



Questions & Answers

in relation to the
Memorandum of Understanding

in respect of
cooperation in agriculture and
rural development within the EU

between
the European Commission

and
the European Investment Bank

Disclaimer

"This is a draft working document prepared by DG AGRI (European Commission) and the EIB Group. On the basis of the applicable EU law, it provides answers to possible questions from public authorities, potential beneficiaries and any other parties with an interest in rural development. The document is without prejudice to any interpretation of the Court of Justice or the General Court, or to decisions of the Commission."

23 March 2015

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Useful links

www.ec.europa.eu/agriculture

www.eib.org

www.enrd.europa.eu

www.fi-compass.eu

FINANCIAL INSTRUMENTS FOR AGRICULTURE SUPPORTED BY THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT AND THEIR USE BY MEMBER STATES

Q1: WHAT IS A FINANCIAL INSTRUMENT?

According to the Financial Regulation (EU, EURATOM) No 966/2012)), "financial instruments" are Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants.

The applicable rules for financial instruments implemented under shared management are defined in Regulation (EU) No 1303/2013 and its delegated and implementing acts. These rules are applicable to all European Structural and Investment (ESI) Funds. ESI Funds may be used to support financial instruments under one or more programmes, including when organised through funds of funds, in order to contribute to the achievement of specific objectives set out under a priority. Financial instruments shall be implemented to support investments which are expected to be financially viable and do not give rise to sufficient funding from market sources.

Q2: WHAT IS MEANT BY THE WORK ON FINANCIAL INSTRUMENTS?

The EIB Group, based on its experience in the area of financial instruments and supported by the Commission services, is prepared to design financial instrument products (loan, guarantee or equity funds, or combination of the three) which may be deployed under the respective rural development programmes (RDP) according to demand by Member States. These financial instruments may be managed by the EIB Group or the EIB Group may advise Member States on how to create, implement and monitor them.

In principle, financial instruments under the European Agricultural Fund for Rural Development (EAFRD) may cover any investment area programmed by Member States in their RDPs. For example, a financial instrument product under the MoU will be a guarantee instrument for agriculture¹, facilitating access to debt finance for farmers investing, e.g. in the overall performance and sustainability of their holdings. This instrument will be also suitable for young farmers. The product is presented by the European Investment Fund (EIF) during the MoU event on 23 March 2015 in Brussels.

The European Commission (DG AGRI) urges Member States to programme financial instruments in the early stages of programme implementation to allow sufficient time for the instrument to develop and perform.

¹ Such guarantee instrument can also cover non-agricultural businesses, depending on the demand by Member States.

Q3: ARE MEMBER STATES OBLIGED TO USE FINANCIAL INSTRUMENTS?

No. Member States are free to use financial instruments under the EAFRD as they fit (in line with their *ex ante* assessments).

However, the European Commission, including DG AGRI, and the EIB, emphasise the value added associated with financial instruments – especially in terms of leverage effects.

Q4: HOW CAN FARMERS GET ACCESS TO FINANCIAL INSTRUMENTS FOR AGRICULTURE SUPPORTED BY THE EAFRD?

In order for farmers to get access to any FI scheme, including the guarantee instrument presented today, Member States must first create a financial instrument and programme it in its rural development programme. Once this is done and the financial instrument becomes operational, a farmer may apply by submitting a business proposal to the financial institutions through which funding is channelled. The implementation mode is to be decided by the Member State and spelled out in the funding agreement between the managing authority and a fund manager (e.g. the EIF, EIB or a nationally operating financial institution). Member States should also inform potential applicants on the applicable rules and procedures.

Q5: WHAT SHOULD MEMBER STATES DO IF THEY WISH TO USE FINANCIAL INSTRUMENTS UNDER THEIR RDPs?

According to Regulation (EU) No 1303/2013 – which applies to all European Structural and Investment (ESI) Funds for the 2014-2020 programming period – each programme managing authority has to undertake a mandatory *ex ante* assessment of *inter alia* market failures or sub-optimal situations that are to be addressed by a financial instrument.

When this is done, the managing authority should accordingly provide for the use of financial instruments in the rural development programme, in line with the recommendations of the *ex ante* assessment.

Managing authorities are advised to consult the "Short reference guide to financial instruments under ESIF programmes in 2014-2020" which managing authorities can request from the Commission. The Commission will provide further advice on programming of financial instruments, as needed.

Managing authorities could also contact the EIB Group for help in exploring how they may use financial instruments in their particular circumstances.

