Implementation of Financial Instruments and MS's Examples

Commissioner Phil Hogan on this new opportunity for farmers to invest in modernisation of the farm sector.

(Press roundtable in Lisbon, 9 April 2015)

The implementation of financial instruments in Portugal could involve leverage up to €400 million in new investment for the Portuguese agriculture sector through cooperation with the EIB.

A guarantee fund offers security for loans to be provided by banks or other bodies – typically, for 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.

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 – **<u>creating or maintaining more than 10 000 jobs</u>**.

Financial instruments have also been used to good effect in the EU's regional policy. For example, a certain fund has been 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 – which is being used to improve energy efficiency, treat waste more sustainably and improve social housing.

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 start-ups.

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, if they wish.

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** (so that, a few years from now, a farmer aged 55 won't be considered "young" by the standards of the sector in the EU);
- 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**.

Consider for a moment that, as a ball park figure, 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, 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.

Finally, if all goes well, the bank door opens, and good ideas become reality.

>> Photos of Commissioner Phil Hogan's visit to Portugal