



TOOL 3.4

WORKING STEPS FOR SUPPORTING THE APPRAISAL OF THE RATIONALE FOR THE USE OF FINANCIAL INSTRUMENTS

THEMATIC WORKING GROUP No 7
'PREPARING FOR THE EX-ANTE EVALUATION OF THE CAP
STRATEGIC PLAN'

OCTOBER 2019

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Recommended citation:

EUROPEAN COMMISSION – Directorate-General for Agriculture and Rural Development – Unit C.4 (2019): Working steps for supporting the appraisal of the rationale for the use of financial instruments. Tool 3.4 - Thematic Working Group no 7 'Preparing for the ex-ante evaluation of the CAP Strategic Plan'.

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Thematic Working Group: Preparing for the ex ante evaluation of the CAP Strategic Plan

You can find all the tools for the Thematic Working Group, 'Preparing for the ex ante evaluation of the CAP Strategic Plan', in the European Evaluation Helpdesk's eLibrary:

https://enrd.ec.europa.eu/evaluation/publications/_en

1. Working Package 1: Preparing the ex ante evaluation;

- Tool 1.1 - Indicative roadmap for the ex ante evaluation and Strategic Environmental Assessment of the CAP Strategic Plan;
- Tool 1.2 - Indicative outline of terms of reference for the ex ante evaluation of the CAP Strategic Plan;
- Tool 1.3 - Indicative outline of terms of reference for the Strategic Environmental Assessment of the CAP Strategic Plan;
- Tool 1.4 - Stakeholder mapping checklist.

2. Working Package 2: Appraisal of the SWOT and needs assessment;

- Tool 2.1 – Examples of guiding questions supporting the appraisal of the assessment of needs including the SWOT;
- Tool 2.2 – Analytical tables supporting the appraisal of the assessment of needs including the SWOT.

3. Working Package 3: Appraisal of the intervention strategy, targets and milestones;

- Tool 3.1 – Examples of guiding questions for the appraisal of the intervention strategy, targets and milestones;
- Tool 3.2 – Working steps for the appraisal of the intervention strategy of the CAP Strategic Plan;
- Tool 3.3 – Appraisal of quantified target values and milestones;
- Tool 3.4 – Working steps for supporting the appraisal of the rationale for the use of financial instruments.

4. Working Package 4: Appraisal of the planned monitoring, data collection and implementation arrangements of the CAP Strategic Plan.

- Tool 4.1 - Examples of guiding questions supporting the appraisal of the planned monitoring, data collection and implementation arrangements of the CAP Strategic Plan.

ACRONYMS

CAP	Common Agricultural Policy
CATI	Computer-Assisted Telephone Interviewing survey
CCI	Common Context Indicators
CPR	Proposal for Common Provision Regulation, COM/2018/375 final
CSP	CAP Strategic Plan
DG AGRI	Directorate-General for Agriculture and Rural Development
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EIB	European Investment Bank
EU	European Union
FI	Financial Instrument
GQ	Guiding Question
MA	Managing Authority
SO	CAP Specific Objective
SPR	Proposal for CAP Strategic Plan Regulation, COM/2018/392 final
SWOT	Strengths Weaknesses Opportunities Threats Analysis

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INTRODUCTION

About this tool

This tool has been prepared by evaluation experts taking into account the legal proposal for the CAP Strategic Plans *COM(2018) 392 final (hereafter referred to as SPR)*. Drafting of this tool has been carried out in the context of the Evaluation Helpdesk's [Thematic Working Group no. 7](#).

The assessment area covered in this tool includes:

- the appraisal of the 'rationale for the use of financial instruments financed by the EAFRD' (Article 125(3)(j) of the SPR proposal).

