



**Final Report on the ENRD Rural
Entrepreneurship Thematic Initiative:
Rural Finance**

Final Version
28th March, 2012
Compiled by the ENRD Contact Point



Connecting Rural Europe

Contents

EXECUTIVE SUMMARY	3
1. SCOPE OF THE REPORT	6
2. BACKGROUND AND CONTEXT	8
2.1 Global developments and EU perspective	8
2.2 Sources of funding – mapping the supply side	10
2.3 The economic crisis, its varied impact in the EU, and trends in SME funding	13
2.4 The rural dimension	17
2.5 The role of the public sector	20
3. ENRD ACTIVITIES TO-DATE	21
3.1 ENRD surveys on rural finance	24
3.1.1 Surveys for the collection of examples of RF schemes.....	24
3.1.2 Survey targeting Managing Authorities and Paying Agencies (the MA/PA survey).....	32
3.1.3 Survey of financial institutions (FI survey).....	36
4. SUMMARY CONCLUSIONS AND RECOMMENDATIONS.....	46
Challenges and actions identified.....	46
Annex 1: List of Sources	50
Annex 2: Surveys.....	52
Annex 2.1 Survey questionnaire for the collection of case studies (wave 1).....	52
Annex 2.2 Survey questionnaire for the collection of case studies (Sample 2)	54
Annex 2.3 Survey questionnaire for the managing authorities and paying agencies (sample)	57
Annex 2.4 Survey questionnaire for financial institutions (sample).....	60
Annex 2.5: Case studies (Survey 1)	65
Annex 2.6: Case studies (Survey 2)	87

Executive Summary

The Final Report on the ENRD Rural Entrepreneurship Thematic Initiative: Rural Finance has been prepared by European Network for Rural Development (ENRD) as part of its Rural Entrepreneurship Thematic Initiative. It focuses on access to rural finance for micro-, small-, and medium enterprises and builds upon and integrates the results of the Interim Report on the ENRD Rural Entrepreneurship Thematic Initiative: Rural Finance, compiled by the ENRD Contact Point in October 2011.

Rural finance is one of four main themes of the Rural Entrepreneurship Thematic Initiative launched by the ENRD at the 9th NRN meeting in July 2010. NRN cooperation and joint action on rural entrepreneurship has been organised around the four main themes of “Tools to Support Rural Entrepreneurship, Emerging Sectors for the Rural Economy, Overcoming Obstacles to Entrepreneurship, and Social Aspects of Entrepreneurship”. The focus on Rural Finance (RF) as part of the third theme (Overcoming Obstacles to Entrepreneurship) is based on the recognition of the crucial role that rural finance plays in rural entrepreneurship and rural development. This theme has gained further emphasis as the impacts of the economic crisis on SMEs¹ have become considerable, resulting in job losses estimated to exceed three million in the EU-27 in 2009-2010².

Prior to the economic crisis SMEs had been the “job engines” of much of the European economy producing an annual employment growth rate of 1.9%³, while the number of jobs in large enterprises increased by only 0.8 % annually. In absolute numbers, 9.4 million jobs were created in the SME-sector between 2002 and 2008. Due to this fact the role of the SME sector in recovery from the crisis should be considerable.

Access to finance to SMEs is one of the crucial elements of economic recovery in Europe in general, and for the rural economy in particular. However, as the review of relevant literature, also demonstrated by the ENRD surveys, access to finance for SMEs is not solely a problem of scarce finance supply. It is a multifaceted issue where information asymmetry⁴ in the market, the tightening of credit standards, and the increasing costs of borrowing, as well as other factors specific to the rural economy also have considerable impact. Consequently, instead of focusing on the quantity of rural funding demanded or the volume of funds actually supplied (invested, lent as credit), the analysis and solutions offered in this Report – also considering the mandate and role of the ENRD and NRNs – address supply-demand linkages.

¹ According to Commission Recommendation of 6 May 2003 on the definition of micro, small and medium enterprises (2003/361/EC).)

² European Commission (EC, 2010). European SMEs under pressure. Annual Report on EU Small and Medium-sized Enterprises 2009.

³ European Commission (EC, 2010). European SMEs under pressure. Annual Report on EU Small and Medium-sized Enterprises 2009.

⁴ Information asymmetry is a situation in which one party in a transaction has more or superior information compared to another. This often happens in transactions where the seller knows more than the buyer, although the reverse can happen as well.

This essentially means stimulating the demand and the flow of information between financial institutions and SMEs in need of funding by developing training, information, and business support tools and interfaces to improve the linkages between investors or creditors and SMEs. Another important area to improve is the effectiveness of implementation of financial instruments under EAFRD.

As an initial step in the direction of developing innovative solutions this report investigated the supply and demand side of rural finance to micro, small and medium enterprises. The investigation has included the overview of current trends and challenges as presented in the relevant literature and the mapping of the rural finance scene through the collection of information through surveys from National Rural Networks, Managing Authorities and Paying Agencies, as well as commercial banks operating in the EU-27.

The first main objective of the investigation has been to identify challenges and constraints to access to finance by rural SMEs in relation to financial engineering instruments in the frame of EAFRD and various credit lines and other financial products from commercial banks and other financial institutions.

The second objective was to find areas of improvement and potential action to improve the effectiveness of financial instruments under EAFRD for the 2014-2020 period and on the demand side of rural finance (SMEs investment-readiness) linked specifically to capacity building and cooperation of rural enterprises to improve the willingness of financing institutions or investors to provide credit or other financial support for them.

Four surveys have been carried out in order to achieve the above objectives. The surveys have been prepared by ENRD and distributed amongst NRNs in all of the EU-27 member states.

The surveys aimed to collect information on examples of active rural finance schemes (2 surveys), financial engineering instruments introduced and activated/not activated under the rural development programmes of EU member states, and the reasons thereof (1 survey), and the perspective of financial institutions (commercial banks) on funding rural SMEs (1 survey).

Based on the literature review, the survey results, and conclusions of this Report, future activities by NRNs and the ENRD in the rural finance theme can be in the frame of the following broad themes:

In the context of this Report the term is used to refer to the phenomenon that investors or creditors and SMEs have different information about the availability of investment/credit or projects that could potentially be invested in.

- Informing the discussions on relevant EAFRD implementing rules and delegated acts for the next programming period including further analytical and research work to support policy planning and filling the information gap⁵ on rural finance,
- Improving the linkages between supply and demand in rural finance by the preparation and introduction of various Rural Finance (RF) tools (training, communication, business support schemes) and through on-going exchange of experience in a joint effort by ENRD and participating NRNs,
- Continuing the collection and dissemination of good practice examples and operating various means of cooperation in the process.

The active participation of NRNs is essential in developing rural finance tools and interventions. Therefore, raising awareness of the RF theme and good practices in place in the EU-27 is both a starting point and a part of the process of NRN cooperation. Developing the “Common language” of the RF theme shall remain an objective of the rural finance initiative.

This Executive Summary is followed by the “Scope of the Report” which explains the rationale behind focusing on SMEs and the relevant objectives of ENRD activities. Next, the “Background and context” chapter which provides an overview of the trends relevant to SME finance in the EU, as documented in a number of surveys, reports, and analytical studies, establishing the link between global trends, mapping the supply side of enterprise funding, and showing how the same economic crisis has different impacts in different EU MS. The Chapter ends with the description of the rural dimension linked to access to finance and the role that the public sector can play in finding solutions. The Report continues with the detailed description of “ENRD activities”, including the presentation of surveys, survey results and their analysis.

The main body of the Report ends with the chapter “Summary conclusions and recommendations” which provides the linkages between survey findings and possible further activities.

The “Annex” contains a detailed list of referenced sources, and presents the survey questionnaire samples and detailed survey results.

⁵ The review of relevant literature identified an **information gap**. This concerns the **scarcity of information specific to the rural finance theme**, in particular the lack of surveys and reports focusing on aspects of rural finance and the challenges faced by rural SMEs in the EU-27.

1. Scope of the Report

This Chapter explains the importance of focusing on micro-, small- and medium enterprises due to their dominance in the EU-27 in terms of the number of businesses as well as their role in employment and job creation.

The role of these businesses in the recovery from the crisis is considerable, and a crucial element of this recovery lies in improving access to finance. This is followed by a description of the main objectives of ENRD activities relevant to improving rural finance. These are to identify challenges and constraints specific to access to finance by rural SMEs, as well as areas of improvement and action with regards both to the legal framework for the 2014-2020 period and to improving the demand side of rural finance by various financial and non-financial support schemes.

This Report and the recommendations contained herein **focus on micro, small and medium enterprises**. The focus on SMEs is justified by the fact that 99.8% of all enterprises in the EU-27 are categorised either as micro-, small-, or medium enterprises. This ratio has been remarkably constant over recent years according to the Annual Report on EU Small and Medium Enterprises published by DG Enterprise⁶. SMEs are the job engine for a large part of the European economy, having contributed to a job growth of 1.9% annually between 2002-2008, amounting to a total of 9.4 million jobs created in the sector.

During the economic downturn SMEs retained their position as the backbone of the EU economy and continued to provide more than 2/3 of all employment opportunities in the private sector in the EU-27. The typical European firm is a micro-firm, as **92% of all the SMEs are micro-enterprises** within the non-financial business economy. However, considering the impacts of the economic crisis the most significant one is the loss of jobs in the SME sector estimated to exceed three million in the EU-27 in 2009-2010⁷.

Based on the considerable potential of SMEs to generate and create employment **the role that SMEs play in the economic recovery from the financial crisis** is considerable. **Access to finance to SMEs** is one of the crucial elements of economic recovery in Europe in general, and **for the rural economy in particular**. According to the Eurobarometer survey⁸ on SMEs, across the EU 81% of respondents said that it was difficult to start up a business due to a lack of available financial support.

The investigation of access to finance to rural enterprises is warranted by the fact that only a small number of sources in the relevant literature deal with problems and challenges specific to rural enterprises. **The Report aims to investigate the supply and demand side of rural finance to micro-, small-, and medium enterprises** primarily through the overview of current trends and challenges as presented in the relevant literature, and the mapping of the rural finance scene through the collection of information through surveys from National Rural Networks, Managing Authorities and Paying Agencies, as well as commercial banks operating in the EU-27.

⁶ European Commission DG Enterprise (EC 2011). Are EU SMEs recovering from the crisis? Annual Report on EU Small and Medium sized Enterprises 2010/2011.

⁷ European Commission (EC, 2010). European SMEs under pressure. Annual Report on EU Small and Medium-sized Enterprises 2009.

⁸ Eurobarometer (2009). Entrepreneurship in the EU and beyond. A survey in the EU, EFTA countries, Croatia, Turkey, the US, Japan, South Korea and China. Analytical report.

The main objectives of the investigation can be summarised as follows:

1. To identify challenges and constraints:

- specific to access to finance by rural SMEs regarding the utilisation of financial engineering instruments in the frame of EAFRD,
- related to access to finance for rural SMEs regarding various types of credit and other financial products from commercial banks and other financial institutions,

2. To identify areas of improvement and action:

- in terms of the legal framework for the 2014-2020 period for the financial engineering instruments available under EAFRD with the purpose of increasing their utility,
- with regards to actions to help improve the demand side of rural finance (SMEs investment-preparedness) linked specifically to capacity building and cooperation on behalf of rural enterprises to improve the willingness of financing institutions or investors to provide credit or other financial investment for them.

The surveys aim to cover rural finance initiatives ranging from local, more community-based initiatives to financial engineering instruments developed at a member-state level or special credit or other financial products developed by commercial banks for SME funding. The possible linkages between the EAFRD and SMEs' access to finance from non-EAFRD financial products will also be mapped. National Rural Networks have played a considerable role in conducting the **surveys developed by the European Network for Rural Development**. Furthermore, **NRNs** have supplied **useful case studies** of various financial engineering instruments applied in Member States. This was the first part of the process.

The second part related to specific research targeted at **Managing Authorities and Paying Agencies** in order to gather specific information on the use (or otherwise) of financial engineering instruments, and detailed information linked to the reasons of various levels of utilisation.

The third part of this process dealt with taking a closer look at the **commercial banks' perspective of rural finance**. This has been based on a number of aspects already examined in surveys conducted by the European Central Bank. However, as those surveys lack questions linked to the rural aspect, a new set of questions has been prepared to serve the purposes specific to the investigation.

The **conclusions and recommendations** included in this Report will provide further input to the relevant EU legislation related to financial engineering instruments under EAFRD, as well as guide the further actions and promote cooperation and exchange of good practices amongst the national rural networks in 2012.

Within this framework, **this Report aims at analytically presenting activities undertaken to-date** specific to this investigation, identifying issues which have so far emerged and outlining a work plan for the next steps. The Report deals with both the supply (EAFRD financial engineering instruments, local schemes) and the demand (identifying areas of improvement to increase rural SMEs' investment preparedness and possible NRN actions to support this) side of rural finance.

2. Background and context

This Chapter provides a general overview of global and EU developments that affect access to finance by businesses, a brief analysis of the supply side of business finance, a description of the SME development trends, variations within the EU, and challenges specific to the rural dimension based on the review of relevant literature as listed in Annex 1. The review of relevant literature has found that reports and official documents that provide an analysis specifically on the situation of rural SMEs in the EU-27 are scarce, which emphasizes the need for further analysis and data collection as part of future activities in the RF theme.

2.1 Global developments and EU perspective

This Section describes the main factors of the global economic crisis that resulted in the higher cost of borrowing for SMEs, and other factors including the diversity and fragmentation of the financial market that leads to SMEs' reduced ability to find appropriate financial products, the mismatch of supply and demand, and the equity paradox⁹ which essentially means that there is enough money available for lending but not enough good projects matching investors' criteria. The need for information provision about investors' criteria and a consequent better understanding of such criteria by SMEs is essential for the successful matching of businesses with sources of funding and a logical conclusion from the various phenomena described here.

Since the onset of the financial crisis in 2008, there have been three major factors that have been affecting the business community on the global scene. The **expansive monetary policies** both in Europe and USA have kept interest rates very low to stimulate the economies. This monetary approach – applied by the majority of central banks - while supporting economic recovery, also gave way to a **resurgent inflation**. The European Central Bank has already begun **raising its interest rates**, adopting a trend which might continue in the next 12-18 months. Increases will be decided step by step, but it cannot be excluded that in the next 2 years interest rates might grow by 200 basis points (2%), therefore doubling the levels in 2009-2010.

Resulting from the above trend, the **higher cost of borrowing** has started to affect economic recovery, especially with **defaults on bank loans** being **high** worldwide. This impact is particularly serious on those sectors which have not yet begun to recover from the crisis.

The introduction and implementation of the new Basel III Accord may have a **tightening effect on bank lending in the next 2-3 years.**¹⁰ Over the next 3 years the three factors above might

⁹ The term is used in European Association of Development Agencies (EURADA (2011) All money is not the same! What for whom? According to the referenced report there is sufficient risk capital offered but not enough equity is dedicated to seed or early stage businesses.

¹⁰ The Basel Accord is an international regulation setting out minimum capital requirement for banks worldwide, aiming at ensuring that they will not become insolvent in case of an economic downturn. The regulation is based on a fixed ratio between capital and the so called “weighted assets”, which for the purposes of this report we can assimilate to just “lending. This fraction (in a very simplified way) can be shown as follows: Solvency Ratio = capital /lending. Originally the fixed value of this ratio was 8% (BASLE 1 Accord), later reduced and made flexible (Basel II Accord, ratios were as low as 5%). Now it has been raised again and banks are given a rather long period of time to implement the new limits (Basel III). However banks feel that they need to raise their capital even more quickly than required by Basel III Accord, for risk management reasons, and have already set their

produce a more difficult access to finance by all firms, including rural enterprises. The preliminary impact assessment for Basel III forecasts that banks would reduce short-term lending facilities that usually support working capital, which would require serious efforts to adjust to the new conditions by small- and medium enterprises.¹¹

However, there are other factors not necessarily linked to the economic crisis that affect access to finance by enterprises in general. One of them can be attributed to either **the fragmentation of the market** or overlapping competences that “give the entrepreneurs the feeling that they are lost in a jungle” and make it difficult for SMEs to find funding that matches their special needs (EURADA, 2011).

The second is the so-called “**equity paradox**” which essentially is a mismatch of supply and demand on the financial market for SMEs. The essence of the problem is that even though investors have enough funds to invest, the number of good projects (or information about them) is limited. At the same time, entrepreneurs experience this phenomenon as a lack of funding sources to finance their projects. This equity paradox is **more emphatic for the seed or early stage businesses**¹², for which the supply of risk capital is especially scarce.

The EURADA report¹³ defines the key aspects of the challenge as the **asymmetric information** between entrepreneurs and investors and **insufficient preparation of entrepreneurs to meet investors’ demands** leading to the differing perception of entrepreneurs’ projects.

The phenomena described above lend further emphasis to **the importance of appropriate information provision** about existing facilities and the provision of support to help entrepreneurs fully grasp **investors’ criteria for funding** their projects.

Trust – a more informal, but nonetheless important factor – between the borrower (firm, enterprise) and bank can also have a serious impact on **improving access to finance and reducing the costs of borrowing**.¹⁴

solvency ratio targets (ranging from 7% to 9% and more) for the next 2-3 years. The amount of capital they will have to raise to reach their new targets is very large, so it is to be expected that they will pursue a mixed approach, definitely raising the numerator of the fraction (capital) but also reducing the denominator (lending).

¹¹ ACCA 2011 (quoting the preliminary impact assessment for Basel III by the Institute of International Finance)

¹² Defined in EURADA (2011):

▲ Seed capital: Financing provided to study, assess and develop an initial concept. It precedes the start-up phase. Seed capital is required to fund a business project before the product or service is marketed. Seed capital is often pivotal in high-tech projects to allow businesspersons to conduct surveys as well as research and development on prototypes that will become companies’ core business.

▲ Early stage (or start-up) finance : equity invested in businesses that are past research and development but need additional funding to market their products and services.

¹³ EURADA (2011)

¹⁴ (EC 2011) refers to a recent study conducted by Gines Hernandez-Canovas and Pedro Martinez Solano.

In addition to historical knowledge and experience about a firm's past performance it is also based on the full understanding of investors' criteria by the firm and the application of **solid business and financial planning**, **business risk management** and **self-assessment** techniques.¹⁵

The factors mentioned above are important pre-requisites for the successful matching of businesses with sources of funding (investors, credit, etc.) in a way that also consider the differing financing needs of businesses in different stages of their development (from seed through start-up to expansion).

2.2 Sources of funding – mapping the supply side

This Section attempts to provide an overview of the most important sources of funding to SMEs in the EU-27 and provides a general outline of current trends in SME funding. The key conclusion of this overview is that in spite of a very slight increase in the importance of alternative sources of funding (informal sources, trade credit, leasing, micro-credit, government related sources, etc.) bank lending is still the most important source of external funding used by SMEs. Another important finding is that the tightening of credit standards for SMEs has continued in 2011. However, the diversity of supply in rural finance means that SMEs have various funding sources available in different stages of their development from seed through start-up to expansion.

In order to understand "investors' criteria" it is first necessary to appreciate the variety of funding sources that are potentially available for enterprise funding as well as related trends in access to finance. The World Bank draws up a continuum of financial services providers ranging from informal to formal institutions. The list includes public/private/cooperative banks, non-bank financial institutions, NGOs, micro-finance institutions, community-based financial organisations, and money lenders/input suppliers/small groups (World Bank 2007)¹⁶.

