Macro-regional conference on EAFRD financial instruments for agriculture and rural development in 2014-2020

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Evolving nature of Financial Instruments using EAFRD

Agenda

1. Key Concepts

2. Update on recent EIF developments with EAFRD :
   - First Loss Guarantee Portfolio (FLPG)
   - Portfolio Risk Sharing Loan (PRSL)
   - Uncapped Guarantee (like the SME Initiative option 1)

3. Open Invitation

EAFRD – financial instruments
Key Concepts

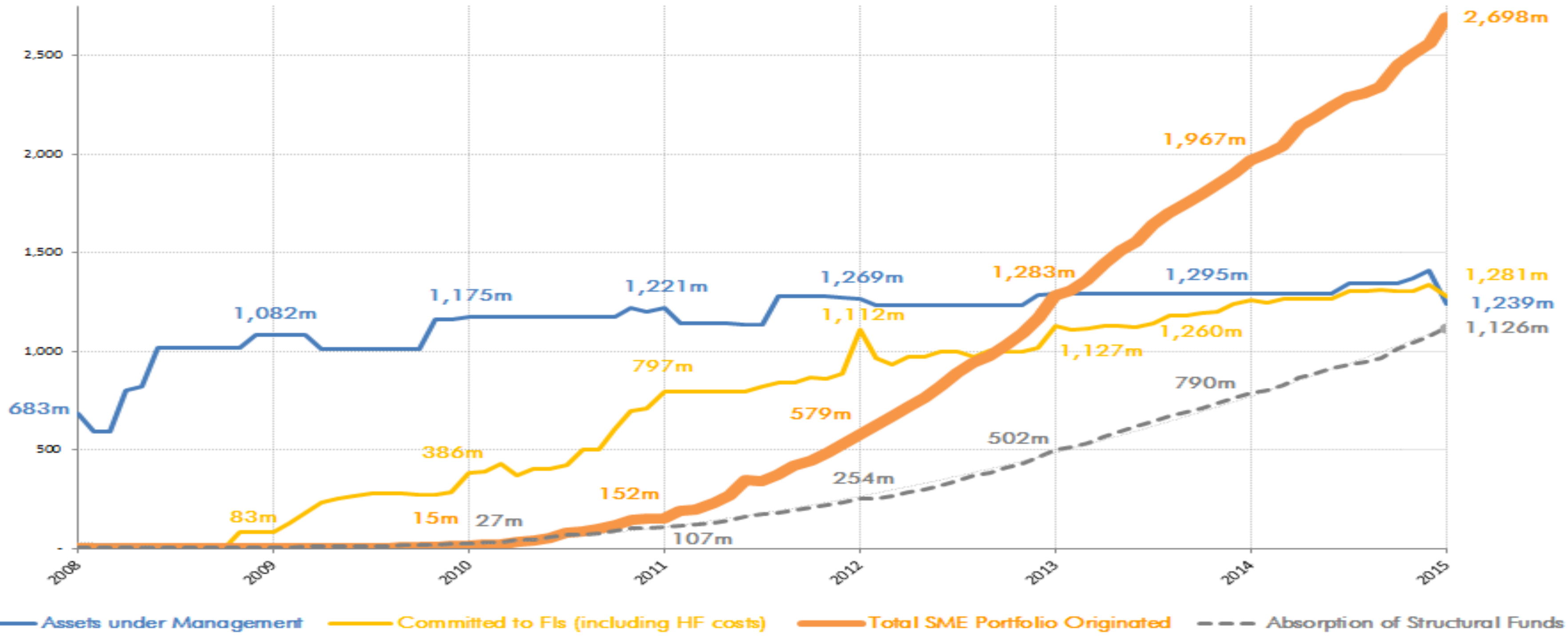
- **Leveraging EAFRD**
  - When designing financial instruments, a key goal is to maximise the market impact through leveraging private finance participation. This creates greater results than grants.
- **Passing of benefits to the end beneficiary**
  - Instruments are designed to ensure that a traceable financial benefit to the end beneficiary is realised and becomes a contractual obligation.
- **Generating returns or reflows for future use**
  - Instruments are also designed to create potential reflows of capital which the Managing Authority can then re-utilise again, which is additional positive outcome.