BASICS

Legal requirements of the ex-ante evaluation of the CAP Strategic Plan in relation to financial instruments financed by the EAFRD

The ex-ante evaluation of the CAP Strategic Plan shall appraise the rationale for the use of financial instruments financed by the EAFRD.¹

In this respect, it is important to note, that the SPR also specifies that:

- the SWOT shall include an analysis on the access to finance and credits specifically in the case of young farmers;²
- in light of the need to fill the investment gap in the Union agricultural sector and improve access to financial instruments for priority groups use of the InvestEU guarantee and combination of grants and financial instruments should be encouraged.³

Definitions

Table 1. Links between the ex-ante evaluation and ex-ante assessment of financial instruments

	Ex-ante appraisal of the 'rationale for the use of financial instruments financed by the EAFRD'	Ex-ante assessment of financial instruments
Legal basis	Article 125(3)(j) of the SPR proposal.	Article 52(3) of the draft Common Provisions Regulation (CPR) ⁴ .
When?	Conducted as part of the ex-ante evaluation of the CAP Strategic Plan . ⁵ This ex-ante evaluation is not to be confused with the ex-ante assessment of Financial Instruments (FIs).	Can be carried out before, in parallel or after the ex-ante evaluation of the CAP Strategic Plan. The ex-ante assessment shall be completed before Managing Authorities (MA) decide to make programme contributions to financial instruments.

¹ Article 125(j) of the SPR proposal.

² Article 103(2) of the SPR proposal.

³ Recital 42 of the SPR proposal.

⁴ [COM/2018/375 final](#).

⁵ Article 125 of the SPR proposal.

	Ex-ante appraisal of the ‘rationale for the use of financial instruments financed by the EAFRD’	Ex-ante assessment of financial instruments
By whom?	Carried out by a functionally independent ex-ante evaluator of the CAP Strategic Plan.	Under the responsibility of the Managing Authority.
Focus	Appraisal of the general needs identified in the CAP Strategic Plan to use the financial instruments to address market failures or suboptimal investment situations and investment needs.	Covers the ex-ante assessment of an individual financial instrument (e.g. amount of programme contribution, leverage effect, proposed financial products, proposed target group of final recipients, expected contribution of the FI to the achievement of specific objectives).
How?	Independent review of the Managing Authorities’ rationale to use or not to use FI in the CAP Strategic Plan, following a market assessment (assessment of market failures, suboptimal investment conditions and investment needs) carried out by the Managing Authority.	See FI-Compass Website : available guidance for the 2014-2020 period (and post-2020 in preparation).
Further reading:	FI compass (2014) Ex-ante assessment for ESIF financial instruments - Quick reference guide . This document is related to 2014-2020. In the period 2021-2027 the market assessment is already reviewed in the ex-ante evaluation.	FI compass (Ex-ante assessment summaries 2014-2020).

- **Market assessment:** Market assessment includes ‘the analysis of market failures, suboptimal investment situations and investment needs, the assessment of the value added of the envisaged FI, an estimate of additional public and private resources, which could be potentially raised by the FI, and lessons learnt from past experience in the implementation of similar instruments’⁶.
- **Market gaps:** Areas where banks are unwilling to lend and/or where the private sector is unwilling to invest. Examples of this could be small farms or new agricultural businesses which do not have sufficient credit history or assets to be used as collateral.
- **Market failure:** Defined as ‘an imperfection in the market mechanism that prevents economic efficiency’⁷.

⁶ FI compass (2014): Ex-ante assessment for ESIF financial instruments – Quick reference guide. https://www.fi-compass.eu/sites/default/files/publications/manual_ex-ante-quick-reference-guide.pdf

⁷ EU COM and EIB (2014): Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD. https://www.fi-compass.eu/sites/default/files/publications/209775_EAFRD_EXANTE_ASSESSMENT_HANDBOOK_0.pdf

WORKING STEPS

The following examples of working steps show how the ex-ante evaluator can assess the rationale for the use of financial instruments in a given CAP Strategic Plan:

1. Check the CAP Strategic Plan for relevant information on financial instruments.
2. Review the SWOT analysis and assessment of needs for relevant evidence concerning possible market failures, suboptimal investment situations and investment needs.
3. Assess if the identified financial needs and access to financing as referred to in the CAP Strategic Plan are correct.
4. Check if the value added of the FI and consistency with other forms of support have been properly analysed and described in the CAP Strategic Plan.
5. Provide an overall judgement on the rationale for the use of financial instruments.