In spite of the fact that the list describes the rural financing scene in developing countries, the general classification of institutions is appropriate also in the EU setting, if supplemented with the public sources of funding (including ERDF, EAFRD, and national schemes), the Competitiveness and Innovation Framework Programme (CIP) established by the EU, and the European banks, such as the European Investment Bank, amongst others.

Another important source of external finance, in particular for micro firms, is **micro-credit**. In 2009, the European Commission proposed to set up a new micro-finance facility providing micro credit to small and micro businesses and to people who have lost their jobs and want to start their own businesses¹⁷.

A report by the European Savings' Banks Group (ESBG)¹⁸ on the role of **savings' banks** towards micro and small enterprises defines savings' banks as providers of easily accessible small-scale

¹⁵ ESBG-Lloyds TSB-UEAPME: Basel II for SMEs mentions these – among others – as essential areas of improvement to adapt to Basel II by SMEs.

¹⁶ The World Bank (2007.), Agriculture and Rural Development Discussion Paper 34. Community-based Financial Organizations: A Solution to Access in Remote Rural Areas?

¹⁷ European Commission (EC, 2010). European SMEs under pressure. Annual Report on EU Small and Medium-sized Enterprises 2009.

¹⁸ ESBG (2007). Microcredit in Europe – Experiences of Savings Banks.

loans. Another important factor that the report highlights is the savings' banks' **proximity to their client businesses**. This facilitates the development of close partnerships based on local knowledge resulting in the provision of not only a wide range of financial services (credit, savings, etc.) but also **business support services**.

Evidence shows that **business mentoring** has the potential to reduce losses generated by credits due to the lower rate of business failures. For instance, in France, **mentoring networks and savings banks partnerships** aim to improve social inclusion with **micro-credits** for people that encounter difficulties in setting up their own businesses (on average 5000 Euro per loan). Evidence indicates that 75% of micro-enterprises financed within these micro-credit schemes are still operational after three years, while in the EU average 30% of new enterprises do not survive 3 years. Losses generated by micro-credits granted by the French savings banks represent on average only 5% of outstanding loans – due to the lower rate of business failures resulting from business mentoring and the guarantee facilities.

Savings' banks also demonstrate a stronger social commitment due to their proximity to their customers and can be contributors to various social themes too. According to a report published by Friedrich-Ebert Stiftung¹⁹ **savings banks and cooperative banks can be said to have been specializing in SME funding** at least in Germany where decentrally organised banks issued almost 60% of all loans for SMEs in 2009. On the more informal end of the spectrum are **informal investment** from friends and family and business angel²⁰ finance. Such forms of finance can be the main source for early stage SMEs.

In spite of the variety of sources of finance available to SMEs, **bank lending is still the largest source of external SME finance** - in the form of loans - mostly used for financing investments, working capital and stock financing.

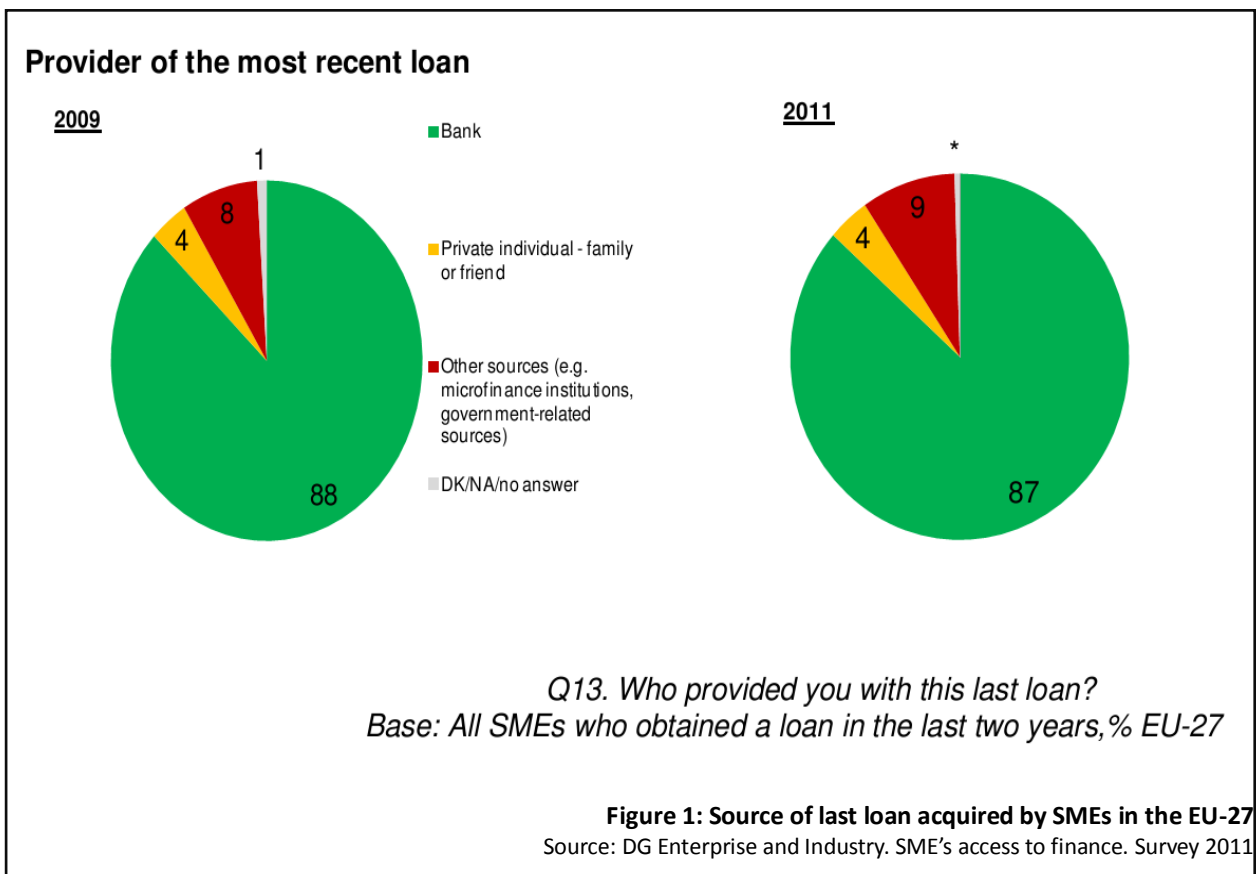
The survey published by DG Enterprise in December 2011²¹ found that half of the respondent SMEs took out a loan in the past two years and that in 9 out of 10 cases the loan was provided by a bank, making banks the most common source of external finance for SMEs in Europe. A report by the European Commission²² found that SMEs used overdrafts and credit lines – the majority of their external funding – to balance finances in between paying suppliers and receiving money from consumers. One third of SMEs received funding through bank loans.

¹⁹ Angelkort A., Stuwe A. (2011) Basel III and SME Financing. Published by Friedrich-Ebert.Stiftung

²⁰ Or informal venture capital: private individuals who invest part of their estate in start-ups in the form of venture capital and also contribute their personal managerial expertise.

²¹ European Commission, DG Enterprise and Industry. SME's access to finance. Survey 2011. (published: December 2011)

²² European Commission DG Enterprise (EC 2011). Are EU SMEs recovering from the crisis? Annual Report on EU Small and Medium sized Enterprises 2010/2011.



From 2009, alternative sources of funding increased, specifically trade credits and leasing as well as hire-purchase and factoring resulting from high interest rates **and other** bank charges. In a European Central Bank survey on access to finance of SMEs in the Euro area²³, it is reported that >50% of surveyed Euro area SMEs experienced increases in interest rates and other costs of financing (charges, fee and commissions), while banks reported a further slight net tightening on loans to SMEs and continuous widening of margins on loans to SMEs. **The tightening of credit standards on loans for SMEs continued in 2011**²⁴.

SMEs continued to experience worsening conditions of bank financing during the second half of 2011, in terms of the interest rate and other costs, collateral and required guarantees.²⁵

With regard to **EU public funds**, it is important to mention that the planned share of EAFRD dedicated to measures 312 “Support for business creation and development” in 2007-2013 (2.3 % of total allocation)” and EU Structural Funds are listed amongst the indicators introduced by the European Commission Joint Research Centre **to measure access to finance** as part of measuring the performance of member states regarding the **Small Business Act of Europe**

²³ European Central Bank (ECB 2011). Survey on the Access to Finance of SMEs in the Euro Area – September 2010 to February 2011

²⁴ European Central Bank (ECB 2011/2). The Euro Area Bank Lending Survey – October 2011

²⁵ European Commission, DG Enterprise and Industry. SME's access to finance. Survey 2011. (published: December 2011)

adopted in 2008²⁶. This underlines **the importance of public funds in the “funding pool” available for SMEs**. The full list of indicators is presented below.

1. Venture capital investments – early stage
2. Planned share of EU structural funds dedicated to stimulating entrepreneurship and SMEs in 2007-2013 (% of total allocation by MS)
3. Planned share of EAFRD dedicated to measures 312 “Support for business creation and development” in 2007-2013 (% of total allocation),
4. Strength of legal rights
5. Depth of credit information
6. Total duration to get paid (no. of days)
7. Lost payments (% of total turnover)
8. Difference in interest rate levels between loans up to EUR 1 million and loans over EUR 1 million
9. Share of bank loan applications by SMEs that were not successful (rejected loan applications and loan offers whose terms and conditions were deemed unacceptable as % of all loan applications)
10. Access to public financial support including guarantees (% that indicated a deterioration)
11. Willingness of banks to provide a loan (% share that indicated a deterioration)

The above list of indicators also demonstrates that access to finance for SMEs has many facets and investigation into the theme requires an approach that is able to address its complexities.

2.3 The economic crisis, its varied impact in the EU, and trends in SME funding

This section focuses on the “threat” to rural finance and highlights the importance of considering country or culture specific contexts when examining the viability of/or designing relevant schemes and policy interventions for SME funding. This is demonstrated by the variation of favourable opinions of entrepreneurs amongst the EU-27 member states or the difficulty of getting a bank loan as perceived by SMEs in various member states. The need to grasp investors' criteria and improved credit worthiness and investor readiness emerge as central themes for designing business support services that also contribute to the improvement of SMEs' access to finance.

The above sections have shown that it is essential to consider and analyse access to finance for rural SMEs in the context of co-financing where rural SMEs have varying degrees of access to a number of funding sources from a „funding pool”. On the other hand, the economic crisis, the various policy responses and their consequences for credit standards pose a **“threat” to rural finance, in particular to credit from commercial banks**.

²⁶ European Commission Joint Research Centre (EC JRC, 2011). Measuring EU performance on the Small Business Principles-Methodology.

The following figure shows the changes in conditions and terms of bank financing between 2009 and 2011.

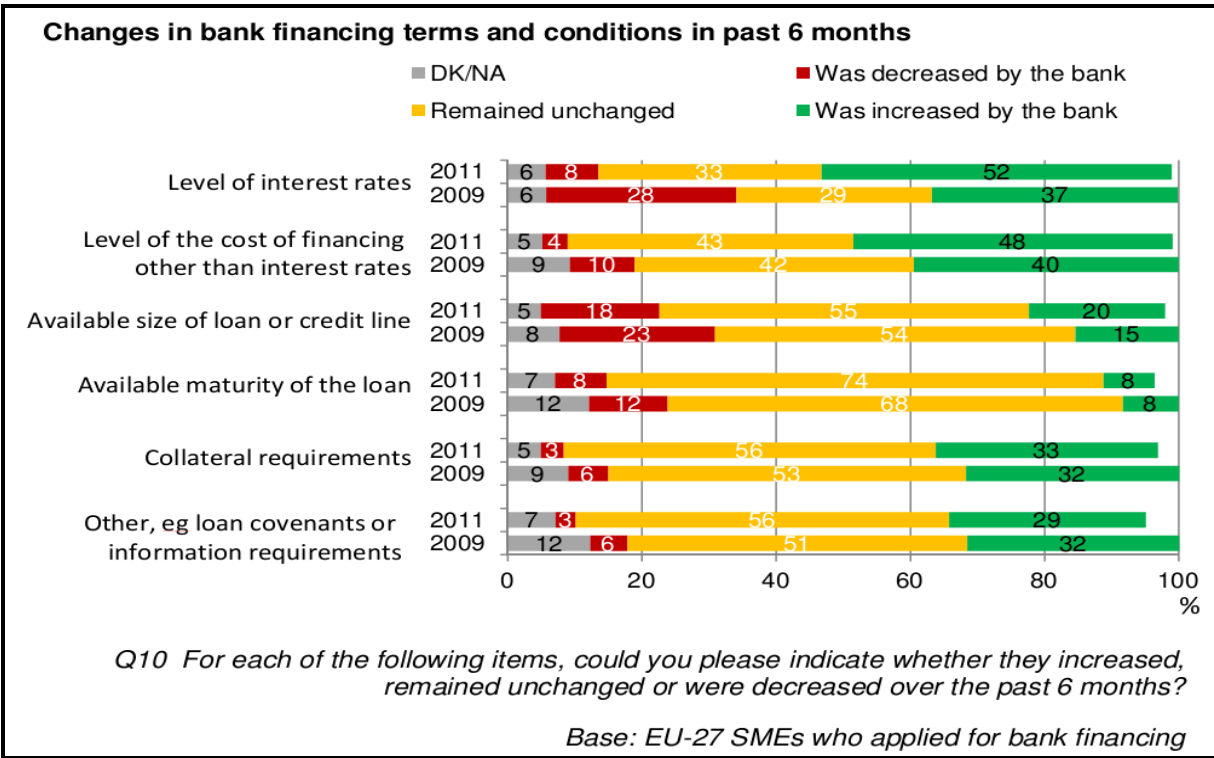


Figure 2: Changes in bank financing terms and conditions.
 Source: DG Enterprise and Industry. SME access to finance.

The figure demonstrates the increasing trend in the level of interest rates and other cost of financing (collateral, loan covenants or information requirements) between 2009 and 2011 as experienced by SMEs in Europe. This may direct SMEs to increasingly use other, **alternative sources of funding** in order to survive. **The availability of alternative funding sources** (especially community based and informal sources) can also depend on the general opinion of the society about entrepreneurs.

In general, the lack of available financial support has become more severe since the beginning of the crisis according to a survey by Eurobarometer²⁷, where more respondents (81%) in 2009 said it was difficult to start up a business due to a lack of available financial support compared to the number in 2007 (75%).

²⁷ Eurobarometer (2009) Entrepreneurship in the EU and beyond. A survey in the EU, EFTA countries, Croatia, Turkey, the US, Japan, South Korea and China. Analytical report.

Another important indicator of economic activity – **the propensity to invest ratio**²⁸ – has not shown substantial improvement since the onset of the crisis²⁹, which shows that economic recovery for SMEs in the EU has not gained momentum as yet.

However, data show that the **impacts of the crisis on SMEs vary amongst member states**. The EC (2011) annual report distinguishes between the EU-15, the EU-12, the Eurozone countries, non-Euro zone countries, and crisis and non-crisis countries. A striking fact is that **employment growth in SMEs was negative in 2010 in all country groups**.

With regards to **the availability of funding**, SMEs in Finland, Germany, and Austria do not experience obstacles to get a bank loan or loan from other sources (according to 56%-64% of respondents), while there has been a significant fall in positive opinions regarding this in Denmark, Slovenia, and Sweden. At the same time, the situation seems to have improved in this respect for SMEs in Bulgaria, the Czech Republic, Italy, Latvia, Lithuania, and Poland³⁰.

In addition to differences amongst member states, another factor that needs to be examined is the potential difference between the rural and urban situation. It is noteworthy that in the results of the Eurobarometer 2009³¹ survey, there was no significant difference on a number of issues between responses from rural and urban respondents.

The following two questions and relevant responses demonstrate the above statement.

“Regardless of whether or not you would like to become self-employed, would it be feasible for you to be self-employed in the next 5 years?” Very feasible: rural = 6.7%, urban = 7.2%, not feasible at all: rural = 49.3%, urban = 45.9%

“Why would it not be feasible for you to be self-employed within the next 5 years?” Lack of finances for self-employment: EU-27: 23.6%, rural: 23.7%, urban: 23.9%

In the context of the trends described above, the tools to improve SMEs’ investor readiness gain further emphasis as part of the **effort to stabilise rural finance and help SMEs cope with the crisis**. Such tools can include coaching, mentoring and self-evaluation focusing on the product, market, management team, finance, business model in the broad sense.

A serious challenge for SMEs and SME support organisations developing tools to improve SMEs’ creditworthiness and investor readiness is that there is no universally agreed standard or benchmark for SME credit risk management applied by financial institutions. However, some important areas of improvement include business planning, setting business targets and

²⁸ The propensity to invest ratio is measured by taking the investment in tangible goods as a percentage of gross value added of a particular (enterprise) size class. The ratio measures the size of the investment as compared to the size of the business (average gross value added by size class and sector in the EU-27).

²⁹ European Commission DG Enterprise (EC 2011). Are EU SMEs recovering from the crisis? Annual Report on EU Small and Medium sized Enterprises 2010/2011.

³⁰ European Commission, DG Enterprise and Industry. SME’s access to finance. Survey 2011. (published: December 2011)

³¹ Eurobarometer (2009). Entrepreneurship in the EU and beyond. A survey in the EU, EFTA countries, Croatia, Turkey, the US, Japan, South Korea and China. Analytical report.

preparing strategies, business risk management techniques and financial planning³².

Business support services are ranked by the EU SMEs among the four most important factors in companies' financing in the future. Other important factors include guarantees for loans, tax incentives, and making existing public measures easier to obtain.