Q6: IS THERE ANY ADDITIONAL GUIDANCE FOR MEMBER STATES ON FINANCIAL INSTRUMENTS PLANNED TO BE DEVELOPED?

Yes. The Commission is currently completing guidance documents for the period 2014-2020 and is keeping Member States informed about these.

Additional guidance will be developed in the context of the advisory services platform for ESIF financial instruments “fi-compass”², which will also produce EAFRD-specific guidance documents. The fi-compass advisory platform will progressively become the knowledge hub for ESIF Financial Instruments in 2014-2020 (www.fi-compass.eu).

Q7: WHERE CAN STAKEHOLDERS FIND FURTHER INFORMATION ABOUT THE POSSIBILITY TO USE FINANCIAL INSTRUMENTS?

Stakeholders should address the managing authority responsible for the Rural Development Programme in their area. They can also address the relevant paying agency or the body responsible for the implementation of the programme and its measures. Member States also provide information on dedicated websites, and information is also channelled through the National Rural Networks.

Contact details of managing authorities can be found on the website of the European Network for Rural Development (www.enrd.europa.eu).

Q8: CAN A MEMBER STATE REQUEST THE EIB GROUP TO UNDERTAKE AN EX ANTE ASSESSMENT ON THEIR BEHALF CONCERNING THE POSSIBLE USE OF A FINANCIAL INSTRUMENT UNDER THE EAFRD?

Yes. Member States (managing authorities) wishing to use this service should contact the EIB at:

Patricia B. Llopis
Advisory Services Department
European Investment Bank
Phone: +352 43 79 89011
Email: p.llopis@eib.org

Q9: WHAT IS THE BUDGET FOR FINANCIAL INSTRUMENTS UNDER THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT?

There is no pre-established budget for financial instruments under the EAFRD. Financial instruments can be applied within Rural Development Programmes when managing authorities decide to use a certain part of their Rural Development budget through these delivery mechanism.

Therefore, it is in the discretion of the Member States to decide how much budget to allocate to any financial instrument under a given RDP. There is no direct allocation by the EIB Group or the European Commission.

² The *fi-compass* advisory services platform was launched in late 2014 and is designed to meet the needs of ESIF managing authorities and other interested parties, by providing practical know-how and learning tools on financial instruments, including "how-to" manuals, factsheets for quick reference, e-learning modules, face-to-face training seminars and networking events.

Q10: WHAT ARE THE TERMS AND CONDITIONS FOR A FINANCIAL INSTRUMENT SUPPORTED BY THE EAFRD?

The terms and conditions for a financial instrument(s) supported by EAFRD should be defined in the funding agreement between the managing authority and the Fund Manager. Depending on the national or regional situation, these may vary between programme areas. The ultimate goal of such guarantee instrument is to ease access to finance for final recipients under the EAFRD, including agricultural producers and young farmers.

Q11: WHAT INVESTMENT AREAS CAN BE COVERED BY FINANCIAL INSTRUMENTS FOR AGRICULTURE SUPPORTED BY THE EAFRD?

Financial Instruments for agriculture may cover investments by a farmer or group of farmers, including legal entities, into agricultural activities and on-farm investments. They can also be targeted specifically towards young farmers or other sectors of agriculture and rural development. In the programming period 2014-2020, such Financial Instruments can be used for investments to improve the overall performance and sustainability of the farm, as well as investments concerning processing, marketing and development of agricultural products. Investments undertaken by cooperation projects under the RDP in these areas may also be covered.

THE MEMORANDUM OF UNDERSTANDING AND ITS WORK PROGRAMME

Q12: WHAT IS THE MEMORANDUM OF UNDERSTANDING?

The Memorandum of Understanding (MoU) is a document signed between the Commission and the European Investment Bank (EIB) in the field of agriculture and rural development. It is the first document of its kind. It is a statement setting out the principles of cooperation and coordination between the two institutions regarding:

- the EU's rural development policy – funded by the European Agricultural Fund for Rural Development (EAFRD); and
- the Commission's research agenda in the field of agriculture, food and forestry – funded under the EU research and innovation framework programme, Horizon 2020.

Joining forces between the Commission and the EIB is expected to bring considerable value-added for the EU rural development policy.

Q13: WHAT IS THE PURPOSE OF THE MoU?

The MoU structures the cooperation between the Commission (DG AGRI) and the EIB.

