



**Coordination Committee Workshop on Financial
Instruments**

Summary of the Discussions

26th October 2012



Connecting Rural Europe

Coordination Committee Workshop on Financial Instruments, Brussels, 26 October 2012

Context of the meeting

The aim of this ENRD workshop was to help raise awareness and develop a better understanding amongst rural development stakeholders about the opportunities and considerations involved in using financial instruments (FIs) in the rural development programmes (RDPs) for the period 2014-2020.

It was explained why, when, where and how different types of FIs have been or can be used (in the future) to contribute to the rural development policy objectives and for achieving the goals set by the Europe2020 strategy.

Presentations were given about the future legislative framework under the Common Strategic Framework (CSF) and how it will be implemented in the framework of RDPs together with sharing of experience about the use of FIs within the European Regional Development Fund (ERDF), the European Social Fund (ESF) under Research and Innovation (RI) and the European Investment Bank (EIB) experience in managing FIs.

Agenda Item

Financial instruments under the current policy framework

Presentation on "[Current experience under the EAFRD](#)" - [General information on the use and uptake of FI and findings of the NRN joint task force on access to rural finance](#) by *Peter Toth (ENRD Contact Point)*

This presentation focused in bringing into perspective the current state of play of FI supported from EAFRD as well as the key findings from the NRN joint initiative on rural finance.

The main points from the presentation comprise of the following aspects:

- FIs are activated only in 5 Member States (IT, BG, RO, LT, LV)
- Total committed EAFRD budget for these FIs amounts to some €618 million of which approx. 50% has been utilised
- Categories of beneficiaries vary according to the scheme in place but mostly relate to farmers, agro-food processing and rural non-agricultural businesses
- The scope of the NRN joint work related to 4 key areas such as (i) primarily development of a common language; (ii) raising awareness; (iii) further mapping of FI examples, (iv) key challenges and further actions including training
- Context of this need stems from two key issues being i) no territory specific classification in relevant surveys exists and thus SMEs are not classified by area of operation (e.g. urban or rural areas) or registered site of activity, and ii) SMEs are classified in surveys by size and activity but some surveys exclude SMEs whose activities relate to agriculture, forestry or fisheries
- Main reasons for low FI uptake according to interviewed MA include the lack of information and knowledge, the associated perception of higher risks of financial corrections and penalties, and the need of

additional administrative resources to manage FIs

- The perspectives of commercial banks of associated risk/credit availability to rural SMEs showed that no special criteria for rural SMEs are adopted and that EAFRD funding was a positive factor for granting credit facilities.
- In conclusion the main findings consisted of i) an information gap relating to rural specific access to finance ii) business support services, self-assessment tools, networking and training being important for improving access to finance and building trust and iii) a great diversity of SME funding schemes exist to learn from and share experiences of and amongst NRNs and MAs

Presentation on "The Latvian credit fund under the 2007-2013 Rural Development Programme"

by Aivars Lapins (Latvian Managing Authority)

The focus of the presentation was to give an overview of the main elements of this credit fund that was set up in Latvia with the support of the EAFRD and the EFF.

It was described that:

- The scope of the fund was to support only measures/activities linked to productive investments under both funds
- Designated roles and functions have to be clear for all involved
- Beneficiaries required to fulfill specific eligibility criteria

In addition a detailed explanation was given on how the respective interest rates, charges and subsidy rates are being applied.

It was mentioned that the fund in general was successful for measures supporting agricultural and agro-food investments above a certain size (measures Modernization of Agricultural Holdings and Adding Value to Agricultural Products) but not for the measures supporting small, non-agricultural investment (tourism development or micro business creation).

Discussion points

Comments /reactions from participants:

The presentations raised some discussion relating to the criteria adopted by commercial banks on assessing the feasibility/risk of SMEs operating in rural areas.

The perception that rural SMEs were subject to mores restrictive criteria was wrong. Risk rating mechanisms are linked to the balance sheet, credit history and quality of business. It was expressed that in reality what was lacking was that banks missed on specialized personnel that are capable of understanding the nature and context of the investment proposed.

Presentation on "The Legal Proposal for Financial Instruments under the Common Strategic Framework 2014 to 2020"

by António Gonçalves (Head of Unit REGIO D.3 – Financial

"The presentation had two main elements being an overview of the current state of play of ERDF FIs for the current programming period and an explanation of the legal proposal for the use of FI under the future CSF.