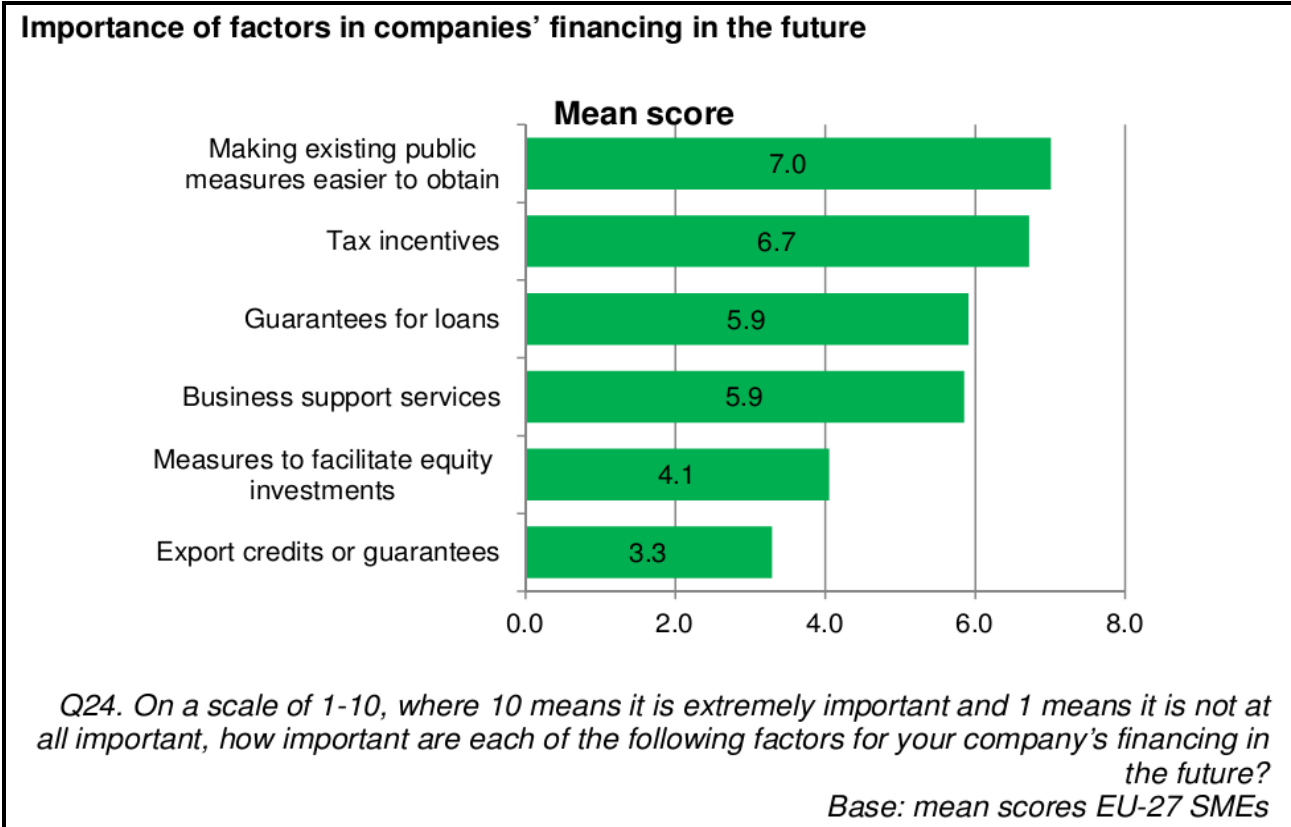


Figure 3. Relative importance of factors in companies' financing in the future
Source: DG Enterprise and Industry. SMEs' access to finance. Survey 2011

³² ESBG-Lloyds TSB-UEAPME. Basel II for SMEs. SME Toolkit.

2.4 The rural dimension

This Section underlines the primary importance of investment in rural areas for a viable "rural adjustment" that helps rural communities adapt to the significant structural changes that have occurred in Europe and is characterised mainly by the diminishing importance of agriculture, resulting that 82% of employment in rural areas in the EU is now derived from non-agricultural sectors of the economy. The magnitude of the challenge is shown by the fact that income per habitant is still significantly (21-62%) lower in rural areas than in urban ones. The role of the CAP in bridging this rural income gap is described and the importance of also bridging the "rural financing gap" and the "risk gap" for rural businesses is discussed. In this context, the general outline of member states' utilisation of financial engineering instruments under EAFRD is described.

In an era of increasing market liberalisation characterised by the emergence of new products and markets and by severe competition often facilitated by technological advancement, the creation of new, competitive and innovative rural businesses and the modernisation of existing ones is arguably a key determinant of the success of efforts by policy makers to facilitate a smooth and viable "**rural adjustment**".

This is because competitive rural enterprises are vital for **rural economic growth** as they play a key role in creating and maintaining rural jobs and subsequently significantly affect rural vitality.

An important characteristic of the rural economy is the fact that most of the SME's are micro business with a high proportion of self-employed persons³³.

In turn, investment in rural businesses is a pre-condition for their development, as it facilitates the expansion of their operations, the development of new products and the utilization of new staff and innovative production facilities and methods. In other words, it can be safely argued that nowadays, **rural investment, including rural finance for SMEs is a key factor for rural development in the EU due to the employment creation potential of rural SMEs.**

In the last two decades, rural areas in the European Union have been facing **significant structural change**, reflected by (amongst others) the diminishing economic importance of agriculture, the impacts of residential, recreational and touristic developments, and increasing environmental concerns. The result of this structural change is that 82% of employment and 95% of value added in predominantly rural areas of the EU-27 is derived from the non-agricultural sectors of the economy. However, in the EU-27 the **income per habitant** is still 21-62% **lower in rural areas** as compared to urban areas³⁴.

The structural changes in the rural economy, as well as **the "rural income gap"** referred to above has necessitated continuous policy adjustments by rural policy-makers, and the reform of the CAP by the European Commission. Reforms of the CAP product and producer support (Pillar 1) were accompanied by a gradual reform of EU rural development policy (Pillar 2). **EU expenditure**

³³ EU DGAGRI (2006) Study on Employment in Rural Areas

³⁴ EU DG AGRI (2009): Rural development in the European Union, Statistical and Economic Information. Report 2009

on rural development policy (RDP) measures significantly **increased** and attempts were made to implement these interventions in a **more “integrated” framework**.

Two **EU Regulations** have played a major role in facilitating this new RDP approach. Regulation 1257/99 specified an “extended” menu of rural policy measures to be implemented ‘at the most appropriate geographical level’. Regulation 1698/2005 further reinforced **EU RDP**, through the introduction of a single funding and programming instrument (EAFRD), in parallel, it specified three major intervention objectives, namely, improving competitiveness of agriculture and forestry (Axis 1), improving the environment and the countryside (Axis 2) and improving the quality of life in rural areas and encouraging diversification of economic activity (Axis 3).

The above **reforms** were further reinforced by the 2008 CAP Health Check agreement and the European Economic Recovery Plan. This policy will further evolve following the Commission communication on the “CAP towards 2020”, and the recent proposals on the 2014-2020 budget and the post-2013 CAP legislative proposals.

In addition to public policy measures, investing in rural business relies on entrepreneurs or groups of entrepreneurs willing to take a risk, based on their perception of an opportunity combined with their judgement of their own ability to perform. In this context, the availability of financing for rural investors is an issue of paramount significance, especially if the role of innovation in raising productivity and maintaining competitiveness is taken into account. Also, it has been repeatedly argued that such a factor is particularly important for rural firms which often participate in very competitive markets, and are “*forced*” to innovate in an effort to differentiate, and are often engaged in **economic activities sensitive to economic and seasonal fluctuations** (e.g. tourism; niche food products, etc.).

Despite the fact that the importance of **rural financing** has been widely acknowledged, it is still considered as **one of the most important obstacles of rural entrepreneurship and business development**. The financial “exclusion” of rural businesses (alternatively called “rural financing gap”) and the limited access to capital for rural investors has been one of the factors hindering the development and recovery of the rural economy. This shortcoming can be possibly attributed to both economy-wide and rural-specific factors.

In parallel, **factors specific to rural conditions** (further) affect negatively the access of rural investors to capital. This is because in the eyes of commercial creditors, financial support to rural enterprises is associated with a **higher level of risk**, compared to financial support directed towards their urban counterparts.

This **risk gap** can be attributed to factors such as lack of information (on behalf of creditors who often locate far away from rural businesses) and awareness (on behalf of investors), high uncertainty associated with the competitiveness of rural businesses, and low availability of business support mechanisms (e.g. business consultants, technical support). As a result, the **range of rural finance products** available is often **limited** and this often deters rural investment plans.

In an effort to improve conditions associated with the availability of capital for rural investment and also promote the efficient use of **Pillar 2 funds** the European Commission has provided (through Regulations 1698/2005 and 1974/2006) Member States with the possibility to apply **financial engineering actions** in the form of guarantee, loan and venture capital funds. These funds are supported by the European Agricultural Fund for Rural Development (EAFRD) and can be used to provide access to credit for agricultural, food industry and other rural businesses.

Despite the fact that this instrument has been utilized by five Member States in the EU-27³⁵, there are still a considerable **number of Member States which have not included financial engineering schemes** in their 2007-2013 rural development programmes. In parallel, the focus of Member States has so far been on loan and guarantee funds, as no Member State has opted to set up a venture capital fund for rural businesses.

EAFRD funding, is an important component of the rural funding “mix” available to rural micro-, small-, and medium enterprises and merits special consideration when examining the supply side of rural finance. The significance of EAFRD funding is in the fact that some Axis I, Axis III measures, and LEADER initiatives are specifically targeted at rural enterprises. However, in many member states a particular phenomenon related to EAFRD funding is being witnessed whereas administrative controls and checks undertaken by Managing Authorities and Paying Agencies can take up to one year and even more. This is having a negative impact on beneficiaries where whilst they have to keep up with the payment of interest on loans respective EAFRD payments are being delayed exponentially.

Furthermore, the regulatory limitations on applying advance payments (applicable only to the investment component of a project) induce beneficiaries to revert to commercial banks for loans.

In addition, according to paragraph 3.(b) of Article 71 of Council Regulation 1698/2005 (EC), interest on debt is not an eligible support under the EAFRD. The lengthy administrative and control procedures, the limited availability of advance payment coupled with limited access for rural enterprises to credit (due to the higher risks associated with funding rural enterprises resulting from a perceived lower profitability), and the generally lower profitability and capital available characterising especially rural micro- and small-enterprises has a negative effect on the efficiency and effectiveness of the use of EAFRD funds by rural micro- and small-enterprises.

The result is the partial achievement of the rural development objectives related to the measures targeting rural SMEs.

In other words, without neglecting the facts that "novel" policy initiatives take time to mature there is evidence that an investigation of current "conditions" and regulations regarding rural finance instruments and the use of EAFRD funding in the context of the current economic crisis and the rural “gap” in the EU could bring about considerable improvement in efforts to bridge the rural financing gap.

³⁵

Total expenditure under this instrument in 2007-2013 is expected to reach EUR 578 million.

2.5 The role of the public sector

In addition to direct provision of rural finance in the form of financial instruments geared to support rural SMEs, the public sector can offer **policy solutions aimed at market failures** specific to rural financing by helping the demand to match the supply.

To match supply and demand and increase access to finance to rural SMEs the most **important aspects** seem to be **adequate information** (to reduce information asymmetry), **building trust** (based on experience with the relevant SME, or high quality credit applications or investment proposals, and good projects), and **improving investment readiness** (the SME's general ability to attract and utilise investment with a low risk according to investors' criteria).

The public sector and public policy should address these three areas in order to ensure considerable improvement. The European Association of Development Agencies - EURADA (2011)³⁶ report provides a list of potential forms of support, including *inter alia* business plan competitions, financial intermediation, support for business plan improvement, investment readiness schemes, public rating systems, and establishing an interface between enterprises and investors.

³⁶

EURADA (2011). All money is not the same! What for whom?

3. ENRD activities to-date

The Annual Report on EU Small- and Medium-sized enterprises published by the European Commission stated in 2010 that "... now is a period when **well-timed and calibrated policy interventions matter more than ever** so as to ensure that SMEs can as quickly as possible resume their role as job engine of the EU's economies."³⁷

Due to the fact that the economic and financial crisis threatening EU economies with the prospect of slow growth has still not ended and recovery is slow and uneven in Member States, the above statement is still valid for public policy interventions aimed at improving rural finance.

Based on its mandate, the **ENRD initiated the setup of an NRN Rural Entrepreneurship Thematic Initiative**, launched at the 8th NRN meeting in Rome in March 2010.

Subsequently, a workshop was organized at the 9th NRN meeting in Malta (July 2010). In this workshop, it was decided to cluster potential issues related to NRN cooperation and joint action on rural entrepreneurship into four main themes, namely:

1. Tools to Support Rural Entrepreneurship;
2. Emerging Sectors for the Rural Economy;
3. Overcoming Obstacles to Entrepreneurship;
4. Social Aspects of Entrepreneurship.

As a next step, it was decided that an investigation of theme (3) "Overcoming Obstacles to Entrepreneurship" would concentrate on the investigation of access to finance by rural entrepreneurs.

During **the 11th NRN meeting** organized in Bad Schandau, Germany (April 2011) discussions focused on the issues related to lack of credit facilities and finance to support in relation to rural development initiatives undertaken in rural areas. The Swedish NRN took the lead and other participating NRNs included Latvia, Finland and Italy. New NRNs who have envisaged their interest in the task force are Hungary, Germany and France.

Subsequently a **Rural Finance Task Force (RFTF)** was set up to investigate this particular theme. Furthermore during the same workshop **four main topics** were identified for further elaboration by the RFTF, namely:

- a) **The collection of examples** of actively applied financial (engineering) instruments in the EU;
- b) Getting a **common language** and a rating mechanism for rural investment proposals.
- c) **Raising awareness** about the possibilities of **financial engineering** within the EAFRD and also with other funding.

³⁷ European Commission (EC, 2010). European SMEs under pressure. Annual Report on EU Small and Medium-sized Enterprises 2009.

d) **Training on financial engineering** instruments directed to rural entrepreneurs, the financial sector and the public sector;

In this context, in the frame of the rural finance theme, the role of the ENRD can be defined by the **three key objectives** listed below. These key objectives also **define broad fields of further action**:

- 1.) improving the supply-demand side linkages in rural finance, providing support to the demand side (SMEs) by knowledge transfer, training, etc.,
- 2.) collecting and disseminating good practice examples among NRNs in the EU-27 to improve the supply side local interventions and other RF schemes in member states,
- 3.) contributing to the effective utilisation of financial engineering instruments in the frame of the EAFRD in the period 2014-2020.

Based on the results of the first survey conducted in June 2011, the RFTF defined the following priorities for further work:

Priority 1: Enhancement of survey results by collection of further information on other existing rural finance instruments.

This priority is cross-cutting to all four topics of the Rural Finance Task Force and it will involve:

1. the collection of additional examples of running rural finance models by the EAFRD and other instruments including those developed by foundations with a special focus on innovative schemes;
2. an investigation of best practice case studies of rural financing schemes.

Priority 2: To investigate reasons behind the exclusion of rural financing schemes from Rural Development Programmes in specific EU Member States: the investigation and ranking of factors leading to this “exclusion” and attempt to identify how could this be “corrected” in future RDP implementation.

Priority 3: *To investigate in depth the performance of existing rural financing schemes, in both EU and Non-EU Member States and identify the factors and characteristics determining their successful implementation:* the purpose is to gain insight into the perception of Managing Authorities (MAs) and Paying Agencies on the performance of existing rural financing schemes and gather information on the reasons behind successful/innovative and less-successful experiences (leading to recommendations on how existing schemes can improve).

Priority 4: *To generate knowledge on the perception of the various key financial institutions in relation to investments in rural areas:* Project proposals related to rural investments are perceived as posing an elevated credit risk by financial institutions. Issues related to standards of living, access to basic infrastructure services, education, insecure land tenure, price volatility, risk of weather shocks, etc. can be some of the many factors that induce financial institutions to face an elevated level of credit risk. Unfortunately, this is further compounded by the fact that the information required by the financial institutions to assess a project’s viability is often

unavailable. This usually results in the risks of a proposed rural development project being overrated and unable to absorb sufficient risk to provide comfort to commercial lenders.

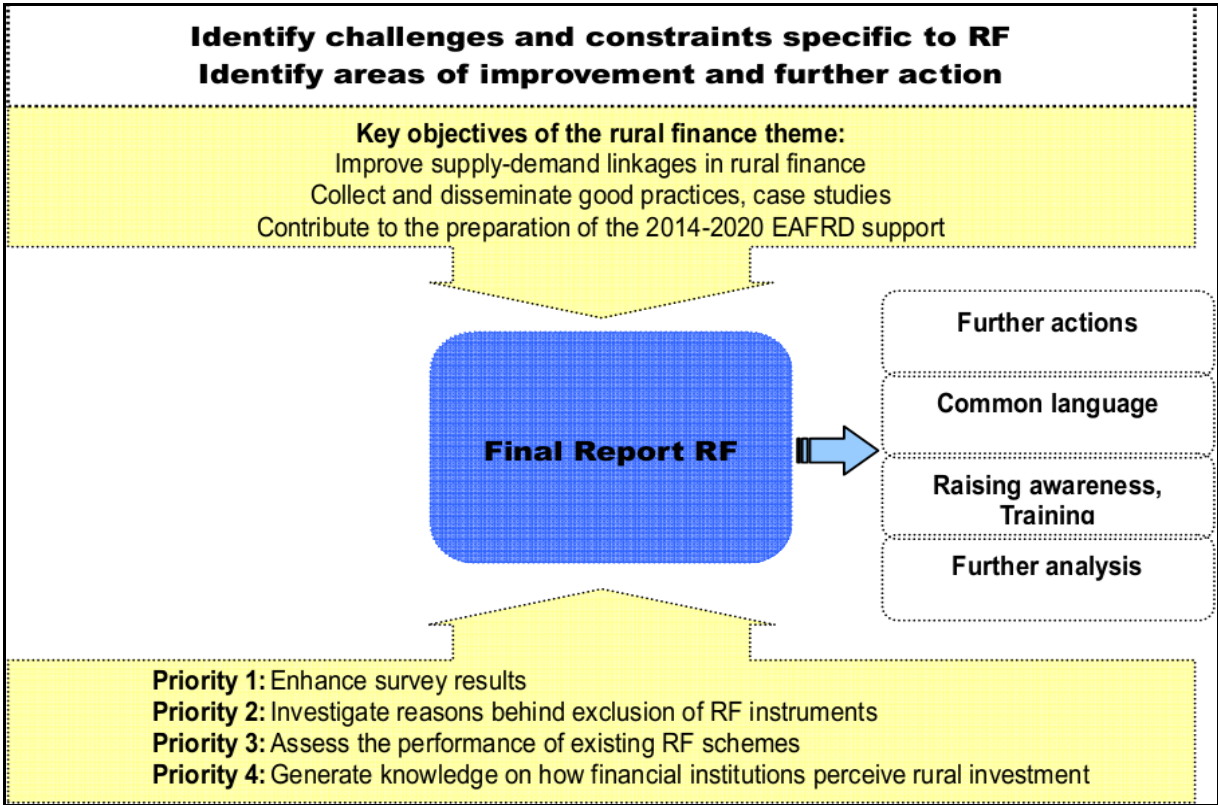
The investigation of the above mentioned issues can be specific to distinct contexts identified through the survey of a range of financial institutions (commercial banks, micro-credit institutions, risk capital/seed funding organizations, etc.) Ultimately, it can lead to recommendations on how to raise awareness of the issues associated with mitigating credit risk in rural areas in order provide clear recommendations on possible short/long-term policy solutions that will support financial engineering frameworks.

In order to facilitate the realisation of the above objectives the **NRNs agreed on a set of further actions during the 13th NRN meeting in the Netherlands (November 2011)**. The action plan included the following:

1. extended survey for the collection of further case studies of rural finance instruments;
2. a survey targeted at Managing Authorities and Paying Agencies for collecting more information on the financial instruments activated/not activated as part of the rural development programmes;
3. a survey to collect information on financial institutions’ (banks) perception of providing credit to rural enterprises.

The surveys have been designed and distributed by ENRD to all National Rural Networks.

The following diagram summarizes the relationship amongst the activities, objectives, and themes of the Rural Finance Thematic Initiative:



3.1 ENRD surveys on rural finance

This Section describes the surveys a) for the collection of examples for RF schemes, b) targeting managing authorities and paying agencies, and c) of financial institutions. Each sub-section provides an explanation of the survey objectives and methods, the results of the relevant survey, and the conclusions based on the survey results.