Step 1: Check the CAP Strategic Plan for relevant information on financial instruments

One challenge for the ex-ante evaluator is to find the information on the rationale of the financial instruments in the CAP Strategic Plan document. As there is no specific chapter foreseen, the evaluator will need to read across the CAP Strategic Plan. Table 2 provides an overview of the areas in the CAP Strategic Plan where information on financial instruments can be found.

Table 2. Overview of the areas in the CAP Strategic Plan where information on FIs can be found

Chapter in the CAP Strategic Plan (template)	Further information for financial instruments can be found in the following sections:
1. Strategic statement	-
2. Assessment of needs and intervention strategy	<p>For each CAP specific objective (SO):</p> <ul style="list-style-type: none"> • Summary of SWOT analysis <ul style="list-style-type: none"> ○ The SWOT includes an analysis of the access to financing by taking into account all available information on financial instruments (e.g. figures on market gaps). ○ Contains common context indicators (CCI) which show the socio-economic status of potential beneficiaries (e.g. C14, 15, 16 and C25, 26, 27 and 28). • Identification of needs and intervention strategy: <ul style="list-style-type: none"> ○ If relevant evidence on market gaps is provided in the SWOT analysis, then the access to financing is considered in the assessment of needs. ○ If provided, the justification and expected contributions of InvestEU to the achievement of the CAP policy objectives are described. • Interventions: <ul style="list-style-type: none"> ○ If a consistent link is provided between the use of financial instruments as inputs and the expected outputs and results. ○ If there is complementarity and synergies among the interventions (including FI) in reaching the programmed specific objective. • Targets for result indicators and justifications of how interventions will allow for the reaching of targets.

Chapter in the CAP Strategic Plan (template)	Further information for financial instruments can be found in the following sections:
	<ul style="list-style-type: none"> • Elements demonstrating that allocation of financial resources to the interventions is justified. <p>Additionally, for SO7 'Attract young farmers and facilitate business development in rural areas':</p> <ul style="list-style-type: none"> • Summary of the SWOT analysis related to access to land, land mobility and land restructuring, access to finance and credits, and access to knowledge and advice.⁸
3. Consistency of the strategy	-
4. Elements common to several interventions	-
5. Description of the interventions	<ul style="list-style-type: none"> • Definitions, type and main conditions of the planned financial instruments are provided in the description of the intervention. • The annual financial allocations for each intervention includes, where applicable, a breakdown of the amounts planned for grants and amounts planned for financial instruments.
6. Targets and financial plans	<ul style="list-style-type: none"> • EAFRD amount per type of intervention to be supported through FIs or in combination with support (FIs and grants). Indicative financial allocation and planned financial output for each financial year to be indicated separately from grants.
7. Governance system and coordination systems	<ul style="list-style-type: none"> • If relevant, in the description of governance arrangements and coordination systems, such as, the cooperation between governance bodies and the fund managers or banks (e.g. for the combination of FIs and grants).
8. Modernisation and Simplification	<ul style="list-style-type: none"> • If provided, in the elements related to simplification of the use of FIs and reduction of administrative burden on the final beneficiary.

Step 2: Review the SWOT analysis and assessment of needs for relevant evidence concerning possible market failures, suboptimal investment situations and investment needs

The evaluator will look at the SWOT analysis and assessment of needs, in order to check, if any evidence concerning market failures, suboptimal investment situations and investment needs have been included. The SWOT could for example refer to:

- an analysis of the economic context of the agricultural sector (business environment, farm structure) and the potential gap between supply and demand sides of agricultural and rural development financing.
- an analysis of relevant common context indicators (e.g. C.14 (Age structure of farm managers), C.15 (Agricultural training of farm managers), C.16 (New farmers) and C.25 (Agricultural entrepreneurial income), C.26 (Farm net value added), C.27 (Gross fixed capital formation in agriculture) and C.28 (Total factor productivity in agriculture)).
- a reflection on the lessons learnt from the use of previous financial instruments, their success factors and pitfalls and how they can be promoted and avoided.

It is important to keep in mind, that the ex-ante evaluator checks for this information even if the CAP Strategic Plan does not include financial instruments in order to be able to judge if the rationale for not using financial instruments is established.

If the evaluator does not find any reflection on this topic in the CAP Strategic Plan, a recommendation to complete this aspect may be given.

