Event on Commission-EIB co-operation on agriculture and rural development within the EU

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Opening statement

by

EU Agriculture & Rural Development Commissioner

Phil Hogan

- CHECK AGAINST DELIVERY -

Ladies and gentlemen,

First of all, let me echo Mr Plewa in welcoming you all to this event. I [too] would like to offer my warmest thanks to EIB Vice-President Wilhelm Molterer, as well as to his colleagues, for the excellent spirit of co-operation in which they've worked with us - in preparing today's event, and in all other the activities that have led up to it.

Why are we here today?

We're here because, like the EU as a whole, **our farm sector and our rural areas have fallen on hard times** – **but there's money out there which can help us leave those times behind, if we're smart enough to reach out for it.**

Everyone here knows that the economic situation in the EU is still difficult. EU-wide unemployment is still too high, at 11 %. Growth is still too weak, at 1.5 % predicted for this year – especially at a time when we have high debts hanging over us.

Of course we often fail to acknowledge the contribution of the rural and agricultural economy and their value chains to growth and jobs. But just in case you accuse me of being too cheerful this morning: the situation is made worse by a continuing squeeze on credit.

And that makes life particularly difficult in the countryside, because as we know, the rural economy doesn't always find it easy to get credit at the best of times. Banks regard potential loans to farms and many other rural businesses – especially smaller ones - as risky. So, of course, the conditions for obtaining a loan become more difficult to meet, and sometimes impossible: a track record which the applicant doesn't have, collateral which he can't provide, or interest rates which he can't afford.

So, what can we do about it?

Thankfully, most people in our farm sector and in our countryside don't give up easily and play the "victims" when times are tough. Many of them have good ideas for making things better. There are plenty of farmers who want to make their farm more efficient, or diversify, or restructure; plenty of entrepreneurs who want to start a business; plenty of authorities which want to provide public services more efficiently.

But to get those ideas off the drawing-board, they need money.

Rural development policy already does a lot to help provide that money. It has an EU budget of EUR 100 billion over seven years – which is not exactly "small change" – and also draws in match-funding from national or regional authorities. This is serious money that supports investments in farms and other businesses, as well as training, the development of local services and infrastructure, environmental care, and technological development – among other things!

But I have to say that the queue of people applying for support is very long. So we need to make the money go further.

That's where financial instruments come in – and in particular, the EIB Group's excellent work on developing them and helping us to use them.

As we know, financial instruments are essentially **magnets designed to pull in private money**.

For example, a guarantee fund offers security for loans to be provided by banks or other bodies –for up to 80 % of the value of the loan. Once this security is available, someone with a business idea is much more likely to find that the door of the bank opens when he goes knocking.

If things go well, under this approach a sum of, say, EUR 100 000 provided as a guarantee could turn into a loan worth much more than that – perhaps EUR 200 000, EUR 300 000 or more.

And when loans are repaid, the security is released and that money can be used again.

So overall, in effect we can potentially turn one euro of public money into two euros, three euros or more. This is surely worth doing!

And I'm not making pie-in-the-sky comments backed by no evidence. Case studies of financial instruments are emerging – and the findings are encouraging.

For example, between 2010 and 2014 a guarantee fund which operated in Romania and was funded through rural development policy helped to make **EUR 426 million of loans** available by providing just **EUR 116 million as security**. That's more than **three-and-a-half euros of credit for every single euro provided from the fund.** By November 2014, 740 projects from around 700 beneficiaries had been supported – creating or maintaining more than 10 000 jobs.

Financial instruments have also been used to good effect in the EU's regional policy. For example for financing green infrastructure in London: Through financial instruments, EUR 71 million from the European Regional Development Fund (ERDF), plus EUR 59 million of regional match-funding, have turned into total funding of EUR 480 million. **The money will improve energy efficiency, treat waste more sustainably and improve social housing**, creating 2000 jobs, and cutting 200,000 tons of CO_2 emissions and 300,000 tons of landfill waste in the process.

One more example from regional policy: through a fund operating in the German region of Saxony, by the end of 2013 EUR 35 million from the ERDF, plus EUR 10 million of regional match-funding, had attracted EUR 63 million of private money – to fund innovative technology-oriented start-ups.

These examples show what we want to achieve with EU funds channelled through innovative financial instruments.

Of course, financial instruments won't solve all our problems – I'm sure we could find cases where success was more modest – but the point is that there's clearly potential there.

In practical terms, **what must we do to unlock that potential for rural development policy in the new period of 2014 to 2020?**

The first condition is to build the knowledge necessary to use financial instruments. That condition is being met. In particular, the **model guarantee instrument for agriculture** – designed by the EIB and unveiled today – can be immediately adapted and used by Member States. And the EIB's pledge to provide further advice and technical support will be essential, as will the further instrument blueprints which will be provided later on. And all this is of course in addition to the EIB's other valuable co-operation with us, for example on our research agenda.

Then, Member States must actually decide to **set up financial instruments in their rural development programmes**, according to their needs – funded by their respective programme budgets.

They could do so in order to address a very wide range of challenges – in fact, most or all of the challenges addressed by rural development policy as a whole. But in the current situation, I can think of some especially pertinent examples. We could use the money generated by financial instruments to:

- **jump-start large investments needed for restructuring the dairy sector after the end of milk quotas**;

- **help young farmers to make key investments to get started**;

- help farmers and forest managers buy more **resource-efficient equipment**;

- help the agri-food sector to build **short supply chains**, to improve processing and marketing;

- give an initial push to **rural start-ups** and create jobs outside farm gate.

It is worth reminding all of us that Member States have allocated about EUR 50 billion of EAFRD money to rural development measures which support investments (the rest is for other types of support, such as environmental land management payments). Just think about what we could do in the areas that I've just mentioned if a healthy part of that money – with its compulsory national and regional match-funding – could ultimately mean double, or triple that in investments by pulling in credit through financial instruments!

To get the money flowing, once again, provision has to be made for financial instruments in rural development programmes. If necessary, these programmes can always be modified to do so and I can commit that we will approve such changes as a priority.

And then it's time for potential beneficiaries to bring their plans to the financial body which manages the instrument for their Member State or region. The exact functioning of the relationship between that body and the authorities managing the rural development programme will depend on local choices and that is a good thing.

Loan conditions will vary from region to region. But we certainly expect attractive terms. For example, under the Romanian instrument mentioned earlier we saw loans with terms between 3 and 10 years, according to the needs of the loan-takers. They also paid very little, just 1.5%, for the guarantee in the case of agricultural investments, meaning **access to loans at market rates for those who otherwise, for lack of sufficient guarantees, could not have borrowed at all.**

So finally, if all goes well, the bank door opens, and good ideas become reality!

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Ladies and gentlemen,

In a nutshell, that's what financial instruments can do for us in the context of rural development policy – separate from the Juncker Package (which has its own mechanisms and a much broader scope), but very much pursuing the same aims of creating jobs and stimulating growth.

But now we need to get up out of our chairs to make the most of it. We need to spread the word, channel money to financial instruments in our rural development programmes, and thereby give ourselves the chance to change one euro into two, three or even more for the sake of our farm sector and our countryside.

And when I say "we" I very much mean you, the Member States and regions represented here today. We will do everything we can to make it simple and straightforward. But you and your colleagues at home have to take the necessary decisions now!

Decisions which, I am confident, will make this into a multi-billion-Euro-endeavour for our farmers and our rural areas very soon.

Thank you.