



Making investment opportunities for farmers and rural businesses with the EAFRD FIs

ESTONIA

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1. Why FIs from the EAFRD? (1)



1. Positive experience with FIs from national budget

The **Estonian Rural Development Foundation (MES)** was founded by the Government in **1993**

MES provides:

- loans
- interest and capital support
- guarantees to bank loans

Target group:

- agricultural holdings
- processors of agricultural products
- small and medium-sized companies from rural area

1. Why FIs from the EAFRD? (2)



2. Positive experience with FIs from the European Fisheries Fund

In **2012**, the Ministry of Agriculture and MES concluded an agreement, under which MES got the task of managing **investment loans** co-financed from the European Fisheries Fund

- The amount of the Fund is **4.9 mln €**
- During the period 2013 - 2014 new loans with the amount of 4.1 mln € were given to 12 companies

2. Ex ante assessment (1)



- Common ex ante assessment for the EAFRD and the EMFF (Dec. 2013-Dec.2014, assessor **Ernst & Young Baltic AS**)
- Target groups:
 1. **agriculture, fisheries, food, beverage enterprises and agricultural wholesalers** (web survey, 664 replied (8,8%) from total sample hall 7545 + 30 phone interviews)
 2. **other non-agricultural rural enterprises** (input from another survey with 1391 replies was used + 25 phone interviews)
 3. **producer groups** (31 depth interviews (incl.4 from the fisheries sector) from total sample hall 35 (4))
 4. **land improvement associations** (web survey, 43 replied (23%) from total sample hall 191)
 5. **ports** (32 depth interviews, total sample hall 55)

2. Ex ante assessment (2)



- Enterprises were analysed by:
 - size groups
 - stages of life cycle
 - economic activity
 - legal forms
- Data were collected to cover:
 - earlier investment activity
 - market failures
 - future investment needs
 - the potential demand of FI
- Banks were interviewed to evaluate supply

2. Ex ante assessment (3)



Results: 1. Agriculture, fisheries, food, beverage enterprises and agricultural wholesalers

- Total investment need **7,6 billion €** in the next 5 years
- The most popular loan size needed is up to **50 thousand €**
- **66%** mentioned problems with financing of investments:
 - big competition for support measures
 - banks are not pricing collaterals fairly
 - interest rates are too high
 - a longer loan period (15-20 years) is needed
- Mainly small and young enterprises had difficulties with banks, no big differences noticed in economic activity or legal forms
- More than **80%** were interested in FIs, **40%** confirmed that they need FIs

2. Ex ante assessment (4)



Results: 2. Other non-agricultural rural enterprises

- The most popular loan size needed is up to **50 thousand €**
- **56%** mentioned problems with financing of investments:
 - not many suitable support measures available
 - banks require too big guarantees, it is not possible to get financing for more risky projects
 - banks are not interested in small loans, interest rates are too high
- Rural enterprises have small money flows and little capital assets - they represent higher risk for banks, mainly small and young companies had difficulties with banks, no big differences noticed in economic activity or legal forms
- **All** interviewed were interested in FIs, more than **60%** confirmed that they need FIs

2. Ex ante assessment (5)



Results: 3. Producer groups

- Total investment need **23 million €** in the next 5 years
- The most popular loan size needed is up to **6 million €**
- **50%** mentioned problems with financing of investments:
 - banks require too big guarantees, groups do not have capital assets and members of groups are not willing to give guarantees
 - banks are not familiar with functioning of producer groups
 - a longer loan period (15-20 years) is needed
- No big differences noticed in economic activity
- **95%** were interested in FIs as an option for financing and also confirmed that they need FIs

2. Ex ante assessment (6)



Results: 4. Land improvement associations; 5. Ports

- Ex ante assessor estimated that these two groups cannot be the target group for FIs as they do not produce sufficient money flows to repay loans
- Support measures are more suitable for these groups

2. Ex ante assessment (7)



Supply (problems noticed by banks)

start-up companies:

- financial knowledge is not sufficient
- insufficient own capital
- no collaterals available

} market failure

growing company:

- financial knowledge is not sufficient
- difficult to predict money flows
- fair pricing of collaterals is difficult

} no market failure

mature company:

- fair pricing of collaterals is difficult

3. FIs from the EAFRD (1)



FIs from the EAFRD

- **36 mln euros** are allocated for FIs in our **RDP**:
 - ✓ **M04.1** Investments to improve the performance of agricultural enterprises – **17 mln euros**
 - ✓ **M04.2** Investments to process and market agricultural products – **6 mln euros**
 - ✓ **M06.4** Investments in the diversification of economic activities towards non-agricultural activity in rural area – **13 mln euros**

3. FIs from the EAFRD (2)



1.3. FIs from the EAFRD

- Preliminary negotiations with the possible implementer (MES) were carried out
- State procurement procedure (by way of negotiated procedure without prior publication of a contract notice) was launched 25.09.2015
- RDP amendment (more precise description of FIs) is under preparation
- We hope to conclude a funding agreement with implementer before winter

3. FIs from the EAFRD (3)



	Growth loan of micro- and small enterprises	Long-term investment loan	Guarantee
Budget (36 mln €)	14,2 mln €	16,1 mln €	5,7 mln €
Target group	Micro- and small enterprises	Micro-, small- or medium-sized operators	Young farmers (24 m), producer groups
Amount of loan	5000 – 100 000 euros (direct loan or co-lending)	250 000 – 1 000 000 €; producer group 250 000 - 3 000 000 € , co-lending with banks (bank at least 50%)	Up to 80% of loan
Security	At least 50%	At least 80%	
Duration of loan	Up to 5 years (+ up to 3 years of grace period)	1 to 15 years (+ up to 5 years of grace period)	Up to 10 years
Interest generally	Subsidised interest -6%+euribor (or ECB's refinancing rate ?)	On market conditions (bank loan interest)	Subsidised fee- 1,5%
Special conditions	Subsidised interest: young farmers and producer groups – 2%+euribor ; Starting and microenterprises, people with disabilities, woman – 4% + euribor	Subsidised interest: Young farmers and producer groups – 1% + euribor ; Starting and microenterprises, people with disabilities, woman – 2% + euribor	Max obligation =portfolio*80%* max portfolio level risk (25%)



Thank you

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