The cooperation covers the following areas:

- support and implementation of the EU rural development policy funded by the EAFRD, as well as the Horizon 2020 research agenda in the field of agriculture, food and forestry;
- Financial Instruments under shared management supported by the EAFRD, as well as technical assistance outside Financial Instruments;

In any case, the ultimate recipients of benefits generated under the MoU will be the EAFRD stakeholders in the respective Member States.

Q14: WHEN WILL THE ACTIVITIES PLANNED UNDER THE MoU START?

The MoU is a statement of principles and contains no specific timetable.

Some of the activities covered by the MoU – such as EIB lending in support of agriculture and forestry and their related up- and downstream industries – have already been going on for a long time.

New products are under development and might be presented to Member States in the coming months and/or years, depending on feasibility and demand. One specific product – for loan guarantees for agriculture – is going to be presented during the MoU event on 23 March 2015 in Brussels.

Q15: WHAT IS THE ROLE OF THE EUROPEAN COMMISSION UNDER THE MoU?

The Commission helps to achieve the aims of the MoU by:

- facilitating discussion between the EIB Group and Member States;
- providing other technical support and advice, e.g. ensuring that actions taken do not break any relevant rules.

Q16: WHAT IS THE ROLE OF THE EIB GROUP UNDER THE MoU?

In the programming period 2007-2013, the EIB has been an important partner to the European Commission in creating, supporting, implementing and complementing financial and technical or advisory support schemes under various EU policies, notably in the fields of Research & Development and Cohesion policy, through different financial instruments including those of the European Investment Fund.

Because of the EIB's expertise in this area and in the development of tailor-made, ready-to-implement financial instruments, the EIB endeavours to serve as a provider of know-how and technical assistance also for the EU Rural Development policy and as a financing institution facilitating access to long-term finance in support of sustainable rural economic growth.

Q17: HOW CAN A MEMBER STATE CONTACT THE EIB GROUP IN VIEW OF USING ITS SERVICES FOR FINANCIAL INSTRUMENTS SUPPORTED BY THE EAFRD?

No special formalities are involved should a Member State wish to discuss a potential collaboration with the EIB Group. Initial contacts can be in any form, by telephone, fax, e-mail or letter.

It may also signal its interest to the European Commission (DG AGRI), which will then facilitate such discussion.

Q18: IS THE MoU PART OF THE JUNCKER PACKAGE AND THE INVESTMENT PLAN FOR EUROPE?

No. The MoU was signed on 14 July 2014. However, there are links. Certain products under the MoU may be linked to the Investment Plan or their development may be increased by it. Likewise, knowledge transfer and capacity-building initiated under the MoU may be beneficial for undertakings in the context of the Juncker package and the Investment Plan for Europe.

In the end, Member States making use of the EIB products that are being developed pursuant to the MoU will contribute to the Investment Plan's target of doubling the use of financial instruments in European Structural and Investment Funds, one of which is the European Agricultural Fund for Rural Development.

Q19: WHAT IS THE MoU "WORK PROGRAMME"?

Whereas the MoU itself sets out general principles and a broad outline of types of activity, the work programme translates these principles into specific products or activities. The work programme aims to provide a more technical specification of further steps to be taken, facilitating coordination and cooperation between the two institutions and creating a result-oriented working environment.

Q20: WHAT IS COVERED BY THE MoU AND ITS WORK PROGRAMME?

The MoU and its work programme address five major areas:

- financial instruments under shared management supported by the EAFRD, including the provision of bilateral technical assistance to managing authorities;
- implementation of the Commission's research agenda in the field of agriculture, food and forestry;
- technical assistance outside financial instruments;
- the EIB's lending activities, including support for Member States' / regions' co-financing of rural development programmes (RDPs); and
- awareness-raising and communication activities related to the programme and any related activities.

THE MoU TOPICS OUTSIDE FINANCIAL INSTRUMENTS

a. Advisory activities

Q21: ONE OF THE TOPICS OF THE MoU AND ITS WORK PROGRAMME IS "TECHNICAL ASSISTANCE OUTSIDE FINANCIAL INSTRUMENTS". WHAT ACTIVITIES WILL BE CARRIED OUT UNDER THIS TOPIC?

The Commission and the EIB Group will assess whether advisory services should be set up, which would help Member States draw up sector or thematic investment strategies for agriculture, forestry and/or rural development in general. If developed, the advisory services would analyse the cost-efficiency of projects supported by the EAFRD in specific investment areas.

