instruments

The **Future Growth Loan Scheme** is a financial instrument developed by SBCI, DAFM, the Department of Business, Enterprise and Innovation (DBEI), the EIF and the Department of Finance (DOF) (Table 6). The scheme benefits from an uncapped counter-guarantee from the European Union under the European Fund for Strategic Investments (EFSI) managed by the EIF. The 80% uncapped guarantee provides SMEs and Small Mid-Caps[53] unsecured financing of up to EUR 500 000[54]. The EUR 240 million guarantee scheme, offered by

51 For some banks.
52 Ex-ante assessment for the use of financial instruments within Ireland's EAFRD and European Maritime and Fisheries Fund (EMFF) Operational Programmes.
53 Eligible final beneficiaries should be independent SMEs with fewer than 250 employees and Mid-Caps with up to 3 000 employees, located mainly in the Republic of Ireland (eligible businesses must have an establishment or branch in Ireland).
54 SBCI, 2019, https://sbci.gov.ie/schemes/future-growth-loan-scheme.

SBCI and the EIB Group, was launched in March 2019 and is expected to build up a portfolio of EUR 300 million in long-term strategic investment loans available to eligible Irish businesses, including farmers and those within the agri-food sector. The loans shall be competitively priced and shall support strategic long-term investments[55] in a post-Brexit environment. Initially, the Scheme was designed to provide between EUR 50 million to EUR 60 million to farmers, within an overall agri-food package of EUR 120 million. The end of the availability period for SBCI to ramp-up the guaranteed portfolio is 31 December 2022.

Table 6: Future Growth Loan Scheme specification

Future Growth Loan Scheme	Characteristics
Participating Banks	AIB, Bank of Ireland ,Ulster Bank and KBC
Loan amount	From EUR 100 000 for SMEs or EUR 50 000 for primary agriculture (very small-sized farms and commercial farming and grazing) to EUR 3 million
Duration	From 8 years up to 10 years
Interest rate applied	4.5%[56]

Source: SBCI, 2019.

This is a long-awaited source of finance for young and new entrant farmers, especially those who do not have high capacity to provide a guarantee. It will also serve smaller-scale farmers who often do not have the leverage to negotiate for more favourable terms with their banking institution. It is currently open for eligible applicants through the SBCI website and registers a high level of interest from the agriculture sector. Bank of Ireland launched their Future Growth Loan Scheme in June 2019 and is active in this market. The strong demand from SMEs and farmers for this longer-term, lower cost finance has resulted in a rapid take up of the scheme and consequently there is limited remaining capacity. AIB bank stopped taking applications for this Scheme on 10th December 2019 as they reached their allocation total. Ulster Bank became active from April 2019 and KBC Bank from September 2019[57].

The **SBCI Agriculture Cash Flow Support Loan Scheme**, developed by the DAFM in co-operation with the SBCI and the EIF, provides unsecured financing. The Scheme aims to support farmers experiencing short-term financial pressure due to price and income volatility, as well as the loans will enable farmers to plan and budget more effectively by providing an attractive cash flow support loan product as an alternative to more expensive forms of credit such as merchant credit and bank overdraft facilities. A Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) EFSI counter-guarantee agreement allowed SBCI to support loans to SMEs. The loans were provided[58] as a result of a guarantee from the EIF under the COSME programme[59] with financial backing from the European Commission. In Ireland, as of the end of 2018, COSME had provided access to finance for 3 903 SMEs in the agriculture sector for a total of EUR 145 million.

55 Investments in assets which will be held long-term – longer than 5 years, such as investments in machinery or equipment, Research and Development, Business Expansion, Premises Improvement, Process Innovation and investment in People and/or Systems.
56 The interest rate applied is estimated on average.
57 KBC's product range is aimed at SME business customers and that it does not offer funding in the Agriculture sector.
58 The loan product was available through AIB, Bank of Ireland and Ulster Bank with SBCI's support, subject to the financial institutions' own credit policies and procedures.
59 European Commission, 2019, https://ec.europa.eu/growth/smes/cosme/.

In 2016-2017, it provided low-cost, flexible working capital finance to farmers to address the impact of exchange rate changes and lower commodity prices for some agriculture sectors. Farmers reacted positively to the scheme and it was fully subscribed. The result[60] of this scheme is presented in Table 7 below.

Table 7: Outcome of the SBCI Agriculture Cash Flow Support Loan Scheme

SBCI Agriculture Cash Flow Support Loan Scheme	Results
Provisional drawdown total	EUR 144.9 million
Average loan size	EUR 34 127
Average loan period	41 months
Applications	4 246
Interest rate applied	2.95%[61]

Source: Department of Agriculture Food and the Marine, 2019.

Detailed information by sectors of the scheme are provided in Table 8 below. This shows the total lending under the Agriculture Cash Flow Support Scheme, by sub-sector. The highest value and volume of lending was provided to both the dairy and the beef sectors.

Table 8: SBCI Agriculture Cash flow Support Loan Scheme, Loans by Sector

Agriculture Cash flow Support Loan Scheme, Loans by sector				
Agri-sector	EUR	% of total	No. of loans	% of total loans
Dairy	65 269 216	45	1 638	38.5
Beef	57 172 691	39.4	2 015	47.5
Tillage	9 077 465	6.3	185	4.5
Other	7 082 383	4.9	227	5
Sheep	3 138 400	2.2	146	3.5
Pigs	2 065 000	1.4	13	0.4
Horticulture	1 098 500	0.8	12	0.2
Total	144 903 656	100	100	100

Source: Department of Agriculture Food and the Marine 2017.

The SBCI's Brexit Loan Scheme provides unsecured financing of up to EUR 500 000 (Table 9).[62] EUR 300 million has been allocated to the scheme, which was designed to provide funding support to enable eligible Irish businesses, including farms, to implement necessary changes to address the challenges imposed by the Brexit. The characteristics are presented in the table below:

60 DAFM, 2019, https://www.agriculture.gov.ie/agri-foodindustry/agri-foodandtheeconomy/agri-foodbusiness/agriculturecashflowsupportloanscheme/.
61 The interest rate applied is estimated on average.
62 SBCI, 2019, https://sbci.gov.ie/schemes/brexit-loan-scheme.

Table 9: SBCI's Brexit Loan Scheme specification

SBCI's Brexit Loan Scheme	Characteristics
Availability of the scheme	From 31 March 2018 and will remain open until 31 March 2020
Loan amount	EUR 25 000 to EUR 500 000
Duration	From 1 year to 3 years
Repayment	Optional interest-only repayments provided at the start of the loans
Variable interest rate	Maximum interest rate of 4% (financial institutions can compete below this level).
Conditions	Loan approval is contingent on meeting the credit assessment criteria of the finance provider

Source: SBCI, 2019.

Cooperative initiative

The Irish Strategic Investment Fund's (ISIF) unsecured **MilkFlex Loan**[63] **scheme** provides an innovative loan product to Irish dairy farmers. The scheme, designed in 2016, is available exclusively to Irish dairy farmers and supports investment operations with flexible loans, which allow farmers to better manage the impact of dairy market volatility, seasonality and disease outbreak. The scheme[64] emerged because of a leading coop's efforts to look at different ways of managing cash flows and the volatility of milk prices. This loan is provided through Finance Ireland Ltd. and the Irish dairy cooperatives. Key features are presented in Table 10 below. The Irish cooperatives were the sole distributor of this scheme and the individual farmer investment information is not publicly available.

Table 10*:* Irish Strategic Investment Fund specifications for MilkFlex Loan Scheme

Irish Strategic Investment Fund	Characteristics
Repayments	Automatically deducted from the supplier's milk receipts by their participating cooperative. The profile of repayments reflects the seasonal milk supply curve, with no loan repayments during the low milk production months from December to March.
Loan amount	EUR 25 000 to EUR 300 000
Duration	From 8 years up to 10 years
Lending decisions	Based on the merit of a farmer's business
Variable interest rate	3.75%
Conditions	New entrants to dairy farming must have been supplying their coop for at least 12 months and have a five-year business plan in place.
First result	Over 2 000 applications have been received, with over EUR 100 million having been lent

Source: Rabobank, 2019.

63 Finance, Ireland, 2018, https://www.financeireland.ie/wp-content/uploads/2018/05/MilkFlex-Loan-Information-Booklet-2018_s.pdf.

64 DG AGRI and the European Investment Bank in the context of *fi-compass*, initiated a study to investigate the feasibility, possible value added and scope of flexible financial instruments responsive to market fluctuations (incl. the dairy sub-sector), to address sub-optimal investment conditions and contribute to rural development policy implementation. The MilkFlex Scheme is featured in this *fi-compass* study 'An agricultural-focused EAFRD financial instrument providing market-responsive financial products', 2019. For further information, please visit: https://www.fi-compass.eu/publication/factsheets/agricultural-focused-eafrd-financial-instrument-providing-market-responsive.

The financial instruments[65] offered by the different bodies have varied in their success, and there is some uncertainty surrounding their future effectiveness. The list presented below shows the outcome of the financial instruments implemented in Ireland for the agriculture sector:

- **The Agriculture Cash Flow Support Loan Scheme**, introduced in 2016 in response to the globally disturbed milk markets, was well designed, very timely and, with an interest rate of 2.95%, which helped ease the burden on both farmers and cooperatives, closing a small part of financing gap at the time. The Scheme provided greater value and sustainability for the dairy sector and similar funding schemes are required on a longer-term basis.
- **MilkFlex** is extremely popular and is working well and is helping closing the gap.
- To date, the **Brexit Loan Scheme** has not worked well. While it is believed that it will become popular following Brexit, there is also a perception that it is not ideal for the agriculture sector, based on the conditions.
- The **Future Growth Loan Scheme**, despite some initial concerns of the Irish banks, has been quite popular, which resulted in a rapid take up of the Scheme and consequently there is limited remaining capacity.

2.3.1.3 Description of the Financing Market

Although the agriculture portfolio is the best performing for all banks, the sector is undervalued and underappreciated by the same banks in terms of collateral provided. There is a severe lack of competition between the banks as their products and prices are similar. As discussed earlier, banks are restricted by increasing regulatory requirements. These requirements are stifling innovation in terms of building flexibility, more customisable terms and conditions, and new 'express'[66] type products for the agriculture sector. While their processes and procedures have been ramped up, they are not aligned with the different levels of borrowing for short, medium and long-term loans.

Farming representative bodies report that there is a massive failure in bank communications, resulting in a move away from building relationships with clients. Added to this, there is a high level of centralisation with branches not having the lending discretion in terms of a farmer's potential for receiving a loan. A farmer's loan application of less than EUR 100 000 is processed in a few centralised bank-lending centres. In addition, loan drawdown, when funds are made available to the farmers, can take about 4-6 months from approval date. Specialised agriculture support is not available for smaller loans, while it represents the greatest share of Irish agriculture lending. However, in the last years, banks have supported significant expansion of their portfolio in the dairy sector, including through the described schemes, seeing it as reliable, forward-looking and innovative. As a result, banks are now taking more risks and are approaching other sub-sectors, such as beef, tillage and sheep.

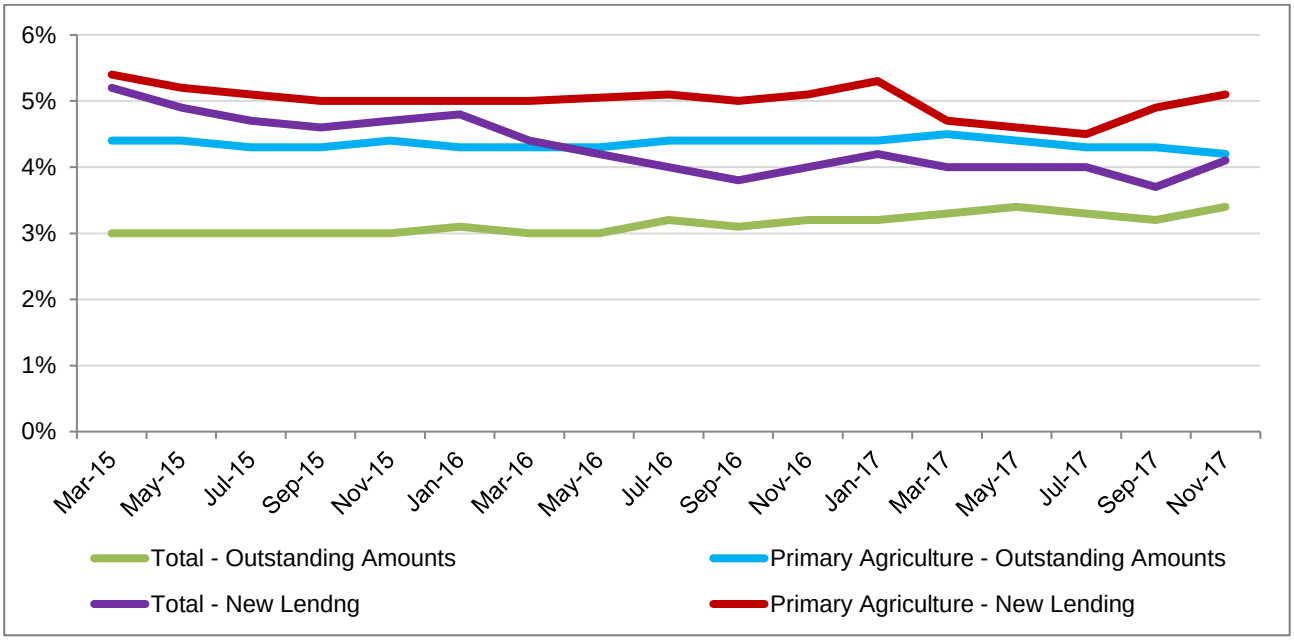
Farming is changing, and there is a serious misalignment between the banking support provided and what is now required by Irish farmers. The need for a new approach to financing in the agriculture sector is being addressed by the introduction of the financial instruments with various unsecured, low interest and more flexible schemes being offered via the main banks, AIB, Bank of Ireland, Ulster Bank and PTSB, and more noticeably, via the cooperatives and non-bank financial institutions.

Additional financial market issues are the extra cost associated to a loan, the structure of the financing supply and lack of products' flexibility. Receiving a loan implies paying the cost of funds, the substantial legal fees for individual transactions, as well as paying for professional valuations of land and assets, which cost around EUR 4 000 (per attempt/application). The lack of mechanisms in banks to deal with agriculture price volatility and the high level of guarantee required, especially from young farmers, is also very restrictive. The lack of flexibility of financial products adapted to farmers' financing needs and the agriculture sector specifically is considered as a limit of the supply of finance.

65 As outlined above in section 2.3.1.2.
66 Easy and quick approvals / access.

The interest rates on agriculture lending in Ireland are among the highest in Europe, with Irish interest rates 1.44% higher than the EU 24 average. This result was confirmed during the interviews. For banks, these high interest rates are explained as a function of regulatory pressure on the banks, but farmers cannot see the justification for such high rates. However, interviewees mentioned the Agriculture Cash Flow Support Loan Scheme, which was introduced in 2016 in response to the globally disturbed milk markets. It had an interest rate of 2.95% and helped ease the burden on farmers, closing a serious financing gap at the time. As shown in Figure 20, the average rate on outstanding amounts in primary agriculture at the end of 2017 was 4.33%, while the average for all other SMEs was 3.49%. The average rate for new lending in the sector was 3.97%.[67]

Figure 20: Interest rates in agriculture sector in Ireland, 2015-2017



Source: Central Bank of Ireland, 2019.

Dairy cooperatives are showing a large increase in their balance sheets due to external factors. According to the Irish Co-operatives Organisation Society[68] (ICOS), the 17 dairy cooperatives in Ireland are carrying more debt in 2017/2018. This is due to external factors such as drastic weather changes, and the level of debt is expected to rise further due to the Brexit. Cooperatives have greater flexibility, always respond to their members and have a stronger relationship with their members in comparison to banks. In times of crisis, and when there are pressures in the system, contacting cooperatives is becoming a reflex of farmers. Once farmers receive this level of merchant credit from the cooperatives, they have little or no need to approach their banks. In essence, cooperatives are taking pressure off the farmers and are competing indirectly with banks. For example, in 2018, when Ireland was hit by a storm in spring followed by a drought in summer, there was a severe fodder crisis and a need for farmers to buy extra fodder. The leading dairy cooperative took immediate action to ensure a continuation of quality milk for their agri-food business and devised, within two weeks, a EUR 30 million interest-free credit scheme for farmers, paid over two years. Within another two weeks, the scheme was fully subscribed.

67 Central Bank of Ireland, 2019.
68 ICOS, 2019, http://icos.ie/.

2.3.2 Analysis of the supply of finance

New lending in the Irish agriculture sector increased by 17% in 2017, to reach EUR 790 million (Table 11). This increase is significantly higher than previous years, driven predominantly by the increase in milk output due to the abolition of milk quotas in 2015 and the increase in dairy herds, which caused additional demand for financing.

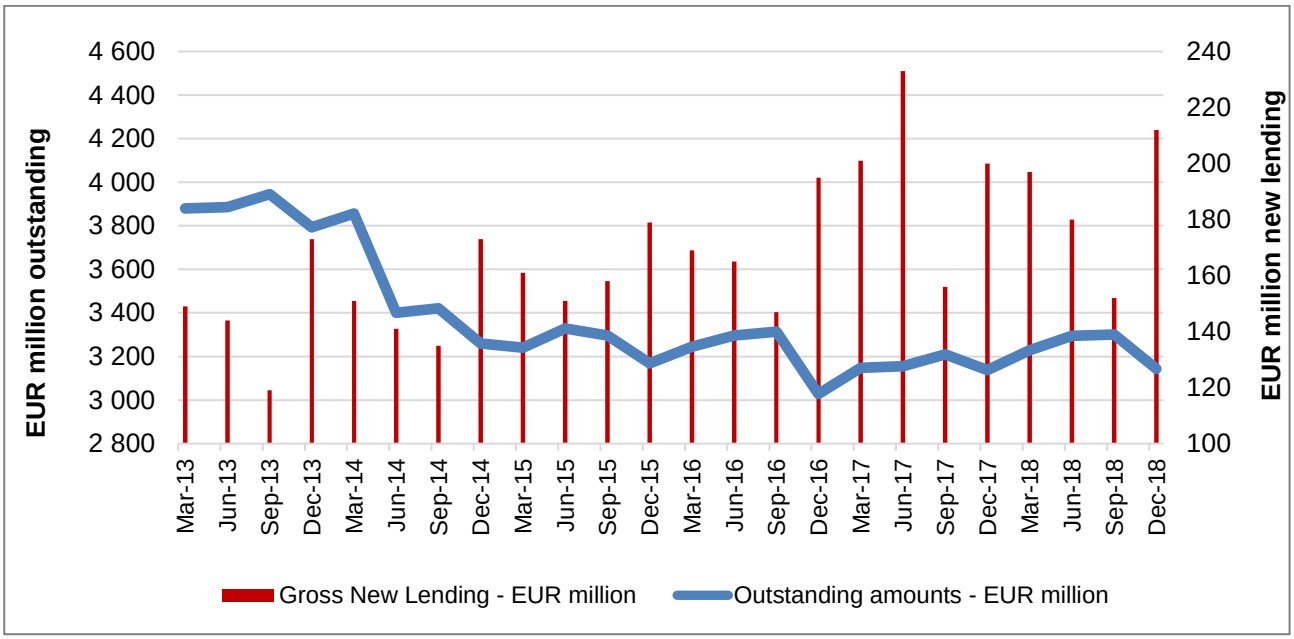
Table 11: New lending in the Irish agriculture sector, 2013-2018, EUR million

	2013	2014	2015	2016	2017	2018
Total annual new lending to Agriculture	585	600	649	676	790	741
Percentage change YoY	-	3%	7.5%	4%	17%	-6%
Percentage change 2013	-	3%	9.9%	13.5%	26.0%	21.1%

Source: Calculations based on data from Central Bank of Ireland, 2019.