3.1.1 Surveys for the collection of examples of RF schemes

The first topic defined by the Rural Finance Task Force (RFTF) was “The collection of examples of actively applied financial engineering instruments in the EU”. **Two surveys (Survey 1 and 2)** have been carried out **with the participation of NRNs**. In the frame of these surveys the ENRD collected information on a variety of rural finance schemes.

The survey questions have been elaborated by the ENRD and disseminated amongst the NRNs. The NRNs in Member States were responsible for contacting the Managing Authorities, collecting the data and sending it to the ENRD for analysis.

The results of the surveys are presented according to a classification of the RF instruments based on geographical coverage. The survey also tried to highlight if any specific financial instrument has been put in place together with an additional specialized support (such as training programs on financial issues, preparation of balance sheets and business plan presentations, automated scoring models, etc). Factors common to RF schemes of similar scope as well as special features are described in the text.

Full information and case descriptions are provided in the summary tables in the relevant Annex.

3.1.1.1 Objective and method

Survey 1: The first survey to collect examples of actively applied financial instruments in the EU, a survey was carried out in late spring - early summer 2011. The survey questionnaire is presented in **Annex 2.1**.

Survey 2: The Survey was repeated using a modified questionnaire (**Annex 2.2**) based on the experiences of the first survey and according to the action plan presented and discussed during the 13th NRN meeting in November 2011. The purpose of the second survey was to collect more examples for a more representative sample from the EU-27.

Both of the surveys dealt with the following issues:

- i) type of financing of the instrument;
- ii) market failure addressed;
- iii) type of instrument and reason for setting it up;
- iv) size, budget, geographical coverage and duration of existence of the instrument;
- v) beneficiaries and investment objectives;
- vi) eligibility requirements and support measures which secure viability and success.

- vii) Finally, the survey identified examples of investment projects financed, as well as benefits and obstacles specific to each instrument.

The survey questions have been elaborated by the ENRD and disseminated amongst all NRNs. The NRNs in Member States were responsible for collecting the data and sending it to the ENRD for analysis.

3.1.1.2 Results

The detailed presentations of case studies submitted for the first survey are shown in **Annex 2.5**. Results of the second survey are detailed in **Annex 2.6**. Six member states (HU, LV, IT, DE, SE, FI) participated in the first survey. The second survey resulted in more case studies submitted by two member states that contributed to the first survey as well (HU, LV), with three more member states submitting responses (Romania, Poland, and Portugal). **In total, 25 cases of rural finance schemes have been submitted from 10 Member States.**³⁸

List of RF schemes by main characteristic

Survey no.	Member State	Name of financial scheme/project	Type of financing	Type of instrument
1 st survey	Finland	Midinvest Management Ltd	Regional/local (non-EAFRD)	Credit fund
2nd survey	France	Modulisomir	National (non-EAFRD)	Credit fund
2nd survey	France	Territorial Guarantee "Nord actif"	Regional (non-EAFRD)	Guarantee Fund
2nd survey	France	"Acquisition of equity"	National (non-EAFRD)	Venture capital
1 st survey	Germany	XperCapital	Regional/local (non-EAFRD)	Venture Capital
1 st survey	Germany	Regionalwert AG Bürgeraktiengesellschaft	Regional/local (non-EAFRD)	Venture Capital
2 nd survey	Hungary	various financial instrument offered by the Hungarian Development Bank	National (non-EAFRD)	Guarantee Fund; advanced Credit
1 st survey	Hungary	Agricultural Credit Guarantee Fund (ACGF)	National	Guarantee Fund
1 st survey	Italy	ISMEA (First call guarantee scheme, FCGS)	National (+ EAFRD)	Guarantee Fund
1 st survey	Latvia	EU support for agriculture, rural and fisheries development for establishing a credit fund	EAFRD	Credit Fund
1 st survey	Latvia	Guarantee Fund for Rural Entrepreneurs	National	Guarantee Fund

³⁸ The sample size does not allow for a correlation analysis of various factors. Consequently, the analysis of the sample is limited to the description of transferable elements of good practice and important characteristics in the sub-groups of bottom-up/local, top-down/regional, and top-down/national RF schemes.

Survey no.	Member State	Name of financial scheme/project	Type of financing	Type of instrument
2 nd survey	Latvia	Private capital fund SIA Euro Energy Biogaze Latvija	National (non-EAFRD)	Venture Capital Fund
2 nd survey	Latvia	Foundation „Rezeknes novada mikrouzņēmēju atbalstam” (foundation for the support of Rezekne County Micro-enterprises)	Regional/local (non-EAFRD)	Credit fund (micro-credit)
2 nd survey	Latvia	Latvian Rural Women's Entrepreneurship Support Fund (Latvijass lauku sieviešu uzņēmējdarbības atbalsta fonds)	National	Credit fund (micro-credit)
2 nd survey	Latvia	Credit Union (CCU – Co-operative Credit Union)	Local	Credit fund (credit union)
1 st survey	Sweden	Flyinge bygdebolag	Local	Venture Capital
1 st survey	Sweden	Heligholm Utveckling AB	Local	"other" funds
1 st survey	Sweden	Vireserum Invest Ltd	Local	"other" funds
1 st survey	Sweden	Ramkvilla företagsutveckling ek för	Local	venture capital fund, other funds
2 nd survey	Romania	Rural Credit Guarantee Fund (FGCR IFN S.A.)	National (EAFRD)	Guarantee Fund
2 nd survey	Poland	Agency fo Restructuring and Modernization of Agriculture (ARMA)	National	Credit Fund
2 nd survey	Poland	European Fund for the Development of Polish Villages	N/A	Credit; other (grants also provided)
2 nd survey	Poland	Foundation for the Development of Polish Agriculture	N/A	N/A
2 nd survey	Poland	Rural Development Foundation	N/A	Credit (micro-credit)
2 nd survey	Portugal	Castelo Branco Finicia	Local	N/A
2 nd survey	Portugal	IAPMEI – FINICIA	N/A	N/A
2 nd survey	Portugal	IEFP	National	Credit (micro-credit)
2 nd survey	Portugal	ANDC	N/A	Credit (micro-credit)

Despite the limited number of cases surveyed, the analysis of these issues identified a wide variety of schemes, development targets, intended beneficiaries and financial tools adopted. The surveys revealed different types of rural financing schemes including venture capital³⁹, credit/loan (revolving) funds⁴⁰, guarantee funds⁴¹, as well as micro-credit.

³⁹ a private financial capital usually targeted at early-stage, high-potential, high risk businesses. A venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology. Venture capital is attractive for new companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan. In exchange for the high risk that a venture capital usually assumes by investing in smaller, it usually gets significant control over company decisions, in addition to a significant portion of the company's ownership (and value).

⁴⁰ a source of money from which loans are made for multiple small business development projects. Revolving loan funds usually provide loans to small businesses which do not qualify for traditional financial services or are otherwise viewed as being high risk. Borrowers tend to be small producers of goods and services, farmers, and women who have no credit history or access to other

Rural Finance instruments identified by the surveys were quite **diverse**, in terms of their operational domain and approach, regulatory framework and socio-economic and institutional context. This diversity is represented by various **distinct contexts that can be classified** according to

- a) geographical coverage: local or regional, or large-scale nationwide schemes,
- b) the use of EU funds: schemes that utilise EAFRD or other EU funds; commercial-market structures not utilising EU funding
- c) the linkage to Rural Development Programmes: schemes linked to national or regional RDPs
- d) the characteristics of the rural area where the fund operates: areas more affected by the economic crisis; areas less affected by the economic crisis

Based on the examination of the various rural finance instruments submitted, two main categories can be identified, reflecting two distinct approaches to fostering rural finance:

Bottom-up schemes: Grass-roots, local organisations characterised by strong cohesion and local participation. These instruments are more locally focused and financially limited interventions, aiming to promote bottom-up economic development in rural areas, mostly based on the mobilization of local resources which are intended to be predominantly kept in the target area and used for the benefit of the local population. However, in some cases from Finland and Sweden such local schemes showed signs of enhancement and growth by attracting new businesses or external capital.

Top-down schemes: Nationwide or regional schemes, with relatively large fund sizes, operated with the formal involvement of financial intermediaries, either utilising EU funds (EAFRD, ERDF, other), state aid, or grants from sponsors, or a combination thereof. Examples of these types of schemes have been submitted from Poland, Romania, Latvia, Italy, Hungary, Germany, Portugal and Finland. For top-down schemes that utilise EAFRD funds the focus is on final beneficiaries of EAFRD support.

a) Bottom-up schemes: Local schemes

Local finance schemes identified in the survey are:

- Credit Union (CCU- Co-operative Credit Union, Latvia)
- Flyinge bygdebolag (Sweden)
- Heligholm Utveckling AB (Sweden)
- Vireserum Invest Ltd (Sweden)
- Ramkvilla företagsutveckling ek för (Sweden)
- Castelo Branco Finicia (Portugal)

types of loans from financial institutions. Organizations that offer revolving loan fund lending aim to help new project or business owners in become financially independent and eventually to become eligible for loans from commercial banks. The fund gets its name from the revolving aspect of loan repayment, where the central fund is replenished as individual projects pay back their loans, creating the opportunity to issue other loans to new projects.

41

Guarantee funds are used to provide financial guarantees for credits taken by investors and eases access to funding from banks. The guarantee fund deposits an amount that is used by the bank as collateral for the credit taken by the investor. Once the credit is paid back, the guarantee is released.

Without ignoring the small size of the survey sample, local schemes are either operated as venture capital or “other” types of fund, but not as Guarantee Funds. This is probably due to the critical fund size required to operate a Guarantee Fund and the limits of resources available at local/regional levels.

The **capital is generally provided by local stakeholders** (local businesses and residents), with one or two cases where individuals not residing in but having personal links with the area are also involved. In general, the majority ownership is secured and maintained by the **local shareholders to secure local influence** and ensure that the **special restrictions on the use of profits** are applied. In one local RF scheme there is a growing outside interest for shareholder status, which is a clear marker of successful operation.

Another interesting finding demonstrating the **viability of local schemes** is that all of the local RF schemes submitted from Sweden have been operating for more than 5 years. The local RF funds have been put to various other uses as well, including the setting up of a local development centre or a tourist attraction.

The fund sizes vary from 3,150 Euro to 180,000 Euro.

The RF scheme with the smallest fund size (Ramkvilla, Sweden) demonstrates an innovative “**pooling**” of local resources, where a **cooperative** was formed in a small village of 450 to enable access to finance from banks. The cooperative also functions as an entity **stabilising the local economy by coordinating marketing activities** or – when necessary - **taking over the operation of local businesses that have difficulties**. This is based on the recognition and exploitation of **the inter-dependency of local economic units**.

In Latvia, **the Co-operative Credit Union (CCU or KKS)** is another interesting example of pooling local resources with the involvement of all spheres of the local society to address problems such as the high cost of borrowing or lack of collateral by potential borrowers or lack of own capital. The scheme was established by 37 residents of a local municipality (Allaži) and has grown into an organisation with 713 members, of which 3 are municipalities, so the scheme has crossed the local threshold and **evolved into a (micro) regional credit scheme**. An interesting feature of the scheme is that one of the motivations for founding it was the positive experience of expatriate Latvians with such schemes (examples from Scandinavia, USA, Canada, Central Europe).

In the case of the Castelo Branco Finicia (IT), the Fund was established with the aim of stimulating and guiding local businesses in modernization and adaptation to changes in regulations.

With regards to the **obstacles experienced** during the operation of the bottom-up schemes (e.g. in Latvia) some of the more significant ones mentioned include:

- legislation that prevents result in the fragmentation of resources available in rural areas and prevents the establishment of credit unions in the regions

- lack of regulations that stimulate the promotion of entrepreneurship by local municipalities through credit unions

b) Top-down schemes: Regional level

Regional/local finance schemes identified in the survey are:

- Midinvest Management Ltd (Finland)
- Regionalwert AG Bürgeraktiengesellschaft (Germany)
- XperCapital (Germany)
- Foundation “Rēzeknes novada mikrouzņēmēju atbalstam” -Foundation For the Support of Rēzekne County Micro-enterprises (Latvia)
- Territorial Guarantee “Nord actif” (France)

These funds – similar to the local RF schemes – provide **venture capital or credit**, but with the exception of “Nord actif” (France), are not operated as Guarantee Funds. In Germany, Xper was jointly financed by ERDF, municipalities, banks and individuals, while RAG is a regionally-financed private non-stock corporation. In Finland MM is a regional investment fund based on institutional investors (municipalities, insurance companies, etc.).

The fund sizes of the above schemes vary considerably ranging from 1.7 mEUR to 100 mEUR .

The funds specialise in various activities including funding ownership arrangements, growth funding, purchase of shares, land and real estate for lease and rental, and (silent) partner arrangements to strengthen the equity⁴² of regional enterprises.

An interesting feature of the two German funds is **the provision of advice and help with networking among supported beneficiaries**. A special feature of the Regionalwert AG Bürgeraktiengesellschaft is its stated objective to decouple the agricultural enterprises from the financial markets and strengthen citizen involvement in the region for creating a sustainable regional economy. The fund also **benefits social and ecological enterprises**.

The Midinvest Management Ltd (FI) adopted **international guidelines**, the International Private Equity and Venture Capital Valuation Guidelines (IPEVG) to value the portfolio of applicant companies.

The setting up of the financial instrument in Rēzekne County (Latvia) was due to the high unemployment and lack of funding available for micro-enterprises. The Foundation was established by the Rēzekne County Municipality and 25 rural municipality administrations to encourage economic activity and make an effort to reduce the unemployment in Rēzekne County. It operates in co-operation with the bank “Latvijas Krājbanka” as a partner, to have a financial institution involved which would provide loans for micro-enterprises for business start-up or development. Subject to approval of the business idea, the Foundation provides

⁴²**Equity:** ownership interest in a company, represented by the shares issued to investors.

guarantees for micro-enterprises (sole proprietor, proprietorship, farms or fisheries), natural persons registered or intending to register as self-employed persons.

The only Guarantee Fund in the sample - “Nord actif (France) – provides guarantees for up to 80% of the amount of credit borrowed. A result of the high level of guarantee is that the project owners do not need to provide personal guarantees for the loans. The fund has been set up with the aim of helping people in economic difficulty or living underprivileged areas. The fund supported 500 projects in 2011.

c) Top-down schemes: National level

Rural finance schemes with a national geographical coverage identified in the survey are:

- Agency for Restructuring and Modernization of Agriculture (ARMA, Poland)
- Private capital fund SIA Euro Energy Biogaze Latvija (Latvia)
- Hungarian Development Bank (Hungary)
- IEFP (Portugal)
- Guarantee Fund for Rural Entrepreneurs (Latvia)
- Agricultural Credit Guarantee Fund (ACGF, Hungary)
- European Fund for the Development of Polish Villages (Poland)
- Rural Credit Guarantee Fund (Romania)
- ISMEA (FCGS, Italy)
- EU support for agriculture, rural and fisheries development for establishing a credit fund (Latvia)
- Foundation “Latvijas lauku sieviešu uzņēmējdarbības atbalsta fonds” (Latvian Rural Women’s Entrepreneurship Support Fund)
- Modulisomir (France, credit fund)
- “Acquisition of equity” (France, venture capital fund)

The RF schemes in this sub-class can be characterised according to their main source of funding as EAFRD-based, national (state aid), national (private), and mixed funding.

The fund size varies considerably ranging from EUR 185 million for the Hungarian Scheme to EUR 57 million for the Latvian Guarantee Scheme. Also their operational budget fluctuates from EUR 3 million (ACGF) to EUR 40 000 (CFARF).

The Guarantee Funds mainly aim to address lack of collateral by potential borrowers, though respondents also indicate other “aims” such as high cost of borrowing and lack of own capital (HU) and lack of access to funding due to the small scale of rural enterprises (IT). In the case of the CFARF – LV, market failures addresses are lack of funding within the banking system and high cost of borrowing.

The beneficiaries are agricultural and rural entrepreneurs. Investment objectives are in line with the relevant RDP measures as defined in (EC) 1698/2005, while the satisfactory financial “health” of beneficiaries seems to be a common – most important eligibility requirement.

IEFP (Portugal) is a **micro-credit scheme** that aims to create sustainable jobs through the Micro-invest credit line. In spite of it being a micro-credit scheme, it is interesting to note scheme is that a number of banks participate in it as financial intermediaries.

The RF instrument offered by the Hungarian Development Bank involves **savings cooperatives** as well, in the **role of financial intermediary**, utilising their in-depth **local knowledge** of potential applicants for an advanced credit facility supplementing the guarantee fund operated in Hungary.

The ACGF (Hungary) has a **flexible system for determining the applicable guarantee fee** and decide whether the application is eligible for the preferential fee or a market fee is applicable.

ISMEA (Italy) is unique for offering a **package of advanced support tools** to complement its guarantee scheme. The tools include **full electronic processing of applications, a web-based guarantee management model**, as well as seminars and training courses for participating banks. Another very interesting feature that developed with the programme is the “Letter of Guarantee” (Gcard) that allows potential beneficiaries to assess their creditworthiness.

The French credit fund scheme “Modulisomir” provides support only for specific activities related to training and setting up facilities at small farms in order to ensure compliance with relevant hygiene rules. It is notable that the scheme also provides support services including training, workshops, consulting, business plan preparation and legal support.

In the Latvian credit fund scheme, the Ministry examined the relevant experience of other countries before introducing the scheme. It is interesting to note that the Latvian NRN took an active supporting role by organising and financing seminars and training relevant to the scheme.

In the other Latvian scheme (Latvian Rural Women's Entrepreneurship Support Fund) the specific focus on women entrepreneurs is remarkable. The scheme addresses the lack of collateral, high cost of borrowing and lack of own capital, and enters a **niche market for rural funding** where commercial banks are reluctant to provide funding (funding for small farmers).

Another remarkable feature of the scheme is that it started as an application of the micro-credit scheme as developed by the Nobel Prize winning economist, Prof. Mohammed Yunus. The initiator of the scheme was the Latvia University of Agriculture. The scheme later developed co-operation with the Swedish Ministry of Agriculture and an INTERREG project as well, and managed to involve or support hundreds of beneficiaries and create 76 micro-credit groups, operate six business resource centres and eighteen meeting facilities. .

With regard to the **obstacles experienced** during the operation of the top-down schemes some of the more significant ones mentioned include:

- low activity due to insufficient information , restricted availability of funds limits the number of beneficiaries, failure to repay micro-credits on schedule and the resulting waiting lists,
- low number of participating banks due to fixed credit conditions for 15 years, restriction for fees, and full responsibility for collection of debts

3.1.2 Survey targeting Managing Authorities and Paying Agencies (the MA/PA survey)

3.1.2.1 Objective and method:

The survey targeting is linked to Priorities 2 and 3 as defined by the Rural Finance Task Force. It aims to identify the common success/failure factors linked to the rural finance schemes applied in the RDPs and thus provide input to refine such instruments and the related legal framework for the next programming period. The results – published and disseminated by ENRD – would also facilitate cooperation and exchange of experience among managing authorities and paying agencies of Member States that integrated rural finance schemes in their RDPs.