To decide whether this step should be taken, the Commission, supported by the EIB, will evaluate the demand for these services through discussion with Member States – both bilaterally and in the Rural Development Committee.

b. Lending by the EIB

Q22: WHAT IS THE EIB'S ROLE IN RURAL DEVELOPMENT WITHIN THE EUROPEAN UNION?

The EIB, in line with its operational planning and statutory and internal lending frameworks, provides financial support to national and regional authorities and private sector entities. The EIB's lending activities cover the whole agri-food and forest value chains, ranging from input and equipment supply to wholesale and retail networks.

Over the last five years, the EIB has provided about EUR 12bn in loans to agriculture, fisheries and forestry production and projects of the up- and downstream industry.

The EIB stands ready to continue financing Member States' national and regional financial plans under the EAFRD within the frame of its statutory and lending frameworks. Such lending activities reached, in the 2007-2013 programming period, an amount of almost EUR 2bn.

Those willing to receive funding from the EIB, including operational groups under the European Innovation Partnership "Agricultural Productivity and Sustainability" (EIP AGRI), are invited to directly contact the EIB.

For more detailed information, kindly have a look at the flyer explaining the EIB's support to Member States regarding RDPs or visit the EIB's webpage (www.eib.org).

c. Agri-food research agenda

Q23: WHAT IS THE POTENTIAL OF THE MoU WITH REGARD TO THE AGRI-FOOD RESEARCH AGENDA?

The Commission (DG AGRI) and the EIB will seek possibilities for boosting the implementation of the sustainable agriculture and forestry research agenda, which falls under the co-management of DG AGRI.

This includes the provision of funding for agriculture and agri-food research under societal challenge 2 of Horizon 2020 "Food security, sustainable agriculture, marine and maritime resources & the bio-economy", co-managed by DG AGRI and DG RTD, under "InnovFin", the financial instruments operation of H2020.

In this context, close cooperation between DG AGRI, DG RTD and the EIB ensures that activities complement each other.

Q24: WHAT IS THE INVESTMENT COVERAGE OF THE MoU PRODUCT COVERING THE AGRI-FOOD RESEARCH AGENDA?

Support may be provided for RDI projects as well as R&D infrastructures (including innovation-enabling infrastructures), feasibility studies and demonstration projects to promote for example first-of-a-kind, commercial-scale products, processes, and technologies.

Support should target projects that contribute to:

- increasing primary and food production efficiency (in particular resource efficiency) and targeting climate change, while ensuring sustainability and resilience;
- providing ecosystem services and public goods;
- empowering rural areas and stimulating rural innovation.

Q25: WHO MAY BE FINAL RECIPIENTS UNDER THE MoU PRODUCT COVERING THE AGRI-FOOD RESEARCH AGENDA?

Final recipients may be innovative companies and other private bodies. Both Sides will seek opportunities to establish a sharper focus as regards final recipients – for example on SMEs, including farms requesting funds individually or collectively.

d. Information and awareness raising activities

Q26: WHAT KINDS OF ACTIVITIES ARE PLANNED UNDER THE MoU TO RAISE AWARENESS AND COMMUNICATE INFORMATION?

The two Sides will exchange information about relevant developments and activities foreseen under the MoU. The EIB will inform the Commission (DG AGRI) on an annual basis about the scope of its activities, respecting its confidentiality obligations. The EIB may further present this reporting to Member States in the context of the Rural Development Committee (RDC). Member States can track the

EIB's lending activities through a web query, available on the EIB's website at any time. DG AGRI will regularly inform the EIB on progress made with regards to financial instruments under the EAFRD, co-financing needs and volumes, etc.

Specific leaflets were produced by EIB for dissemination in the context of the 23 March MoU event in Brussels.

A string of European conferences and smaller macro-regional events are also planned from this year onwards under the fi-compass advisory platform. More information will be made available on the website of fi-compass.

Q27: IS IT POSSIBLE TO RECEIVE FURTHER INFORMATION ON MoU ACTIVITIES?

DG AGRI will regularly inform Member States on developments under the MoU and the implementation of its work programme, via the Rural Development Committee. It will also inform EAFRD stakeholders via the Civil Dialogue Group on Rural Development as well as through the European Network for Rural Development and the EIP Network.

DG AGRI also reports on all its activities linked to financial instruments in the Commission's Annual Activity Reports and in annual reporting to the European Parliament and the Council (as of 2016).

Other activities to raise awareness and communicate this information may also be developed (see Q26).