Despite the sharp increase in new loans, the outstanding amount at December 2017 is approximately EUR 3 150 million (Figure 21). For 2018, the outstanding amounts registered an increase for the first six months of the year and then fell to the 2017 level.

Figure 21: Quarterly outstanding balances and new lending to the Irish agriculture sector, 2013-2018



Source: Central Bank of Ireland Business Credits and Deposits, 2018.

Implementation of financial instruments in the agriculture sector requires a change in mind-set and a need to establish a new risk adjusted return structure to engage more non-bank lenders and agencies who have platforms that are more flexible. Access to finance is vital and the new financial instruments give farmers some 'breathing space' and greater freedom to develop their farms. Interviews nevertheless mentioned that financial instruments must not replace grants entirely, however, as this would be problematic for those agriculture sub-sectors with low levels of investment and could cause land abandonment or see the smaller beef and sheep farms being 'pushed out'.

2.4 Financing gap in the agriculture sector

This section presents an assessment of the financing gap in the Irish agriculture sector, broken down by farm-size and financial product.

Key elements of the finance gap in the Irish agriculture sector

- The total financing gap for Irish agriculture for 2017 is estimated to be between EUR 822.5 million and EUR 1 039 million.
- The financing gap mainly concerns medium-sized farms and long-term loans.
- Young farmers who cannot meet banks requirement (e.g. credit history, lack of collateral) face serious difficulties in securing the long-term lending they require for investing.
- The high level of uncertainty related to the Brexit, and particularly its potential impact on the beef and dairy sub-sectors, will widen the gap for long-term loans for a longer period of time.

This section presents an estimate of the total value of unmet financing needs of financially viable agricultural enterprises, defined as financing gap, for 2017. The estimate is calculated by multiplying the total number of farms in the financing market by the proportion of financially viable farms reporting unmet demand for finance multiplied, in turn, by the average obtained loan value to farms.

Financing gap = Number of farms X percentage of firms that are both financially viable and have unmet demand X average loan volume

All the calculations are based on the results of the *fi-compass* survey for Irish farms and statistics from Eurostat (see Annex A.4 for more information). The methodology used for calculating the gap is described in Annex A.3.

The financing gap arises from unmet financing demand from economically viable farms[69]. The unmet demand for finance includes:

(i) lending applied for but not obtained, or
(ii) a lending offer refused by the potential borrower, as well as
(iii) lending not applied for due to expected rejection.

For the purpose of this study, 'turnover growth' is used as a proxy of farm viability. In particular, two different criteria for viability are used, which lead to the calculation of a range for the financing gap between an upper and a lower bound:

- The lower bound gap is calculated under the hypothesis that only enterprises which reported a stable (non-negative) turnover growth and no cost increase in the previous year can be considering as viable;
- The upper bound gap is calculated under the hypothesis that all enterprises which reported a stable (non-negative) turnover growth can be considered as viable.

The financing gap for the Irish agriculture sector is estimated between EUR 822.5 million and EUR 1 039.1 million as shown in Table 12. However, the financing gap is the largest for medium-size farms, with a gap estimated between EUR 558 million and EUR 704 million, followed by small-size farms facing a gap between EUR 172 million and EUR 217.2 million.

69 The financing gap presented in this section is different from the total unmet demand presented in Section 2.2.2. In the quantification of the total unmet demand, all the enterprises in the population applying for finance are considered independent from their economic viability.

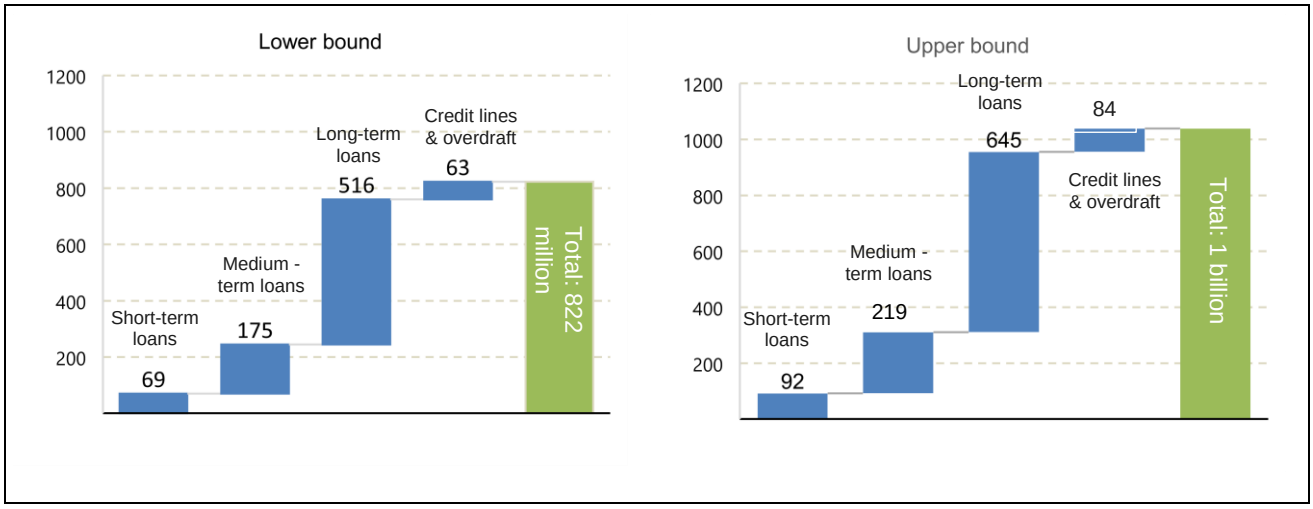
Table 12: Financing gap by farm size in the agriculture sector, EUR million, 2017

	Size of Enterprise	Total	Short-term Loan	Medium-term Loans	Long-term Loans	Credit lines/bank overdraft
Upper bound	Small-sized farms	217.2	16.3	49.5	136.6	14.7
	Medium-sized farms	704.0	62.7	142.6	449.2	49.5
	Large-sized farms	117.9	13.4	26.4	58.8	19.2
	Total	**1 039.1**	**92.5**	**218.5**	**644.6**	**83.5**
Lower bound	Small-sized farms	172.2	12.2	39.6	109.3	11.1
	Medium-sized farms	557.6	47.0	114.1	359.4	37.2
	Large-sized farms	92.7	10.1	21.1	47.1	14.4
	Total	**822.5**	**69.3**	**174.8**	**515.7**	**62.6**

Source: Calculation based on results from the fi-compass survey.

The types of loans for which the gap (Figure 22) is the largest are long-term loans, with an estimated gap between EUR 516 million and EUR 645 million, and medium-term loans with a gap ranging between EUR 175 million and EUR 219 million.

Figure 22: Financing gap by product in the agriculture sector, 2017, EUR million



Source: Calculation based on results from the fi-compass survey.

As discussed in the previous sections of this report, the market gap can be explained based on the several constraints on both the demand and the supply side, which have been identified in this analysis, and in particular can be summarised as follows:

- **Economic non-viability** of farms requesting loans is one of the major reasons for banks to reject loan applications. Cattle rearing and sheep farming are considered the least viable type of farming in Ireland.[70]

70 Farm viability falls in 2018: 34% of farms deemed 'economically vulnerable', Source: Agriland, 2019. https://www.agriland.ie/farming-news/farm-viability-falls-in-2018-34-of-farms-deemed-economically-vulnerable/.

- The **lack of collateral** is a problem for all farms, but particularly for new entrants and young farmers. The **lack of credit history** is the key reason for having a loan rejected by banks which impacts new entrants, in particular.
- High cost and lack of flexibility of currently available financial products are the main reason of refusal by farmers themselves.
- Lack of competition among banks, due to high market concentration.
- High interest rates and high commissions costs applied to farmer's loan applications.

Over the coming years, it is expected that the Brexit will affect Irish farmers. This is especially the case for those in the beef and dairy sub-sectors. In the view of farmers and banks, a soft exit would be seriously damaging and a hard exit would be catastrophic, since, for instance, 90% of Ireland's beef exports are towards the UK. A potential introduction of tariffs will close out the profit margins and possibly reduce the market outlet for Irish beef farmers. Farmers now need to find new markets and to consider how and when their farms could diversify in terms of structure and output, all of which requires investment. However, if the farms ultimately become non-viable, the current financing gap will widen significantly.

In terms of climate change, all farms, regardless of their size, are obliged to deliver on the new environmental plans and to reduce their carbon emissions which requires huge investments. Farmers are concerned that their profits will be eroded if these costs are not spread along the full supply chain to the consumer and they fear for the viability of their farms, which will again widen the gap. These and general EU and global trading aspects could well change the landscape of Irish agriculture in the medium to long-term, all of which will have an impact on the financing gap.

2.5 Conclusions

Investments in the agriculture sector have been decreasing in the period 2015 – 2017 (caused mainly by the uncertainty related to the Brexit), but recovered in 2018. Also banks' portfolios showed only slight increases with growth increasing during the year 2017. Particularly, large-sized farms invested in measures to comply with environmental and safety standard requirements.

Farmers need loans for working capital and cash flow, which are used for farm operating costs and some smaller investments. Farmers also need finance to upgrade the existing infrastructure, including introducing labour saving technologies, buying and/or leasing tractors and other farm vehicles, meeting environmental and compliance standards and changing their existing farm system.

This report has identified a number of constraints, on both the demand and the supply side of the market, which cause viable loan applications by farmers to be rejected or refused, or farmers to be discouraged from applying. The main issues, which affect farmers' ability to access finance, are: (i) lack of sufficient collateral, in particular for young farmers and new entrants, (ii) lack of credit history, (iii) lack of financial literacy among farmers. Some constraints have been identified on the supply side as well, with a banking system characterised by: (i) limited competition, (ii) high costs and reduced flexibility of the financial products offered, and (iii) the lack of sufficient expertise in the sector.

The above-mentioned constraints generate a financing gap for the sector, which has been identified in the range of EUR 822.5 million and EUR 1 039 million. The gap mostly affects medium-sized farms, which creates a serious obstacle to the development of the sector, since they represent a segment with significant growth potential. Their size growth and increased efficiency could be key for the overall competitiveness of the sector in the future. In terms of financial products, most of the gap is in long-term investment lending.

To respond to the limitation of the banking system in Ireland, some financial instruments have been developed since 2016. They are currently funded from national and EU central budget resources. As national budget possibilities are reviewed, implementation of financial instruments along with investment grants under 2021-2027 RDP are currently being discussed and mentioned in the ex-ante assessment conducted by Ireland.

Cooperatives have also developed lending schemes to provide finance with more favourable terms and conditions and insuring more flexibility in the repayment, in order to cope with increasing market volatility and adverse natural events.

Current financial instruments show different degrees of effectiveness and appreciation among stakeholders, with some instruments in support of working capital finance in particular, identified as success stories. Overall, based on the analysis conducted for this study, and constraints and the market gap identified, the following recommendations should be taken into account, in order to enhance the current financial instrument offerings:

- Since lack of collateral has been identified as one of the main constraints limiting the access to finance, the use of risk sharing instruments and guarantees supported by the EAFRD could be further developed, as the current offering doesn't seem to be sufficient to insure the full functionality of the market.
- The focus of future financial instruments should be on medium-sized enterprises, young farmers and new entrants. The opportunities offered by the new legal framework, such as the easier combination of financial instruments and grant support or the possibility to finance the purchase of land for young farmers, might offer interesting opportunities to increase the effectiveness of the instrument towards those segments.
- The medium-sized farms are those which need to be supported to develop and grow further to ensure the sustainability of the farming sector. This sustainability requires adaptation of farms to meet the climate change targets, to improve efficiencies in their agricultural processes and to facilitate them to access new markets. Financing is critical to achieve this and additionally further upskilling in farm/business and financial management skills needs to be supported financially or by means of technical assistance under EU schemes or grants.

- Considering that financing cost for the agriculture sector is higher than the EU 28 average and above the average of all Irish economic sectors, instruments with a higher impact on reducing the cost for finance could be considered, including a possible combination with grant support under the EAFRD.
- Additional working capital instruments / schemes could be developed, given the reported success and general appreciation of a similar instrument deployed in Ireland in 2016-2017. In this context, the new flexibility on working capital introduced for financial instruments under the EAFRD legislation post-2020 proposal has to be evaluated.
- An enhancement of the technical support for famers to develop investment projects and sound business plans could also be beneficial, considering the lack of financial literacy still present in the sector; and
- New initiatives in the field of financial instruments could be developed with a view to opening the market to new banks, including possible technical support for financial intermediaries, to increase their knowledge and understanding of the sector specificities.

3. PART II: AGRI-FOOD SECTOR

3.1 Market analysis

Key elements of the Irish agri-food sector

- There are 1 300 food and beverage enterprises in Ireland with a total turnover of EUR 26 billion, approximately 90% of these are small-size enterprises.
- The agri-food sector accounts for 7% (EUR 13.9 billion) of the economy-wide GVA.
- 174 400 people are employed in the agri-food sector.
- The main sub-sectors are meat, dairy, consumer foods and beverages and specialised nutrition.[71]
- Irish agri-food exports in 2018 were valued at EUR 12.1 billion.
- Ireland is the 5th largest net beef exporter and the 4th largest sheep-meat exporter in the world.
- To anticipate potential dynamic changes related to its export, Ireland is opening itself to new markets (e.g. Japan, Vietnam, etc.).
- To support agri-food sector growth, Ireland developed a 10 year strategic Plan called 'Food Wise 2025'.
- The agri-food sector is supported by 130 cooperative societies.
- Uncertainty created by the Brexit regarding implementation of norms controls is persisting.

The Irish agri-food and beverages (AFB) sub-sector is Ireland's largest indigenous industry and is a significant contributor to Ireland's economy. There are around 1 300 food and beverage enterprises in Ireland, which employ 174 400 people throughout the regions.

The sector has a total turnover of more than EUR 24 billion (in 2018). Including agriculture, food, drinks and tobacco, as well as wood processing, it accounts for around 7% (EUR 13.9 billion) of economy wide GVA with primary agriculture, forestry and fishing accounting for around 1.6% of Ireland's GVA.[72] Economic activity in the agriculture and food sector produces a far bigger return than equivalent activity in other traded sectors of the economy. That is because agri-food companies source 74% of raw materials and services from Irish suppliers, compared to 43% for all manufacturing companies.

Table 13: Turnover of manufacturer of food and beverages in Ireland, 2013-2018, EUR million[73]

	2013	2014	2015	2016	2017	2018
Turnover	26 999.3	26 485.3	24 471.2	23 511.1	24 182.7	24 293.9

Source: Eurostat – Structural Business Statistics, 2019.

71 Live animals are a major sub-sector according to the national way for presenting the sector, but it is not in the scope of this report. Do not belong to NACE 10 or 11, but they are included in the Agri Food and Beverages (AFB) definition by the Department of Agriculture Food and the Marine. Cereals/horticulture are also included in the Department of Agriculture definition of AFB, which together with seafood, forestry and bioenergy, are also excluded from this report.
72 Central Statistics Office Ireland, 2019.
73 From 2015 onwards, no figures on the turnover for manufacturers of beverage available.

Irish agri-foods are exported to 180 markets worldwide, totalling EUR 12.1 billion in 2018, a 4% decrease from 2017.[74] The main sub-segments[75] within this sector are live animals, meat, dairy, cereals/horticulture, consumer foods and beverages and specialised nutrition. Dairy produce that is being exported has been valued at EUR 4.6 billion.

The **retail sector is dominated by a small number of supermarkets and retail alliances who have significant buying power** over a large number of suppliers. Viable entry to the market requires a level of scale, which is not normally associated with new entrants, yet the small-scale production of quality products is a good route for market entry. Expanding these markets and competing with the large-scale players remains a challenge.

The last decade saw significant growth in the demand for agricultural products due, primarily, to the rise of markets in China. Since 2010, Irish food production volume rose by approximately 40% and beverages volume by 10%.[76] However, growth in the sector is expected to slow over the coming decade due to:

- a rise in middle class incomes, with diets shifting away from meat and dairy consumption;
- an increased demand for more innovative food solutions that support lifestyle choices, such as convenience, health and well-being and life-stage requirements; and
- the Brexit, as exports are key for the Irish agri-food sector and with 37% of total agri-food exports going to the UK (the largest single trading partner[77]). Currently, as Brexit looms, the sub-sectors facing the greatest challenges are prepared consumer foods (PCF), baked goods, poultry and beef, pork and sheep meat. Agri-food will be the hardest hit sector given its reliance on highly integrated cross-border supply chains.

Despite these sectorial changes, producers have worked in recent years to **increase export towards new countries**. The key initiatives, amongst the most notable once, was the ratification of the EU-Japan Economic Partnership Agreement in April 2018, which will offer substantial new export opportunities to Irish cooperatives[78], and the EU-Vietnam free trade agreement, which has opened a new gateway into the Asian market.

A national 10-year strategic plan[79] (Food Wise 2025) for the Irish agri-food sector has also been developed and identifies ambitious growth projections for the industry. The projections are:

- 85% increase in exports to reach EUR 19 billion;
- 70% growth in value added to achieve EUR 13 billion;
- 65% increase that will lead to EUR 10 billion in primary production; and
- the creation of 23 000 additional jobs along the supply chain, from producer level to high-end value-added product development.