The **objective of the Survey** was to attempt to fill the information gap concerning the use of EAFRD-based financial engineering schemes by rural micro-, small, and medium enterprises by collecting **information from Managing Authorities and Paying Agencies on rural finance schemes** applied in their **RDPs relating to:**

- Choice of financial instrument for the RDP
- Performance,
- Evaluation of results to date,
- Factors influencing the uptake of such schemes by various sub-groups or linkages to particular RDP measures,
- Plans to continue, extend, withdraw such schemes

The survey questions have been elaborated by the ENRD and disseminated among the NRNs. The NRNs in Member States were responsible for contacting the Managing Authorities, collecting the data and sending it to the ENRD for analysis.

The sample survey questionnaire is presented in **Annex 2.3**.

3.1.2.2 Results

The ENRD received **responses from 10 MS**.

Regarding the use (introduction) of financial engineering instrument (Question: “Does your Rural Development Programme contain financial engineering instruments as defined in 1974/2006 (EC)?”) out of the 9 responses 3 confirmed that financial engineering instruments have been introduced in their MS as part of the RDP.

- a. Latvia, Belgium (Flanders), and Greece answered “YES” to the question. Belgium (Flanders) and Greece have not activated the financial engineering instrument planned in its rural development programme.
- b. Austria, the Czech Republic, Denmark, Estonia, Germany (all federal states), Malta and Sweden replied “NO” to this question.

At the time of writing this Report, active funds are operational only in 4 MS in the EU-27: Lithuania, Latvia, Romania, Italy (not every regional RDP)

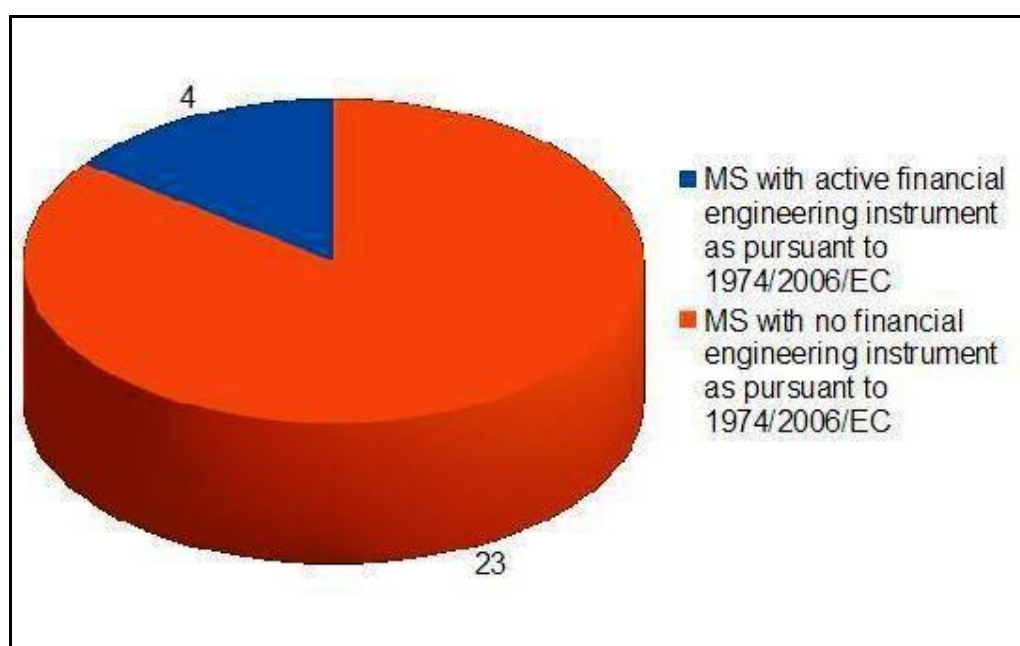


Figure 4. Member States and financial instruments activated in RDPs (based on information from DG AGRI)

MS that have not introduced any of the financial engineering instruments (FEI) as defined in 1974/2006/EC in their RDP

These MS have given a number of **reasons** for the decision that can be categorised as follows:

- **Administrative challenges** – including additional administrative workload, the opinion that FEI are too complicated, uncertainty relating to FEI control rules subject to the same

system of funding cuts and sanctions applied to the first pillar of the CAP have been the most often cited reasons for not having introduced FEI in the RDPs. This type of response was given by Germany, Sweden, and Austria, while the Czech Republic and Denmark referred to lack of experience with FEI.

- **Availability of rural finance from the financial markets** or in the form of state aid was the second reason why MS have not opted for the introduction of FEI in their RDPs. Factors that fall into this category have been cited by Denmark, Estonia, and Germany.
- **The higher risk of financial corrections** was mentioned by Germany as another reason for not introducing FEI.

The responses are shown below:

- The introduction of FEI was considered complicated and requiring the setting up of additional management and administrative structures and regulations. (Sweden, Germany)
- Additional administrative workload anticipated due to the fact that interest rate subsidies expire in 10-15 years which means they would have extended over the seven-year programming period of the RDP, and the transition between the two periods could have caused additional administrative workload. FEI requires additional administrative structures. (Austria)
- There was uncertainty regarding the controls and eligible costs relating to FEI. (Sweden)
- The introduction of FEI control rules applying a sanction system based on CAP Pillar I rules would create additional burdens. (Germany)
- The challenge was to find good projects that are worth investing in, rather than actually accessing funding. Due to low interest rates rural finance was accessible from the financial markets. (Germany)
- Higher risk of financial corrections (Germany)
- State aid and bank credit for the agricultural sector was (is) available. The MA will utilise EFF related FEI experience to introduce FEI for the 2014-2020 period (Estonia).
- A well-functioning mortgage credit system, the absence of a credit crisis at the time of RDP preparation, and lack of experience with credit support in previous programmes (Denmark).
- Limited (low) experience with FEI (the Czech Republic).
- Priority was to stimulate the demand investment in agriculture and rural development, not merely to facilitate financing for a demand which already existed – hence a grant approach has been considered more suitable (Malta)
- financial engineering may have been complicated by the fact that some farmers do not have the title/ownership to the land they operate on (Malta)

Respondent MS that have introduced financial engineering instruments (FEI) as defined in 1974/2006/EC in their RDP:

The MSs favoured the Credit Fund and the interest rate subsidy instruments. None of the MS that introduced FEI chose to utilise the option of the Guarantee Fund or Venture Capital Fund..

Out of the two MSs that introduced **the Credit Fund (CF) facility** (Greece, Latvia), one (Greece) did not activate it. The reasons for not having activated the facility was the imminent modification of 1698/2005 (EC) resulting in the increase of co-financing rates and decrease of public expenditure of the Greek RDP and the unwillingness of banks to participate due to the economic crisis in Greece.

In Latvia, the Credit Fund was introduced and activated linked to the RDP measures 121, 123, 312, and 313. The ratio of uptake was low (measure 121: 3.17%, measure 123: 11.43%, measures 312,313: 0%). The reasons for the low uptake of CF facility fall in two broad categories, one relating to the actual availability of the credit and the relevant rules, the other relating to the economic sector which the relevant measure belongs to.

The set of rules that apply to participating banks' in terms of the fees chargeable (max. 0.2% of the value of the credit which makes funding small projects less profitable), the responsibility for collection of debts from clients, and the interest rates chargeable (fixed at the base of the lending period) have all contributed to the reduced activity in terms of CF. Another reason is the improvement of credit markets since the introduction of the CF which made finance more accessible. Considering the zero uptake for Axis III measures (312,313), it is due to the downturn in the relevant sectors of the economy, the resulting low number of projects and banks' loss of confidence.

Belgium (Flanders) introduced the interest rate subsidy. The reason for not having utilised any of the other FEI was insufficient financial manoeuvring space. However, no further information on the uptake and potential reasons for low uptake of the FEI facility was made available.

3.1.2.3 Conclusions

The results of this survey demonstrate that there are two types of factors that influence the utility of financial engineering instruments (FEI) introduced as part of the Rural Development Programmes (RDP). The first of these is the administrative and legal framework with clear emphasis on the **set of rules related to the application of FEI including the consequence from respecting these rules**. The other important determinant is the conditions on **rural finance market**, including the availability of non-EAFRD funding and its conditions, the financial institutions' willingness to participate in administering the FEI, the market demand in sectors relevant to the RDP measures under the FEI.

In order to increase the utility of FEI as a source of funding for rural SMEs **a good balance** has to be achieved when considering EU rules governing the application of FEI and market conditions, for which the following points should be useful:

More flexibility in order to:

- Ensure adaptation to changes in the credit market (e.g. long-term fixed interest rates may be a barrier in terms of banks' willingness to act as financial intermediaries);
- Increase potential participating banks' willingness to participate.

Simplifying

- The rules relevant to the MA/PA administrative controls and tasks in order to motivate Managing Authorities to introduce FEI as part of their RDP.

Clearer focus

- In positioning the FEI as compared to other sources of funding available from the market, with particular emphasis on the continuing trend of credit tightening and the needs specific to the rural enterprises.

3.1.3 Survey of financial institutions (FI survey)

3.1.3.1 Objective and method

The survey aimed to help ENRD gather information on the commercial banks' perception of risks, trends, and preferences related to credit lines available to rural enterprises. It also contributes to the fine-tuning of future ENRD initiatives linked to rural finance.

The objective of the survey was to **collect information from commercial banks** on the credit lines available for rural enterprises **relating to:**

- a) The existence or otherwise of special criteria for rural enterprises;
- b) The risks related to lending to rural enterprises and the role of EAFRD co-financing in assessing credit applications;
- c) The relative importance of various factors in assessing credit applications by rural enterprises, and preferences in terms of business activity;
- d) The past and future trends in credit standards and demand for credit;
- e) The importance of information and advisory services provided by the banks.

The 12 survey questions have been elaborated by the ENRD and disseminated amongst the NRNs. The NRNs in Member States were responsible for contacting the financial institutions, collecting the data and sending it to the ENRD for analysis.

A **sample survey questionnaire** is presented in **Annex 2.4**.

3.1.3.2 Results:

In total the ENRD received responses from six banks from four member states (Latvia, Hungary, Malta, and the United Kingdom). Consequently, the following results and analysis could be considered of limited relevance for the conclusions due to the limited number of responses submitted to ENRD.

A descriptive analysis of the results is presented below.

Question 1. Does your bank apply any special criteria with regard to enterprises operating in rural areas?

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Option selected	YES	NO	NO	NO	YES	NO
If "YES", these criteria include:	Sectors				Organisations that are benefitting from EU Rural Development Funds	

Question 2. How do you perceive the risk of lending to an SME operating in a rural area as opposed to an SME operating in an urban or metropolitan area?

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Option selected	Slightly lower	Considerably higher	Basically equal	Basically equal	Basically equal	Basically equal
If higher risk is perceived, the key reasons include:		availability of workforce, liquidity of collateral (both limited)				

It is apparent from the responses that **the majority of banks (2/3 of the sample) do not apply any special (formal) criteria for rural enterprises**. The first bank (Latvia) that has such criteria uses sector specific rules as a basis for them. For the second bank (Malta) the criteria relates to organisations that benefit from EU Rural Development Funds. **It is important to note** that responses from **Bank 1** (Latvia) have to be considered in the light of the fact that it **is also a participating bank in the Credit Fund instrument as part of the Latvian RDP**.

Their response to **question 2** – regarding the perception of risk related to rural SMEs – can be influenced by the above fact, due to the RDP FEI-based guarantees. The other respondent banks considered **rural SME related risks either equal or higher**. The reasons for higher risk have been the limited availability of workforce and the limited liquidity of collateral. Three banks considered the risk “basically equal”, while one bank (Latvia) assessed the risk posed by rural enterprises as higher than that of enterprises operating in non-rural areas.

Question 3. The importance of proof of co-financing from EAFRD in assessing a client's credit application. (If important, key reasons should be provided)

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Options selected	Very important	Neutral	Fairly important	Neutral	Neutral	Fairly important
Reason 1	lower risk projects		higher quality, better prepared projects			evidence of 3rd party analysis
Reason 2	increased viability		EU co-financing increases viability			proof of ability to present and win support for project and promoters
Reason 3	better cash-flow		higher motivation for client to implement the project to completion			

Co-financing from EAFRD has been regarded as either important to some degree or neutral in assessing a credit application. Reasons for its importance include lower risk related to projects, better cash-flow, better viability, and higher quality of projects. All of these reasons can be attributed to the assumption that in case a project has been selected for EAFRD funding it must have met some criteria or undergone preliminary analysis relating to the project proposal/application in terms of financial and other information provided.

It is interesting to note that despite the fact that the respondent bank from Malta applies specific criteria to organisations that benefit from EAFRD funding, it considers the importance of co-financing from EAFRD as ‘neutral’.

It can be concluded from the above **that EAFRD eligibility criteria and the fact that an SME actually met those criteria can have a slightly positive effect on banks’ assessment of SME clients.**

Question 4. Rating the influence of the following factors on your bank's decision on approving a credit application from an SME operating in a rural area.

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Quality of business proposal	significant	significant	significant	neutral	significant	slight
Innovativeness of business proposal	neutral	neutral	significant	slight	slight	slight
Applicant's balance sheet	significant	significant	significant	significant	significant	significant
Applicant's credit history	significant	significant	significant	significant	significant	significant
Applicant's main economic activity	slight	significant	significant	neutral	significant	significant
Applicant's company age	slight	slight	significant	significant	neutral	slight
Availability of alternative sources of funding	significant	slight	slight	slight	slight	slight
Your bank's knowledge of the local rural economy	significant	significant	slight	neutral	slight	significant
Trends in the market where the applicant operates	neutral	significant	significant	slight	significant	slight
Your bank's assessment of risks	neutral	significant	significant	slight	significant	significant
Applicant's beneficiary status under EAFRD	significant	neutral	slight	none	slight	slight
Applicant's use of EAFRD-related financial engineering instruments	significant	neutral	neutral	none	significant	slight

The most important factors based on the responses (factors where the majority of answers were “significant” in order of importance are:

1. the applicant’s balance sheet,
2. the applicant’s credit history,
3. quality of business proposal,
4. the applicant’s main economic activity,
5. the bank’s knowledge of the local rural economy,
6. the bank’s assessment of risks,
7. the trends in the market where the applicant operates.

Four of the above seven factors are directly linked to the applicant, while all of the above factors influence the bank’s overall assessment of risks.

The applicant’s balance sheet and credit history are the most important factors. The quality of the business proposal – can be improved considerably by better knowledge of the bank’s (investor’s) criteria, better preparation, and training. Training can also help SMEs better manage their businesses which may help them achieve a better balance sheet and credit history in the medium to long-term. It can be concluded that **the three factors that most influence the decisions of banks regarding credit applications from SMEs can all be improved with training and various business support services.**

The applicant's main economic activity, the bank's knowledge of the local rural economy, and the bank's assessment of risks can be ranked with the quality of business proposal submitted by the SME applicant, in terms of the number of "significant" options chosen. The only factor external to the bank and the SME as well is the trends in the market where the applicant operates and this has been ranked lower than the previous factors.

Interestingly, the applicant's beneficiary status under EAFRD and the use of EAFRD-related financial engineering instruments can be ranked lower with one respondents answering "none" (no influence at all). One of the two banks that actually rated the influence of the use of EAFRD-related financial engineering instruments 'significant' is a financial intermediary for FEI under EAFRD (Latvia).

Question 5. Rating preference of the following SME activities in relation to credit applications by rural SMEs (categories are based on the NACE REV 2. sections)

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Agriculture, forestry and fishing	positive	negative	positive	neutral	positive	positive
Mining and quarrying	neutral	neutral	neutral	neutral	neutral	neutral
Manufacturing	neutral	positive	positive	positive	positive	positive
Construction	positive	neutral	neutral	negative	neutral	neutral
Wholesale and retail trade, repair of motor vehicles and motorcycles	neutral	negative	neutral	negative	positive	N/A
Accommodation and food service activities	negative	negative	neutral	negative	positive	N/A
Information and communication	neutral	neutral	neutral	positive	positive	N/A
Education	neutral	neutral	neutral	neutral	positive	N/A
Human health and social work activities	neutral	neutral	neutral	neutral	positive	N/A
Arts, entertainment and recreation	negative	negative	neutral	neutral	positive	N/A
Other service activities	neutral	neutral	neutral	neutral	positive	N/A

Out of the above economic activities only four received > 1 positive ratings. The order of preference is the following:

1. manufacturing (4 positive ratings),
2. agriculture, forestry and fishing, (4 positive ratings),
3. information and communication (2 positive ratings)

It is interesting to note that accommodation and food service activities received a predominantly negative rating (only one „positive" response). However, this can be attributed to the downturn in the relevant economic sectors (tourism, micro-enterprises), as demonstrated by the responses from the Latvian Managing Authority. The responses suggest that (a) there is a slight **preference** for **agriculture, forestry, fishing**, and a stronger preference for **manufacturing** which may indicate that these economic activities are considered lower-risk as compared to others in rural areas, (b) other economic activities are either rated neutral or negative, but these choices demonstrate some **variation** and so this **may be country specific**.

Question 6. Factors affecting the bank's credit standards in relation to credit or other applications from SMEs operating in rural areas.

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Expectation related to general economic activity	no effect	no effect	no effect	tightening	tightening	no effect
Expectations related to the rural economy	no effect	tightening	easing	no effect	no effect	tightening
Competition from other banks	tightening	tightening	no effect	easing	no effect	tightening
Competition from other financing institutions (savings bank, credit unions, foundations, etc.) and the availability of non-bank funding to SMEs	no effect	no effect	no effect	easing	easing	N/A
Risk on the collateral and guarantees demanded	tightening	tightening	tightening	tightening	easing	N/A
The availability of EAFRD funding as co-financing	easing	no effect	tightening	no effect	easing	N/A
Changes in regulations related to lending and financial services provision	no effect	no effect	easing	no effect	easing	Easing
Your bank's preferences related to financial products and their targeting (internal rules)	easing	no effect	no effect	no effect	no effect	N/A

Two factors apparently stand out as crucial in relation to this issue. **The risks on the collateral and guarantees demanded have a tightening effect for four out of six respondents.** The exceptions are the UK that has not provided a response for, and Malta where the effect was considered „easing”.

Competition from other banks has a tightening effect for three out of six respondents, but “easing” effect for two respondents. However, we can assume that it is more about how the individual banks interpret competition rather than some clearly identifiable objective criteria that decides whether the respective bank’s credit standards will change in the stricter or more lax direction.

The availability of EAFRD funding has an easing effect on the credit standards rating. For Latvia – Bank 1 for obvious reasons described under the analysis of Question 1&2 responses.

The Maltese respondent also selected the “easing” option for this factor, a choice that can be attributed to the application of special criteria for organisations that benefit from EAFRD funding.

Two responses show that EAFRD funding as co-financing is neutral in its effect on commercial banks’ credit standards. One bank replied that EAFRD funding has a tightening effect on its credit standards, a choice that cannot be reasonably explained without further investigation. There is no reply for this factor from the UK respondent.

An interesting finding is that the bank's preferences related to financial products and their targeting does not seem to have an effect on the bank's credit standards in relation to rural SMEs' credit applications.

Question 7. Over the past year how have your bank's terms and conditions for approving loans or credit lines to rural SMEs changed?

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Option selected	no change	no change	eased slightly	no change	no change	tightened considerably
Description of key reasons for changes, if relevant:			positive outlook increase in several sectors			

The responses demonstrate that banks' terms and conditions relating to rural SMEs have not changed or only slightly eased over the past year. In the case of one respondent bank the conditions have tightened considerably. Overall, **the slight or "no" change trend** seem to suggest that it is not the "rurality" of an SME that influences a bank's terms for approving loans or credit lines. Cross-checking with the responses to Questions 1 and 2 reinforces this conclusion.