Similar to ERDF (JEREMIE), EIF is playing leadership role to catalyse financial instrument adoption across the EU.

The ERDF Journey of Financial Instrument implementation by EIF

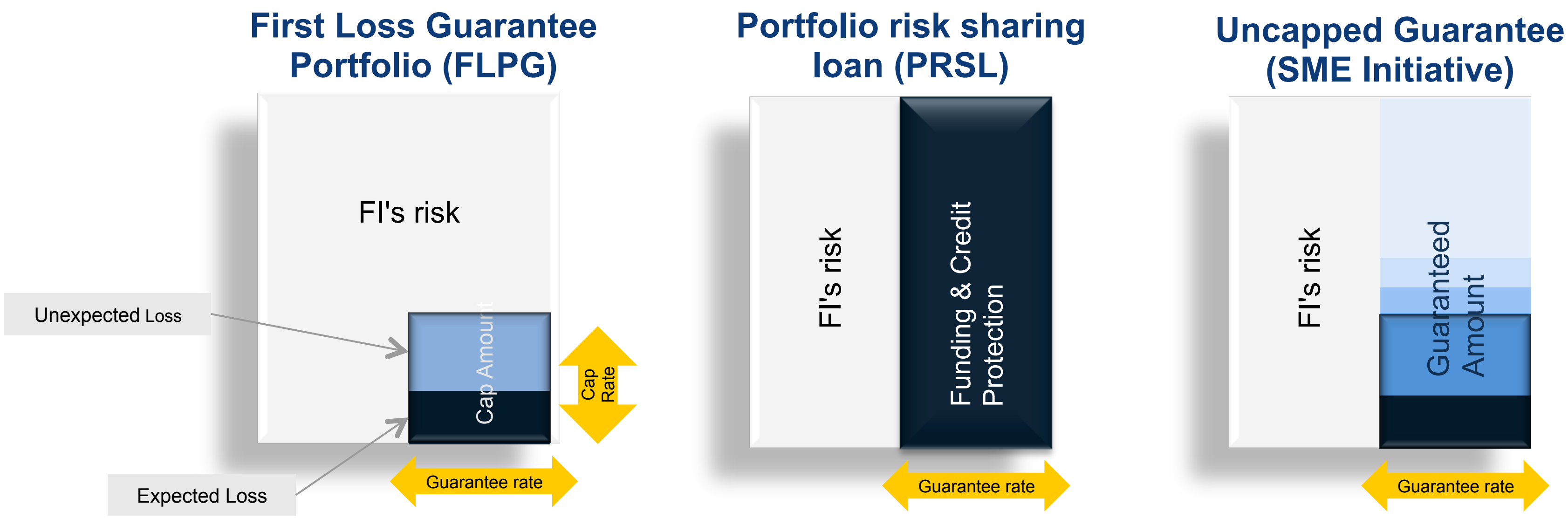
EUROPEAN INVESTMENT FUND

EURm



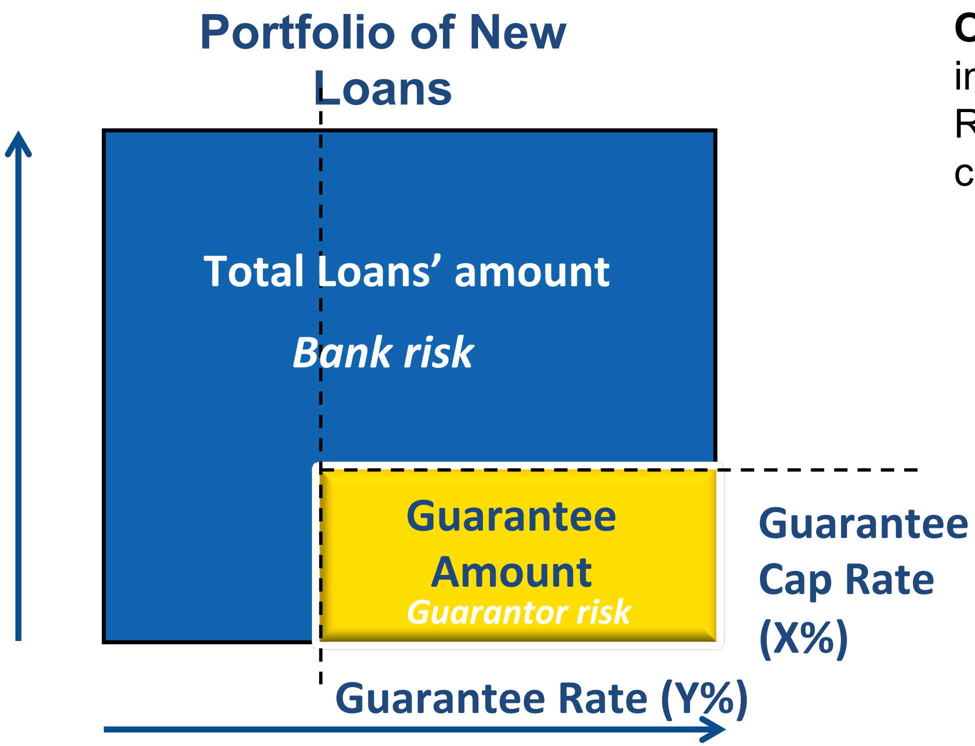
NB: figures include the absorbed portion of transferred Holding Funds (Latvia, Lithuania, Slovakia)

EIF Guarantee financial instruments: main types



FI = Financial Intermediary

First Loss Portfolio Guarantee - at a glance



Objective: access to finance, with improved lending conditions for Final Recipients (reduced interest rates and/or collateral requirements)

- **Cap Amount available to cover losses in the Final Recipients loan portfolio;**
- **For each loan defaulting, [Y]% (guarantee rate) of the covered loss is paid to the bank;**
- **This holds until [X]% (cap rate) of the portfolio is covered.**

First EAFRD Activity - FRANCE

Pilot Project:

- EIF has signed a Funding Agreement with the MA in **Languedoc Roussillon** for **EUR 15m** to implement a **First Loss Portfolio Guarantee (FLPG) aiming at supporting the agricultural sector**:

    - Financing equipment (new) of farmers to increase their competitiveness;
    - Financing the processing and commercialization of agriculture products into agriculture or non agriculture products;
    - Forestry (but likely to represent a small portion of the overall portfolio).

- A number of banks operating in the region have shown strong interest in implementing the product.

- The 'Call for Expression of Interest' finalised and formally launched in Q3 2016.

- This product will also now be launched in the Midi-Pyrenees region.