This is to be achieved by obtaining a detailed understanding of market needs. A coordinated approach by primary producers, industry, departments and State agencies will then be needed to meet those needs.

The agri-food sector is supported by 130 cooperative societies, that collectively have over 150 000 individual members, with a combined turnover of EUR 14 billion and employ over 12 000 people in Ireland, as well as a further 24 000 abroad. The majority of Irish dairy businesses are multi-purpose cooperatives with interests in milk processing, liquid milk, consumer foods, agri-trading and feed milling. There are 11 milk processing and

74 Focus on Agri-food and Beverages, December 2018, https://dbei.gov.ie/en/Publications/Publication-files/Focus-on-Agri-food-and-Beverages.pdf.
75 Exports breakdown is dairy 33%, meat and livestock 33%, prepared foods 15%, beverages 12% with horticulture and cereals at 2%.
76 Ibid.
77 Department of Agriculture, Food and the Marine, 2018, Annual Review and Outlook for Agriculture, Food and the Marine.
There are about 100 agricultural cooperatives in Ireland focussing on dairy, livestock, breeding, fishing, mushroom as well as forestry, retail stores and farm services. They have about 185 000 members. https://www.ypaithros.gr/en/agricultural-cooperatives-in-ireland/.
79 FoodWise2025 – www.agriculture.gov.ie/foodwise2025/.

13 milk purchasing cooperatives located across rural Ireland. ICOS also represents over 60 livestock mart cooperatives and a range of community and rural based enterprises and services.[80]

Nevertheless, there is large uncertainty in the Irish agri-food sector caused by the Brexit and the possible longer-term impacts relating to import controls on animal, plant, and products of animal and plant origin, as well as the certification of Irish agri-food exports to the UK in accordance with any UK requirements.

80 ICOS, 2018, Brexit: Potential Impact for Irish Cooperatives, Preparation Measures being undertaken & Priorities for the Irish Government, https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/joint_committee_on_agriculture_food_and_the_marine/submissions/2018/2018-12-12_submission-irish-cooperative-organisation-society-icos_en.pdf.

3.2 Analysis on the demand side of finance to the agri-food sector

This section describes the drivers of demand for finance in the agri-food sector and analyses the met and unmet demand. It seeks to identify the main reasons for agri-food enterprises to request financing and the agri-food sub-sectors showing the largest need for finance. The section also provides an analysis of the type of enterprises which face more constraints in accessing credit. The analysis of the demand for agri-food finance is based on the findings from the Agri-food survey results of 50 Irish firms, as well as interviews with key stakeholders in the agri-food sector, combined with national statistics.

Key elements on finance demand from the Irish agri-food sector

- Gross investment of Irish agri-food sector stood at EUR 236 million in 2017.
- Demand for finance, which is declining, is driven by, (i) investments in capacity extension, (ii) the need for working capital, (iii) developing new products, and (iv) digital transformation.
- Investments in capacity extension have mostly occurred in the dairy sector with firms investing in new state-of-the art equipment to both improve production quality and increase capacity.
- Main difficulties faced by Irish agri-food enterprises are related to (i) high production cost, (ii) hiring of qualified labour and (iii) low purchase price of their production.
- No specific direct support was provided to the agri-food sector under the RDP, thus national support measures have been implemented.
- The main constraints faced by Irish agri-food enterprises are: (i) lack of collateral and existence of other loans, (ii) unfavourable terms and conditions, (iii) risk aversion of banks, (iv) lack of understanding and competency from the banks and (v) lack of financial literacy and dedicated personnel to manage the financials of the enterprise.
- The main difficulties faced by start-ups are related to: (i) lack of repayment capacity, (ii) lack of credit history and experience, (iii) higher risk profile and (iv) lack of financial literacy.
- Agri-food enterprises are being discouraged from applying as the application process is perceived as too long and complicated.

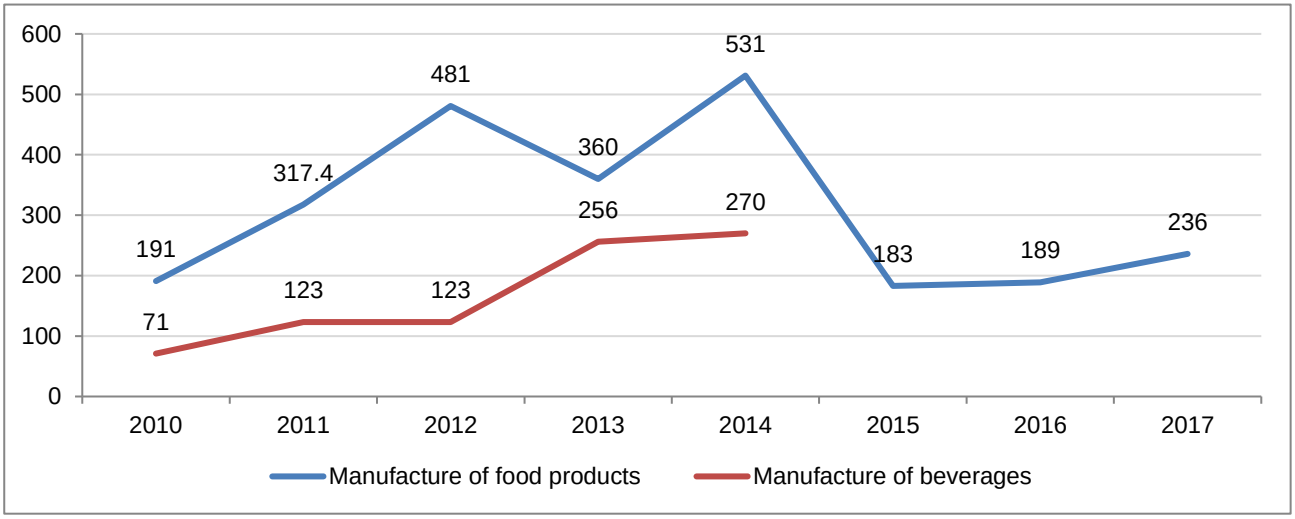
3.2.1 Drivers of total demand for finance

The gross investment in the Irish agri-food sector followed a steep growth in 2010-2014 when the milk crisis hit the country and led to a severe decline. Since then levels are slightly recovering (**Error! R eference source not found.**), accounting for EUR 236 million in 2017[81] (only food manufacturing), which is more than two times lower than the peak level in 2014.

Investments by manufacturers of beverages have constantly been increasing in the available periods but they remain at lower levels than for food. Due to the lack of official data, a further full analysis cannot be presented.

81 More recent data is not available.

Figure 23: Gross investment in tangible goods in the Irish agri-food sector[82], 2010-2017, EUR million



Source: Elaborations based on Eurostat– Structural Business Statistics, 2019.

Currently, the overall investment rate in the Irish agri-food sector is low. The investment rate was 2.1% for 2017, a significant decrease compared to the years before (Table 14), which may be just a temporary evolution. In any case, for the period 2013-2016 the gross investment over GVA has been above 6.6%, peaking in 2016 at a ratio of 9.3%, and higher than the 2017 level.

Table 14: Gross Investment over GVA in the Irish agri-food sector, 2012-2017

	2012	2013	2014	2015	2016	2017
Gross Investment in agri-food[83]	604	616	801	183	189	236
GVA in agri-food	6 926	7 744	8 606	8 907	9 065	8 813
Gross Investment as a share of GVA	8.7%	7.9%	9.3%	2.1%	2.1%	2.7%

Source: Calculations based on Central Statistics Office and Eurostat – Structural Business Statistics, 2019.

The primary financing needs for the Irish agri-food sector are driven by investments in expansion capacity. 92% of enterprises are requesting financing to invest in capacity expansion to incorporate new processes and equipment, new or extended buildings, vehicles etc. (Figure 24). According to the interviews, this is driven predominantly by the dairy sector where large processors are investing in new state-of-the art equipment to both improve production quality and increase capacity.

The second investment need is related to the inventory and working capital requirements (42%). According to the interviews, the typical liabilities of food producers and agri-food enterprises include the usual running costs for a business including rent, utilities, materials and supplies, labour costs, insurance, transport, accrued expenses, accrued income taxes and deferred revenue. Given a lot of the agri-food enterprises are sole traders particularly at start-up stage, the accruals and deferred revenue impact their cash flows

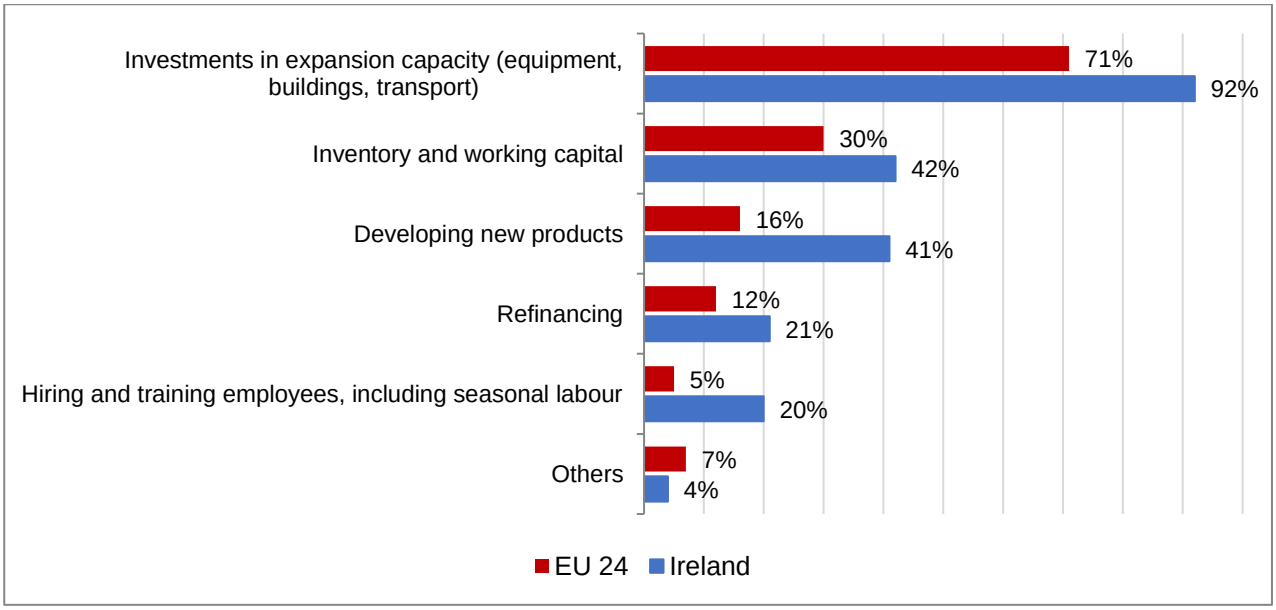
82 The gross investment in tangible goods of manufacture of beverages are confidential and thus cannot be presented.
83 For 2015, 2016 and 2016 those figures do not include gross investment for manufacturer of beverages as those figures are confidential.

significantly as most cash is used to fund daily operational costs. These delayed payments are subsequently either covered by working capital, credit terms through cooperatives or grants and cash flow support schemes.

The third most important investment which requires financing is the investment in Research and Innovation (R&D) to develop new products for 41% of agri-food enterprises interviewed (against an EU average of 16%). This has been supported by the activity of Enterprise Ireland[84], which in the five-year period between 2013 and 2018, invested EUR 247 million in the Irish food industry. This investment by the state agency has leveraged EUR 1.5 billion of investment from the industry in expansion, job creation, R&D projects, new product development and new innovations. Enterprise Ireland also facilitates innovation within the food industry through the development of R&D infrastructure.[85]

An additional driver in the demand for finance is the attempt to diversify export markets of Irish products (that historically has been very much focussed on the UK, as outlined above). Growth in dairy, meats and beverages will be stimulated to a great extent from emerging economies in Asia and elsewhere. In addition to agri-food enterprises needing support services for supply chain development, customs and foreign exchange training, the Irish agri-food enterprises have to invest into developing new products. This is particularly relevant for the frozen food category (targeting value-added innovations and the health and wellness trend) as well as enriched milk powders.

Figure 24: Purpose of bank loans in the agri-food sector in 2018



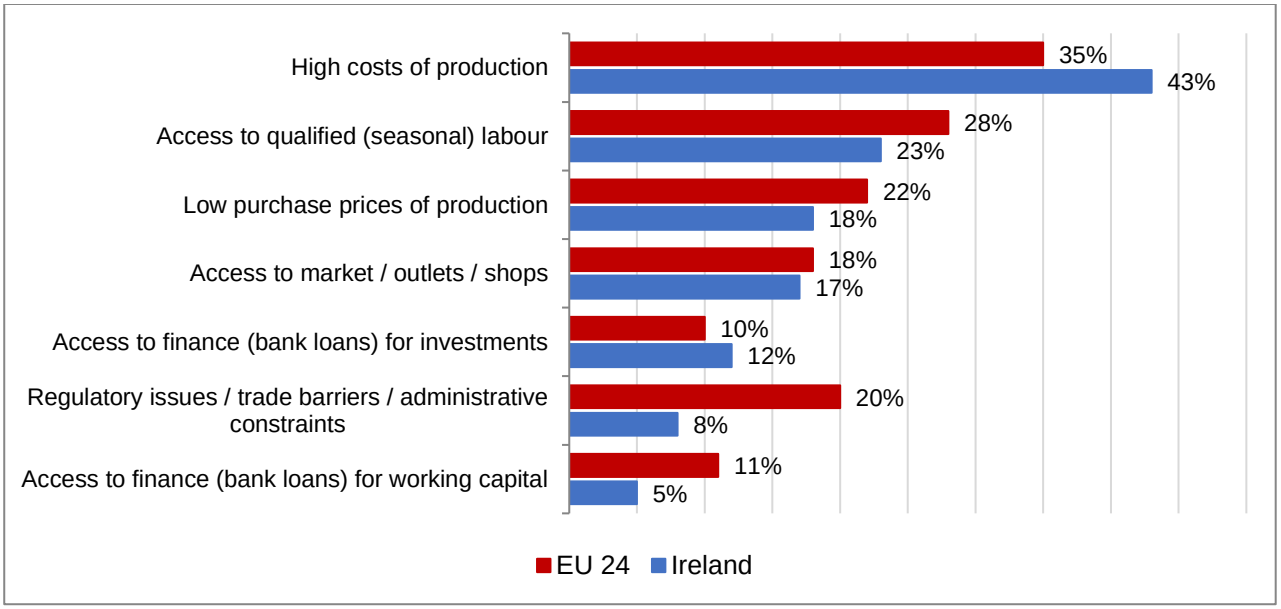
Source: Agri-food survey.

Digital transformation will drive future demand in the agri-food sector in Ireland. Businesses will have to modernise and digitalise their infrastructure to adapt to the demand for online ordering. According to Bord Bia[86] during the interviews, the projection of this new way to order food is estimated to be between 25 to 30% in Ireland. This raises questions regarding the integrated fulfilment of orders; the regulatory requirements of traceability, quality, environmental impact and the development and use of digital applications, etc. There is no current investment in this area, but the interviewees demonstrated great interest in this matter and considered it as the way forward for specific sub-sectors, such as dairy.

84 See section 3.3.1.1 for more details on this institution.
85 This includes the EUR 8 million Meat Technology Centre at Teagasc Ashtown, the EUR 25 million Dairy Processing Technology Centre (DPTC) in Limerick, the EUR 50 million Food for Health Ireland centre at UCD, as well as the recent EUR10 million expansion of the food research centre at Teagasc Moorepark. https://www.enterprise-ireland.com/en/Publications/Reports-Published-Strategies/From-Farm-to-Fork.pdf.
86 See section 3.3.1.1 for more details on this institution.

Cost of production, hiring of qualified labour and the purchase price of production are the main difficulties faced by Irish agri-food companies. In terms of difficulties faced by Irish enterprises (Figure 25), high costs of production is considered, by 43% of respondents, as the main difficulty. This difficulty is followed by lack of access to qualified labour (23%) and by low purchase prices of food produced (18%). Access to finance for investment and for working capital are considered challenging by 12% and 5% of survey participants, respectively. In comparison to the EU 24 average, access to finance for investment is considered more problematic in Ireland (12% against 10% at the EU 24 level) than finance for working capital (5% against 11% at EU 24 level).

Figure 25: Difficulties experienced by agri-food enterprises in 2018

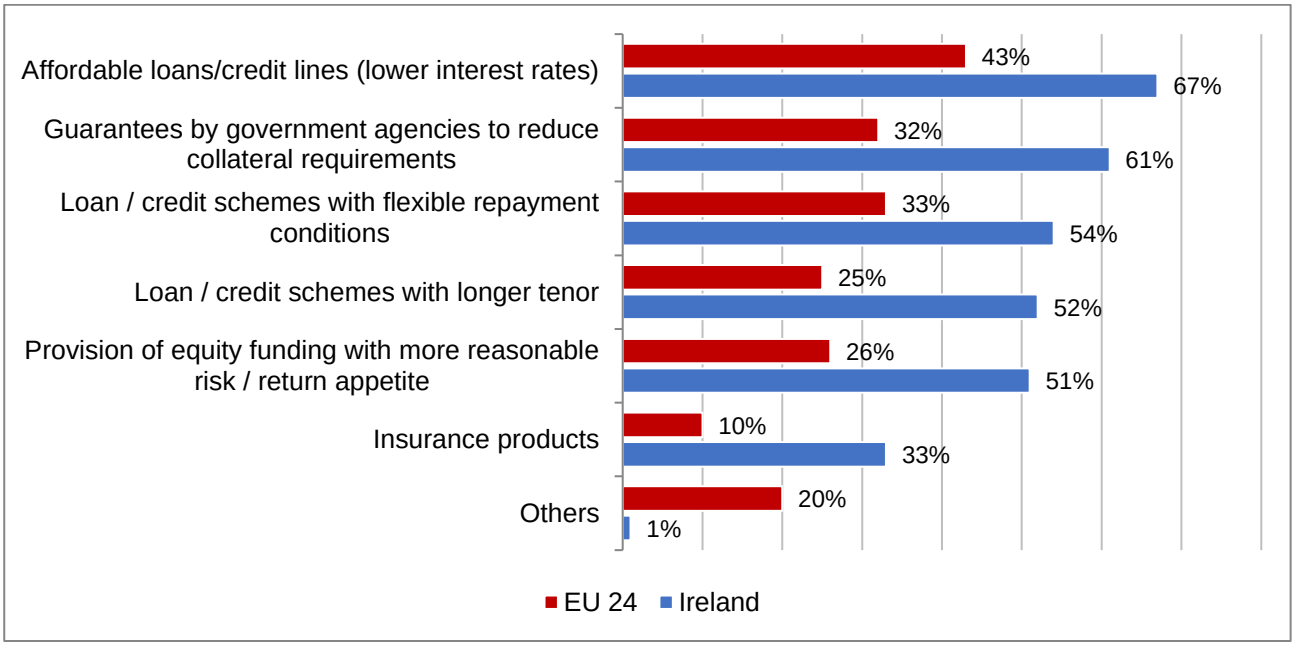


Source: Agri-food survey.

