



Preparatory work for the setting-up of an EAFRD financial instrument in Slovenia

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Financial instruments under RDP 2014-2020 of Slovenia



- ❑ Slovenian RDP 2014–2020 was formally approved by the European Commission on 13th February 2015. The programme is worth 1.1 billion EUR of public contribution (of which 838 mio EUR from the EU budget).
- ❑ Implementation of FI is foreseen under 3 sub-measures:



- ❑ There were no financial instruments under the RDP 2007–2013.



Financial instruments within sub-measures of RDP 2014-2020



➔ 4.2. Support for investments in processing/marketing and/or development of agricultural products

- **Objectives:** the improvement of the competitiveness of the food-processing industry, the rise of the added value of agricultural products and greater environmental performance of the food-processing plants.
- **Beneficiaries:** legal and natural persons, who deal with the processing or marketing of agricultural products as companies, cooperative societies and institutes, individual entrepreneurs, farms, dealing with the production and/or the processing of agricultural products, farms with complementary activities, agricultural and grazing communities, which carry out the processing of milk on pastures, as well as economic interest groupings.

➔ 6.4. Support for investments in establishing and developing non-agricultural activities

- **Objectives:** to promote economic activities in rural areas, development of endogenous potential of the local environment and the preservation or the establishment of existing or new jobs.
- **Beneficiaries:** natural persons with a registered complementary on-farm activity and micro-companies in rural areas. Small companies may also be beneficiaries when it comes to investments in adding value to wood, which are not supported within the sub-measure 8.6 – Investments in forestry technologies, wood processing and mobilization of wood.

➔ 8.6. Support for investments in forestry technology and processing, mobilisation and marketing of forest products

- **Objectives:** Support covers investments in activities of roundwood treatment, instead of industrial wood processing, as well as activities of the first “small scale” wood processing, thus diversifying the beneficiaries' production. The objective is to add value to forestry products.
- **Beneficiaries:** companies, cooperative societies, individual entrepreneurs and farms with registered complementary activities, defined as micro or small companies.



Funds allocated to financial instruments within sub-measures



	FI (EAFRD contribution)	FI (national public co-financing)	Total public expenditure (EAFRD + national budget)
4.2. Support for investments in processing/marketing and/or development of agricultural products	12.750.000	4.250.000	17.000.000
6.4. Support for investments in establishing and developing non-agricultural activities	26.271.000	8.757.000	35.028.000
8.6. Support for investments in forestry technology and processing, mobilisation and marketing of forest products	10.275.000	3.425.000	13.700.000
TOTAL in EUR	49.296.000	16.432.000	65.728.000

Due to a reduction of funding between the programming period 2007-2013 and 2014-2020 and increasing needs, difficult situation of the banking sector, economic downturn - a **quite ambitious transition from grants to FIs** has been made in Slovenia.



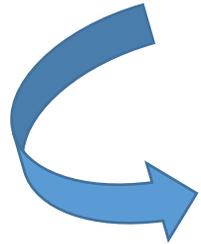
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KEY FINDINGS OF THE EX ANTE ASSESSMENT (“GAP analysis”)