⁸ Article 96(1)(a) and 103(2) of the SPR proposal.

Step 3: Assess if the identified financial needs and access to financing as referred to in the CAP Strategic Plan are correct

Depending on the information in the CAP SP in relation to market failures, access to financing and financial needs, the evaluator may want to compare this with other available information in the Member State or the EU in order to answer the question:

- Are the market failures, suboptimal investment situations and investment needs, as described in the CAP Strategic Plan, in line with other relevant information in the Member State, such as studies, publications, surveys on agricultural enterprises?

Example. Survey on financial needs and access to finance of EU agricultural enterprise

[EIB \(2019\): Survey on financial needs and access to finance of EU agricultural enterprises. FI-compass EAFRD](#). This study has investigated EU agricultural financial needs from the point of view of farmers using in-depth data from a Computer-Assisted Telephone Interviewing survey (CATI) based on a questionnaire developed by the Directorate-General for Agriculture and Rural Development (DG AGRI) and the European Investment Bank (EIB) in the context of the fi-compass technical assistance platform. The survey questionnaire was completed by more than 7 600 farmers across 24 EU Member States (EU-24) and the statistics by country, as well as in comparison with the EU average is available here: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden. Further in-depth country reports are under preparation and to be published on the FI-compass website.

If the evaluator detects discrepancies in the findings of the SWOT/assessment of needs, these will be flagged to the programming authority.

Step 4: Check if the value added of the FI and consistency with other forms of support have been properly analysed and described in the CAP Strategic Plan

Value added refers to the comparison of the envisaged FI with other possible FIs, grants and other possible support mechanisms and the identification of the most efficient use of resources. In case the CAP Strategic Plan includes FIs, the evaluator may check:

- if the quantitative and qualitative dimension of the valued added of the FI has been properly estimated,
- if the consistency with other forms of public intervention addressing the same agricultural market has been properly assessed.

The evaluator will find relevant information in this regard in the CAP Strategic Plan Chapter 2 'Assessment of needs and intervention strategy'.⁹

⁹ Article 97(1)(c) and 97(2)(f) of the SPR proposal.

Step 5: Providing an overall judgement on the rationale for the use of financial instrument

Based on the outcome of the above steps, the ex-ante evaluator can conclude if the overall decision to use or not use FIs is justified. This judgement can be taken by answering the Guiding Question *'to what extent is the use of financial instruments financed by the EAFRD justified'* based on the following criteria:

- The provided justification for using/not using financial instruments to implement the CAP Strategic Plan interventions is supported by relevant evidence from the SWOT/assessment of needs and common context indicators which show the socio-economic status of potential beneficiaries (e.g. C14, 15, 16 and C 25, 26, 27 and 28).¹⁰
- Relevance of using FIs to address the problem.
- The definitions, type and main conditions of the planned financial instruments are provided in the description of the intervention and they are consistent with the justification for using financial instruments financed by the EAFRD.¹¹
- The annual financial allocations for each intervention include, where applicable, a breakdown of the amounts planned for grants and amounts planned for financial instruments.¹²
- There is a consistent link provided between the use of financial instruments as inputs and the expected outputs and results.¹³
- In case the Managing Authority decides in its CAP Strategic Plan to contribute EAFRD resources to InvestEU¹⁴, the justification provided for that decision is based on evidence and in line with the national/regional needs.
- The expected contribution of InvestEU to the achievement of the policy objectives under the CAP Strategic Plan is described.

FURTHER READING

[EIB \(2019\): Survey on financial needs and access to finance of EU agricultural enterprises. FI-compass EAFRD](#)

Good practices on market assessment: <https://www.fi-compass.eu/resources/ex-ante-assessment-summary>

fi-compass website: <https://www.fi-compass.eu/esif/eafrd>

¹⁰ Possible information source for the analysis: Section 2 in the CAP Strategic Plan template.

¹¹ Possible information source for the analysis: Section 5 in the CAP Strategic Plan template.

¹² Article 99(h) of the SPR proposal.

¹³ Possible information source for the analysis: Section 2 in the CAP Strategic Plan template.

¹⁴ Article 75 of the CPR proposal.

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