Question 8. Over the past year how has the demand for loans or credit lines from rural SMEs changed at your bank, apart from normal seasonal fluctuations?

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Option selected	Increased considerably	No change	increased considerably	no change	no change	Increased considerably
Description of key reasons for changes, if relevant:	The only bank in Latvia that participates actively in administering the Credit Fund and state support programme.		Recovery in agriculture and a number of other sectors. Customer sentiment. Loan price decrease.			

It is interesting to note that the demand for loans or credit lines has increased in the case of three banks. One of them is Bank 1 – Latvia which administers the Credit Fund facility. The other bank cited the recovery in agriculture and in other sectors, as well as customer sentiment. The "loan price" decrease cited as the third reason may be related to the actual slight easing of the bank's terms and conditions relating to rural SMEs (see previous question).

Three banks experienced "no change" in this factor over the past year. The third bank (from the UK) has not provided specific reasons for changes.

Question 9. How do you expect your bank's credit standards in relation to the approval of loans or credit lines to rural SMEs to change over the next year?

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Option selected	ease considerably	no change	no change	ease slightly	no change	no change
Description of key reasons for changes, if relevant:	The objective is to minimise bureaucracy in procedures.			Shareholders' decision.		

Overall, the expectation is that credit standards will either ease or not change within one year of the Survey. Considering the fact that the "ease considerably" response has been given by the Latvian bank that actually manages the financial engineering instrument under the Latvian RDP, the rational conclusion that a **"no change" scenario is most probable.**

Question 10. How do you expect demand for loans or credit lines from rural SMEs to change at your bank over the next year?

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Option selected	No change	no change	increase slightly	no change	no change	No change
Description of key reasons for expected change, if relevant:			Recovery in agriculture and a number of other sectors. Customer sentiment. Loan price decrease.			

Five out of six banks expect **"no change"** in the demand for loans or credit lines over the next year. This either indicates that SMEs utilise alternative sources of funding, or that economic activity (investments) is still not perceived by the respondent banks to be recovering in rural areas.

Question 11. How would you rate the importance of providing information and advice to SME clients at your bank?

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Option selected	Neutral	Fairly important	Very important	Fairly important	Very important	Very important

For the majority of respondents, the provision of information and advice to SME clients is either "fairly" or "very" important. The Latvian bank that provided the "neutral" response is the bank responsible for the Latvian financial engineering instruments under the relevant RDP.

Question 12. How do you expect the role and importance of providing information and advice to SME clients at your bank to change over the next year?

Respondent MS	Latvia	Latvia	Latvia	Hungary	Malta	United Kingdom
Option selected	no change	no change	increase slightly	increase slightly	increase considerably	decrease slightly
Description of key reasons for expected change, if relevant:			The objective is to improve clients' knowledge about financing instruments and financial planning.	Shareholders' decision.		

The responses demonstrate that the importance of information and advice remains or is expected to increase in the future, which indicates that it can be an **important element** of managing risks related to SME lending. Only according to one respondent bank will the importance of information provision decrease slightly, an expectation that may be linked to the existence of advanced information services and a well-informed clientele.

3.1.3.3 Conclusions

Prior to presenting the conclusions, it must be noted that the limited sample size allowed only for a descriptive analysis and the interpretation of results into conclusions is also of limited relevance. However, some of the **conclusions correspond with** the results of the various **other surveys** referred to in the “Background and context” chapter (*ECB. Survey on the access to finance of rural SMEs (2011); ECB (2011). The Euro Area Bank Lending Survey*) a fact that lends credibility to the results in spite of the small number of responses.

The conclusions hereof are presented **according to the main themes identified for the survey**. Summary statements refer to the sample received as part of the survey.

1. Special assessment criteria for rural SMEs, risks of lending to rural SMEs:

With regard to the existence of special criteria for rural enterprises the majority of respondent **banks do not apply** any special (formal) criteria for rural enterprises.

Banks estimate the risks related to lending to rural enterprises as either equal or higher as compared to non-rural enterprises. In terms of the role of EAFRD co-financing in assessing credit applications, **EAFRD** eligibility criteria and the fact that an SME actually met those criteria can have a **slightly positive effect** on banks’ assessment of SME clients

2. The relative importance of various factors in assessing credit applications by rural enterprises, and preferences in terms of business activity:

Some of the **factors that most influence** the decisions of banks regarding credit applications from SMEs can all be improved with training and various business support services (the quality of the business proposal, credit history),

The preference regarding the economic activities of SMEs shows variation and may be country specific, but the preference for agriculture, forestry, fishing, and manufacturing may indicate that these are considered lower-risk as compared to other economic activities in rural areas.

3. The past and future trends in credit standards and demand for credit:

The risk on the collateral and guarantees demanded has a **tightening effect for credit standards**, for all of the respondents.

The responses demonstrate that banks' terms and conditions relating to rural SMEs have not changed or only slightly eased over the past year, which may suggest that it is **not solely the "rurality" of an SME that influences a bank's terms for approving loans** or credit lines, but other factors

For the change of credit standards within one year of the Survey a "no change" scenario is most probable.

Four out of six banks expect no change in the demand for loans or credit lines over the next year.

4. The importance of information and advisory services provided by the banks.

For the majority of respondents, the provision of information and advice to SME clients is important. The responses demonstrate that the **importance of information and advice remains or is expected to increase** in the future, which indicates that it can be an **important element of managing risks** related to SME lending.

4. Summary conclusions and recommendations

The summary conclusions presented here are based on the challenges and constraints specific to rural finance and the area of improvement and further action identified by the ENRD surveys, the review of relevant literature, and various other inputs from NRNs. Planning and implementing further actions should be based on the engagement, recommendations and consensus of National Rural Networks.

Challenges and actions identified

The review of relevant literature identified an **information gap**. This concerns the **scarcity of information specific to the rural finance theme**, in particular the lack of surveys and reports focusing on aspects of rural finance and the challenges faced by rural SMEs in the EU-27. At the same time a large number of surveys and reports on SMEs in general⁴³ have been produced on behalf of DG Enterprise and the European Central Bank. For planning policy interventions, it is essential to have information specific to the policy area and the stakeholder group that will be affected by the policy.

The surveys and further analysis of existing data (especially Eurostat) can contribute to the bridging of this information gap. However, **further analytical and research work** may be necessary **to support the policy planning** process regarding both the 2014-2020 regulations and the introduction of rural finance instruments in MS in the current programming period.

For planning the regulations of the 2014-2020 programming period, also considering the innovations introduced as part of the Common Strategic Framework, further analytical work may include **cooperation involving DG AGRI, DG ENTR, DG REGIO and the European Central Bank**. One way to improve access to data for such further analysis could be to **integrate appropriate data sets in the collection of regular RDP monitoring data**.

It is also necessary to **continue to work with Managing Authorities** to have a more in-depth understanding of the aspects of the current regulations that led to decisions to activate (or not) rural finance instruments as part of the RDPs. A key element of such work is to **understand the perspective and experience of financial intermediaries** participating in the implementation of activated RF instruments.

An important part of the work with Managing Authorities and Paying Agencies is aimed at gaining a better understanding of the effects of current EAFRD regulations related to advance payments, the non-eligibility of interest on debt under EAFRD, and controls and checks related to payments under certain investment related measures and the use of EAFRD funds by rural SMEs. The effects

⁴³ Some surveys specifically exclude businesses in the economic sectors of agriculture and fisheries (e.g. European Commission, DG Enterprise and Industry. SME's access to finance. Survey 2011.)

of these regulations on use of credit by rural SMEs for funding their investments need to be explored further. The results and findings will help to improve the legislative framework for the 2014-2020 period in order to enhance the efficiency of the utilisation of EAFRD funds by rural SMEs.

The joint action by **ENRD and NRNs** can play a major role in **improving the linkages between supply and demand in rural finance** by the preparation and introduction of various RF tools (training, communication, business support schemes) and through on-going exchange of experience.

These RF tools can also include a common benchmark/common language to assess rural SMEs' investor readiness. The involvement of banks and financing institution in this process through participating NRNs would provide considerable added value to the process.

Another important finding of the literature review that was reinforced by the ENRD surveys is that **access to finance** in general, and to rural finance in particular is **not strictly a problem of supply of finance**. The **information asymmetry** and the **equity paradox** described in earlier chapters, along with an expected further **tightening of credit standards** in general and increasing **difficulties for rural SMEs⁴⁴ to access funding** in particular will characterise the SME finance scene in the foreseeable future.

The above findings can affect the direction of further work in two ways (both can be linked to the "Improving supply-demand linkages under the RF" theme):

- a) One way to improve access to finance by rural SMEs can be to stimulate **the demand side of rural finance**. This – as the surveys and the literature review demonstrate – involves improving the **supply-demand linkages, training, self-assessment tools, various forums** where investors and rural enterprises can interact, award schemes and other means to improve the quality of demand.

This essentially requires **a set of rural finance tools** that can be developed jointly with NRNs, the ENRD, and other stakeholders willing to participate in the process. The involvement of financial institutions is desirable in order for a better understanding of criteria. This second group of "actions" aims to improve a) the investor readiness and creditworthiness of rural SMEs, b) the performance of existing rural finance tools and schemes by improving the quality of demand and enhanced information provision.

- b) Concerning **the supply side of rural finance**, the tightening of credit standards, commercial banks assessment criteria, and the expectations about the general economic activity are factors that **cannot be influenced by the NRNs or MAs**. The trends in SME finance may represent a „threat" to rural finance at least in some MS, and may "force" SMEs to turn to alternative sources of finance. Innovative, local schemes can play an

⁴⁴ Especially rural SMEs in the seed or start-up phase or ones that are active in sectors of economy considered riskier or of lower productivity

important role in providing this alternative.

Consequently, the synthesis of “success” elements, and **active dissemination of good practice examples**, as well as **active support** by the ENRD and NRNs in the form of trainings, seminars, publications to rural stakeholders for the development of **alternative rural finance schemes** is a further action to consider. This requires **local initiatives** for a **starting point**, the NRNs and ENRD can contribute to such processes with preparing and having the required support tools available.

It is important to note that the exchange and dissemination of experiences, the further analysis, and development of RF tools must be based on the understanding and acknowledgement of the importance of the RF theme and the active participation of NRNs in the proposed actions for successful tools and interventions to develop.

Raising awareness of the RF theme and good practices in place in the EU-27 is both a starting point and a part of the process of joint NRN cooperation.

Developing the “Common language” of the RF theme shall remain an objective of the rural finance initiative, and this objective can be achieved in the course of the development of various support tools with the participation of NRNs and other rural stakeholders.

The survey results and conclusions drawn can be utilised in planning and implementing further actions by the National Rural Networks and the ENRD potentially within the following three broad themes.

- 1.) **The collection of good practice examples of RF schemes from NRNs** (surveys 1&2) demonstrated the variety of both bottom-up (mostly local or micro-regional) and top-down (regional, national) schemes. The survey results provide valuable input for the themes “Improving supply-demand linkages in RF” and “Collection and dissemination of good practice examples”.

With regards to bottom-up schemes the examples demonstrate that local schemes are usually characterised by local ownership and decision-making, strict rules on the local use of profits, and can be useful tools for supporting the local economy, generally within the bounds of one or a very small number of settlements. In addition to providing **specific details** on various management practices for **the development of RF tools**, these case studies can be **good examples for dissemination** and exchange of experience.

Top-down schemes included financial instruments linked to the EAFRD, and other instruments. The choice of development schemes and the operational arrangement of non-EAFRD schemes have been more diverse.

The most important innovation of these schemes is the **strong emphasis on supplementary support schemes (advice, consultancy, and networking)** which should be considered for adaptation when developing the RF tools for improving linkages between the supply and demand side of rural finance. The participation of savings cooperatives in rural finance and

the added value of their knowledge of the local economy is another important element.

- 2.) The **survey targeting managing authorities and paying agencies** revealed that a good balance needs to be achieved between EU regulations governing the application of financial instruments and market conditions. Based on the responses of Managing Authorities, the theme **“Contributing to the preparation of 2014-2020 EAFRD support”** may focus on elaborating recommendations that increase flexibility of the rules, achieve simplification in order to reduce administrative and human resources requirements, and a clearer focus with appropriate consideration of the RF financial market and its trends.

In the frame of this theme it is important to stress **the need for rural SME-specific data** which could be gathered during the cooperation with Managing Authorities, and potentially integrating the data sets required in the regular RDP monitoring data provision

- 3.) The **survey of financial institutions** provided considerable input to **the theme of “Improving supply-demand linkages in RF”**. The findings demonstrate that banks do not apply rural SME specific assessment criteria, but attribute a slightly positive value to a rural SME that has already met EAFRD eligibility criteria and has EAFRD co-funding.

The survey has also shown **the value of business support services** due to the fact that banks rated an SME’s balance sheet, credit history, and quality of business proposal higher than the trends of the market in which the SME operates or the bank’s knowledge of the local rural economy. Those highly rated factors can be improved by good business management practices and preparation, and these practices and skills can be the part of a **training or business mentoring program aimed at rural SMEs**.

Annex 1: List of Sources

ACCA (2011). Framing the debate: Basel III and SMEs. Available from: http://www.acca.co.uk/pubs/general/activities/library/small_business/sb_pubs/pol-af-ftd.pdf

Angelkort A., Stuwe A. (2011) Basel III and SME Financing. Published by Friedrich-Ebert.Stiftung. Available from: <http://library.fes.de/pdf-files/managerkreis/08528.pdf>

Eurobarometer (2009). Entrepreneurship in the EU and beyond. A survey in the EU, EFTA countries, Croatia, Turkey, the US, Japan, South Korea and China. Analytical report. Available from: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/eurobarometer/index_en.htm

European Central Bank (ECB 2011). Survey on the Access to Finance of SMEs in the Euro Area – September 2010 to February 2011. Available from: <http://www.ecb.int/pub/pdf/other/accesstofinancesmallmediumsizedenterprises201104en.pdf>

European Central Bank (ECB 2011/1). The Euro Area Bank Lending Survey – January 2011. Available from: <http://www.ecb.int/stats/money/surveys/lend/html/index.en.html>

European Central Bank (ECB 2011/2). The Euro Area Bank Lending Survey – October 2011. Available from: Available from: <http://www.ecb.int/stats/money/surveys/lend/html/index.en.html>

European Commission (EC, 2010). European SMEs under pressure. Annual Report on EU Small and Medium-sized Enterprises 2009. Available from: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/dgentr_annual_report2010_100511.pdf

European Commission DG Enterprise (EC 2011). Are EU SMEs recovering from the crisis? Annual Report on EU Small and Medium sized Enterprises 2010/2011. Available from: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/2010_2011/are_the_eus_smes_recovering.pdf

European Commission, DG Enterprise and Industry. SME's access to finance. Survey 2011. <http://ec.europa.eu/enterprise/policies/finance/data/#h2-1>

European Commission Joint Research Centre (EC JRC, 2011). Measuring EU performance on the Small Business Principles-Methodology. http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/2010_2011/jrc_methodology_and_assessment_on_sba.pdf

European Union Directorate General for Agriculture and Rural Development (EU DG AGRI, 2009). Rural Development in the European Union. Statistical and Economic Information. Report 2009. Retrieved from: http://ec.europa.eu/agriculture/agrista/rurdev2009/index_en.htm

European Foundation Centre (EFC, 2004). Rural Development Funding. An INSPIRE and European Foundation Centre Initiative Mapping Project

ESBG (2007). Microcredit in Europe – Experiences of Savings Banks.

([http://www.esbg.eu/uploadedFiles/Publications and Research %28ESBG only%29/brochure%20screen%20view.pdf](http://www.esbg.eu/uploadedFiles/Publications_and_Research_%28ESBG_only%29/brochure%20screen%20view.pdf))

EVEA (2010). Developing rural enterprise in Estonia: Opportunities and obstacles. Available from:

http://enrd.ec.europa.eu/events-and-meetings/nrn-meetings/en/9th-nrn-meeting_en.cfm

Fitch Training. SME Corporate Credit Analysis. <http://www.fitchtraining.com/en/course/917/sme-corporate-credit-analysis.aspx>

ESBG-Lloyds TSB-UEAPME. Basel II for SMEs. SME Toolkit. Available from:

http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=1008

The World Bank (2007.), Agriculture and Rural Development Discussion Paper 34. Community-based Financial Organizations: A Solution to Access in Remote Rural Areas? Available from:

<http://siteresources.worldbank.org/INTARD/Resources/combasedfinance.pdf>

Annex 2: Surveys

Annex 2.1 Survey questionnaire for the collection of case studies (wave 1)

Rural Entrepreneurship Initiative **Review of rural finance instruments in EU Member States**

Name of the instrument

Member State

NUTS 2 and 3 coordinates (if appropriate)

Type of financing of the fund

EU-financed

EAFRD

Non-EAFRD

Non-EU financed

National

Regional/Local

Please explain further:

Market Failure addressed

Lack of funding within the banking system

Lack of collateral by potential borrowers

High cost of borrowing

Lack of own capital

Lack of local knowledge to assess the investment proposal due to centralized bank systems with limited local presence.

Other e.g. lack of access to funding due to the scale of rural enterprise

Please explain further:

Type of instrument

Credit (Loan) fund Guarantee fund Venture capital fund
Other 'funds'

Please explain further

Why the instrument was set up and how was it set up (description of the structure, partners involved)

Size of the fund (initial capital) **and measures of impact** (yearly amount of loans/guarantees issued, volume of funds conveyed, outstanding loans/guarantees, etc)

Operational budget (yearly costs in EURO for running the instrument)

Geographical coverage

Local Regional National Other

Please explain further

Duration of existence

<1 year <5 years >5 years

Please explain further

Beneficiaries**Example of investment objectives**

Modernization, technical innovation, debt consolidation

Eligibility requirements (beneficiaries, eligible activities, etc)

Support measures to secure viability/success of investment objectives

Short summary of one or more investments/projects that have been supported through this financial instrument and contact details

Experienced benefits from the instrument so far

Experienced obstacles to solve along the way

Annex 2.2 Survey questionnaire for the collection of case studies (Sample 2)

Rural Entrepreneurship Thematic Initiative **2nd Review of rural finance instruments in EU Member States**

November 2011

Member State:

Name of the financial scheme:

Type of financing of the fund

EU-Financed

EAFRD Non-EAFRD

Please provide the name of the relevant fund:

Non-EU Financed

National Regional Local Other

Please provide the name of the relevant funding source:

Market Failure addressed

- Lack of credit facilities within the banking system
- Lack of collateral by potential borrowers
- High cost of borrowing
- Lack of own capital
- Lack of local knowledge to assess the investment proposal due to centralized bank systems with limited local presence.
- Other e.g. lack of access to funding due to the scale of rural enterprise

Please explain further:

Type of instrument

Credit (Loan) fund Guarantee fund Venture capital fund Other

Please explain further:

Why and how was the instrument set up?**Scope:****Structure:****Who operates the fund? (NGO, Foundation, partly state owned operator, commercial financial institution)**

- NGO (e.g. foundation, charity, etc.) YES NO
- Commercial financial institution YES NO
- Partly state owned organization YES NO

Please provide the name of the fund operator:

Size of the fund (initial capital in Euros)**Measures of impact**

- Yearly amount of loans/guarantees issued:
- Volume of funds conveyed:
- Outstanding loans/guarantees:

Operational budget

Yearly costs in EURO for running the instrument

Geographical coverage

Local Regional National Other

Duration of existence

<1 year <5 years >5 years

Beneficiaries

- Micro, small, and medium enterprises YES NO
- NGO's YES NO
- Local Municipalities YES NO

Example of Investment Support (Please select one or more options)

1. Modernization
2. Technical innovation
3. Debt consolidation
4. Others, please list:

Eligibility requirements (Please list) (beneficiaries, eligible activities, etc)

Supplementary support in addition to providing funding (e.g. consulting, business support, other follow-up, etc.) Please describe.