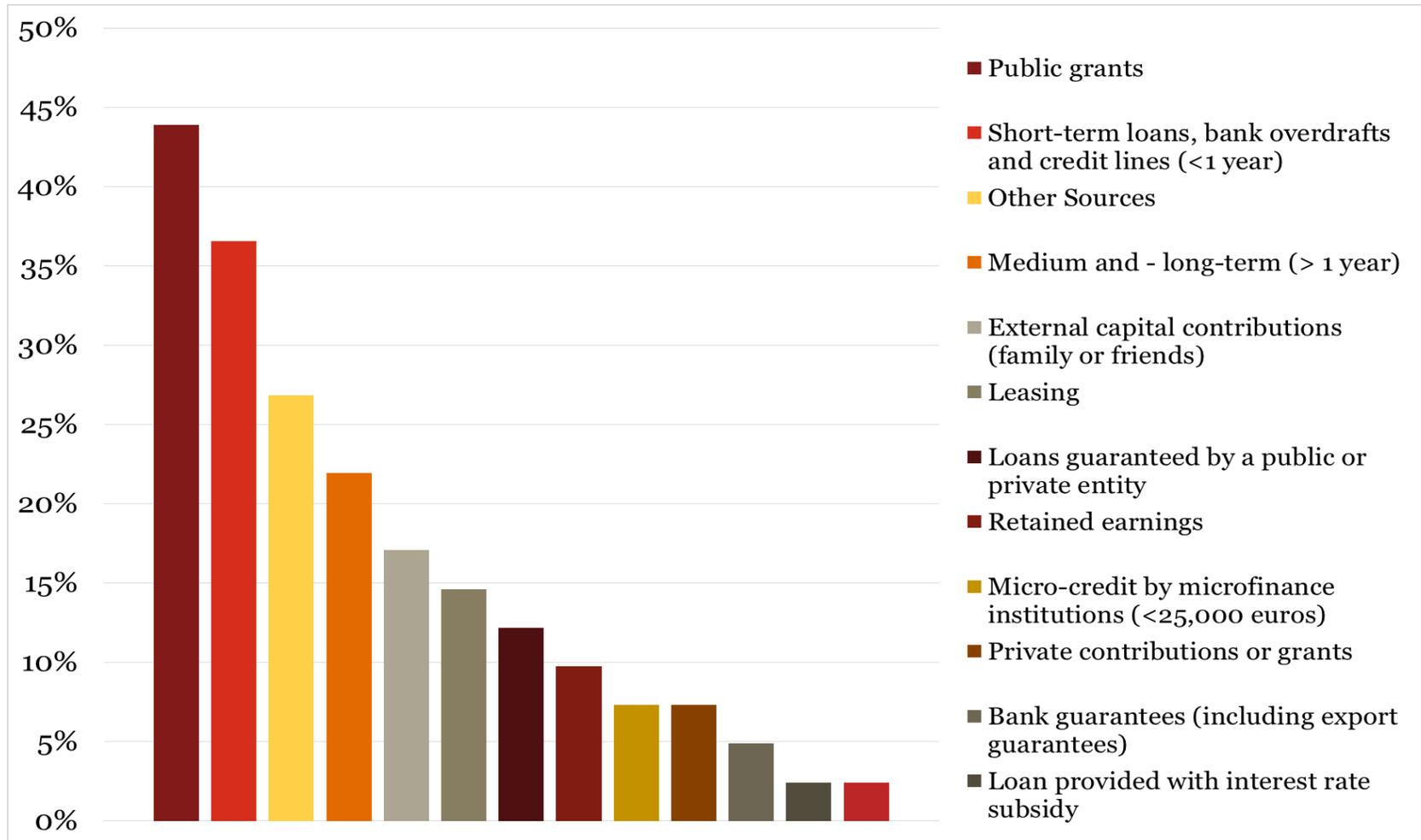
- ❑ Key findings of the **EX ANTE ASSESSMENT** (conducted by a consultancy firm PriceWaterhouseCoopers - PwC) based on the online survey among the SMEs in the agriculture sector:



- ❑ 43.9% of the respondents used public grants as a source of financing from 2012-2014.
- ❑ Most frequently they invested their received funds for the acquisition of machinery or equipment.
- ❑ The cost of obtaining finance for their business and the financial situation of the company are the main reasons behind their difficulties to access financing.
- ❑ Agricultural SMEs are expected to use proportionately more grants than the entire SME population in Slovenia.



KEY FINDINGS OF THE EX ANTE ASSESSMENT (“GAP analysis”)