Affordable loans (e.g. with low interest rates) would be beneficial to access finance. In terms of dealing with these financial challenges and having easier access to finance, Irish enterprises claimed that key issues are affordable loans/credit lines (67% of respondents; Figure 26) as well as getting guarantees from government agencies to reduce their collateral requirements (61%). Following these, having more loan/ credit schemes with flexible repayment conditions (54%) and a scheme for long-term finance (52%) are considered as a potential leverage to reduce difficulties accessing finance. While some enterprises may currently have sufficient funds[87], more flexible repayment requirements, and a longer tenor could make finance more attractive.

87 A few small and very small enterprises are able to provide 50% of own equity.

Figure 26: Solutions to reduce difficulties in accessing finance, 2018



Source: Agri-food survey.

While Ireland has not programmed sub-measures 4.2 into its RDP, other national as well as EU-funded support measures for the food industry have been implemented. Those measures have supported agri-food enterprises to stay in business and have contributed to stimulating investments.

Since its launch in July 2015, Food Wise 2025,[88] has served both as a high-level strategy and a shared blueprint for all involved in the sector. Its recommendations have been reflected in government policies including the Programme for Partnership Government, the Action Plan for Rural Development,[89] the Action Plan for Jobs, Regional Action Plans for Jobs, the trade strategy, Ireland Connected and 'Global Ireland' - Ireland's Global Footprint to 2025.

Significant financial support (although not directly through sub-measure 4.2 or the RDP) has been provided, including under the CAP, which is outlined in the 'Food Wise 2025' Report. Additionally, in its budget for 2019, it saw the introduction of a EUR 78 million Brexit Resilience Package for the Agri-food sector. The measures include EUR 44 million of direct aid for farmers,[90] EUR 27 million in the Brexit related support for the food industry and EUR 7 million for DAFM Brexit-preparations. The European Commission recently announced funding of EUR 50 million in EU support for the beef sub-sector. It is being made available under the Common Market Organisation (CMO) regulation in the framework of the CAP in response to market disturbances in the sector.[91]

88 DAFM, 2019, https://www.agriculture.gov.ie/foodwise2025/.
89 DAFM, 2019, https://www.gov.ie/en/publication/091dba-realising-our-rural-potential-action-plan-for-rural-development/.
90 Note: The total amount requested is calculated based on all received applications before any administrative check regarding eligibility or selection criteria to have taken place. Applications that have not been approved could have been non-eligible, and/or with insufficient or missing information not allowing their evaluation, and/or with insufficient value-added, and/or ranked at a place for which budget under the call has not been anymore available.
91 Government of Ireland, 2019, Steps to success, https://www.agriculture.gov.ie/media/migration/foodindustrydevelopmenttrademarkets/agri-foodandtheeconomy/foodwise2025/stepstosuccess2019/StepstoSuccess2019MLU310719.pdf.

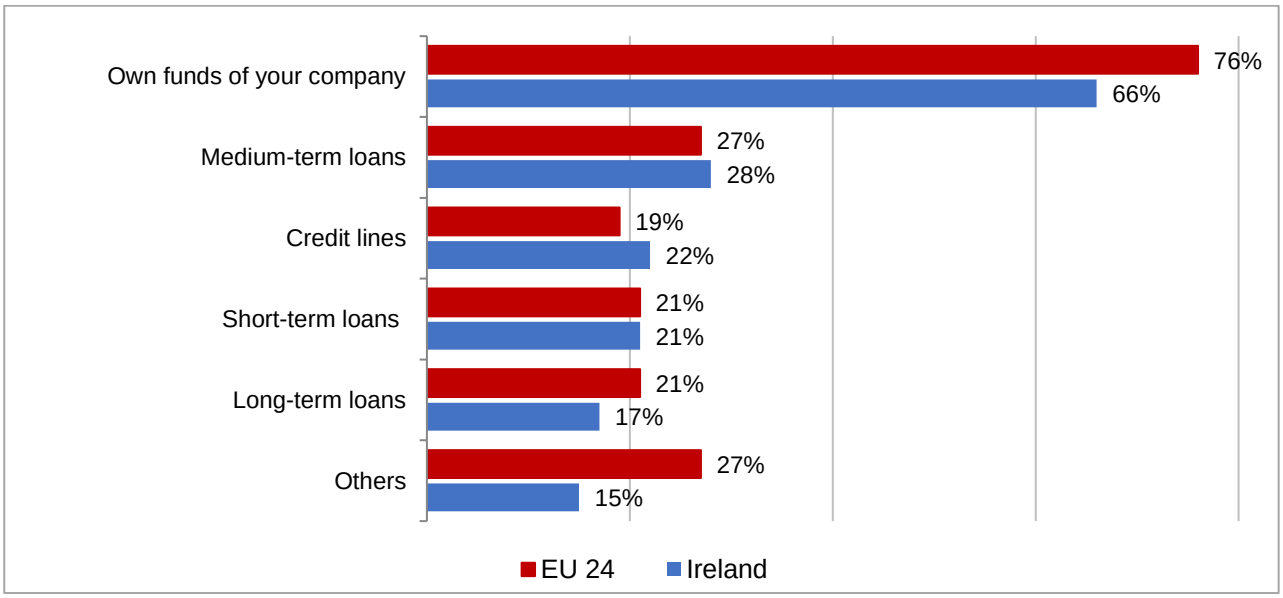
3.2.2 Analysis of the demand for finance

The potential total demand for finance combines both met and unmet demand. The met demand consists of the value of all applications for finance which were accepted by the financial institutions in the relevant year. The unmet demand consists of the assumed value of applications rejected by a financial institution, offers of credit refused by agri-food enterprises, alongside cases where agri-food enterprises are discouraged from applying for credit due to an expectation of rejection or refusal.

Based on the Agri-food survey, the unmet demand for the agri-food sector in Ireland is estimated at EUR 244 million.

Funding of the Irish agri-food sector comes primarily from their own resources, family lending and state agencies. Irish agri-food sector, and especially for high-risk start-ups, is mainly financed thanks to private financing (66%), which is slightly below the EU 24 (Figure 27). Another source is represented by public agencies, such as Enterprise Ireland, Local Enterprise Offices and Bord Bia[92], in the form of grants and/or direct financing, which are most likely reflected in the 'Other' category in the graph.

Figure 27: Most important financing instruments to agri-food sector enterprises in 2018



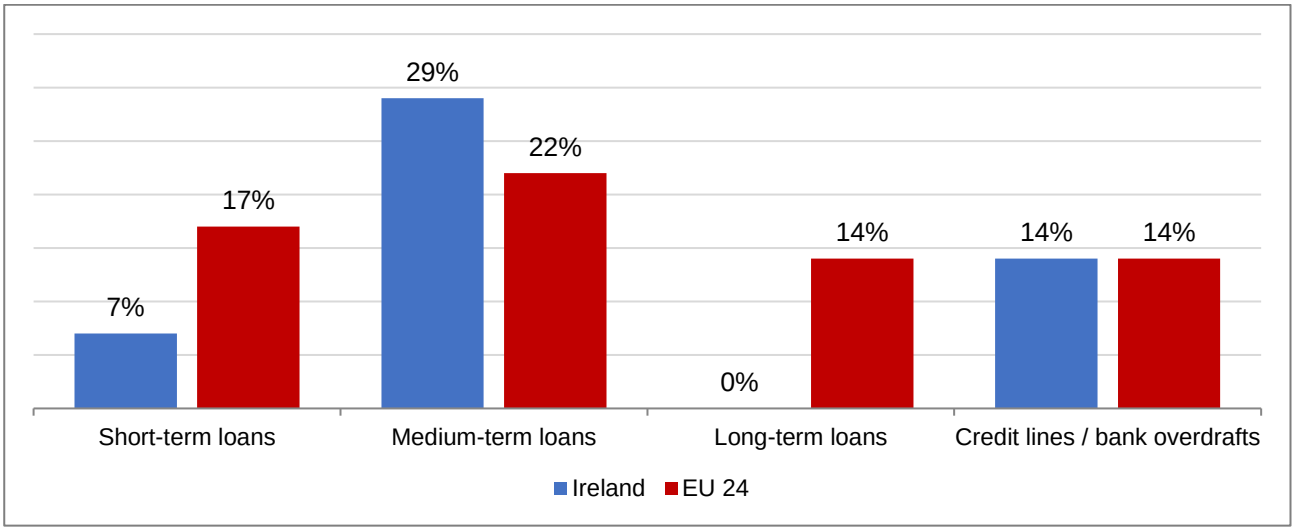
Source: Agri-food survey.

Bank are not considered as the most important source of financing. According to the interviews, this is mainly due to lack of trust from micro, small and medium-sized enterprises (SMEs) towards banks and that start-ups are facing more rejection in their application due to the potential risk that they could represent for the bank.

The demand for medium-term financing is higher than for short-term financing. Of the total applicants in Ireland in 2018, 7% of enterprises applied for a short-term loan, 29% for medium-term, and 14% for credit lines/bank overdrafts. Particularly the non-existent long-term financing need is striking but is in line with the limited trust by banks to finance enterprises long-term (Figure 28).

92 See section 3.3.1.1 for more details on these institutions.

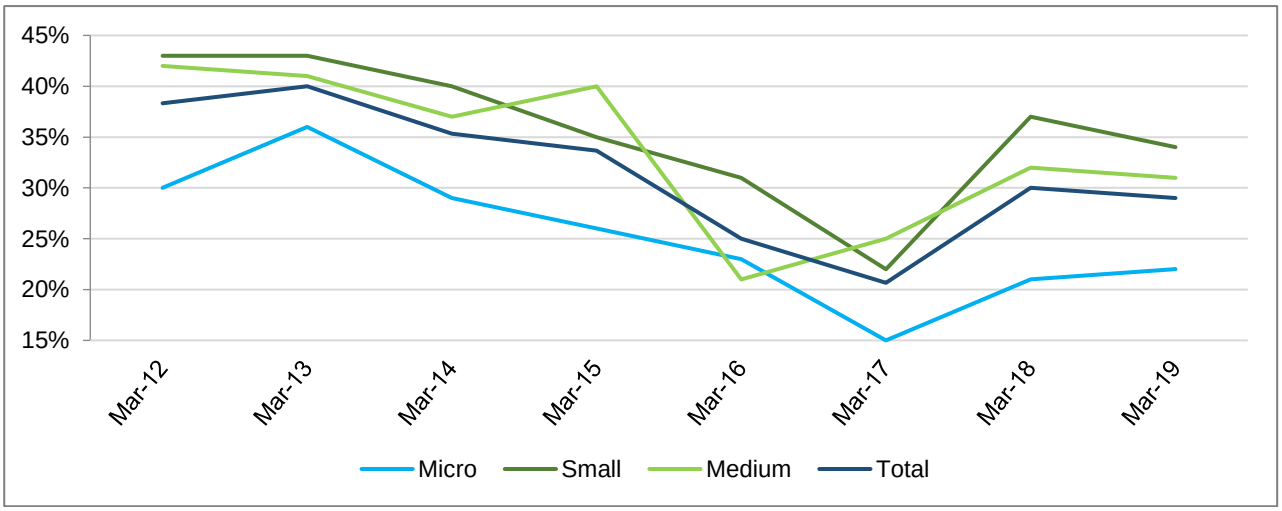
Figure 28: Irish agri-food enterprises applying for finance in 2018, by financing product



Source: Agri-food survey.

Credit demand from banks has been decreasing, which is the case for all sectors of the economy (Figure 29).[93] While agri-food is a small segment within the overall SMEs sector, it was stated in interviews that 40% of companies that planned to expand or invest in their businesses have cancelled or postponed those investments and another 16% were reviewing them. Against this, only 3% planned to accelerate their investment. There is evidence of a decrease in lending in the current year due to the uncertainty related to the Brexit. However, in the immediate aftermath, it is felt there could be a significant increase in demand for all types of finance. This is especially the case for short-term lending, used to offset the potential new tariffs, foreign exchange rate volatility, longer lead times for supply chains and routes to markets. Regarding the medium to long-term lending, this is also expected to increase in order to fund possible mergers or acquisitions for consolidation, to continue with the innovation of products and processes, and to fund the climate change initiatives required to meet EU and national targets.

Figure 29: Application rate for credit finance by Irish agri-food enterprises, 2012-2019

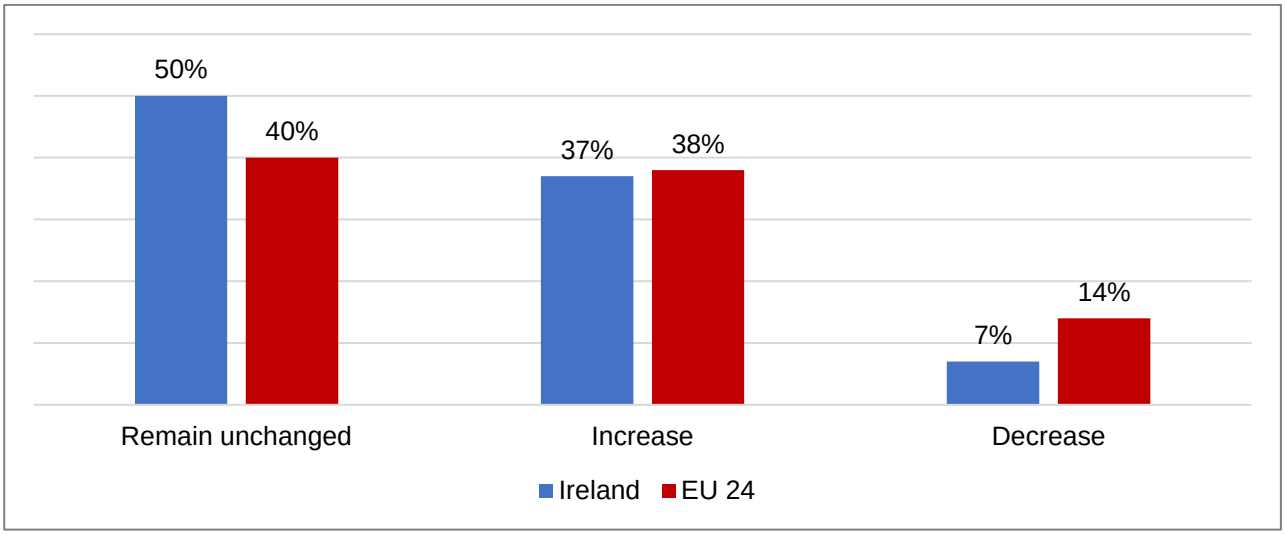


Source: Central Bank of Ireland, 2019.

93 The total demand for finance for the agri-food sector in 2018 is unknown. This is because the reporting by the Central Bank for this specific sector is incorporated into the manufacturing sector and within that it is recorded as the manufacture of food, beverages and tobacco products. NACE 12 (tobacco) is not part of the study.

In the Agri-food survey (Figure 30), the response concerning the expectations of agri-food enterprises' financial needs in the next two to three years shows that the producers' financial needs will largely remain unchanged for 50%, but might potentially increase for 37% of them. Hence, only a very few Irish enterprises (7%) expect to see their demand for finance decreasing.

Figure 30: Agri-food companies' expectations on future financing needs, 2018

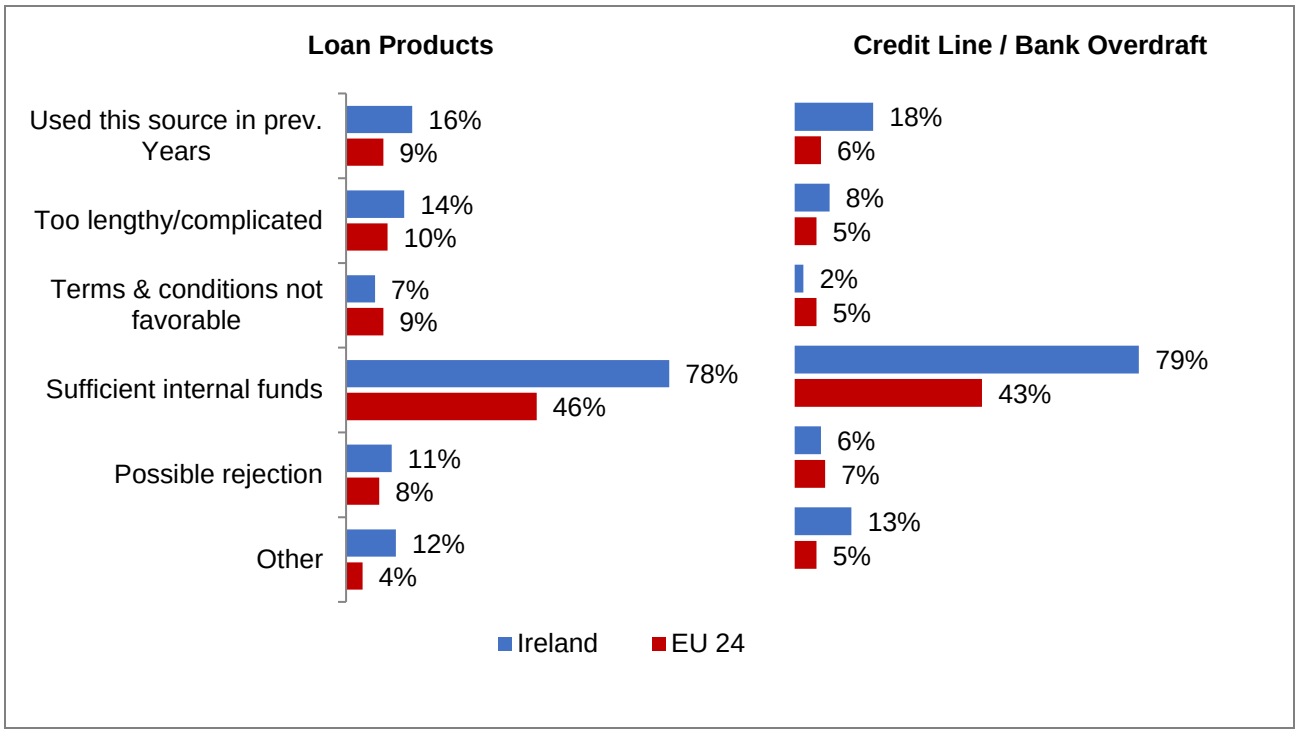


Source: Agri-food survey.