Product:
First Loss Portfolio Guarantee

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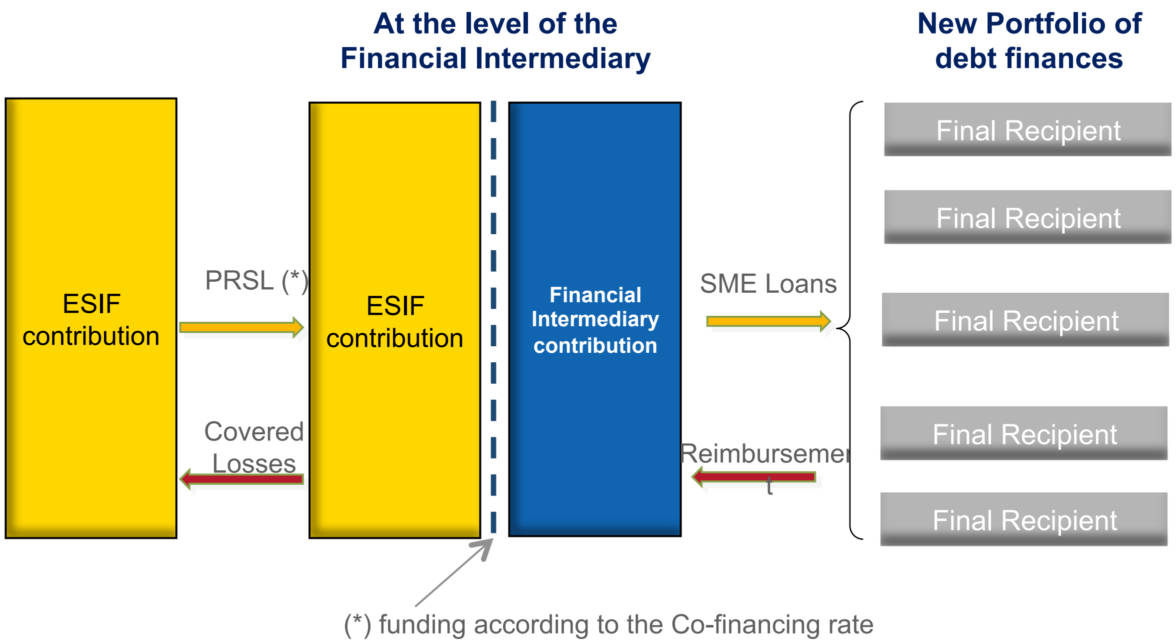
Objective: Provide **better access to finance to targeted Final Recipients** (typically addressing a market failure identified in ex ante analyses). Ensuring clear 'passing of benefit to end beneficiary'.

Structure: Financial Instrument delivered by participating banks **Partial first loss portfolio capped guarantee** (using typically an ESIF contribution) providing **credit risk coverage on a loan by loan basis**, for the creation of a portfolio of new loans/leases to Final Recipients by a Financial Intermediary, **up to a maximum loss amount (cap)**. It can also be structured as a counter-guarantee.

This instrument has been **successfully implemented** for many years in all EU-28 Member States under various programmes – including the Multiannual Programme for Enterprise (MAP), the Competitiveness and Innovation Framework Programme (CIP), the JEREMIE initiative, the Greater Anatolia Guarantee Facility (GAGF); and it has been proposed for use in others – such as the new Cultural and Creative Sector Guarantee Facility (CCS) and the Erasmus+ Master Guarantee Facility.

Portfolio Risk Sharing Loan



Objective: to improve access to finance to SMEs by providing FIs with additional lending capacity (funding) and credit risk protection

- **Liquidity and risk sharing on a loan by loan basis**
- **Substantially reduced interest rates and potentially also reduced collateral requirements**
- **Leverage: 2 times (if co-financing 50%)**

EAFRD Activity under preparation - Romania

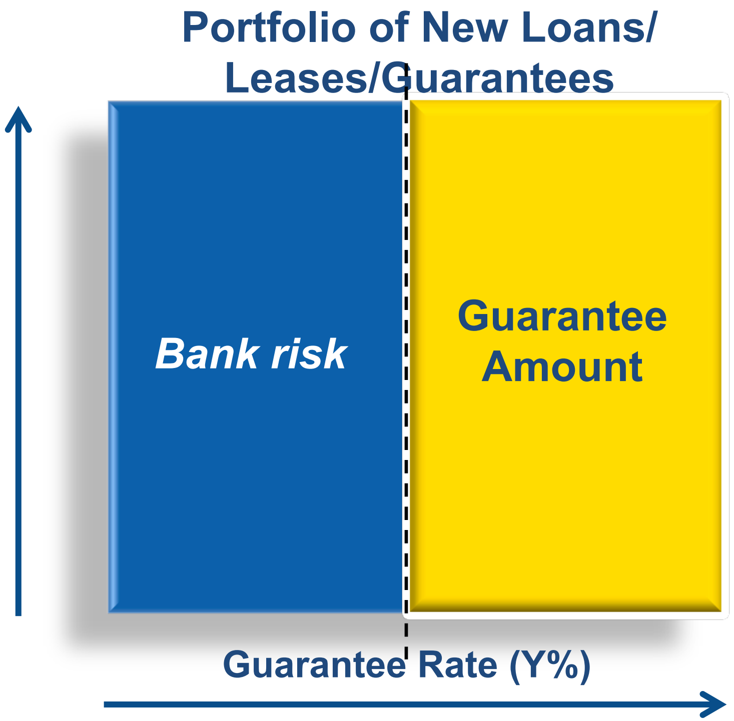
- Envisaged contribution of **EUR 92.5m**