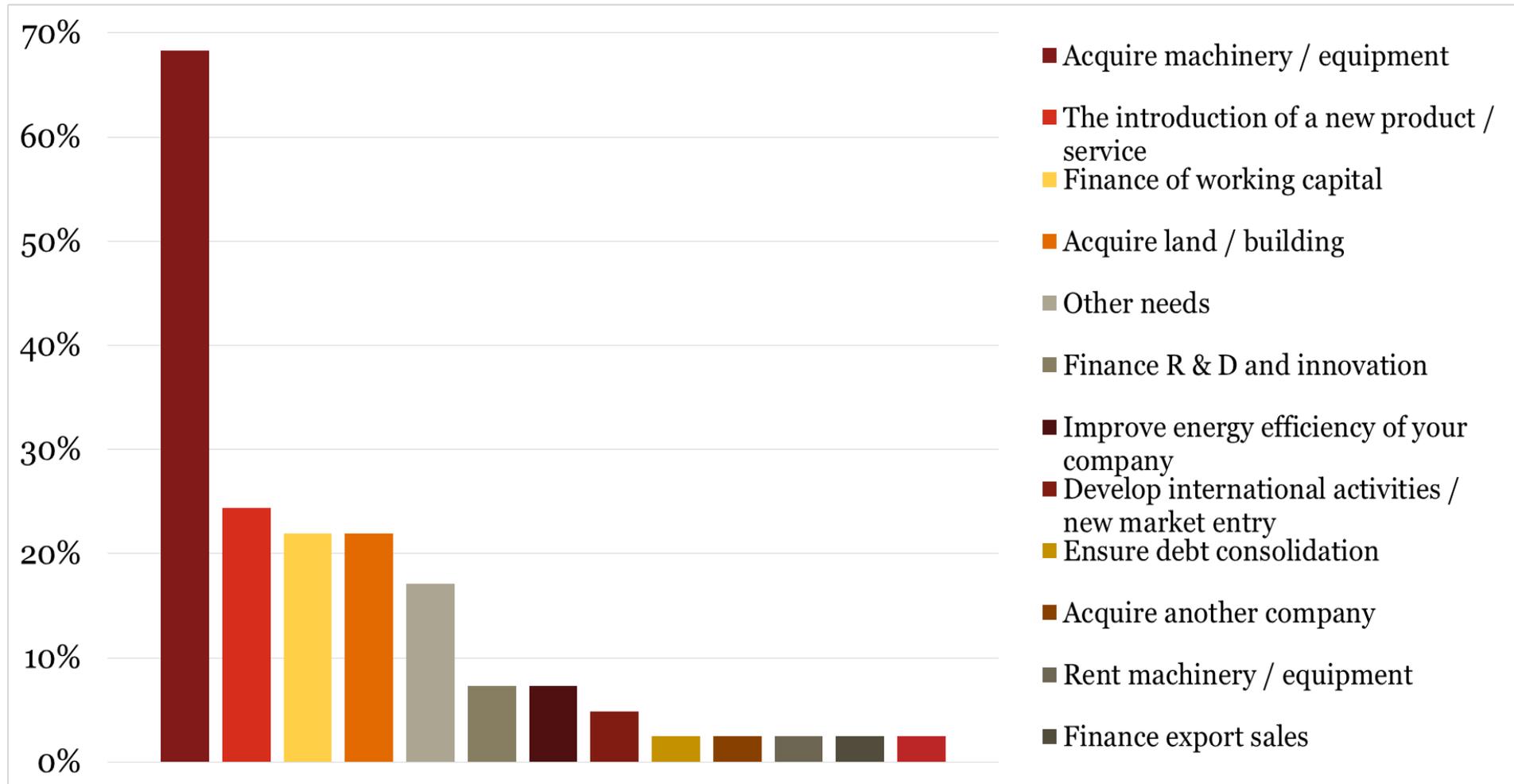


Source: PwC, SMEs online survey in Slovenia, 2015

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KEY FINDINGS OF THE EX ANTE ASSESSMENT (“GAP analysis”)



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KEY FINDINGS OF THE EX ANTE ASSESSMENT (“GAP analysis”)



- ❑ In terms of use of financing, SMEs operating in the agriculture, display a marked preference to invest their received funding for the acquisition of machinery or equipment (for 68.3%).
- ❑ This makes investments the primary use of financing.
- ❑ The above proportion is much higher than in the total SME population (25.3% of the SMEs) = likely due to high cost of their means of production: land, infrastructure, machinery, equipment...
- ❑ As they have had a strong support via grants, larger investments are more feasible.
- ❑ Covering the working capital of the SME is the third use of funding by agricultural SMEs (22% of them), while it is the first use of funding for the total SME population in the country (45.4% of the SMEs).