A significant share of enterprises is being discouraged from applying for finance. 78% of the Irish respondents to the Agri-food survey indicated the key reason they did not apply for finance in the last year, was that their own resources were sufficient (Figure 31). Additional reasons for not applying to the mainstream financial market was that the loan requested during previous year was sufficient to cover the investment (16% of respondents for loans and 18% for credit loans) and the administrative burden linked to the banks' loans (i.e. loan application too lengthy and complicated - 14% of respondents regarding loans application and 8% for credit lines, overdraft applications, etc.). Some loans and credit lines applicants (11% and 6%, respectively) did not apply due to fear of rejection.

The application process for bank loans is too long and complicated. In the interviews the practice of the 'slow no' where banks take too long to make a final decision on the loan application, also causes difficulty for the applicants. This stems from the applicants' inability to manage their finances tightly to ensure their invoices are paid in good time for them to, in turn, pay their suppliers. The trend in Ireland is to take up to 60 or even 90 days to make payment, which has impacts on their cash flows and ultimately on their viability and credit rating.

Figure 31: Reason for not applying for loans in the agri-food sector in 2018



Source: Agri-food survey.

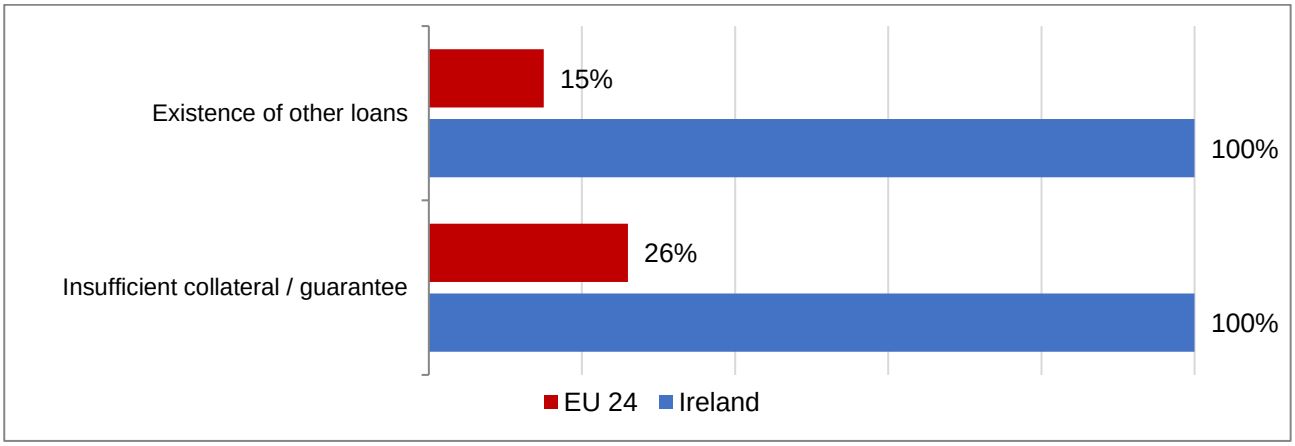
The share of rejected loans for all loan maturities is 13%, which is 5% higher than for the EU 24.[94] In addition, 5% of Irish agri-food enterprises rejected the bank's offer. This might be related to the bank policy applied to finance the agri-food sector (e.g. high interest rates, etc.). According to the interviews with agri-food enterprises, the agri-food sector is traditionally considered very high risk particularly, when it comes to upscaling, which requires loans and not credit lines/bank overdrafts, and for some sub-sectors, the risk is high due to the perishability of the products.

The main reasons for a rejected application provided by the Agri-food survey (Figure 32) [95] **include insufficient collateral and guarantees**, as well as the existence of other loans. Based on the interviews, additional reasons for banks rejecting loan applications include banks having little or no appetite for financing this sector, especially start-ups, as well as the lack of repayment capacity and poor financial literacy (e.g. business plan preparation, cash flow projection, management ability).

94 According to discussions we had with some stakeholders it can be said that the rejection rates could also be around these levels: (i) between 15-20% for formal rejections at the end of loan application process; (ii) between 20-30% when SME withdraw from the process; and (iii) around 90% for start-ups. This high rate of rejection is, for the focus group, related to the risk aversion of the banks, financing start-ups is not common.

95 This assumption is based on a low number of responses with rejections only occurring for medium-term loans.

Figure 32: Reasons for loan rejections in the agri-food sector in 2018



Source: Agri-food survey.

Based on interviews, some of the bottlenecks in terms of access to finance of agri-food enterprises include:

- Unfavourable terms and conditions, particularly for long-term loans, cost of finance, conditionality and a limited range of products are the main constrain for processors in accessing finance. The 5-year maturity loans[96] often offered by banks was assessed as too short, co-financing as too expensive and the risk appetite of the banks as too poor.
- Risk profiles of new entrants are higher due to their lack of credit history and experience.
- Enterprises tend to actively search for financing, and like the agriculture sector they are also facing challenges related to the 'blanket' approach (i.e. generic) taken by Irish banks to collateral. While collateral is provided against one specific loan, banks tend to apply it to all additional loans the enterprise may have. This has tied businesses into one specific bank and during the focus group, there were discussions around the possibility of a 'universal collateral system' being established and applied by all financiers.[97]
- Banks need to have a bespoke approach towards borrowers and to be customer driven[98]. The lack of capital has thwarted planned investments and undermined the competitiveness of the sector and the severity of the funding challenge increases with company size.
- A study implemented on behalf of The Food and Drink Industry[99] in Ireland furthermore concluded that banks have been increasingly risk-averse since the financial crisis, which adds to the challenges faced by the agri-food sector and Prepared Consumer Food (PCF) sector, in particular. The agri-food enterprises face a prohibitive funding environment, which undermines their ability to achieve growth and scale and this sector has an over-reliance on bank lending, particularly short-term lending. Loans which are available are high-cost and involve onerous conditions. There is a strong demand for a more flexible funding environment.

96 Based on interviews with agri-food stakeholders.
97 The focus group participants suggested that this would open up a more competitive financing market and if the borrower did get into difficulty, it would be flagged simultaneously for all financial institutions. In parallel, the strength of the banks would also be advised via this single source to borrowers, protecting them from the potential of losing everything should a bank collapse.
98 Interviews with banks.
99 PCF, 2019, Access to Finance, https://www.fooddrinkireland.ie/Sectors/FDI/FDI.nsf/vPages/Publications~the-funding-environment-for-prepared-consumer-foods-in-2015-13-05-2015/$file/PCF+Access+to+Finance+Report+-+2015.pdf.

Lack of financial literacy and skills increases difficulties to access finance. Throughout the interviews and focus group discussions, it was mentioned that agri-food enterprises, especially micro and small enterprises, need significant training and support in terms of business and financial planning and management. There is also a lack of skills regarding the Chief Finance Officers (CFO) role in agri-food enterprises and, thus, enterprise financials are managed 'in hindsight' primarily by bookkeepers and accountants. Most micro and small enterprises have no pricing models, no knowledge of their product margins and do not know how to accurately forecast potential downsides, all of which are critical financial planning competencies. The medium and large enterprises which tend to be more heavily borrowed, either have some financial planning and management expertise in-house or they have the resources to engage an expert to guide them in this regard.

In addition, in the interviews, concern was expressed about the **lack of a real competency and understanding by the banks** of how some sub-sector enterprises work in reality.[100] This includes a lack of understanding of the price volatility that agri-food enterprises can experience, of how enterprises use their funds, their inability to respond quickly and innovatively in a crisis, particularly in terms of finding new routes to market or indeed new markets, and in the bank's overall approach to this sector.

The small agri-enterprises represent the segment with the highest difficulties to access finance, for all types of products. These results appear consistent with the findings from the previous session on the difficulties to access to finance.

100 Result of interviews with many stakeholders and confirmed during the Focus Group.

3.3 Analysis on the supply side to the agri-food sector

This section provides an overview of the financial environment in which the agri-food sector in Ireland operates. It describes the main available financial products, including any currently operating financial instrument targeting the agri-food sector, with national and/or EAFRD resources. The section draws its information from interviews with financial institutions, as well as from national statistics.

An attempt is made to give a description of the general conditions for accessing finance, such as interest rates and requirements for collateral, and the availability of funding for agri-food enterprises. Potential differences in availability of financial products across different types of agri-food enterprises are reviewed and analysed.

Key elements on the supply of finance to the Irish agri-food sector

- It is estimated that the total outstanding loan volume to the manufacturing sector in 2018 was EUR 1.8 billion.
- Lending to the agri-food sector in Ireland is provided through the four main banks, cooperative societies, credit unions, non-bank lenders, online financiers, state agencies and investment funds.
- Typical products include short-term stocking loans, credit lines and overdraft facilities, term loans, leasing and merchant credit, which is based on credit and debit card usage via the banks, and credit against purchases via the cooperatives.
- EIF-managed financial instruments (Brexit Loan Scheme and Future Growth Loan Scheme) were introduced in 2018 and 2019, respectively.
- The level of debt in the cooperatives, particularly in the dairy sector, is rising as they are more responsive to their members' needs.
- The banks are restricted by their compliance and regulatory requirements, they operate on legacy core banking systems and have moved away from providing relationship management services at a local level.
- Irish agri-food enterprises rely heavily on financial and development support provided by state agencies.
- Increasing role of non-bank lenders might contribute to a more competitive financing market.
- Interest rates for agri-food loans are on average 2.6% higher than the EU average.
- The following supply constraints for finance to the agri-food sector can be outlined: (i) lack of competition between banks, (ii) banks are highly risk averse, (iii) high default rates, and (iv) high interest rates for loans.

3.3.1 Description of finance environment and funding availability

This section provides an overview on the finance providers in the Irish agri-food sector. In addition, the section will shed light on the financial products available in the Irish market to finance agri-food activities. Finally, a description on the trends of the financial market will be provided.

3.3.1.1 Finance providers

As already evidenced for agriculture, in the Irish agri-food lending market, there is currently a lack of competition amongst key financial players. Irish banks are increasingly influenced by regulatory rules, particularly regarding their capital allocation requirements, which has made lending to SME more onerous. For the potential agri-food borrower, these factors present an extremely challenging situation. Hence, there is emergence of new state-owned and non-bank financial service providers and online international non-bank providers supporting the Irish agri-food sector.

AIB Bank and Bank of Ireland have a near-dominant position in the retail banking market, followed closely by Ulster Bank and Permanent TSB. The market share of those four banks (including their leasing subsidiaries) is about 98%. All four have a nationwide branch network[101], which is crucial for Irish agri-food enterprises in terms of having local support particularly when submitting loan applications. Table 15 below presents the key financial providers to agri-food sector in Ireland.

Table 15: Irish Finance Providers relevant for the agri-food sector

Name of Financial Institution	Geographic Area Covered
Bank of Ireland	Nationwide (branches throughout the Republic of Ireland)
AIB Bank	Nationwide
Ulster Bank	Nationwide
Permanent TSB	Nationwide
Strategic Banking Corporation of Ireland (private company limited by shares)	Nationwide via the main banks who act as intermediaries
Microfinance Ireland (Not for profit lender established by the Government)	Nationwide team of Sector Experts, no branches
Credit Unions	Nationwide coverage via branches throughout the Republic of Ireland
Glanbia Cooperative	South, Southwest base
Kerry Foods Cooperative	Southwest base
Cooperatives nationwide	Nationwide coverage via societies throughout the Republic of Ireland
Online financiers and brokers	Online
State Agencies – Enterprise Ireland, LEOs and Bord Bia	Nationwide coverage via national and local Enterprise Offices

Source: Elaboration based on interviews and data from financial providers'websites, 2019.

Other important suppliers of finance for the agri-food sector include:

- The **Strategic Banking Corporation of Ireland (SBCI)**, established in 2014, is a strategic SME funding company, ensuring access to flexible funding for Irish SMEs. It facilitates the provision of flexible products to the agri-food sector in conjunction with the DAFM, which have longer maturity and capital repayment flexibility, subject to credit approval and lower cost funding to financial institutions, the benefit of which is passed on to the borrowers. The loan schemes developed by SBCI are delivered via its six on-lending partners, three bank (AIB, Bank of Ireland and Ulster Bank) and three non-bank finance providers (Finance Ireland, FEXCO, and Bibby Financial Services).
- **Microfinance Ireland** was set up by the Government to help micro enterprises who cannot get funding from the main banks. This non-bank lender does not compete with the main banks, it is a not-for-profit organisation and predominantly supports start-ups.
- The **Credit Union** movement is another important player for micro and small enterprises.
- The two leading dairy **cooperatives, Glanbia and Kerry**, provide significant credit support to their members/providers, symptomatic of the many cooperatives in Ireland, and are undoubtedly key players in the area of agri-food credit.

101 Bank of Ireland = 265 branches; AIB = 200+ branches; Ulster Bank = 146 branches and TSB = 78 branches.

- In addition to formal institutional financing, Irish agri-food enterprises are turning towards **online financiers** – examples being linkedfinance[102] providing loans below EUR 300 000, flender[103] founded in 2015, a portal bringing borrowers and investors together, and rangewell[104] another portal with many funders.

A number of **state agencies** also provide financing and grants to the agri-food sector:

- **Enterprise Ireland[105]** with **more than** 500 client companies in its Food Division. They offer a large range of products, from grants to equity funding. They are supporting SME and start-ups.
- **Local Enterprise Offices (LEO)** – LEO is managed by Enterprise Ireland and operate more locally. They provide a range of financial support[106] designed to assist the establishment and/or growth of enterprises employing up to ten people.
- **Bord Bia (Food Board)** –Bord Bia is state-owned and specialises in marketing and provides grants. They spend annually EUR 1 million for market research, market diversification and promotions. A lot of work has been done since 2012 on the Origin Green programme[107] and for medium and large companies to become more sustainable in relation to climate change. Most of their workshops are free to their clients, who in the absence of this support, would not seek a loan to fund these activity themselves.

3.3.1.2 Financial Products

Irish financial institutions, non-bank lenders, online financiers and state agencies offer loans and financing to SME for both working capital and investment, ranging over short, medium and long-terms and with varying interest rates based on the client, loan purpose and maturity. The typical types of loan product offered are detailed in Table 16.

Table 16: Overview of financial products offered to SME by Service Providers

Type of Product	Purpose	Maturity	Interest Rates in %
Overdraft / Working Capital (WC)	Cash flow management	Short-term	7.5 – 9.00
Term Loan	Working capital (WC)	Short-term	3.75 – 5.00
Term Loan	Capital investment	Medium and long-term	6.00 – 8.50
Term Loan for Micros	WC and capital investment	Medium and long-term	6.50 – 8.00
Non-bank lenders	WC and capital investment	Medium and long-term	5.50 – 6.50
Online financial providers	WC and capital investment	Short, medium and long-term	6.00 – 17.5
Merchant Credit	Purchase of stock using debit and credit cards	Short-term	9.00 – 18.5

Source: Interviews, 2019.

102 Linkedfinance, 2019, https://www.linkedfinance.com/.
103 Flender, 2019, https://www.flender.ie/.
104 Rangewell, 2019, https://rangewell.com/.
105 Enterprise Ireland, 2019. https://enterprise-ireland.com/en/About-Us/.
106 The support offered by LEO are: Feasibility Study Grants as well as Priming Grants, Business Expansion Grants, Technical Assistance for Micro Exporters, European Globalisation Fund, New Agile Innovation Fund, Brexit Supports for your Small Business.
107 Origin Green is Ireland's food and drink sustainability programme. It is a voluntary programme, led by Bord Bia, that brings together Irish food industry – from farmers to food producers, retailers to foodservice operators – with the common goal of sustainable food production. This programme enables Ireland's food industry to set and achieve measurable sustainability targets that respect the environment and serve local communities more effectively. https://www.origingreen.ie/what-is-origin-green/about-origin-green/.

In recent years, financial instruments, also in cooperation with the EIF, have been developed and successfully offered to the agri-food sector. These are outlined below.

Department of Business, Enterprise and Innovation (DBEI) – Microenterprise Loan Fund Scheme

The fund, administered by Microfinance Ireland, who also work closely with LEO, provides support in the form of loans of up to EUR 25 000, available to start-up, newly established, or growing micro-enterprises employing less than 10 people, with viable business propositions, that do not meet the conventional risk criteria applied by banks. Repayments will generally be monthly, but there is scope for exceptions if such exceptions will aid the sustainability of the project. To be eligible for a loan, persons must possess a business plan, a commercially viable proposal and the capacity to repay the loan.

Banks are the main supplier of finance to the micro-enterprise sector. However, due to its focus on job creation and the benefits this creates, Microfinance Ireland has a greater risk appetite than banks could possibly have and therefore is able to fund and help create and sustain additional micro-enterprises, which cannot satisfy conventional bank credit criteria. Key performance criteria, of Microfinance Ireland, for 2018 is shown in Table 17. Manufacturing, which included agri-food, accounted for 10% of successful applicants.

Table 17: Fund performance in 2018

Characteristics	Performance
Application received	1 024
Value of loans approved	EUR 5.4 million
Net jobs supported in 384 micro-enterprises	856
Approval rate	38%
Value of loans drawn	EUR 4.9 million
Loans drawn	346
Average loan size	EUR 14 000
Approval granted to businesses employing 3 people or fewer	85%
Approval granted to start-ups (in business for less than 18 months)	54%
Wide geographic coverage	19% of loans granted to Dublin, 81% to the rest of Ireland

Source: Microfinance Ireland, 2019.

DBEI/SBCI: SME Credit Guarantee Scheme (CGS)

The revised SME Credit Guarantee Scheme was launched by the Government in 2018 and aims to assist viable SMEs, which under normal lending criteria are unable to borrow from their bank to access credit. The scheme operates by providing an 80% guarantee to participating financial service providers on qualifying loans to SMEs.

The scheme has been designed to address three barriers to lending:

- Inadequate collateral;
- Novel business market, sector or technology which is perceived by financial service providers as higher risk under current credit risk evaluation practices;
- Need for refinancing caused by the exit of SMEs lender from the Irish market.