Please provide a Short summary of one or more investments/projects that have been supported through this financial instrument

Title of project:

Project scope:

Project description:

Budget:

Project Website:

Financial Scheme website:

Experienced benefits from the instrument so far (Please list)

Issues encountered in running the fund (Please list)

Actions undertaken to address these issues (Please list)

Annex 2.3 Survey questionnaire for the managing authorities and paying agencies (sample)

Survey Managing Authorities & Paying Agencies

1. Country

Please choose your country from the drop-down list: Austria

2. Contact

Please provide the name, position, contact phone number and e-mail address of the respondent(s).

Name	Position	Phone number	E-mail address
------	----------	--------------	----------------

3. Use of financial engineering instruments

a) Does your Rural Development Programme contain financial engineering instruments as defined in 1974/2006 (EC)?

b) If the RDP contains financial engineering instruments, please choose the appropriate ones from the drop-down lists in the following cells (up to four choices are available).

YES

c) If you have answered „NO” to question 3 a), please provide the key reasons for not having included a financial engineering instrument in the RDP.

a.

b.

c.

d) If you have answered "YES" to question 3 a), but any of the financial engineering instruments have either not and will not be activated or have been withdrawn, please select the relevant instrument below and provide the key reasons for its non-activation or withdrawal.

<i>Financial engineering instrument</i>	<i>Status (not activated, withdrawn)</i>	<i>Key reasons for non-activation or withdrawal</i>
Guarantee fund (Art. 50-52. of 1974/2006 (EC))		
Interest rate subsidy (art. 49 of 1974/2006 (EC))		
Venture capital fund (Art. 50-52. of 1974/2006 (EC))		
Interest rate subsidy (art. 49 of 1974/2006 (EC))		

4. The targeting and uptake of financial engineering instruments

Instruction: Please fill in the table by a) choosing the relevant measure code from the drop-down menu by clicking on the appropriate cells in the "Measure code" column, and b) providing the number of beneficiaries as required in the appropriate columns.

	Guarantee fund (Art. 50-52. of 1974/2006 (EC))			Credits fund (Art. 50-52. of 1974/2006 (EC))		
Measure code	Total number of beneficiaries supported until 01.09.2011.	Number of RDP beneficiaries that utilised the Guarantee Fund instrument	Ratio of uptake of financial engineering instrument	Total number of beneficiaries supported until 01.09.2011.	Number of RDP beneficiaries that utilised the Credit Fund instrument	Ratio of uptake of financial engineering instrument

	Venture capital fund (Art. 50-52. of 1974/2006 (EC))			Interest rate subsidy (art. 49 of 1974/2006 (EC))		
Measure code	Total number of beneficiaries supported until 01.09.2011.	Number of RDP beneficiaries that utilised the Venture Capital Fund instrument	Ratio of uptake of financial engineering instrument	Total number of beneficiaries supported until 01.09.2011.	Number of RDP beneficiaries that utilised the Interest Rate subsidy instrument	Ratio of uptake of financial engineering instrument

5. Reasons for low uptake of financial engineering instrument

Instruction: Please fill in the table by choosing the relevant measure code from the drop-down menu and by choosing the appropriate reason for the below 50% uptake, if relevant. Only those measures for which the uptake of financial engineering instruments was below 50% should be presented in this table. You can provide a brief explanation for the reasons in the third column.

Measure code	Relevant financial engineering instrument	Reason for below 50% uptake	Brief explanation

Annex 2.4 Survey questionnaire for financial institutions (sample)

BANK SURVEY

Please choose your country from the drop-down list by clicking on the adjoining cell:

Bank name

Respondent's name

Respondent's
position

Respondent's e-mail
address

1. Does your bank apply any special criteria with regard to enterprises operating in rural areas?

If you have answered "YES", please name the key criteria.

2. How do you perceive the risk of lending to an SME operating in a rural area as opposed to an SME operating in an urban or metropolitan area?

If your answer indicates that there is a difference in the perception of risk, please provide a brief description of the key reasons below:

3. If an SME applicant operating in a rural area provides proof of co-financing from the European Agricultural Fund for Rural Development (EAFRD) how important is such proof in your bank's assessment of the credit application? Very important

If your answer indicates that this factor is important, please provide a brief description of the key reasons below:

4. How would you rate the influence of the following factors on your bank's decision on approving a credit application from an SME operating in a rural area?

You may select the appropriate answer by clicking on the cell in the "Options" column and selecting the answer from the drop-down list.

	<i>Options</i>
Quality of business proposal	
Innovativeness of business proposal	
Applicant's balance sheet	
Applicant's credit history	
Applicant's main economic activity	
Applicant's company age	
Availability of alternative sources of funding	
Your bank's knowledge of the local rural economy	
Trends in the market where the applicant operates	
Your bank's assessment of risks	
Applicant's beneficiary status under EAFRD	
Applicant's use of EAFRD-related financial engineering instruments	

Note: EAFRD financial engineering instruments may include credit fund, guarantee fund, venture capital fund, or interest rate subsidy as adopted in the Rural Development Programme of the Member State in accordance with Council Regulation 1974/2006 (EC).

5. How would you rate your preference of the following SME activities in relation to credit applications by rural SMEs? (categories are based on the NACE REV 2. sections)

You may select the appropriate answer by clicking on the cell in the "Options" column and selecting the answer from the drop-down list.

		Options
	agriculture, forestry and fishing	negative
	mining and quarrying	neutral
	Manufacturing	negative
	Construction	positive
	wholesale and retail trade, repair of motor vehicles and motorcycles	
	accommodation and food service activities	
	information and communication	
	Education	
	human health and social work activities	
	arts, entertainment and recreation	
	other service activities	

6. How have the following factors affected your bank's credit standards in relation to credit or other applications from SMEs operating in rural areas?

You may select the appropriate answer by clicking on the appropriate cell in the "Options" column and selecting the answer from the drop-down list.

		Options
	Expectation related to general economic activity	
	Expectations related to the rural economy	
	Competition from other banks	
	Competition from other financing institutions (savings bank, credit unions, foundations, etc.) and the availability of non-bank funding to SMEs	
	Risk on the collateral and guarantees demanded	

The availability of EAFRD funding as co-financing		
Changes in regulations related to lending and financial services provision		
You bank's preferences related to financial products and their targeting (internal rules)		

8. Over the past year how have your bank's terms and conditions for approving loans or credit lines to rural SMEs changed?

(Please select your answer by clicking on the adjoining cell and choosing the appropriate category.)

If there has been a change in either direction, please provide a brief description of the key reasons below.

9. Over the past year how has the demand for loans or credit lines from rural SMEs changed at your bank, apart from normal seasonal fluctuations?

(Please select your answer by clicking on the adjoining cell and choosing the appropriate category.)

If there has been a change in either direction, please provide a brief description of the key reasons below.

9. How do you expect your bank's credit standards in relation to the approval of loans or credit lines to rural SMEs to change over the next year? (Please select your answer by clicking on the adjoining cell and choosing the appropriate category.)

If you expect a change in either direction, please provide a brief description of the key reasons below.

10. How do you expect demand for loans or credit lines from rural SMEs to change at your bank over the next year? (Please select your answer by clicking on the adjoining cell and choosing the appropriate category.)

If you expect a change in either direction, please provide a brief description of the key reasons below.

11. How would you rate the importance of providing information and advice to SME clients at your bank? *(Please select your answer by clicking on the adjoining cell and choosing the appropriate category.)*

12. How do you expect the role and importance of providing information and advice to SME clients at your bank to change over the next year? *(Please select your answer by clicking on the adjoining cell and choosing the appropriate category.)*

If you expect a change in either direction, please provide a brief description of the key reasons below.

Annex 2.5: Case studies (Survey 1)

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
Finland	Midinvest Management Ltd	Regional/local (non-EAFRD)	Lack of own capital	Credit/venture capital fund	SMEs	100 million Euros (total investment capital)		> 5 years	The fund is specialised in funding ownership arrangements for SMEs, as well as growth funding.	The company follows International Private Equity and Venture Capital Valuation Guidelines (IPEVG) to value the portfolio of companies.
Germany	Regionalwert AG Bürgeraktiengesellschaft	Regional/local (non-EAFRD)	other, e.g. lack of access to funding due to the scale of the rural enterprise	Venture Capital	SMEs (agri-food sector)	1.7 mEuro (subscribed shares value)	N/A	< 5 years	The Regionalwert AG is a private nonstock corporation. The self-set objective of the Regionalwert AG is to decouple the (agricultural) enterprises from the financial markets and to stronger involve the citizens of the region into financing a sustainable regional economy. The Regionalwert AG is a kind of a holding. The financing opportunities of the Regionalwert AG consist of silent partner interests, purchase of shareholdings as well as land and real	The stock corporation invested inter alia in a market garden, a dairy farm, a catering business, food traders and a vineyard. The supported companies get advices for building up a enterprise and be involved in a

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>estate for lease and rental. By this leasing respectively letting especially the start-ups in eco- and bio-agriculture are strengthened. The Regionalwert AG invests in small and medium sized businesses in the agri-food sector within the region of Freiburg. Criteria for participating are: ecological cultivation, social and economic aspects, regional networking, transparency and reporting duties, network partners and contract loyalty. The shareholders benefit in two ways. They will receive a return on investment while promoting the development of a sustainable regional economy.</p>	<p>network of ecological, social and economic enterprises of the agri-food sector within the region of Freiburg. / The Regionalwert AG is a private non stock corporation for the enterprises and citizens of the region Freiburg. It is a practice-oriented model for a promising sustainable regional economy. Goal of the Regionalwert AG is to increase the self-responsibility of the citizens for their region. Therefore, the AG collects capital from the citizens</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
										and finances and cross-links the ecological, social and economic enterprises of the agri-food sector within the region of Freiburg.
Germany	XperCapital	Regional/local (non-EAFRD)	lack of funding within the banking system;lack of own capital	Venture Capital	SMEs (in the region)				The XperCapital Fund is financed by ERDF resources as well as financial resources of municipalities, banks and individuals. The XperCapital Fund shall promote the innovative power of the XperRegions by supporting the enterprises with promising ideas. The XperCapital Fund offers silent partners interests for regional enterprises between 20.000€ and 200.000€ to strengthen the equity position. Thereby jobs will be secured and created and expertise will be kept as well as extended in the region. In 2007 the XperCapital Fund was founded as a capital company in the wake of the EU pilot project	Advice will be provided to the funded enterprises prior and during the funding stage. They will be integrated in a network of regional business partners. Additionally, contacts to other enterprises will be established. / Management by an external contractor paid on a performance basis.

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									XperRegion. Municipalities, Banks, private Enterprises as well as individuals of the region will hold a share of the fund. The fund is managed by an external contractor. The paying is performance-based. The fund invests in innovative entrepreneurs from the region to implement a business concept or to expand an existing enterprise.	
Sweden	Flyinge bygdebolag	Local	lack of funding within the banking system	Venture Capital	local companies and entrepreneurs	N/A	N/A	> 5 years	The instrument is organized as a joint shareholder company among residents in the area and other individuals with some personal link to the area. The majority of shares is always owned by the Community Association to secure the local influence and the use of the company capital. It is a local company (Ltd) with special restriction on use of profit, owned jointly of shareholders all living in the community	Entrepreneurs in the area with business ideas or social service ideas that can be developed into companies for private goods and/or common goods. A lot of people in the area are interested in the investment. Number of shareholders is increasing. Gives the local

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
										association empowerment and possibility to establish a local development centre that will give new possibilities of investments. An old building in Flyinge centre was bought 2008 and in 2011 the former municipality central building was bought. Total investment 0,8 million Euro.
Sweden	Heligholm Utveckling AB	Local	N/A	"other" funds		0.16 mEuro	N/A	> 5 years	The instrument is a local company (Ltd) with a geographical coverage of operation in the five south most communities of Gotland and with special restriction on use of profit, owned jointly by shareholders all living in the community. It is organized as a joint shareholder company among residents in the area	The purpose of the company is to rent or buy real estate or bonds for the development of the business fabric in the area of Storsudret. Vamlingbo Vicary

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									and other individuals with some personal link to the area.	Estate with the manor houses and a large park which have been turned into a centre for experience of art and nature, The attraction draws some 30 000 visitors on a yearly basis will create opportunities for other companies providing goods and services for the tourists.
Sweden	Vireserum Invest Ltd	Local	N/A	"other" funds	local companies and entrepreneurs	0.18 mEuro		> 5 years	Virserum Invest Ltd is a local company (Ltd) owned by 60 local companies and individuals are shareholders. It is organised as a joint shareholder company. A real estate in the town centre now functioning as a business hotel or kind of incubator.	Virserum Invest Ltd has been operational as a local company since 2006.
Sweden	Ramkvilla företagsutvecklin	Local	lack of funding within the banking system; lack of	venture capital fund, other	SMEs (businesses in Ramkvilla	3150 Euro	N/A	> 5 years	The businesses in Ramkvilla (village with 450 inhabitants) needed capital for their investments. By creating a	Through the cooperative the banks get a serious

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
	g ek för		own capital	funds	settlement)				cooperative (est. In 2000) involving 70 founding members with contributions of 45 Euro each it improved access to finance at the local level. The cooperative transfer financial capital from banks into investments i the village.	partner in the village. The cooperative is also coordinating marketing activities for the village. Since different businesses in the village are dependent on each other, the hotel is dependent on the restaurant and vice versa, the cooperative acts stabilizing and can support or take over and run a business in the village which runs into trouble.
Latvia	Credit Union (CCU - Co-operative Credit Union)	Local (non-EAFRD)	Lack of collateral, high cost of borrowing, lack of own capital, lack of knowledge to assess the		Entrepreneurs, employees, those involved in the maintenance of	Start-up capital amounted to LVL 2080.00.	2010: administrative expenses LVL 17602.00, of which remuneration	> 5 years	KKS was established by 37 residents of Allaži, coming from all spheres of society of the local municipality (entrepreneurs, public servants at state and municipal institutions,	Latvian law takes a formal approach whereby membership to a group or the fact of being established

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
			investment proposal due to centralized bank systems with limited local presence, other		infrastructure, utility service-related issues, social issues, consumption.	Additional share capital of LVL 49260.00 and reserve capital of LVL 21509.56 was attracted. Capital was extended by investing a profit of LVL 7120.00. Total credit portfolio amounts to LVL 431398.03. Annually, 196 loans are provided,	n of staff LVL 6006.00, remuneration of the Council and the Board 3414 LVL, social security contributions LVL 2269.00, other: LVL 5913.00.		pensioners etc.) General meeting (Meeting of Trustees) is the supreme decision-making authority. It elects the Management Board, Credit Committee and Audit Commission. Applications for loans are jointly considered by the Management Board and the Credit Committee. Guarantees from persons who know the entrepreneur well and are themselves well known to the credit union are the primary tool for assessment of applications. At present, KKS has 713 members, of which 3 are municipalities. During the crisis, the focus was on preserving jobs for entrepreneurs and finding jobs for the workforce (entailing also such issues as transportation to the new job or the purchase of a dwelling or payment of a rent deposit). There were entrepreneurs who completed take-	in a particular area takes precedence over the development of infrastructure and actual accessibility. There are cases when a person may live in the vicinity of a CCU, but is only allowed to use the services of another CCU which is both distant (80 km and further) and difficult to access because of a lack of roads and public transportation. Historical Experience – Latvia is one of the countries where this type of financial services originated, with

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
						amounting to a total volume of LVL 283,019.00. Until now, a total of 295 loans have been provided, with another 14 loan applications for a total amount LVL 26330.00 still pending.			overs of failed businesses. Currently loans are borrowed to start-up or extend production.	success stories dating back to late 19th century and 20-30ies in the 20th century. Positive experience with expatriate Latvians: examples from Scandinavia, Central Europe, USA and Canada. Grace period and extension of due dates on loans. Co-operation among entrepreneurs is promoted, and members of the credit union may use its office equipment at cost price. The Fund contributed to the preservation or

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
										<p>creation of 73 jobs, and helped 60 people find a new job after losing theirs.</p> <p>CCU has close links to the community and therefore relate to the problems faced by the people.</p> <p>Patriotic foreign-based Latvians invested money in the union to support business, and donated the profit they made to the Allaži Elementary school and Allaži Public library.</p>
Latvia	Foundation For the Support of Rēzekne County	Regional/local (non-	Lack of collateral by potential	Guarantee fund	SMEs	N/A	N/A	< 1 year	Since unemployment is high in the Rēzekne County, while simultaneously, few new	No additional capital is attracted by the foundation.