- Proposed instrument: **Portfolio Risk Sharing Loan**
  - Funds provided at low or zero interest to banks for on-lending to final recipients (depending on applicable state aid / de minimis aid rules)
  - Each loan to a final recipient is co-financed at a rate of at least 50% with the banks, which provides interest reduction and collateral reduction to final recipients

- **Eligible beneficiaries**:
  - Primary agriculture producers
  - Food processing companies
  - General SMEs located in the rural area
  - No conditionality linked to grant projects

- **Eligible activities:**
  - Investments
  - Working capital (linked to investments, only 30% eligible)

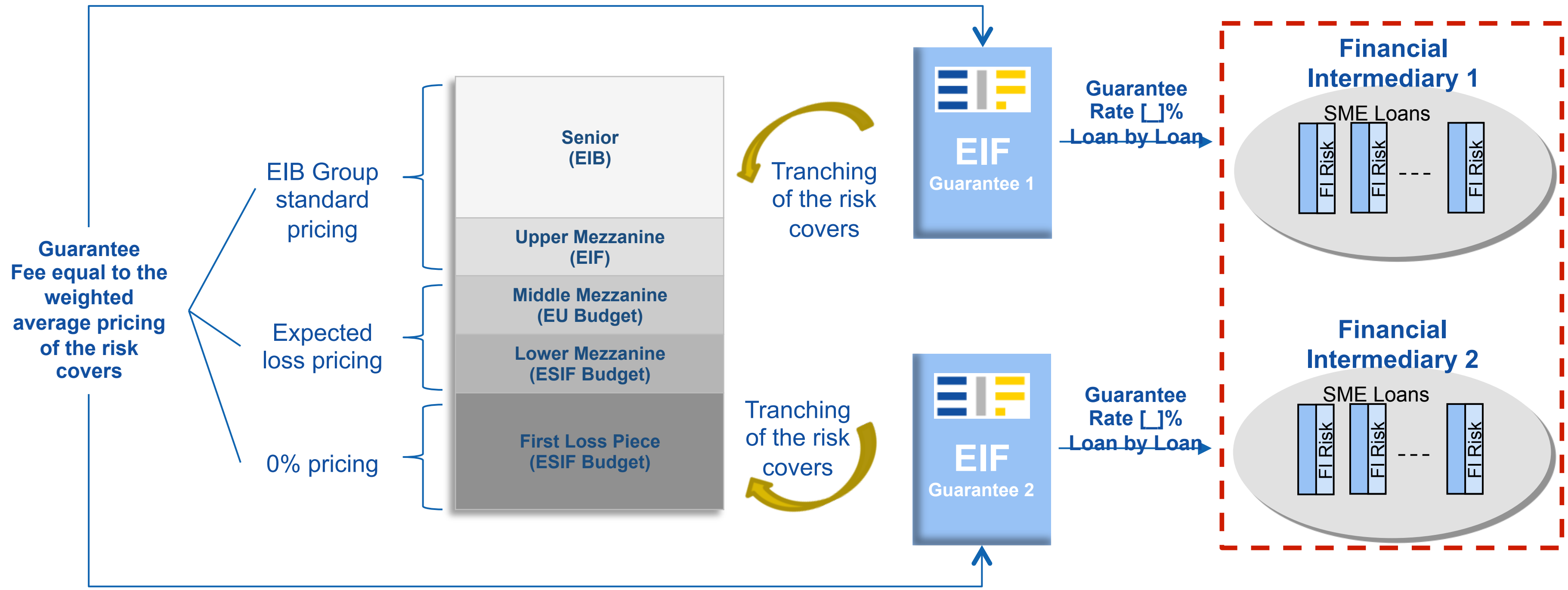
Uncapped Portfolio Guarantee (like the SME Initiative)