Key features of the scheme are:

- Facilities of EUR 10 000 up to EUR 1 million;
- Terms of up to 7 years;
- Term Loans, Demand Loans and Performance Bonds.

State Aid rules apply to the scheme and SMEs may be eligible if they (i) are involved in a commercial activity, (ii) are a sole trader, partnership, franchise, cooperative or limited company, (iii) in the lender's opinion have a viable business proposal; and/or (iv) are able to repay the facility.

To help SMEs impacted by COVID-19 related issues have access to sufficient working capital, the Government has repurposed the Credit Guarantee Scheme (CGS) to provide counter guarantees to the banks, mitigating credit risk or need for collateral. The Credit Guarantee Scheme can be used by businesses to obtain loans to support changes they need to make to their business in response to COVID-19[108].

SBCI Brexit Loan Scheme and Future Growth Loan Scheme managed by EIF, previously mentioned in the section 2.3.1.1, are also supporting agri-food businesses.

Seed Funds[109] (Enterprise Ireland)

The Government, through Enterprise Ireland, has made EUR 175 million available as part of the Seed & Venture Capital Scheme (2019-2024) to stimulate job creation and support the funding requirements of young innovative Irish companies. This Scheme allows the state to commit funding to venture capital funds that best meet the Schemes' objectives.

Under the first Call of the new Scheme, Enterprise Ireland is seeking to invest up to EUR 100 million in commercially focused venture capital funds. This First Call under the Scheme will target three distinct areas (Pre-Seed / Seed Stage Funding, Series A+ Funds and Food Sector Funding) of the market and applicants must identify which of the three areas their proposal addresses.

Applicants who wish to apply for more than one area must make separate applications, and each application will be evaluated individually.

More information on the Seed Funds can be found in Annex A.8.

Business Angel Support[110] (Enterprise Ireland)

The greatest source of seed and start-up capital comes from successful entrepreneurs and executives who have achieved wealth from their gains in previous investments. These people are known as Business Angels.

Business Angels, also known as 'informal private investors', are private individuals who invest capital in companies during their early stage of development. In addition, they contribute their know-how or experience in company management and can offer valuable expertise and guidance. Angels usually seek active participation in the company in which they invest.

Business Angels can be a substitute for classical bank financing or venture capital which can be difficult to attract at the early stage of a company's life. They are primarily motivated by return on investment and Business Angel involvement can often help secure access to venture capital or classical bank loans.

The average initial investment by Business Angels ranges between EUR 50 000 and EUR 250 000 individually, or can form syndicates (partnerships with other Business Angels) for investment up to EUR 500 000 and beyond. Business Angels generally invest in the region where they live and in areas in which they have the greatest expertise/knowledge. They may not necessarily look to invest in new technologies, although some specialise in providing finance in such areas.

108 The key features of the Credit Guarantee Scheme and Covid-19 include: Facilities of EUR 10 000 up to EUR 1million; Terms of up to 7 years; Term Loans, Demand Loans and Performance Bonds. Further information available on the SBCI website, https://sbci.gov.ie/products/sme-credit-guarantee-cgs.

109 Enterprise-Ireland, 2019, https://www.enterprise-ireland.com/en/Invest-in-Emerging-Companies/Seed-and-Venture-Capital-Scheme/.

110 Enterprise-Ireland, 2019, https://www.enterprise-ireland.com/en/Invest-in-Emerging-Companies/Source-of-Private-Capital/Business-Angels-BES,-Angel-Networks-.html.

Investment Funds[111] (Enterprise Ireland)

The Growth Capital team is a dedicated resource within Enterprise Ireland that works with the external investor ecosystem, most notably venture funds and Business Angels in Ireland and internationally, to stimulate investment activity into Irish SMEs. The Growth Capital Team manages Enterprise Ireland's venture fund investment portfolio. In addition, the Growth Capital team works with Enterprise Ireland's Development Advisors on initiatives which will enhance the financial capabilities of client companies, making those companies more likely to be successful in accessing capital to grow their businesses.

3.3.1.3 Description of Financing Market

Despite the availability of the several non-banking instruments mentioned above, the agri-food sector is reliant on bank lending, particularly for their short-term needs. At the same time, it is a **difficult sector to lend to with default rates hovering around 25%.** Also for this reason, the banks are highly risk averse. The belief expressed in the interviews is that they are only interested in funding the large corporations, while the SME are of no interest to them. Their products and prices are similar, and while their processes and procedures have been ramped up, they are not aligned with the different levels of borrowing for short, medium and long-term.

An increasing role of **non-bank lenders, private and state-owned, online platforms, might contribute to a more competitive financing market** and to addressing some of the challenges outlined above. There is a greater use of digital apps and platforms primarily for transactional banking activities, but in some cases also for loan applications and approval. Some business owners, however, still rely on the branch network and the relationship they have with their banks when it comes to loan applications. However, there is a significant failure in bank communications with the move away from relationship building, and there is no discretion or intuition at branch level.

Irish enterprises rely heavily on both the financial and development support provided by state agencies (Enterprise Ireland, Bord Bia), who supplement their debt-finance and who also guide them in identifying and sourcing alternative sources of finance. The state agencies have development advisers with specific portfolios in the meat, bakery, horticulture, confectionery and dairy sub-sectors, plus others, and they operate through a new client engagement model, which is diagnostic and management team led. To put it concisely, they conduct a needs analysis, identify the challenges and then focus on scaling and access to finance. This level of support, otherwise known as consultative or needs-based selling in banks has, in more recent years, been deemed a non-core service in the main banks, resulting in no relationship management services for enterprises, except for those in the medium to large category.

In terms of the banks willingness to collaborate with state agencies in addressing potential problems of a financing gap in the agri-food sector, they are open to discussions and workshops but, although willing, they are unable to do very much due to their own regulatory restrictions. However, in some cases the banks will share the funding risk with both the client and the state agencies, which is ultimately valuable for the enterprises. For those young enterprises who want to expand, have come out of start-up, or for which the state agency has equity in the company based on it being vulnerable but viable, a huge investment is required to grow but there is no repayment capacity in the enterprise. To offset this, it was recommended in the interviews that the maturity terms of loans be extended, and guarantees be put in place against default. The banks are not driving the closing of the financing gap, but are simply interested participants who are hugely risk averse.

The agri-food sector is risky, by virtue of the nature and volatility of their business, and there is a **gap between banking support provided and what is required, hence facilitating the reliance on state agency support.** The need for a new and integrated approach to financing the agri-food sector is being addressed in part by the introduction of the financial instruments with various schemes being offered via the major banks but also, and more noticeably, via the cooperatives and non-bank financial institutions.

Dairy cooperatives are showing a large increase in their balance sheets, carrying more debt in 2017/2018 due to external factors like adverse climate crises, and they expect to see a further increase in the level of debt

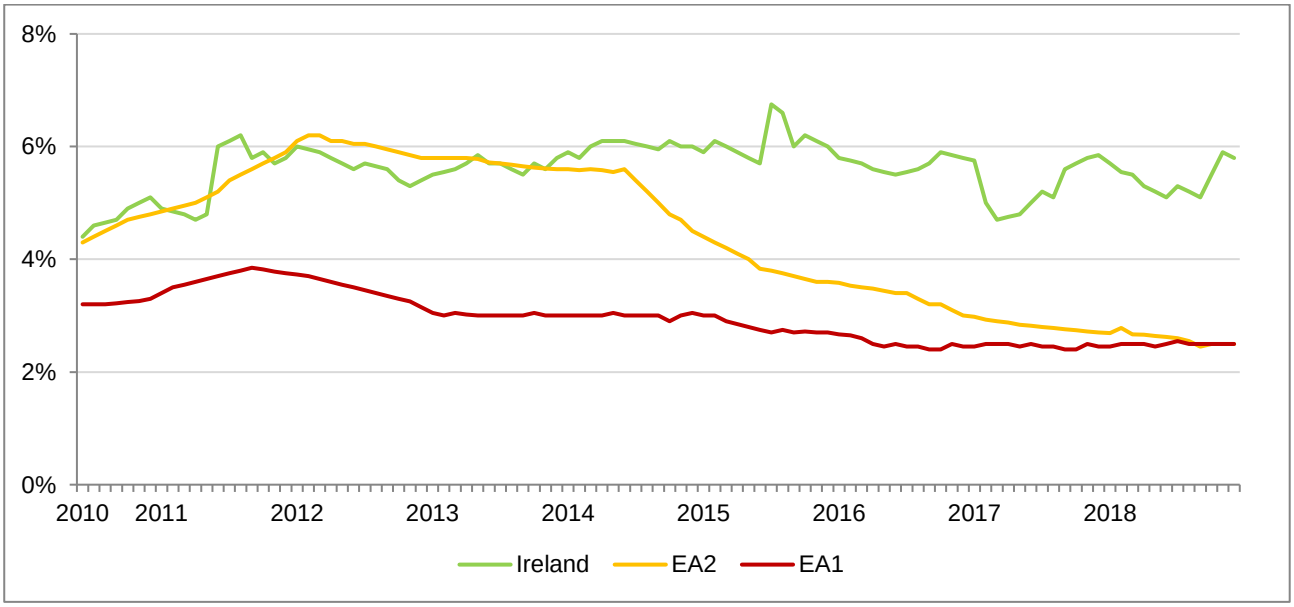
111 Enterprise-Ireland, 2019, https://www.enterprise-ireland.com/en/Invest-in-Emerging-Companies/Investors/.

due to the Brexit. They show greater flexibility, they always respond to their members and have a stronger relationship with them than banks do. In times of crisis, and when there are pressures in the system, the agri-food producers' first port of call is their coop. With this level of credit from the cooperatives, there is little or no need to approach their banks.

Some of the non-bank institutions are cash rich and they are now moving further into short-term lending to support their local agri-food enterprises.

Interest rates for small loans have fluctuated over the last few years but they remain substantially higher than the EU average (Figure 33), mainly caused by the high levels of non-performing loans. These arise as micro and small agri-food enterprises face both internal and external factors affecting their sustainability and growth. Internal issues are primarily cash flow management, coupled with poor business planning and financial management. External factors are the impact of the Brexit, access to new and more diverse markets and the cost to enter these markets plus the need to upscale, which requires long-term investment which they cannot access or sustain. The interest rate for commercial loans of less than EUR 250 000 is 5.2% as of March 2018 while the comparable interest rates in EA1 countries[112] and EA2[113] countries is 2.6% per cent for both. The interest rate gap between Ireland and the EA2 countries widened significantly from 2014 and continued to decline through to the end of 2018. The interest rate gap between Ireland and the EA1 countries was always wider than with EA2 countries, and this gap widened from early 2012 but has stabilised somewhat since 2016.

Figure 33: Interest rates on new small loans below EUR 250 000 for Irish agri-food sector, 2010-2018



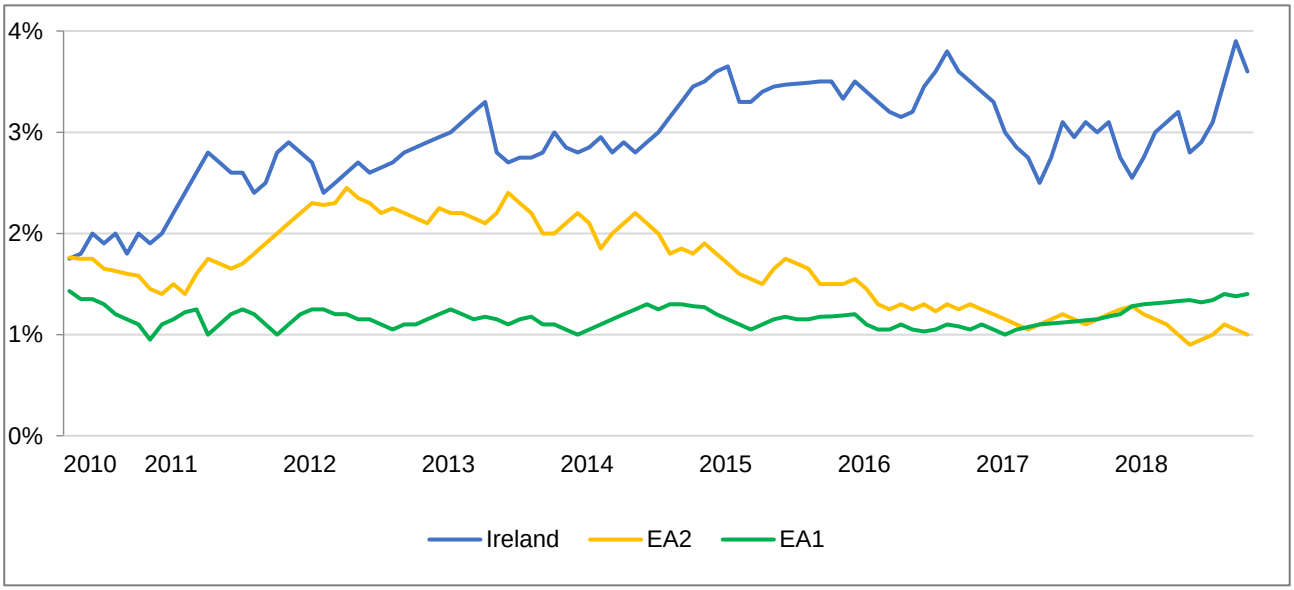
Source: ECB Monetary and Financial Statistics, 2019.

Additionally, the difference in interest rates between small and large loans (above EUR 1 million) is higher than the EU average (Figure 34). In January 2019, the rate was 3.6%, up 1.1% from May 2017.

Despite this situation, the emerging use of online lenders where price is generally higher than in banks proves that price is not the primary issue. Terms and conditions, the level of collateral required, having no risk appetite and lack of guarantees for the banks are the greater barriers to accessing finance.

112 Austria, Belgium, Germany, Finland, The Netherlands and France.
113 Portugal, Italy, Spain and Greece.

Figure 34: Interest rates on small and large loans in Irish agri-food sector, 2010-2018



Source: ECB Monetary and Financial Statistics, 2019.

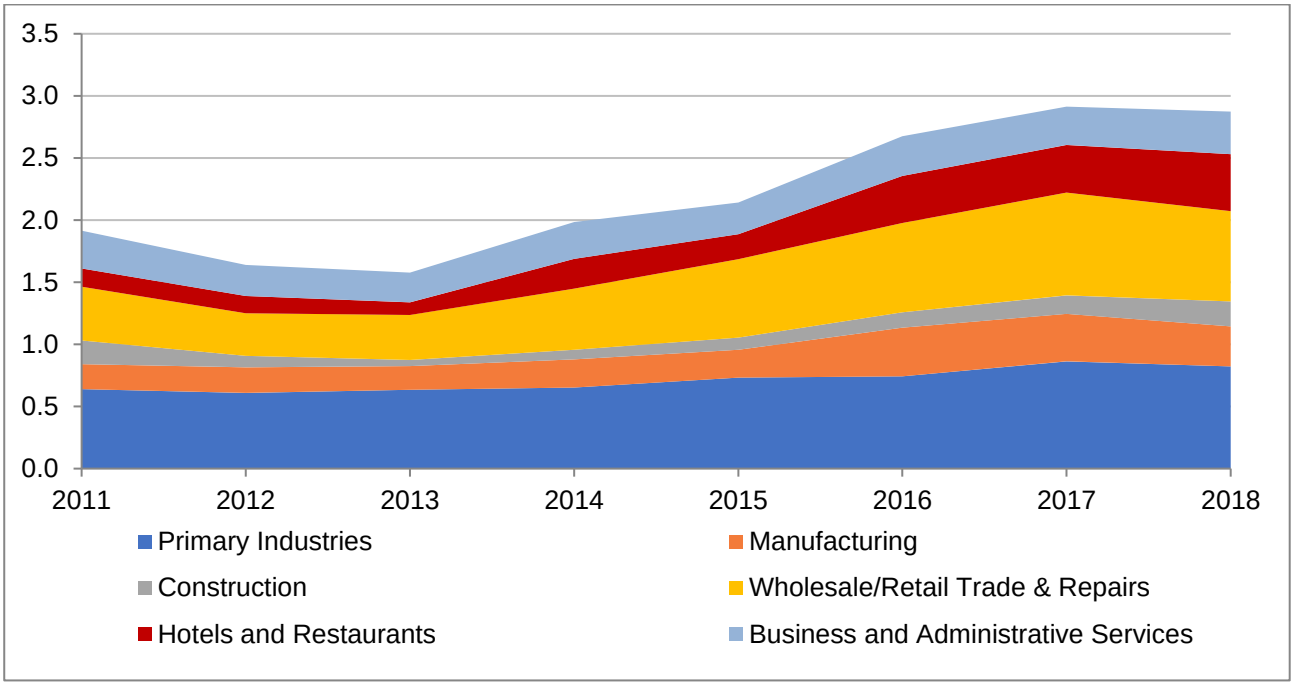
3.3.2 Analysis of the supply of finance

The outstanding loan volume for the manufacturing sector in 2018 is estimated at EUR 1.8 billion, a reduction of EUR 200 million from 2017. The outstanding balance for agri-food lending in general is not available at the central bank level, much less at sub-sector level, as they are all incorporated into the larger manufacturing figure.[114]

The new lending to manufacture of food, beverage and tobacco declined in 2018. According to the Central Bank,[115] the new lending for the manufacture of food, beverages and tobacco in 2018 was EUR 104 million, a decrease of EUR 85 million from 2017.

The decline in lending was driven by 'manufacturing' (15.9%), which includes the agri-food sector, 'wholesale, retail, trade and repairs' and 'primary industries', with increases elsewhere (Figure 35).