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
	Micro-enterprises	EAFRD)	borrowers						<p>micro-enterprises are being created, the Rēzekne County Municipality and 25 rural municipality administrations established a Foundation „Rēzeknes novada mikrouzņēmēju atbalstam” (Foundation For the Support of Rēzekne County Micro-enterprises). The objective is to encourage economic activity and make an effort to reduce the unemployment in Rēzekne County. The Foundation is run by the Rēzekne County Municipality, operating in co-operation with the bank “Latvijas Krājbanka” as a partner, to have a financial institution involved which would provide loans for micro-enterprises for business start-up or development. The Commission of the Foundation consists of 6 public officials of the County Municipality. Chairperson of the Rēzekne County Municipal Council is Head of the Commission; Head of the Standing Committee for Territorial Development, Planning, Economy, Environmental and Infrastructural</p>	<p>The Commission of the Foundation, which assesses business ideas, is run by the municipality (Commission consists of municipality public servants). The Commission awards a guarantee for the implementation of the business idea. Financing for the implementation of the business idea is provided by a bank, thus, the foundation does not need its own financing. Until December 2011, 4 applicants have submitted applications, of</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>Issues is the Deputy Head of the Commission of the Foundation, while 2 (two) employees of the Financial, Economic and Accounting Unit and 2 (two) employees of the Development Planning Unit of the Rēzekne County Municipal Council are the 4 (four) members of the Commission of the Foundation. Work at the Foundation is part of their direct job duties; hence, there are no administrative expenses as such.</p> <p>Subject to approval of the business idea, the Foundation provides guarantees for micro-enterprises (sole proprietor, proprietorship, farms or fisheries), natural persons registered or intending to register as a self-employed person, on the following conditions:</p> <p>Turnover for the last closed calendar year does not exceed LVL 70,000</p> <p>Up to 10 employees.</p> <p>Subject to approval of business ideas.</p>	<p>which 3 were approved and 1 was rejected.</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									Guarantee is not awarded for business ideas involving intermediary transactions, purchase and sale of real estate, gambling.	
Latvia	Foundation „Latvijas lauku sieviešu uzņēmējdarbības atbalsta fonds” (Latvian Rural Women’s Entrepreneurship Support Fund)	national	Lack of collateral, high cost of borrowing, lack of own capital	Credit fund (micro-credit)	Usually business start-ups applying for their first-time loan	Initial capital LVL 10,000; later increased by way of cooperation with LHZB Mortgage and Land Bank of Latvia to 50,000 LVL (for a project lasting until the end of 2010)	The only costs are bank account service costs and stationery costs, amounting to some LVL 20-30 per year	< 1-5 years	<p>Created under the Micro Credit Programme which was started in 1998 by LLU (Latvia University of Agriculture) The programme is based on the work of Muhammad Yunus, one of the most prominent examples of social entrepreneurship in the world, who was the first to provide micro-credits for disadvantaged people to improve their financial state (in Bangladesh). The so-called micro-credit groups, which consist of 3-5 women, form the basis of the instrument’s implementation.</p> <p>In co-operation with the Swedish Ministry of Agriculture, the LLU developed a Nordic Council of Ministers’ project “Nordic-Baltic Rural Women Co-operation Network “Micro Credit”. In Latvia, the project was</p>	<p>Advice (moral and professional support) provided;</p> <p>Cooperation with the Swedish Ministry of Agriculture(Nordic-Baltic Women Micro-Credit Cooperation Network project); INTERREG projekt cooperation; training is provided to members of the micro-credit group;</p> <p>500 participants in project workshops;</p> <p>Results from the</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>implemented by the LLU, Bauska Rural Women's Club „Apvārsnis”, and Preiļi Women's Club (1998-2004).</p> <p>Objective: promotion of the Micro Credit concept among the public and the set-up and preparation of Micro Credit Groups.</p> <p>Training is provided for the members of the micro-credit group:</p> <p>Build-up and increase of self esteem</p> <p>Business: development of a business plan, accounting, applicable law, market analysis, borrowing options from banks</p> <p>Teamwork activities in groups – management, finding consensus, decision-making, co-operation, mutual trust, conflict management</p>	<p>13 years of operation of the micro credit facility in Latvia:</p> <p>76 micro-credit groups created</p> <p>132 women have received a micro-credit of LVL 120–1000</p> <p>6 Business Resource centres and 18 Meeting facilities are in operation</p> <p>A business co-operation network is established</p> <p>A mentoring programme is in place</p> <p>E-commerce activities have</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
										<p>been commenced</p> <p>Contacts with foreign based women entrepreneurs established</p> <p>Implementation of current and development of future international projects underway</p> <p>Estonia adopted the idea of establishing such a fund</p>
Hungary	Agricultural Credit Guarantee Fund (ACGF)	National	lack of collateral by potential borrowers, high cost of borrowing, lack of own capital	Guarantee Fund	rural entrepreneurs	yearly guaranteed loan amount app. 187 mEuro (in 2009, 2010)	3 mEuro (in 2009, 2010)	> 5 years	The purpose of the Foundation (est. 1991) is to provide credit guarantees through member banks and savings co-operatives to micro, small and medium-sized enterprises. The Foundation was established – as the first Hungarian guarantee institution - by the Ministry of Agriculture and five	The guarantee fee depends on the type of the state aid and on the portfolio type (agricultural guarantee, general guarantee for rural

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>banks on May 21, 1991, in accordance with the principles of a memorandum signed by the European Union and the Hungarian Government, to promote credit facilities for domestic micro, small and medium-sized enterprises in the agricultural sector, food industry and in rural development. Sometime later, several financial institutions joined the Foundation, and a co-operation was developed with co-operatives which are members of the savings co-operatives' integration. In 2011, the Foundation has 160 financial partners.</p> <p>Since Hungary's accession to the EU, the Foundation's guarantee (for the de minimis and agricultural categories) has been considered as state aid in view of the 70% counter guarantee provided by the state. The Foundation provides enterprises with a certificate on the aid element.</p> <p>The Foundation undertakes to share between 20% and 80% of risk with the financial institution, according to the financial institution's request and to</p>	<p>development loans, and guarantee under market conditions), the loan amount, the maturity of the loan contract and the rate of the guarantee. It is between 0.2% and 2.08% on the full loan amount if a preferential guarantee fee is applied; it is between 0.48% and 3.76% if a market fee is applied. In both cases it is payable in advance in one lump sum or on an annual basis. The maturity of the loan contract for which the guarantee is issued</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									the amount of the loan. Small and medium-sized enterprises may apply for guarantees through the lending bank, and the bank's credit rating includes the necessary risk assessment for the guarantee. The bank forwards the guarantee application to the Foundation that issues the guarantee note within a maximum of five working days, if all conditions have been met. Eligibility criteria: only SMEs classified as domestic and not in financial difficulty are eligible; the activities to be financed by the credit must be related to agriculture, rural development and/or contribute to population retention in rural areas; the guaranteed amount must not exceed HUF 1 billion.	can be up to 25 years, but not less than 91 days.
Latvia	EU support for agriculture, rural and fisheries development for establishing a credit fund	EAFRD	lack of funding within the banking system; high cost of borrowing	Credit Fund	rural entrepreneurs	150.57 mEuro (35.5 mEuro in 2011)	0.04 mEuro	< 1 year	The catalyst for establishment of the instrument was global credit crunch, which influenced lending processes in Latvia. Rural entrepreneurs prepared projects and get approval from Rural Support Service, but since banks were not ready to lend, projects were	The Ministry of Agriculture took the initiative in order to solve the problem by examination of relevant

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>stopped. In September 2010 Credit Fund was launched in Latvia. There are four main partners which collaborate in order to make work the Credit Fund ; Ministry of Agriculture, Rural Support Service, Rural Development Fund and Financial intermediaries (banks). Eligibility criteria: the beneficiary must have an approved project or must have submitted a project for approval in specific EAFRD measures (modernization of agricultural holdings, adding value to agricultural products, business creation and development, development of tourism activities) and be not considered in being difficulty.</p>	<p>experience in other countries in first half of 2010. / Web page + Seminars and training for rural entrepreneurs organized and financed by Latvian National Rural Network. / Only three Latvian banks signed a cooperation agreement with the RD Fund, which limits access to the Credit Fund. The reasons for banks' low level of participation are: fixed credit conditions for up to 15 yrs, fee restrictions (max. 0.2% of the value of loan, but <500</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
										Euro); bank is fully responsible for collecting money from clients.
Latvia	Guarantee Fund for Rural Entrepreneurs	National	lack of collateral by potential borrowers	Guarantee Fund	rural entrepreneurs	57 mEuro (37 mEuro already granted)	0.157 mEuro	> 5 years	<p>The Fund was set up in 1997 to help rural entrepreneurs in the phase of development deal with the lack of collateral required to receive loans. The beneficiaries can be farm or fishing enterprises, associations or establishments in agriculture and food industry implementing EU co-financed projects, cooperatives, natural persons. Investment objectives can include ones related to modernization of agricultural holdings, development of tourism, increase of working capital, education of farmers, investments in aquaculture, setting up of young farmers.</p> <p>Eligibility requirements include: the beneficiary must be registered tax payer with the State Revenue Service, not be in economic difficulty.</p>	Three main partners: Ministry of Agriculture, Rural Development Fund, financial intermediaries. The Ministry of Agriculture is responsible for elaborating national regulatory acts, the Rural Development Fund acts as a Fund Manager, and the banks approves applications for credit, applies to Fund Manager for insufficient collateral of project, and report to the Fund

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
										Manager. Information on own web page is available. The Latvian National Rural Network organised and finance seminars and training for rural entrepreneurs as support measures to secure the viability of investments.
Italy	ISMEA (First call guarantee scheme, FCGS)	national (+ EAFRD)	lack of collateral by potential borrowers, lack of access to funding due to the scale of the rural enterprise	Guarantee Fund	agricultural enterprises	106 mEuro (50m - national budget, 56 m - regional budgets)		< 5 years	The “RCGF – first call guarantee scheme” was established in 2006 as an additional tool of the overall RCGF in support of the agricultural enterprises. The RCGF itself was established in 1961. The First Call Guarantee Scheme (FCGS) was mainly devised to suit the needs arising from the Basle II regulation, which was putting emphasis on the credit risk management by lending banks. Indeed, the first call guarantee which	ISMEA web page; Web based guarantee management model: all applications and documentation are processed electronically and via web. The bank who shall receive the loan guarantee

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									is provided for by the scheme in favour of loan applicants allows banks a lower capital requirement and lower balance sheet provisions, thus creating an incentive to lend to the rural sector, fostering therefore access to bank credit. The FCG can be issued for medium or long-term bank loans for productive investments, short term debt consolidation, or renewable energy. The guarantee can cover up to 70% of the loan amount (80% for young farmers). Eligibility criteria are related to the borrower's credit history. The probability of default must be less than 2.47%.	can at any time track the guarantee application and interact with the RCGF personnel. Seminars and training course for banks are regularly held. Mutual guarantee schemes started by rural entrepreneurs and supported by the Ministry and the Regional administration also contribute with application processing and co-guarantees. A "Letter of guarantee" (GCard) was devised by Ismea to allow entrepreneurs to self-assess their

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiaries	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
										creditworthiness and so understand – before applying for the bank loan – whether a guarantee may be granted or not.

Annex 2.6: Case studies (Survey 2)

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
France	Territorial Guarantee "Nord actif"	Regional (non-EAFRD)	Lack of collateral by potential borrowers	Guarantee fund	SMEs	N/A	N/A	> 5 years	"Nord actif" is a fund set up by the "Nord" Department (Region Nord-Pas de Calais): some projects cannot be financed through regular banking schemes and the objective of this fund is to create the link between the project leader and the banks. In order to help the project leader get funding's, this structure (France Active) will guarantee the amounts borrowed by the project leader. Since 2003, Nord Actif contributed to the creation of 1883 jobs.	The nature of the project is not taken into account; the assessment of beneficiaries' applications is based on their situation (in economic difficulty or living in an underprivileged area). Nord Actif brings support to the project (business support) to ensure the project leader that his/her project is feasible.
France	CIGALES (Acquisition of equity)	National (non-EAFRD)	Lack of own capital	Venture capital fund	SMEs	N/A	N/A	> 5 years	The CIGALES - a charity organization - acquires shares in the company (in creating or developing phase): The CIGALES takes a minor	Until 2010, CIGALES financed 56 projects and conveyed funds in the volume of 273,000 Euro. The investment support is

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>share on the capital. They bring up to 25% of the total amount (in the limit of 15 000€) for activities created before 2006 and up to 33% for businesses created after 2006.</p> <p>A CIGALES is a group of persons/citizens who wish to invest their savings in projects that would not be financed otherwise. Several persons come together and finance a project: they meet in order to decide in which project they will invest. The CIGALES invest for at least 5 years in the business: during this period, the CIGALES agrees not to withdraw of the business, except if the business owner wishes to pay back the shares.</p>	<p>typically available for modernization and technical innovation projects.</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
France	Modulisomir	National (non-EAFRD)	Other, e.g. lack of access to funding due to the scale of the rural enterprise	Credit fund	SMEs	N/A	N/A	< 1 year	Two structures (FN CUMA and ADIE) created a specific structure, named ISOMIR, in order to help the farmers. MODULISOMIR is a commercial financial institution. This specific fund was created to help farmers who wanted to set up a transformation workshop within their farm: this loan helps them investing in order to respect hygiene rules and get training. Many farmers don't want to invest to diversify their activity because they cannot be financed or don't know how to run the project (on a financial and administrative point of view).	The fund offers support specifically for small farms that plan to diversify their activities. 20% of the investment is to be financed by the farmer; ISOMIR co-financing is available up to 30%. The minimum amount of credit is 7500 Euro; the maximum is 25000 Euro for 1 project. Typically modernization and technical innovation activities are funded. Business support to help the farmer define needs and prepare a business plan is provided by the Fund. Technical support, legal support, and support in the form of workshops also available.
Hungary	various financial instrument offered by the	national (non-	Lack of funding within the banking system,	Guarantee Fund; advanced	SMEs	N/A	N/A	N/A	Hungarian Development Bank has a determining role in rural financing.	The other important factors of rural financing are the already mentioned saving

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
	Hungarian Development Bank	EAFRD)	lack of own capital	Credit					<p>The core function and strategy of the Bank is to promote economic development, provide funding for small- and medium-sized businesses, to increase the technological level and the rate of employment, to improve the conditions of the development of energy efficiency, environmental protection and infrastructure taking into account sustainability criteria and to reduce regional disparities. In order to ensure the efficient use of EU funding, the bank with its products helps businesses to improve their absorption capacity.</p> <p>The loans are granted in</p>	<p>cooperatives, which are also granting these advanced loans. The main parameter of these credit institutes is that they have more personal, subjective information about the debtors. For example in a small city or village is it possible the cooperative knows the potential debtor personally. If the potential person does not match all the objective criteria nevertheless they will grant the wished loan because the cooperative knows the firm leader he will pay it back.)</p> <p>The only, but determining disadvantage is the low level of capital compared to bigger commercial banks.</p>

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>an advanced level (with a low level of rate) through commercial banks and savings cooperatives. In that way the guarantee fund as collateral and these advanced loans are able to create a way of joined financing for rural entrepreneurs. In the financial crisis and at the lack of market loans this kind of credits give the possibility of continuous operating and investment for SMEs in the rural region. Main examples of these loans:</p> <ul style="list-style-type: none"> • Agricultural short-term asset credit program; • SME credit program (for investment and development, long-term); • Bank guarantee 	

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									programs for food industry; • Investment and project loan	
Latvia	Private capital fund SIA <u>Euro Energy Biogaze Latvija</u>	national (non-EAFRD)	Lack of collateral by potential borrowers; lack of own capital	Venture Capital Fund	commercial companies and farms willing to construct biogas plants	75 mEURO	0.057 mEURO	< 5 years	The instrument was set up to finance the construction of biogas plants and the development of renewable energy resources in Latvia. Only investments to set up a biogas plant, construction, purchase of land are eligible for support. Money is invested in long-term projects only (e.g. the construction of biogas plants).	Construction of biogas co-generation power plant SIA Zemgaļi JR” in Jelgava county.
Romania	Rural Credit Guarantee Fund (FGCR IFN S.A.)	national (EAFRD)	Lack of own capital; other e.g. lack of access to funding due to the scale of rural	Guarantee Fund	SMEs and micro-businesses	220 mEuro	management fee of 2% applied to 220 mEuro for the period 2010-	< 5 years	The Fund has been established to address the following problems: lack of own funding, dependence on bank financing, the economic	N/A

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
			enterprise				2013		<p>crisis, non-involvement of shareholders in support of investment projects, the value of investment projects exceeds of debt capacity of the beneficiaries, cumbersome procurement procedures, lack of relationship with the banking. The Fund is operated by a commercial financial institution.</p> <p>Scope: facilitating access to credit for private beneficiaries, of measures 121, 123 312 and 313 of the NRDP by guaranteeing the max. 80% of the funding necessary to ensure the security required by commercial banks</p> <p>Structure: specialized department for</p>	

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>providing guarantees for the development and monitoring of guarantee schemes, separate accounting, territorial representation created exclusively for the popularization of guarantee schemes. Beneficiaries can be the beneficiaries of EAFRD measures 121,123, 312, and 313. Eligibility requirements include: the proof of financing contract with the Paying Agency for one of the relevant measures, beneficiaries must not be in financial difficulty according to Community regulations and be free of outstanding debts towards the state budget, and not recorded with overdue loans in the records of</p>	

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									the National Bank of Romania; presentation of appropriate collateral guarantee	
Poland	Agency for Restructuring and Modernization of Agriculture (ARMA)	national (state aid)	Lack of access to capital	Credit Fund	farmers and agricultural product processing establishment	N/A	N/A	> 5 years (est. 1994)	Credit for the adaptation, refurbishment and modernization of buildings for purposes agro tourism, as well as campsites device. Credit may not exceed 80% of investment costs, while its maximum amount is 2 million PLN. ARMA grants financial aid to farmers and agricultural product processing establishments in the form of: <ul style="list-style-type: none"> - subsidies to interest on investment loans and natural disaster loans provided by the banks that have concluded specific agreements with 	

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									<p>the Agency,</p> <ul style="list-style-type: none"> - guarantees and securities for repayment of the investment loans and natural disaster loans. - partial repayment of the investment loan capital. <p>Subsidies are provided under 13 credit lines. Until 31 October 2010, the Agency granted support in the framework of state aid in the amount of PLN 17,6 billion.</p>	
Poland	European Fund for the Development of Polish Villages	N/A	N/A	Credit; other (grants also provided)	rural SMEs	N/A	N/A	> 5 years (est. 1990)	<p>Micro-loan up to 150.000 PLN for the development of rural entrepreneurship agro tourism</p> <p>At the end of 2010 more than 22.000 loan and grant agreements concluded by the Fund and 1,3 billion PL was</p>	

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									the total value of loan and grant agreements	
Poland	Foundatn. for the Development of Polish Agriculture	N/A	Lack of collateral by potential borrowers, high cost of borrowing, lack of own capital	N/A	rural SMEs	N/A	N/A	> 5 years (est. 1993)	The Foundation for the Development of Polish Agriculture grants loans which not only assure temporary financial needs of small enterprises but also have educational aspect, as they are targeted to people, who had not profited from outside finance sources before.	
Poland	Rural Development Foundatn.	N/A	N/A	credit (micro-credit)	N/A	N/A	N/A	N/A	Micro-loan dedicated for establishment of agro truism in the amount from 3.000 PLN up to 15.000 PLN with the condition to establish one work place. Outcome: data form 2008: 1.700 micro-loans granted in the amount of up to 20.000 PLN	

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
Portugal	Castelo Branco Finicia	local	N/A	N/A	rural micro- and small-enterprises	N/A	N/A	< 5 years (est. 2010)	Financial Program to support micro and small enterprises in the municipality called "Castelo Branco FINICIA". This Fund was established one year ago and its goal is to stimulate and guide investments to improve products and / or services, to modernize enterprises or help changes imposed from legal requirements and regulations.	
Portugal	IAPMEI - FINICIA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	The FINICIA is a program that facilitates access to financing solutions and technical assistance in setting up businesses, or companies in the early stage of its life cycle, with business differentiators, close to the market or potential economic value.	

Member State	Name of financial scheme/project	Type of financing	Problem/market failure addressed	Type of instrument	Beneficiary	Size of the fund	Operational budget (per annum)	Duration of existence	Brief description (operation, objectives, eligibility)	Special features of operation
									The Young FINICIA resulting from a partnership with the Portuguese Youth Institute offers special conditions for young people up to 35 years.	
Portugal	IEFP	national	lack of own capital; other e.g. lack of access to funding due to the scale of rural enterprise	credit (micro-credit)	N/A	N/A	N/A	N/A	National Microcredit is a measure to support viable investment projects that create and consolidate sustainable jobs through Micro-invest credit line available from the participating banks: CGD, Millennium BCP, BES, BPI, Santander-Totta, Barclays, LBW, BANCO POPULAR, Credit Agricole, municipalities and Banif.	
Portugal	ANDC	N/A	N/A	credit (micro-credit)	N/A	N/A	N/A	N/A	N/A	