Objective: access to finance, with improved lending conditions for Final Recipients (reduced interest rates)

- **Credit risk protection** to Financial Intermediaries
- **Low Guarantee fee** charged
- **Capital relief** possible
- **Benefits to be transferred to SME in form of interest rate reduction**
- Behind the scenes: the Guarantee is funded by different budgets/institutions in a «tranched structure» enabling full uncapped cover

SME Initiative at a glance
Overview of risk sharing and risk pricing



SME Initiative: background

- The SME Initiative (SMEi) is a joint initiative of the EIB Group and the EC (art.39 CPR)
- Two risk-sharing instruments endorsed by the European Council:
  - ➢ (Option 1) Uncapped guarantee covering newly originated debt finance to SMEs
  - ➢ (Option 2) Securitisation of existing (or new) portfolios of debt finance to SMEs and other enterprises with less than 500 employees (the Securitised Portfolio)
- EU contributes directly via Horizon 2020 or COSME resources
- EIB Group participation:
  - ➢ EIF and EIB as risk takers with own funds
  - ➢ Expertise in deal structuring, execution, implementation and monitoring throughout EU

SME Initiative
Signed and in implementation phase

EUROPEAN INVESTMENT FUND

SPAIN

- ESIF: **EUR 800m**
- Option **1**
- **H2020:** EUR 14.3m
- Minimum leverage **4x**
- Guarantee rate: **50%**
- Call published on 23/02/2015
- 9 expressions of interest received
- 7 transactions signed
- Disbursed SME loans at Q2 2016: **EUR 2.02bn of new SME loans (24,204 loans)**

MALTA

- ESIF: **EUR 15m**
- Option **1**
- **H2020:** EUR 228k
- Minimum leverage: **4x**
- Guarantee rate: **75%**
- Call published on 15/07/2015
- 3 expressions of interest received
- 1 transaction signed
- Disbursed SME loans as at Q2 2016: **EUR 12.5m of new SME loans (120 loans)**

BULGARIA

- ESIF: **EUR 102m**
- Option **1**
- **H2020:** EUR 1.8m
- Minimum leverage **4x**
- Guarantee rate: **60%**
- Call published on 17/05/2016
- 8 expressions of interest received, oversubscribing the available budget
- Target: ca. **EUR 600m of new debt finance**

SME Initiative
Signed and in implementation phase

EUROPEAN INVESTMENT FUND

ITALY

- ESIF: **EUR 102.5m** plus **EUR 100m** of national contribution
- Option **2**
- **COSME:** EUR 4.25m
- Minimum leverage **6x**
- Target: ca. **EUR 1.2bn of new debt finance in southern Regions**

ROMANIA

- ESIF: **EUR 100m**
- Option **1**
- **H2020**: EUR 2m
- Minimum leverage **4x**
- Target: ca. **EUR 541m of new debt finance**

FINLAND

- ESIF: **EUR 40m**
- Option **1**
- **H2020:** EUR 840k
- Minimum leverage **4x**
- Target: ca. **EUR 360m of new debt finance**