Source: PwC, GAP Analysis, SMEs online survey in Slovenia, 2015



KEY FINDINGS OF THE EX ANTE ASSESSMENT (“GAP analysis”)



According to “GAP analysis”, SMEs in the agriculture in Slovenia would mostly need:

- Short-term loans to (1) compensate their exhausted and limited self-financing capacities, (2) cover their cash-flow needs, and (3) cover their working capital needs, especially in terms of stocks.
- Long-term financing, such as (1) long-term loans with reduced financing costs, (2) support in collateralisation through guarantee instruments for long-term financing (with loan maturities of up to 7 to 10 years), and (3) support for export and international development.
- In parallel, current grant programs are still needed by the SMEs in the agriculture, since they provide them with additional financing and may trigger debt financing.
- Concerning working capital needs, SMEs may need short-term debt financing, and some might also need microfinance.

Source: PwC, GAP Analysis, SMEs online survey in Slovenia, 2015



PROPOSED FI according to the EX ANTE ASSESSMENT = **GUARANTEES**



- ❑ **Expected leverage effect:** from 1.5 to 4.
- ❑ **Expected amount available to the target groups:** From EUR 130m to EUR 350m
- ❑ **Target groups:** SMEs and large companies in the agriculture and from rural development areas and natural persons who have registered a supplementary activity on the farm - all types of eligible companies would be addressed by this Financial Instrument (in terms of sub-sector, size, age).
- ❑ **Objectives:**
 - to reduce the risk taken by a financial institution (commercial bank) when lending to a company (SME or large company);
 - to encourage SMEs and large companies in the agriculture and agri-business sector to use financial instruments instead/along with grants;
 - to cover credit risk of the financial intermediary (banks requiring guarantee/collateral);
 - to reduce the difficulties to access loan financing experienced by SMEs;
 - to support working capital financing and investment.

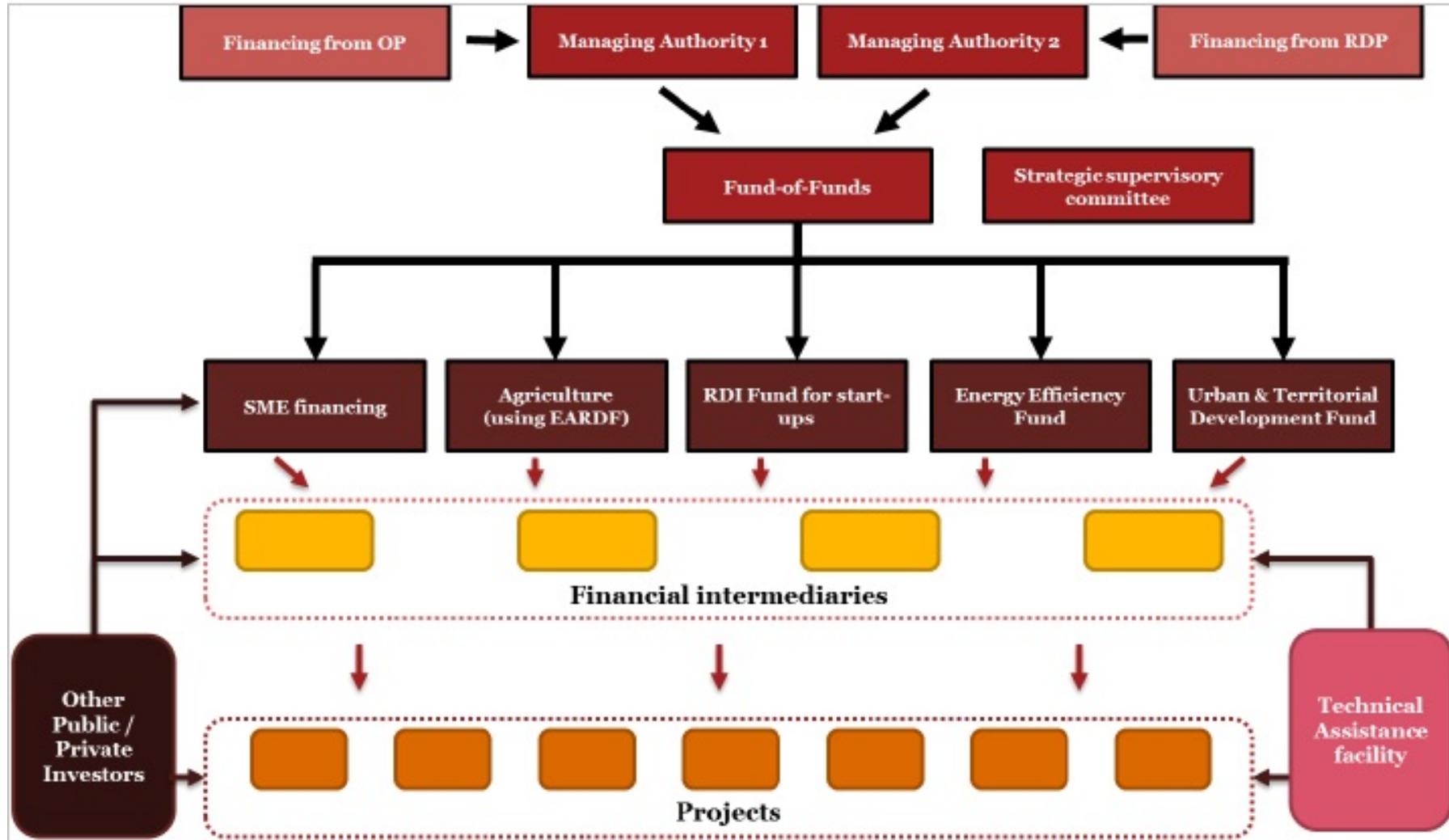
PROPOSED FI according to the EX ANTE ASSESSMENT = **GUARANTEES**



