



REPUBLIC OF ESTONIA
MINISTRY OF RURAL AFFAIRS

Financial instruments under Estonian RDP 2014- 2020 (EAFRD)

Merle Saaliste

Estonian Ministry of Rural Affairs

02.02.2016

Progress - 1

- **Common ex ante assessment for the EAFRD and the EMFF** (Dec. 2013-Dec.2014, assessor Ernst & Young Baltic AS)
- **General description of FIs in RDP** (February 2015)
- **Preliminary negotiations with the possible FI implementer (the Estonian Rural Development Foundation) were carried out** (Jan.–Sept.2015)

Progress - 2

- **State procurement procedure for selecting the FI implementer (by way of negotiated procedure without prior publication of a contract notice) was carried out (25.09.2015-15.01.2016)**
- **The contract with the FI implementer is signed (29th of January 2016)**
- **Making the first payment to the FI fund and selection of the first beneficiaries (February 2016)**
- **RDP amendment (more precise description of FIs) is under preparation**

FIs in Estonian RDP 2014-2020

EUR 36 million are allocated for FIs:

- **MO4.1 Investments to improve the performance of **agricultural** enterprises – EUR 17 million**
- **MO4.2 Investments to **process and market** agricultural products – EUR 6 million**
- **MO6.4 Investments in the **diversification** of economic activities towards non-agricultural activity in rural area – EUR 13 million**

Financial products

| | Growth loan of micro- and small enterprises | Long-term investment loan | ???Guarantee??? |
|--------------------|--|---|---------------------------------------|
| Budget (EUR 36 m) | EUR 14,2 m | EUR 16,1 m | EUR 5,7 m |
| Target group | Micro- and small enterprises | Micro-, small- or medium-sized operators | Young farmers (24 m), producer groups |
| Amount of loan | EUR 5000 – EUR 100 000 (direct loan or co-lending) | EUR 250 000 – EUR 1 m; producer group EUR 250 000 – EUR 3 m, co-lending with banks (bank at least 50%) | Up to 80% of loan |
| Security | At least 50% | At least 80%; producer group at least 30% | |
| Duration of loan | Up to 5 years (+ up to 3 years of grace period) | 1 to 15 years (+ up to 5 years of grace period) | Up to 10 years |
| Interest generally | Subsidised interest -6%+ ECB's refinancing rate | On market conditions (bank loan interest) | Subsidised fee- 1,5% |
| Special conditions | Subsidised interest: young farmers and producer groups – 2%+ ECB' RR ; Starting and microenterprises, people with disabilities, woman – 4% + ECB' RR | Subsidised interest: Young farmers and producer groups – 1% + ECB's RR ; Starting and microenterprises, people with disabilities, woman – 2% + ECB's RR | |

Problems and proposals - 1

1. Ex ante assessment (EAA)

- **Problems**

- **time consuming**

- **hard to find qualified assessor (CPR Art 37(2) is very demanding)**

- **results of EAA are predictable**

- **estimations (leverage effect etc.) will be useless if resources allocated for FI are changed later**

- **the economic situation may change rapidly after finishing EAA**

- **there can be many EAAs needed for one country**

Problems and proposals - 2

1. Ex ante assessment (EAA)

- **Proposals**

- **CPR Art 41 is sufficient to avoid over financing FIs in MS**
- **maybe there no need for EAA at all or**
- **maybe it is enough to have one common EU level EAA**
or
- **maybe EAA in MS could be skipped if certain rules are followed (small enterprises and start-ups, small loans and guarantees, only standard or market conditions followed)**
- **FI products and conditions should be flexible to change if needed and not so strongly connected to the EAA**

Problems and proposals - 3

2. FI regulation is not well compatible with EAFRD rules and bodies

- **Problems**

- in EAFRD all payments are made by **Paying Agency** not by **Managing Authority** – who should be the parties of the FI financing contract?

- in EAFRD there is no **Audit Body** – which body should audit or control whom and exactly what, who should control actions made by FI implementing body?

Problems and proposals - 4

2. FI regulation is not well compatible with EAFRD rules and bodies

- **Problems**

- FIs should be implemented in accordance with the **Fund-specific rules (CPR Art 37(4))**.

In EAFRD (and also in EMFF) the measures and responding eligible activities are very precisely described – the FI implementing body should be careful in lending

(for example CPR Art 37(4) allows to support also the costs of transfer of proprietary rights in enterprises, but is it allowed under EAFRD or EMFF?)

Problems and proposals - 4

2. FI regulation is not well compatible with EAFRD rules and bodies

- **Proposals**

- **regulations could be revised in order to avoid confusion about tasks of different acting bodies of EAFRD**
- **it would be useful to have a schematic picture of FI controls and audits in the case of EAFRD (bodies involved and the scope of inspections)**
- **rules for FI could be more similar (or even the same) for all funds**

Problems and proposals - 5

3. Documents approving rightful use of FI money

- **Problems**

- if the documents mentioned in 480/2014 art 9

(1)(e)(xi) „evidence that the support provided through the financial instrument was used for its intended purpose“ are copies of invoices, contracts and documents proving payments made by the final beneficiaries, then it means a massive administrative burden for the final beneficiaries and for FI implementer and for every controlling body as well

Problems and proposals – 6

3. Documents approving rightful use of FI money

- **Proposals**

- it must be easier for final beneficiaries to ask for FI than for grant, there is no need to have such strong evidence of the use of money, they are paying it back anyway:

- delete 480/2014 article 9(1)(e)(xi) or**

- maybe it is enough if the FI implementer visits the final beneficiary, verifies that these documents exist and investments are being carried out or have been completed and makes a corresponding control report**

Problems and proposals - 5

4. Selection of FI implementing body

- **Problems**

- **the Estonian Rural Development Foundation (MES) is founded by the Government and controlled by the Government, but we had to launch the state procurement procedure for selecting MES as the FI implementer**

- **Proposals**

- **it should be possible to skip the state procurement procedure if the potential FI implementer is a public authority or controlled by Government**

Problems and proposals - 5

5. Criteria for determining management costs and fees

- **Problems**

-480/2014 Art 12 states that these costs shall be calculate on the basis of 4 performance based criteria, but only one of them (a) is really relevant:

(a) the disbursement;

(b) the resources paid back or released from investments;

(c) the quality of measures accompanying the investment;

(d) the contribution of the FI to the objectives and

outputs of the programme.

- **Proposals**

-it should be enough to select one criteria of this list

Problems and proposals - 5

6. Specific rules on guarantees

- **Problems**

- **We could not agree with our FI implementer what is the meaning of the term „multiplier ratio“ according to the 480/2014 Art 8(a) and what should be the contents of „a prudent ex ante risk assessment“ Art 8(b) or how works Art 8(d) if guarantees are given to other banks loans**

- **Proposals**

- **a guideline is needed how guarantee scheme should work if a Government controlled body gives guarantees to private bank loans**



REPUBLIC OF ESTONIA
MINISTRY OF RURAL AFFAIRS

merle.saaliste@agri.ee