Main Characteristics : Financial Instruments at a glance

	First Loss Portfolio Guarantee	Uncapped Guarantee	Portfolio Risk Sharing Loan
Objective	Enhance access to finance for Final Recipients – Transfer of benefit		
Purpose of the loan	Tangible and intangible investments Working Capital linked to financed investment (up to 30%), general costs		
Implementation by	Local Financial Intermediaries selected by EIF via Call for Expression of Interest		
Budget source	ERDF - EAFRD	ERDF - EAFRD first loss cover complemented by other sources (e.g. SMEi: EU, EIF, EIB…)	ERDF – EAFRD
Leverage effect on ESIF (= Loans to SME/ESIF)	Depends on risk: 3x-8x	Depends on risk: e.g. 4x in SMEi Spain, Malta and Finland	Depends on co-financing rate: if 50%, leverage 2
Guarantee rate *(FIs should always keep at least 20% risk)*	Up to 80%	50%-75%	50%-75%
Eligibility criteria	Combination of EU, National/RDP, EIF criteria	Combination of EU, National/RDP, EIF criteria. + any criteria from additional budgets (e.g. SMEi: H2020 or COSME criteria, EIB)	Combination of EU, National/RDP, EIF criteria
Portfolio risk constraints	Depends on MA risk appetite	Could be stricter if additional risk constraints from other funding sources	Depends on MA risk appetite
Cost of the instrument for the FIs	Free	Reduced guarantee fee	Free
Capital relief for FI	Potentially, up to the Cap rate	Potentially, full guarantee amount	Potentially, full guarantee amount

EAFRD – financial instruments
Key Concepts

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The journey from “ex ante” to “implementation”

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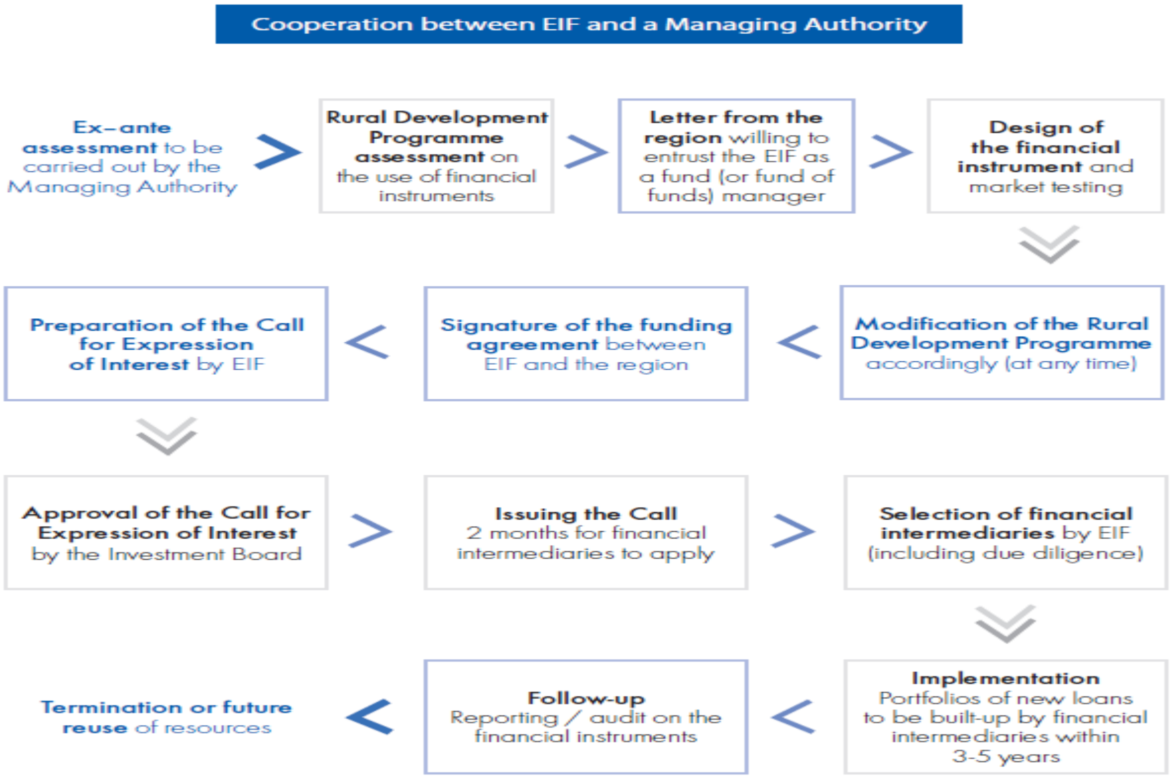