❑ Advantages expected by the SME/entrepreneur:

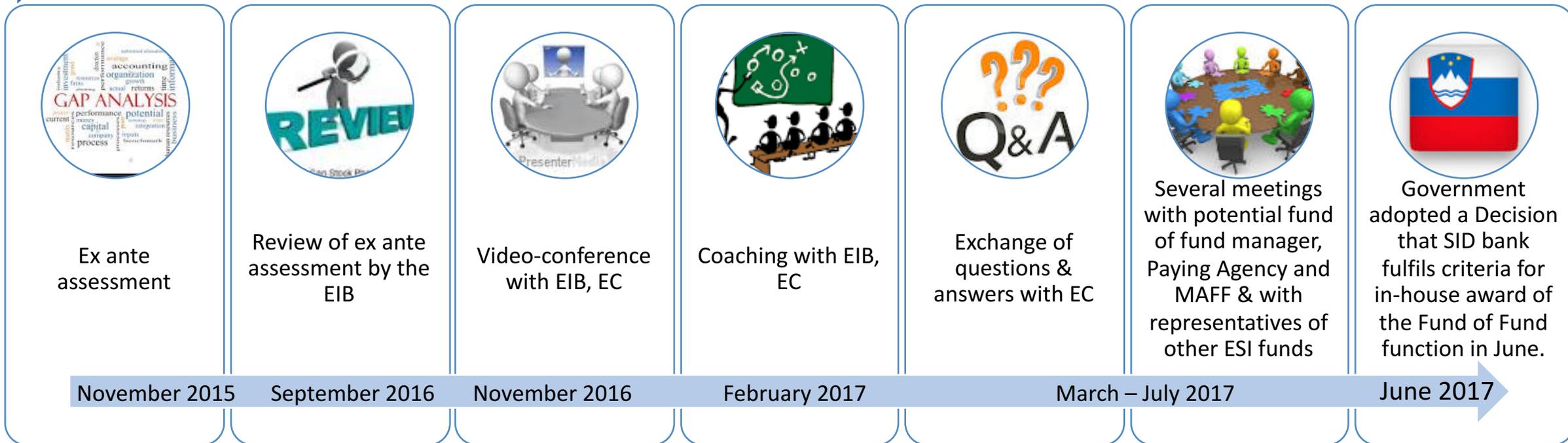
- **Reduction in the maximum level of collateral** required by the commercial bank to the SME/entrepreneur;
- **Reduction in the interest rate required for the loan** (as compared to a loan, which does not benefit from the guarantee) - depending on the discussions between the Fund funds and financial intermediaries prior to the implementation of the instrument;
- **Guarantee costs potentially below the market** (depending on the negotiation discussions between the Fund-of-Funds and the financial intermediary prior to launch the instrument);
- **Possibility for a grace period longer than the one usually applied** by the financial intermediary market (depending on the negotiation discussions between the Fund-of-Funds and the financial intermediary prior to launch the instrument).

PROPOSED FI IMPLEMENTING STRUCTURE according to "GAP" analysis



Source: PwC, 2015

Towards the implementation – preparatory work done so far



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Key open issues identified so far



1. Selection of a Fund of Fund



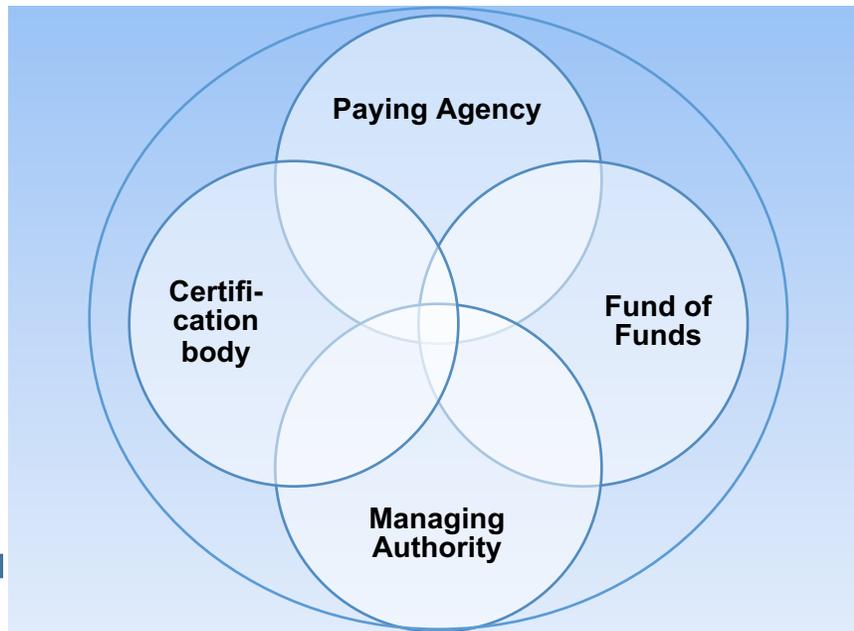
- ❑ Article 7 of Regulation 480/2014/EU defines a **set of criteria** for the **selection** of a fund of fund manager.
- ❑ For example:
 - **adequate** economic and financial viability;
 - **adequate** capacity to implement the financial instrument, including organisational structure and governance framework providing the necessary assurance to the managing authority;
 - existence of an **effective and efficient** internal control system;
 - etc.
- ❑ As these criteria may leave certain space for **subjective assessment** (as to what really is adequate and what is not adequate), we currently lack the knowledge, experiences and capacity as to how properly assess the fulfilment of these criteria in order also not to have any difficulties at the later stage with audit verifications.



Key open issues identified so far



2. Control & audit - role of Paying Agency



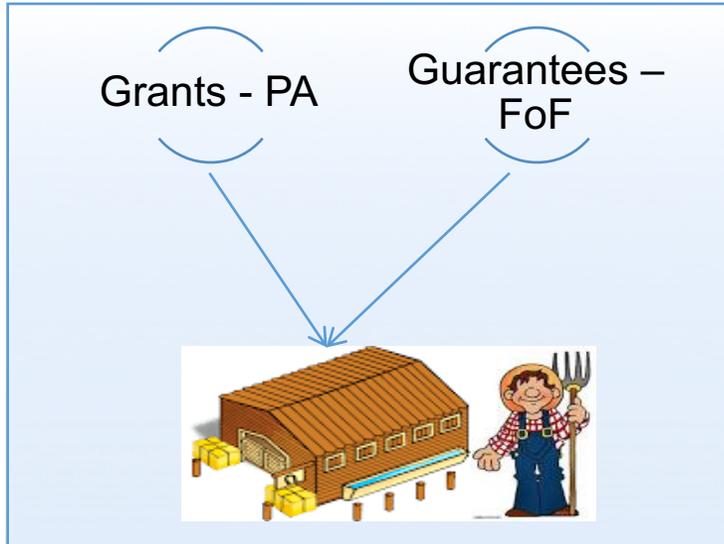
Interplay between the legal provisions on FIs (R. 1303/2013/EU and 480/2014/EU) and EAFRD legal provisions on control and audit (R. 1306/2013, R. 908/2014/EU...).

- ❑ Guidance documents on FI lack a specific notion on the relation between the PA, FoF, MA, Flnt for the EAFRD.
- ❑ For the EAFRD - PA is subject to accreditation rules based on R.1306/2013/EU and Reg. 908/2014/EU.
- ❑ Paying Agency has the ultimate responsibility concerning the accuracy of the expenditure and legality and regularity of transactions concerning the financial instruments.
- ❑ Some questions on controls & audit:
 - Does the Paying Agency need to perform regular administrative checks and on-the-spot checks on the level of the final recipients?
 - Timing: after the signature of the loan contract, at the end of grace period, at the end of the loan payback period?
 - Scope of checks: on a sample or with all final recipients?
 - Procedure in case of loan defaults: recovery of funds.

Key open issues identified so far



3. Blending of FI and grants within a project



Different approaches to controls between banks & PA

- Combination of grants and guarantees on the level of the same project (the same eligible costs). Up-grade of ex ante assessment needed.
- If a loan has not been used appropriately (for example: certain eligibility checks were not done appropriately by a bank), should the guarantee be withdrawn and the loan too? Who is liable in this case and how does this affect a final recipient?
- Division of responsibilities between the PA and the FoF:
 - How to avoid duplication of documentation?
 - How to avoid duplication of controls (delegation of powers from the PA to FoF?)?
 - Calculation of state aid in case of combination.
 - What implications does a default have on a grant?
- Who controls who? Division of functions, responsibilities?
- Control of a proper use of funding.



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Key open issues identified so far



4. Structure of the financial product



- Eligibility of working capital
- Eligibility of used equipment
- Structure of the instrument in case of combination with grants
- Term sheets in preparation: grace period, interest rate, amount of a loan, maturity
- Financial flows – transfer of the funds from the State budget to the FoF

Strategic concerns:

Will the benefits of the guaranteed loan really be entirely transferred to a final beneficiary?

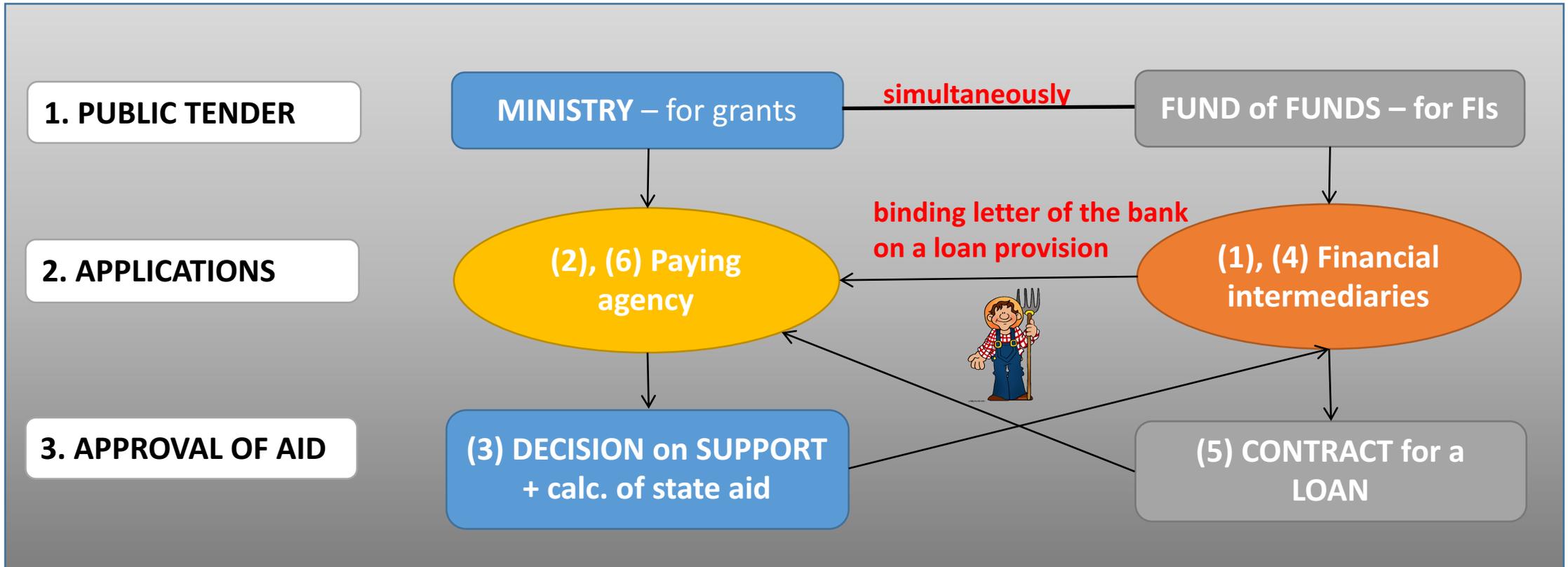
Will financial instruments be perceived as an opportunity in an agricultural sector which is known for its grant – dependency?