Figure 35: Gross SME new lending, 2011-2018, in %



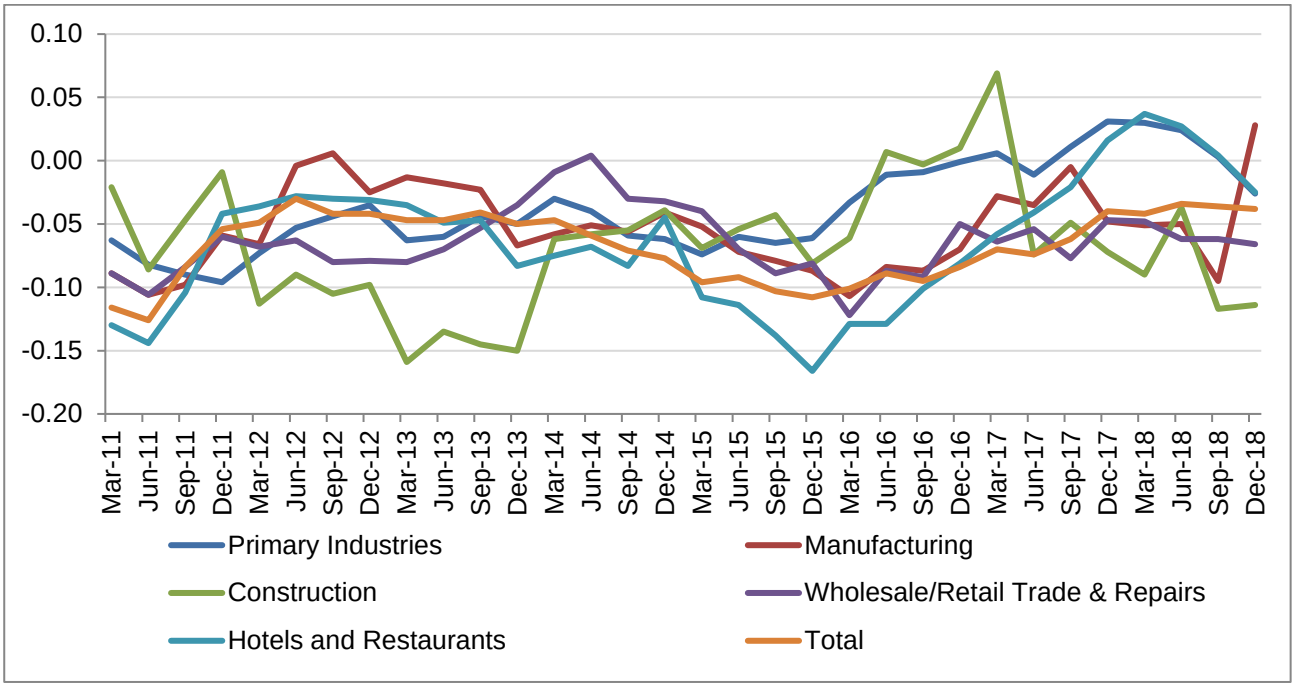
Source: Central Bank of Ireland.[116]

However, looking at net growth, which also declined, the exception to this again was manufacturing (Figure 36). During the interviews, it was suggested this was due to stockpiling and preparation for the initial the Brexit deadline of March 2019. Still, banks do not expect continued significant growth in the sector given concerns over the Brexit.

114 There is no detailed breakdown of agri-food lending available from the core banking systems in the major banks. They cannot report on loan purpose, maturity, enterprise size, type, and so on, except at the loan application stage, which is held manually, www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/sme-large-enterprise-credit-and-deposits.

116 Centralbank of Ireland, 2019, https://centralbank.ie/docs/default-source/publications/sme-market-reports/sme-market-report-2019.pdf?sfvrsn=9.

Figure 36: Annual net SME Credit Growth in the Irish economy



Source: Central Bank of Ireland, 2019.

Interestingly, there is significant support provided to the agri-food sector via state agencies, but during the interviews with relevant stakeholders, it was clarified that there are too many support and financing options. The options are very diverse, often duplicated and the borrowers tend to have access to limited information when it comes to looking for specific support. It was recommended to establish a centralised function to act as a single-source of information regarding all financing and finance and business literacy training.

The introduction of the EIF managed schemes in recent years has gone some way to closing / easing the gap and a new scheme recently launched in the market, the Future Growth Loan Scheme is supporting expansion and investments to mitigate climate change. The Brexit Loan Scheme has not worked well to date and according to interviews the term is considered too short for most SMEs. The Future Growth Loan Scheme as mentioned already in the report, is well perceived and the strong demand from SMEs and farmers has led to a rapid take up of the scheme and consequently there is limited remaining capacity.

3.4 Financing gap in the agri-food sector

This section presents an assessment of the financing gap in the Irish agri-food sector, broken down by firm-size and financial product.

Key elements of the financing gap in the Irish agri-food sector

- The financing gap in the agri-food sector is estimated at EUR 244 million.
- The most constrained segment is the long-term financing of small enterprises.
- The key constraint is poor repayment capacity and the availability of collateral.
- New entrants and micro enterprises face serious difficulties, especially in sub-sectors with low profitability and a slow growth cycle.
- 18.4% of the agri-food firms are discouraged to apply for long-term loans.
- Banks are overall risk averse and they are restricted by their compliance and regulatory requirements.

This section presents an approximation of the unmet financing needs of financially viable agri-food enterprises for 2018, which we obtained by multiplying the number of viable firms with constrained access to finance by the average firm's loan amount.

Financing gap = Number of firms X percentage of firms that are both financially viable and have unmet demand X average loan volume

All the calculations are based on the results of the Agri-food survey for Irish agri-food businesses (see Annex A.5 for more information). The methodology used for calculating the gap is the same as the methodology used for the agriculture sector (see Annex A.3).

The financing gap arises from unmet financing demand from economically viable firms[117]. The unmet demand for finance includes:

(i) lending applied for but not obtained; or
(ii) a lending offer refused by the potential borrower; as well as
(iii) lending not applied for due to expected rejection.

For the purpose of this study, 'turnover growth' is used as a proxy of firm viability. In particular, we make the hypothesis that all enterprises which reported a stable (non-negative) turnover growth can be considered as viable.

The financing gap for the Irish agri-food sector is estimated at EUR 244 million[118] and mainly concerns small agri-food enterprises (less than 50 employees), which account for 57% of the total financing gap (Table 18 and Figure 37). The type of loans for which the gap is the largest are long-term loans (more than five years), which accounts for 78%. The financing gap as estimated from the Agri-food survey represents approximately 14% of the annual met demand for new loans in the total Irish manufacturing sector or approximately double of the total outstanding loan volume to the manufacturing sector.

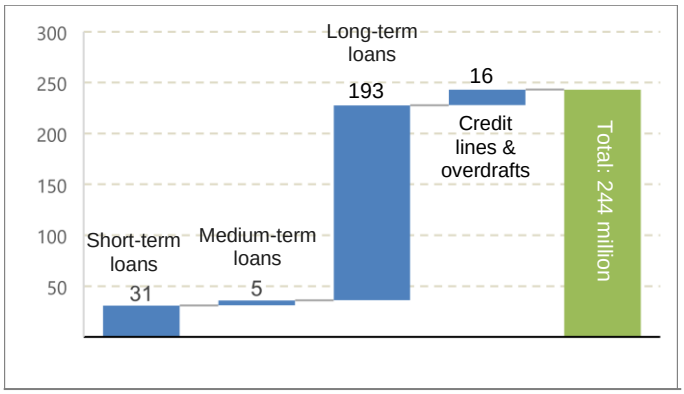
117 The financing gap presented in this section is different from the total unmet demand presented in Section 3.2.2. In the quantification of the total unmet demand, all the enterprises in the population applying for finance are considered independent from their economic viability.
118 The financial gap presents only the upper boundary, as the financing gap estimated in the lower boundary is equal to zero.

Table 18: Financing gap by firm in the agri-food sector, 2018, EUR million

	Total	Short-term Loan	Medium-term Loans	Long-term Loans	Credit lines/ bank overdraft
Small-sized firms	**141.1**	16.7	2.8	112.6	8.8
Medium-sized firms	**63.6**	10.6	1.2	48.1	3.8
Large-sized firms	**39.3**	3.9	0.8	31.8	2.9
Total	**244.0**	**31.1**	**4.9**	**192.5**	**15.5**

Source: Calculation based on results from the Agri-food survey.

Figure 37: Financing gap by product in the Irish agri-food sector, EUR million, 2018



Source: Calculation based on results from the Agri-food survey.

Insufficient collateral, risk aversion from banks and the lack of knowledge are the key drivers of the gap.

About 30% of the overall gap might be attributed to start-ups and new entrants.[119] Banks are unwilling to take risks on start-ups and on the expansion of established agri-food businesses given their own regulatory restrictions and the volatility of the sector. Start-ups and new entrants are also often discouraged to apply for finance as they face challenges in managing their finances tightly to ensure their invoices are paid in good time for them to, in turn, pay their suppliers. Also, they are being rejected more often as they cannot demonstrate their willingness to repay loans as they did not have a loan before and thus they do not have a credit history.

Over the coming years, the evolution of the financing gap could be significant. The current gap of EUR 244 million is quite significant but stakeholders are estimating that the future demand could even be higher.

- The unmet demand is mainly due to small enterprises (EUR 141 million) looking for long-term loans (EUR 112.6 million).
- For large enterprises the largest gap is in terms of long-term loans who estimated their financial demand over recent years to be EUR 109.5 million[120] (EUR 77.7 million more than the estimated gap).
- For medium-sized enterprises and long-term loans, the estimated gap is EUR 48.1 million largely in line

119 Interviews with banks and with Irish agri-food enterprises, 2019.
120 PCF Access to Finance, 2015, https://www.fooddrinkireland.ie/Sectors/FDI/FDI.nsf/vPages/Publications~the-funding-environment-for-prepared-consumer-foods-in-2015-13-05-2015/$file/PCF+Access+to+Finance+Report+-+2015.pdf.

with the stated financing needs of medium size Irish enterprises. In the discussions with stakeholders, it was also claimed that the financing gap for medium size Irish enterprises could be as high as EUR 50 – 60 million, while the mid-caps have a working capital needs of around EUR 30 million. The above indications related to the PCF sector specifically but are applied to the agri-food sector in general, based on discussions within the focus groups.

According to interviews with the financial stakeholders, the Brexit is already having an impact on financing demand in Ireland with significant reductions in lending evident in 2019, thus widening this gap. There are many implications which SMEs in the agri-food sector are preparing for to the best of their ability, given the uncertainties around the Brexit. Consumer food margins and reserves will be hit and it is envisaged that up to 30% of micro firms may not survive. Additionally, micro enterprises, in particular, are not all tracing where their raw materials are coming from, as a result of which some producers will suffer. All in this sector who are dependent on imports and exports to and through the UK are expecting cash flow pressure from new tariffs, longer lead times for their supply chains, longer delays at ports and increasing logistical challenges, all of which will impact on their financing needs. Some of the small, medium and large enterprises have invested in efficiencies, innovation, diversification and new market access but their primary concerns are around their supply chain. For those enterprises who have done some scenario planning around the tariffs etc., there is growing concern about the lack of awareness surrounding the regulatory issues regarding health and safety standards and regulations in terms of certifications of their raw materials and the financial implications related to these issues having yet to be identified. A soft Brexit will have a significant impact, a hard Brexit will have a devastating impact on this sector and only the largest and the strongest financially will survive.

Weather changes and climate change adaptations are and will continue to impact SMEs in this sector as they are obliged to deliver on the new environmental plans which require huge investments. The micro and small enterprises especially are concerned as their margins will be eroded if these costs are not spread along the full supply chain to the consumer and they fear for the viability of their businesses which will again widen the gap. Not much planning or investment has been made by the micro and smaller enterprises in this regard and this will cause a widening of the gap going forward. A lot of planning and some investments have been undertaken by the medium and large enterprises to improve process efficiencies, resource management, energy and resource efficiency etc., and again they would like to see these costs spread along the supply chain. Adapting to offset the impact of climate change is an evolutionary and progressive process and additional financial support will be required, again widening the gap.

3.5 Conclusions

After severe drops in gross investment in 2015, the gross investment into the Irish agri-food sector shows a slight recovery reaching EUR 236 million in 2017 (only food manufacturing).

The demand for finance in the Irish agri-food sector is driven by investments in expanding the capacity to incorporate new processes and equipment, new or extended buildings, vehicles, etc. Investment needs are also related to the inventory and working capital requirements for food producers and agri-food enterprises, which include the usual running costs for a business. Investment in Research and Innovation (R&D) in the industry in expansion, job creation, R&D projects, new product development and in new innovation is also driving investment.

While RDP sub-measure 4.2 has not been programmed for Ireland, significant financial support has been provided under other measures of the RDP / CAP. Those measures have supported agri-food enterprises and stimulated their investment needs.

The financing gap in the agri-food sector is estimated at EUR 244 million. The most constrained segment is the long-term financing of small enterprises but there is also a gap in terms of long-term financing across all segments. The analysis shows also that difficulties in access to finance, in particular, for small size businesses, could go well beyond the estimated financing gap of EUR 244 million. Brexit will likely cause the financing gap to increase in the short-term (so that agri-food enterprises can comply with the requirements in terms of packaging or certification).

Many of the agri-food enterprises are being discouraged to apply for finance as they perceive the loan application process to be too long and complicated. The **share of rejected loan applications is also higher than for the EU 24**. Traditionally the agri-food sector is considered very high risk particularly when it comes to upscaling which requires loans.

The supply of finance to the sector has also been decreasing, both in terms of outstanding loan portfolios and annual new lending. The new lending for the manufacture of food, beverages and tobacco in 2018 was EUR 104 million, a decrease of EUR 85 million on 2017. Banks consider lending to the sector as very risky and are thus not too keen on further increasing their exposure.

The Brexit is causing huge uncertainty for the Irish agri-food sector being particularly vulnerable taking into account that 37% of all its exports going to the UK. This threat has already had a significant impact on financing demand. It has already hit the reserves of some Irish enterprises, which leads them to apply for a bank loan.

There is a diverse functional financial market of both bank and non-bank lenders actively supporting the agri-food sector, but new customised financial instruments would help to improve access to finance for those enterprises, which will remain in operation after the Brexit. The following financial instruments might contribute to closing the financial gap for Irish agri-food enterprises:

- Risk sharing instruments and guarantees:
  - A new Up-Scaling Fund could be established to support working capital demands, with longer terms and lower rates, combined with a guarantee against the risk of longer up-scaling timelines due to external local and global economic factors.
  - A special Agri-food Fund could be established with a long-term investment focus, greater flexibility, using both guarantees and loans with low interest rates, and also relying on EAFRD support.
  - New schemes and financial instrument products for new-entrants are needed, which factor in the specific challenges being faced by the new-entrants, especially those having a rather slow growth in their business cycle. Various funding sources could be considered, including the EAFRD support possibilities for the 2021-2027 period.

ANNEX

A.1. References

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A.2. Stakeholders interviewed

Type of Stakeholder	Name of institution/organisation
Farmers' organisation	Irish Cattle & Sheep Farmers Association (ICSA)
Farmers' organisation	Irish Creamery Milk Supplier Association (ICMSA)
Farmers' organisation	Irish Farmers Association (IFA)
Farmers' organisation	Macra Na Feirme – Organisation for young farmers
Financial Institution	AIB Bank
Financial Institution	Bank of Ireland
Financial Institution	MicroFinance Ireland
Financial Institution	National Treasury Management Agency (NTMA)
Financial institution	Strategic Banking Corporation of Ireland (SBCI)
Food Industry organisation	Bord Bia – Irish Food Board
Food Industry Organisation	Enterprise Ireland
Food Industry organisation	Food Drink Ireland (FDI) / IBEC
Food Industry organisation	Glanbia – Irish global nutrition group with operations in 32 countries. It has leading market positions in sports nutrition, cheese, dairy ingredients, speciality non-dairy ingredients and vitamin and mineral premixes. Large coop society in operation.
Food Industry organisation	Kerry Group – a leading supplier of added value brands and customer branded foods to the Irish, UK and selected international markets. Coop in operation.
Managing authority	Department of Agriculture Food & Marine
Managing authority	Teagasc – Agriculture and Food Development Authority
Other	Credit Review Office - Established by the state to provide an independent, impartial credit appeals process for SMEs, including sole traders and farmers.
Other	Des Bodley, Business Adviser to Irish Farmers
Producer organisation	ISME – Independent business association for Irish SMEs
Producer organisation	SFA – Small Firms Association
Producers' organisation	Irish Co-operative Organisation Society (ICOS)

A.3. Methodology for financial gap calculation

This section of the report clarifies the terminology and proposes a method for estimating the financial gap formula for Target Group I and Target Group II. This version of the formula aligns with the *fi-compass* Factsheet on the financial gap in agriculture and the 2013 European Commission working paper on the Ex-ante assessment of the EU SME initiative. It is based on the data from the *fi-compass* survey of 7 600 farms carried out in mid-2018.

Financing gap definition. We define the financing gap to be the unmet credit demand due to constrained or missing access to financing. This definition includes market failures as well as other types of constraints.

Operationalisation of the financing gap formula. Each component of the formula can be obtained in the survey data under the following **assumptions**:

***Rejected* credit applications** include applications that are rejected by banks (or other credit organisations) and offered from banks, but turned down by the farmers/firms.

The share of *Viable* firms is measured by the share of total firms that have a non-negative turnover growth[121] or a non-negative turnover and that are not in a situation of cost increase (these two criteria might be used to obtain an upper and lower boundary for the calculations).

Discouraged application is proxied by the average size (financial value) of loan applications made by firms that applied for a similar type of financial product. This allows for grouping firms which did not apply for fear of rejection with rejected firms (see step 2 and 4 below).

To calculate the financial gap, we define the following four steps. Each step refers to the latest surveyed year for both the surveys.

Step1: Ratio of viable farms with unmet demand for finance

$\boldsymbol{Rejection\ Rate^{Viable}}$ **:** This refers to the share of viable enterprises whose application was unsuccessful. It is measured by the ratio of enterprises with unsuccessful applications over the total population. It includes rejected applications by the lending institution and offers turned down by the applicant itself.

$$Rejection\ Rate_j^{Viable} = \frac{Number\ of\ Rejected\ Viable\ Firms}{Total\ survey\ population_j}$$

with and $j = Short - term\ , Medium - term, Long - term\ Loans, Credit\ lines.$

$\boldsymbol{Discouraged\ Rate^{Viable}}$**:** It represents the share of viable enterprise that were self-discouraged because of fear of rejection. It is computed as follows:

$$Discouraged\ Rate_j^{Viable} = \frac{Number\ of Discouraged\ Viable\ Firms}{Total\ survey\ population_j}$$

with and $j = Short - term\ , Medium - term, Long - term\ Loans, Credit\ lines.$

$\boldsymbol{Unmet\ demand\ Rate^{Viable}}$**:** The total share of survey respondents with unmet demand for finance is obtained by summing the two rates:

$$Unmet\ demand\ Rate_j^{Viable} = Rejection\ Rate_j + Discouraged\ Rate_j$$

Step 2: Number of farms rejected or discouraged

$\boldsymbol{N.of\ Farms\ in\ unmet\ demand_{ij}^{Viable}}$: In order to get the number of farms constrained in accessing financing, we multiply total share of viable respondents with unmet demand from the survey sample (Step 1) by the total farm population from Eurostat by farm size.