Open Invitation…

- DG Agri is encouraging all Managing Authorities to pilot/introduce financial instruments.
- EIB (through Fi-Compass) is able to assist your process through knowledge sharing and targeted coaching processes.
- EIF stands ready to help any MA to actually implement financial instruments using proven activities as ‘templates’ to help you make it a success.
- It is an important journey that every MA should be looking to take, and we are here to help that process, as needed.

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Main Characteristics:
First Loss Portfolio Guarantee

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- Aim of the instrument: credit risk coverage up to a certain limit, allowing the financial intermediary to **improve Final Recipients' access to finance at better/preferential conditions (interest rate and/or collateral reductions);**
- **Guarantee rate: up to 80%** on a loan by loan basis (credit risk retained by the financial intermediary should in no case be less than 20%);
- **Cap rate** determined by the EIF in the ex-ante risk assessment of the loan portfolio to be guaranteed;
- **Leverage**: depends on the Cap rate; typically 3 to 6; i.e. EUR 1 of guarantee triggers EUR 3 to EUR 6 of loans;
- **Purpose of the loan guaranteed**: financing tangible & intangible investments (in line with 1305/2013 and the RDP) as well as the working capital linked to the investment financed (no more than 30%);
- Advantages for Financial Intermediaries: mainly **credit risk coverage at an advantageous price (usually offered for free);** advantage has to be passed on to SME
- Can be structured **as a counter-guarantee**

Main Characteristics:
Portfolio Risk Sharing Loan

EUROPEAN INVESTMENT FUND

- EIF (with RDP funds) lends to a financial intermediary (eg banks) the monies, at zero interest (depending on MA decision and state aid rules);
- The funds are disbursed by EIF to the intermediary in tranches, based on the intermediary's request for funds (normally based on monthly loan pipeline);
- The EIF (RDP) funding is matched by the intermediary with monies from their own resources at market price, according to the pre-agreed rate (e.g. 50% in the current JEREMIE instrument means that each loan is financed 50% by the bank and 50% by EIF at zero interest);
- EIF takes the risk on its share of the funds, meaning that the amounts lost from the EIF share are not reimbursed by the bank to EIF. This risk sharing feature enables the intermediary to reduce collateral requirements for final recipients;
- The intermediary lends the funds to final recipients, **at lower cost** and with reduced collateral requirements;
- Final beneficiaries reimburse the money to the bank according to the loan repayment schedule;
- At the end of implementation, the bank reimburses the loan to the EIF, deducting the losses which are borne by the intermediary and EIF (RDP) according to the risk sharing rate.

Main Characteristics: Uncapped Portfolio Guarantee

- Aim of the instrument: credit risk coverage and capital relief allowing the financial intermediary to **improve Final Recipients' access to finance;**
- **Guarantee rate: up to [50% - 75%]** on a loan by loan basis (credit risk retained by the financial intermediary should in no case be less than 20%);
- **Joint instrument: ESIF** budget complemented by EU, EIF, EIB to achieve leverage and uncapped guarantee cover
- **Leverage**: depends on Guarantee Rate and on how much budget supports the first losses; e.g. min. 4 in SME Initiative Spain and Malta.
- **Leverage** also for EU "central" budget (H2020 or COSME)
- **Penalties** for banks in case leverage not reached
- **Purpose of the loan guaranteed**: financing tangible & intangible investments (in line with 1305/2013 and the RDP) as well as the working capital linked to the investment financed (no more than 30%);
- Advantages for Financial Intermediaries: **credit risk coverage and capital relief at an advantageous price;** advantage has to be passed on to SME
- Can be structured **as a counter-guarantee**