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Towards the implementation – PROPOSED IMPLEMENTATION



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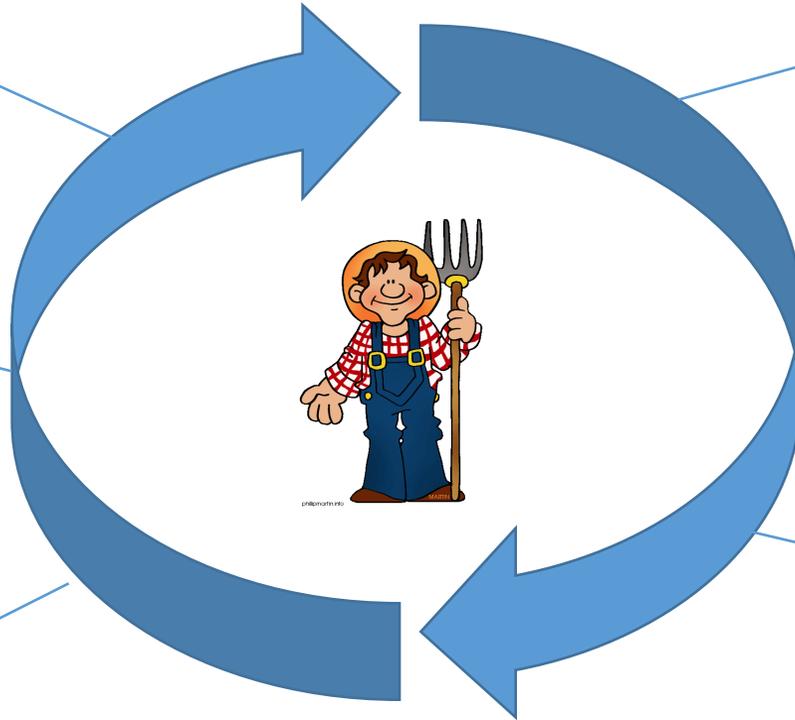
Towards the implementation – proposed implementation scheme



(6) Finally, the contract on a loan needs to be sent to the Paying Agency. If not, the grant is cancelled.

(5) An SME signs a contract for a loan with the bank.

(4) The terms under which an SME is given a loan depend on whether or not an SME acquired a grant.



(1) SME needs to acquire a binding letter of a bank stating that the bank is prepared to approve a loan – this is also a proof of a closed financial structure.

(2) That letter of the bank is an eligibility condition – amongst others – for the approval of a grant. SME needs to lodge an application for a grant with the PA.

(3) Once an SME is awarded a grant by the PA, it applies for a loan with the bank.



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Towards the implementation – preparatory work AHEAD of us



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Thank you for your attention!

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