121 A turnover that has been stable or growing in the last year.

For TGI, this total population is adjusted by removing farms having a Standard Output (SO) below EUR 8 000 EUR 4 000 or EUR 2 000, depending on the Purchasing Power Parity Index (PPI) of the country. The EUR 8 000 EUR 4 000 or EUR 2 000 SO thresholds are used for countries with their 2017 PPI respectively above the 66th percentile, between the 33th and 66th percentile, or below the 33th percentile of the PPI index in the EU. We assume equal rates of rejections among small, medium and large-sized farms, and disentangle the share of farms with constrained in obtaining credit by financing product.

$$N.of\ Farms\ rejected_{ij}^{Viable} = Eurostat\ Farm\ population_i * Rejection\ Rate_j^{Viable}$$

$$N.of\ Farms\ discouraged_{ij}^{Viable} = Eurostat\ Farm\ population_i * Discouraged\ Rate_j\ ^{Viable}$$

$$N.of\ Farms\ in\ unmet\ demand_{ij}^{Viable} = N.of\ Farms\ rejected_{ij} + N.of\ Farms\ discouraged_{ij}$$

for $i = Small, Medium, Large$
and $j = Short - term\ , Medium - term, Long - term\ Loans, Credit\ lines.$

Step 3: Standard Loan Application Size

$\boldsymbol{Application\ Size_{ij}}$: For each type of financial product and each firm/farm size category, a standard size of application is constructed. A starting point for Country experts might be the EU wide geometric mean, adjusted at country level with the purchasing power parity index. This value might be further adjusted based on the results of the analysis.

Step 4: Financial gap across farm size and product type

The financing gap is obtained by multiplying the amount of loans (Step 3) by the total number of farms facing constrained access to credit as calculated in Step 2.

Note: when the survey sample size allows, an indicative breakdown of the gap will be provided for young farmers per member state. The breakdown is obtained from the age ratio within rejected loan applications.

$$\boldsymbol{Financial\ Gap_{ij} = Application\ Size_{ij} \times N.of\ Farms\ in\ unmet\ demand_{ij}^{Viable}}$$

for $i = Small, Medium, Large$
and $j = Short - term\ , Medium - term, Long - term\ Loans, Credit\ lines$

Finally, the total gap is the sum of figures across size classes (i) and products (j).

Private financing (obtained from family or friends) will be included in a separate quantification for countries with a high share of private lending.

The methodology for the gap calculation for TG II is the same as for TG I, but no lower limit on the size of enterprises is applied in step 2 (all enterprises in the population are included in the calculation). For Target Group II, we obtain each component of the financing gap formula from the following questions in the Agri-food survey of Target Group II carried out in mid-2019:

- **Lending/funding applied to**: For what kind of finance did you apply in 2018 and with what amount?
- **Lending not applied to**: For what reasons did you not apply for some kind of finance?
- **Rejected:** What was the result of your application?
- **Viability**: Has the following company indicator changed in the last year: Turnover?

It has to be noted that the surveys to be used by the Study for the calculations, the *fi-compass* farm survey and the Agri-food survey, are designed to be statistically representative at national level. Therefore regionalised figures and calculations could be applied with a limited dimension and for only few countries. Information from interviews may complement such regionalised descriptions.

For Ireland Table 19 and Table 20 report the elements used in the calculation of the financing gap for the agricultural and agri-food sector, respectively.

Table 19: Elements for the calculation of the financing gap in the Irish agriculture sector

		Short-term Loans	Medium-term Loans	Long-term Loans	Credit lines/bank overdraft
Lower bound: farms with a non-negative turnover growth and no cost increase	Share of respondents rejected by creditor or farmer	1.66%	0.00%	0.00%	1.66%
	Share of respondents that have not applied because of possible rejection	0.83%	3.31%	3.31%	0.83%
	Total (sum of rejected and discouraged)	**2.48%**	**3.31%**	**3.31%**	**2.48%**
Upper bound: farms with a non-negative turnover growth	Share of respondents rejected by creditor or farmer	1.66%	0.00%	0.00%	1.66%
	Share of respondents that have not applied because of possible rejection	1.66%	4.14%	4.14%	1.66%
	Total (sum of rejected an discouraged)	**3.31%**	**4.14%**	**4.14%**	**3.31%**
Total unmet demand: all farms	Share of respondents rejected by creditor or farmer	1.66%	0.00%	0.83%	3.22%
	Share of respondents that have not applied because of possible rejection	2.39%	5.70%	4.88%	2.39%
	Total (sum of rejected an discouraged)	**4.05%**	**5.70%**	**5.70%**	**5.61%**
Farms with constrained access to finance, **lower bound**	Small-sized farms	550	734	734	550
	Medium-sized farms	1 667	2 222	2 222	1 667
	Large-sized farms	121	162	162	121
Farms with constrained access to finance, **upper bound**	Small-sized farms	734	917	917	734
	Medium-sized farms	2 222	2 778	2 778	2 222
	Large-sized farms	162	202	202	162
Standard loan application size (EUR)	Small-sized farms	21 773	52 817	145 664	19 657
	Medium-sized farms	27 587	50 201	158 167	21 805
	Large-sized farms	81 364	127 752	284 797	116 129

Source: fi-compass survey.

Table 20: Elements used for the calculation of the financing gap in the Irish agri-food sector

		Short-term Loans	Medium-term Loans	Long-term Loans	Credit lines/bank overdraft
Firms with a non-negative turnover growth	Share of respondents rejected by creditor or firm	0.65%	0.65%	0.00%	0.00%
	Share of respondents that have not applied because of possible rejection	9.79%	0.65%	18.14%	4.90%
	Total (sum of rejected an discouraged)	10.44%	1.30%	18.14%	4.90%
Total unmet demand: all firms	Share of respondents rejected by creditor or firm	0.65%	0.65%	0.00%	0.00%
	Share of respondents that have not applied because of possible rejection	9.79%	0.65%	18.14%	4.90%
	Total (sum of rejected an discouraged)	10.44%	1.30%	18.14%	4.90%
Firms with constrained access to finance	Small-sized firms	161	20	180	76
	Medium-sized firms	13	2	22	6
	Large-sized firms	5	1	8	2
Standard loan application size (EUR)	Small-sized firms	103 469	141 645	401 753	116 828
	Medium-sized firms	822 021	774 055	2 153 277	625 438
	Large-sized firms	810 592	1 355 713	3 805 692	1 272 000

Source: Agri-food survey.

A.4. TG I: *fi-compass* survey

The analysis for the agriculture sector in the report relies on the *fi-compass* survey on financial needs of EU agricultural enterprises, conducted from April to June 2018 across 24 EU Member States (EU 24): Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

The survey was carried out targeting the completion of 300 questionnaires for each Member State. The target was reached in all countries except Lithuania (for few interviews) and Ireland, where the farmers were less confident in sharing information.

Overall, the survey consists of 7 659 respondents, of which 73% own the agricultural enterprise, 8% are member owners, 8% are owner's relatives, 7% administrative managers, 3% other employees, and 1% human resource managers. Table 21 reports the number of respondents by Member State.

Table 21: *fi-compass* survey sample size per Member State

Country	No. of Respondents	Country	No. of Respondents
Belgium	350	**Latvia**	315
Bulgaria	351	**Lithuania**	296
Czech Republic	309	**Hungary**	315
Denmark	302	**The Netherlands**	301
Germany	376	**Austria**	320
Estonia	310	**Poland**	320
Ireland	151	**Portugal**	349
Greece	350	**Romania**	350
Spain	354	**Slovenia**	300
France	350	**Slovakia**	312
Croatia	300	**Finland**	327
Italy	351	**Sweden**	300

Source: fi-compass survey.

Additionally, the sample covers 198 (94.7%) of the 209 NUTS2 regions in the 24 Member States. These regions have nearly 99% of EU 24 farms.

Almost 85% of questions were completely answered and 98% of all questions were answered on average. The most problematic questions were on confidential, financial aspects. Only 50% of interviewees replied concerning their turnover, 67% gave the specific amount of their loan and 56% the exact interest rate of their loan.

For additional information, please refer to https://www.fi-compass.eu/publication/brochures/survey-financial-needs-and-access-finance-eu-agricultural-enterprises.

A.5. TG II: Agri-food survey

To mirror the *fi-compass* survey on the needs of EU agricultural enterprises, a computer assisted telephone interviewing (CATI) survey was conducted for the agri-food processing sector in mid-2019.

For the purpose of this survey, a commercial global register was used in each country. A commercial global register provides data in a single source, harmonises the information collected on businesses (e.g. Industrial classification, employee size, turnover, contact names etc.) and offers software platforms that allow users to easily access a sample of businesses for commercial purposes.

The survey was conducted targeting the completion of a minimum of 45 questionnaires for each Member State. The minimum sample size obtained varied per country mirroring the differences in the size of the sector. Table 22 reports the sample size per country.

Table 22: Agri-food survey sample size per Member State

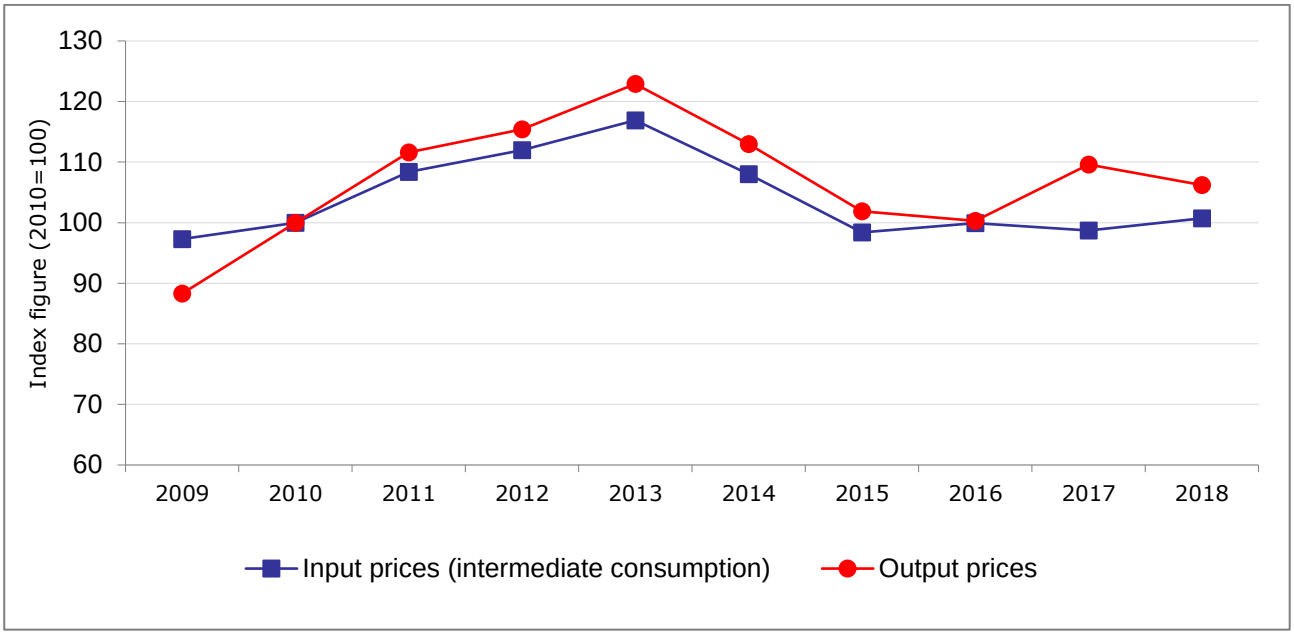
Country	No. of Respondents	Country	No. of Respondents
Belgium	100	**Latvia**	50
Bulgaria	100	**Lithuania**	50
Czech Republic	66	**Hungary**	46
Denmark	50	**The Netherlands**	80
Germany	186	**Austria**	50
Estonia	50	**Poland**	130
Ireland	50	**Portugal**	100
Greece	70	**Romania**	150
Spain	197	**Slovenia**	50
France	180	**Slovakia**	50
Croatia	45	**Finland**	50
Italy	200	**Sweden**	48

Source: Agri-food survey.

The survey consists of 2 148 respondents, of which 85% were enterprises operating in the manufacturing food sector, and 15% in the manufacturing of beverages.

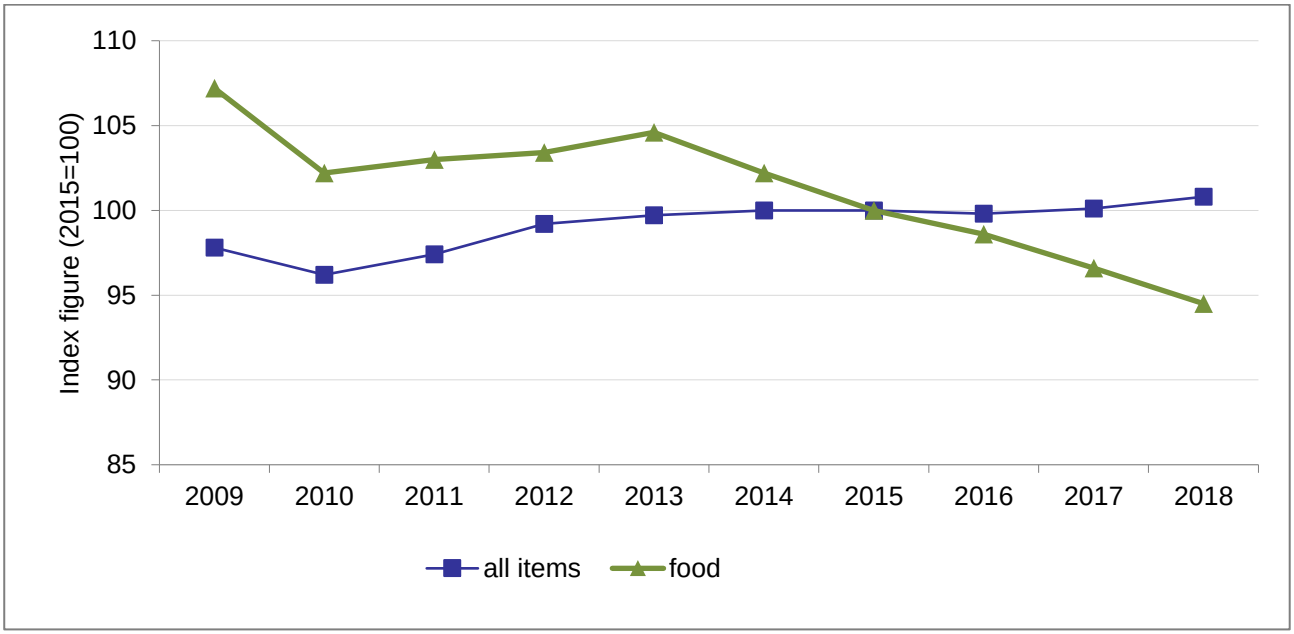
A.6. Data from the agricultural statistical factsheet

Figure 38: Evolution of agriculture input and output prices, 2009-2018



Source: European Commission, DG AGRI, Statistical Factsheet for Ireland, June 2019.

Figure 39: Evolution of harmonised indices of consumer prices, 2009-2018



Source: European Commission, DG AGRI, Statistical Factsheet for Ireland, June 2019.

A.7. Proposed Farm Management Deposit Scheme

ICMSA proposes the introduction of an income volatility management tool called the Farm Management Deposit Scheme (FMDS). ICMSA believe the Farm Management Deposits model has many merits and most definitely should be used as a template to introduce a farm income volatility management tool into the Irish income tax code for farmers based on the following criteria;

- Allow a farmer to deposit income into a farm management deposit account in the income tax year in which the profits are made. The amount of the deposit is not tax assessable income in that income year but in a future year when the farmer opts to utilise the deposit for income or investment purposes. The deposits scheme complements other risk management strategies available to farmers, such as income averaging.
- The rules for off-farm income of a person availing of this tax measure and an overall ceiling on the amount that can be deposited in the Farm Management Deposit Scheme should be incorporated into this income volatility management tool. Off-farm income of a spouse should not hinder farmers' access to this scheme. This tax relief measure could be confined to farmers whose sole or principal income is from farming with realistic off-farm income thresholds set. ICMSA suggests that a ceiling of EUR 50 000 would be appropriate.
- ICMSA believe limits could be placed both on the total amount that could be deposited in a given year and the aggregate amount at any time, and suggest a maximum deposit p.a. of 30% of farm profit and/or a maximum of EUR 10 000. Funds could remain in the Farm Management Deposit account up to a maximum period of 5 years.
- Farmers would then be able to avail themselves of these funds in an independent deposit account or a Cooperative Managed Account to support the farm business in the event of a downturn in farm income and/or for investment in the farming enterprise.
- Where funds are taken from the farm deposit account in the form of income, then the normal rate of tax applicable in the year of withdrawal would apply.
- On-farm investment using funds from the farm management deposit account would qualify for all reliefs currently available for on-farm investment such as capital allowances.
- All interest on the deposit will be returned to the farmer, and only the farmer in question will have access to the account to withdraw the money according to set parameters defined within the scheme.
- The normal rules regarding deposit guarantees would apply to these accounts whether in a financial institution or a cooperative managed account.

A.8. Enterprise Ireland: Seed Funds

Under the first Call of the new Scheme, Enterprise Ireland is seeking to invest up to EUR 100 million in commercially focused Venture Capital funds. This First Call under the Scheme will target three distinct areas: Pre-Seed / Seed Stage Funding, Series A+ Funds and Food Sector Funding. The details are as follows:

1 Pre-Seed / Seed Stage Funding. Enterprise Ireland will support funds that aim to invest across the start-up base at the very early stages of company development. The fund strategy should be oriented to deploy a substantial majority of the fund through investment in Pre-Seed and/or Seed Stage total round sizes of less than EUR 1.5 million AND/OR a maximum investment per investee company of 10% of the Fund. Up to EUR 50 million may be committed as part of this Call.

2 Series A+ Funds. Enterprise Ireland will support Funds that aim to invest in core Enterprise Ireland sectors including ICT, Lifescience and Industrial. Such funds should predominantly focus on investments in Series A+ stage rounds of over EUR 1.5 million. Up to EUR 30 million may be committed as part of this Call

3 Food Sector Funding. Enterprise Ireland will support funds that will focus predominantly on the Food sector, including FoodTech. The fund strategy should include investment into seed and early stage companies. Up to EUR 20 million may be committed as part of this Call.

www.fi-compass.eu
contact@fi-compass.eu

European Commission
Directorate-General
Agriculture and Rural Development
B-1049 Brussels

European Investment Bank
Advisory Services
fi-compass
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg