



Financial Instruments for Rural Development

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Financial instruments (FIs)



- ✓ co-funded by the European Structural Investment Funds (ESIF)
- ✓ a sustainable and efficient way to invest in growth and development
- ✓ can support a broad range of development objectives to the benefit of a wide range of final recipients (FRs)



Revolving effect

Additional flows of money - generated through repayments or cost savings, as well as realisation of investments - that can be reused for further investments



Leverage effect

Capacity to attract additional public and private resources. It is *“the sum of ESIF funding and additional public and private resources raised divided by the nominal amount of the ESI Funds contribution”*

State aid: FIs must be implemented in accordance with State aid rules



What are the financial products?



Loans

Agreement which obliges the **lender** to make **available** to the **borrower** an agreed sum of money for an **agreed period** of time and under which the borrower is **obliged to repay** that amount plus interest within the **agreed time**

Guarantees

Written commitment to **assume responsibility** for all or part of a **third party's debt** or obligation **if an event occurs** which **triggers** such **guarantee**, such as a loan **default**

Equity

Provision of capital to a firm, invested directly or indirectly **in return** for partial **ownership** of that firm. Equity investor may assume some management control of the firm and may share the firm's profits



Benefits for Managing Authorities



- ✓ Capacity to attract additional private resources thus increasing funding available
- ✓ Revolving nature (re-use of funds to support additional final recipients)
- ✓ Higher EAFRD contribution rate (according to art. 59 of Reg. 1305/2013, the EAFRD contribution applicable to the measure concerned can be increased by an additional 10%)
- ✓ Improved quality of the investment projects, due to economic viability conditions expected from the final recipients
- ✓ Quick and easy disbursement of funds to final recipients



Benefits for Financial Intermediaries



- ✓ Capital relief (no need to set-aside own capital for the loans offered)
- ✓ Risk protection on a loan by loan basis or coverage of losses at portfolio level (capped or uncapped)
- ✓ Increase in the number of new clients
- ✓ Strengthened position in the market of agricultural financing
- ✓ Quickly deployable products justified by market demand



Benefits for final recipients



- ✓ Access to funding
- ✓ Reduced interest rate
- ✓ Reduced collateral
- ✓ Longer maturity
- ✓ Enhanced access to finance for riskier projects
- ✓ Opportunity for new businesses (young farmers) with no credit history / collateral
- ✓ Quick access to finance
- ✓ Less paperwork / administrative requirement



EIF and Financial Instruments with EAFRD funding



Italy Agri Platform

Uncapped Guarantee – EUR 82m

MoU – 08/04/2017

Languedoc Roussillon EAFRD

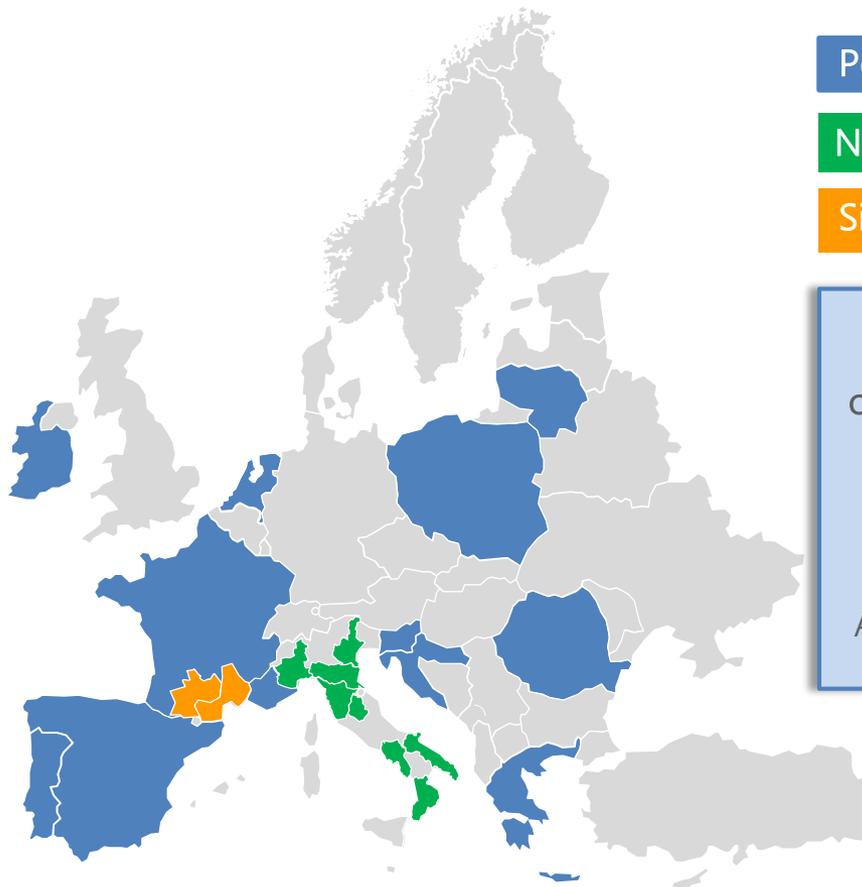
FLPG – EUR 15m

Funding Agr. – 27/11/2015

Midi-Pyrénées EAFRD

FLPG – EUR 13m

Funding Agr. – 12/06/2017



Potential candidates

Negotiation with MA

Signed with MA

EUR 110m
of EAFRD resources
for
more than
EUR 1 billion
available to
Agri SMEs/Farmers



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EIB Advisory support for financial instruments



- *fi-compass* knowledge hub – www.fi-compass.eu
- *fi-compass* EAFRD specific events (almost 1000 participants reached so far)



Upcoming EAFRD annual conference in Paris, 10 October 2017

- “Targeted Coaching” under *fi-compass* for EAFRD MAs
- Tailored advice in the development and set-up of financial instruments, incl. *fi-compass* funded feasibility studies for EAFRD/EFSD financial instrument platform initiative



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Benefits of working with EIB group



- Experience in the successful implementation of EAFRD mandates
- Strong partner in relationships with financial intermediaries (400 banks, guarantee and promotional institutions)
- High security due to the AAA rating of the institution
- Avoidance of potential conflicts of interest
- Transparency in the management of the financial instrument, including due diligence procedure in compliance with EU / national regulations
- Continuous management, monitoring and administration of the portfolio
- Regular updates provided on the progress of the implementation



Recap/ Why use financial instruments?



- ✓ A **more efficient** use of (scarce) public sector resources, especially for revenue generating or cost saving projects
- ✓ Greater **leverage potential**
- ✓ Brings **financial discipline** into the project/initiative: transparency/identification/selection process
- ✓ Can be **combined** with technical support and/or grants to overcome market barriers
- ✓ Reutilisation of resources: **revolving nature** of the instruments



Recap/ What are the key success factors



- ✓ Should be **market driven**: importance of ex-ante assessment and of market tests
- ✓ Keep It Simple and Smart (**KISS**): right balance between policy objectives and real market absorption capacity
- ✓ **Alignment of interests**: Managing Authority, (FoF), Financial Intermediary, Final Recipient
- ✓ Constructive **collaboration** vs “not my problem” attitude
- ✓ Appropriate **governance** structure
- ✓ Get a «good» **fund manager**
- ✓ Flexible **investment strategy**
- ✓ Financial intermediaries **as the champions** of the instrument
- ✓ **Technical assistance** to prepare projects





Thank you for your attention!



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