The main highlights relate to the following aspects:

- As per December 2010, 10.0 bn euros had been committed to FI in

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the framework of EU's Regional Policy. 7.6 bn euros of that amount was financed by the ERDF, the rest was constituted of national contributions. There is a multiplicity of funds currently in operation (around 390 funds). Updated data (as per December 2011) will soon be made available on DG REGIO's website.

- The advantages of FI, from a policy perspective, is that they provide a wider spectrum of financial tools for policy delivery, they constitute a revolving scheme (what has been spent is paid back with benefits and can be reinvested), which allows the private sector to invest too. The other advantage is the fact that it provides financing to final recipients before the investment takes place and in many cases for significant, or whole part of the investment project.
- There was a lack of available detailed monitoring and reporting data. This was addressed by a recent regulatory modification and in the next programming period, monitoring and reporting arrangements for FIs under the CPR will be aligned with the requirements of the Financial Regulation.
- The new CSF regulation aims to provide a clear set of rules and to facilitate wider and more flexible use of FI (e.g. capture synergies with grants, wider thematic scope and more implementation options).
- MAs will also have more models/options, which they would be able to use at national and/or regional level in the form of standardised "off-the-shelf" instruments..
- An ex-ante assessment will be mandatory in order to ensure that the proposed FI corresponds to real market's needs.
- The European Commission disagrees with some provisions introduced by the Council in the context of the discussions on FI. The Commission believes that FIs should not finance working capital, nor should they finance projects that have already been completed. The proposal of the Council to exclude audit of final recipients is also considered as unacceptable.
- The next stages of the legislative procedure involve a final agreement to be reached between the Council and the European Parliament by February 2013 at the latest.

Furthermore, a technical assistance platform will be setup to help MAs with setting up and implementing FIs under all funds under shared management (EAFRD, ERDF, ESF, EFF).

Presentation on "[Financial Instruments and rural development in the future programming period 2014-2020](#)" by *Josefine Loriz-Hoffmann (Head of Unit*

In this presentation it was articulated that if the Legal Proposal for FI under the Common Strategic Framework 2014-2020 defines the common rules on financial instruments for all CSF Funds, the new Rural Development regulation will define the scope of intervention for all financial instruments, which can be supported by the EAFRD. It was mentioned that FI set up

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with support from the EAFRD should respect the measure's content of the EU rural development policy.

In this regard it was pointed out that:

- FI are seen by DG AGRI as a tool to unlock the EAFRD potential as in the future viable investments from different beneficiaries could be supported (enterprises, public-private partnerships, even public bodies in specific cases, etc.) and that new managerial options were given to MA (such as the EIB, other international financial institutions, even MA themselves).
- Member States will have to define in their Partnership Agreement that they would like to utilise FI for rural development and in the context of the EAFRD, according to their needs and the specific objectives adopted.
- To do so, the ex-ante assessment of RDPs should look into the various types of payments under the RDPs (including FI), a SWOT analysis will have to be carried out to identify the investment needs of MS, and an ex-ante assessment should be carried out to identify specific market gaps that the FIs will need to fulfil.

As a conclusion, the objectives regarding the use of FIs under the EAFRD in 2014-2020 comprise of the following three main aspects:

- To increase substantially the use of financial instruments under the EAFRD in terms of budget, territorial coverage and type of support
- To reach a thematic concentration of funds for financial instruments on Europe2020 related areas (e.g. renewable energy, broadband, RDI, forestry, innovative investments in agriculture and agro-food)
- To cover all potential beneficiaries/sectors under the EAFRD

A number of possibilities for re-enforcement of the use of financial instruments under the EAFRD were given:

- Strong and well based awareness raising among Managing Authorities and stakeholders
- Use of the Technical Assistance Platform
- Co-operation with the EIB/EIF (to further facilitate MS and regions)
- Co-operation and synergy between financial instruments at EU-level, FI under other CSF Funds, and FI under the EAFRD
- Use of monitoring and reporting results for better policy design and knowledge sharing
- Exploring the EAFRD potential for venture-capital funds
- Continue the work carried out under the Rural finance NRN task force

Specific recommendations to MS were outlined as well:

- At administrative level:
 - ✓ Raise awareness among all stakeholders
 - ✓ Evaluate carefully the needs for funding, the type of support to be offered, etc.
 - ✓ Analyse the conditions and prerequisites for setting up financial instruments
 - ✓ Benefit from, and use of, the Technical Assistance Platform
 - ✓ Explore the possibilities for co-operation with the EIB/EIF
 - ✓ Build up the capacity of the staff (trainings, seminars, discussions with other MA, etc.)
 - ✓ Exchange of good practices
- At programme level:
 - ✓ Define priority areas / key actions that should be supported by financial instruments
 - ✓ Open up the possibilities under the financial instruments for all potential stakeholders with good investment proposals, including EIP operational groups
 - ✓ Start using FI already as from 2014
 - ✓ Aim at high leverage, higher multiplier effect, clear procedures
 - ✓ Monitor and report

It was reiterated that the MAs should make use of the Technical Assistance Platform that the EC will set up and staff capacity should be enhanced to allow a better set up, implementation, monitoring and control.

Discussion points

Comments/reactions from participants

The main discussion points in relation to presentations above clarified that:

- Micro-projects can also be funded, even though they often have to face heavier administrative costs.
- Beneficiaries can be also public entities other than enterprises, such as municipalities to support revenue generating investments (e.g. water or waste management infrastructures)
- Crowd-funding will not be subject to support by the CSF Funds

Agenda Item

How to use financial instruments?

Presentation on the ["Current and future use of financial instruments within the ESF"](#) by Emmanuelle Guiheneuf (EMPL.E1)

The presentation focused on the experience of the European Social Fund (ESF) in using financial instruments. The presenter first illustrated facts and figures about financial instruments used in the current programming period, the rationale of the intervention and the main categories of beneficiaries involved. In conclusion an outlook of the envisaged instruments and opportunities for the new programming period was provided.

- During 2007-2013 a number (19) of financial instruments have

been activated under the ESF in 6 MS.

- The support provided focused on improving access and availability of microfinance through a range of instruments (loans, guarantee funds, venture capital) and a dedicated Progress Micro-finance Facility, in the view of promoting social inclusion of specific social categories (young people, seniors, emigrants, unemployed).
- In the experience of the ESF, the Micro-finance facility (financed by the EU and the European Investment Bank (EIB)) by enabling micro-credit providers to increase their lending capacity (leverage effect) ensured the mobilisation of €500 million overall. Building upon this positive experience, an improved microfinance programme (PSCI: Programme for Social Change and Innovation) will be established in the next programming period covering the whole scope of the ESF and allowing more flexibility at MS level.
- In the view of further simplification, under the PSCI a single investment fund will operate across the EU, under which dedicated 'sub funds' will be established either centrally managed at the EU level and/or within each MS in order to respond to specific needs.

Presentation on "[EIB experience in managing FI](#)"

by Dr. Harald Jahn, Head of Division Natural Resources and Agro-Industry (EIB)

The presentation provided an extensive overview of the financial support instruments operating by the EIB (with the participation of the European Investment Fund), their rationale and the related working procedures. Particular attention was paid to illustrate current experiences of support to rural development operations (through co-financing or through FI) and research development and innovation (RDI) investments in the agro-food sector, provided by specific financial instruments such as the Risk Sharing Finance Facility (RSFF).

Highlights from the presentations can be summarised as follows:

- A range of financial instruments is currently available that can work in synergy with existing EU funds.
- These instruments, which can benefit private and public actors as well as private-public partnerships, aim to act as leverage for the uptake of EU support and accelerate/ease policy implementation.
- They basically provide beneficiaries with additional possibilities for investment funding and, according to the instrument, risk-sharing facilities to increase their project implementation's capacity.
- The EIB financial instruments can provide support through all the project life-cycle, from the start-up phase to the development phase and beyond.

Presentation on "[Financial instruments for stimulating research, innovation and growth in Europe](#)"

by Steve Rogers (DG RTD.C3)

The presentation introduced existing financial instrument at EU level in support to research, innovation and growth. In the opening, facts and figures about a range of instruments – particularly targeted to SMEs - available under the Competitiveness and Innovation framework Programme (CIP) and the 7th Framework Programme were presented together with key lessons learnt from their implementation.

In the following, the presenter provided an overview of the specific financial tools (SME equity financial instruments, SME debt financial instruments, large-debt financial instruments) and their future evolution in the next programming period under the support of Horizon 2020 and COSME 2014-2020 (Programme for the competitiveness of enterprises and SMEs). The main expectation for the future is that by coordination and synergy among the two programmes, support will be ensured in a continuum from the start-up phase to implementation.

As final point, questions were put forward to the audience for stimulating discussion about how to best ensure synergy between the financial instruments for R&I and Growth and rural development operations.

Discussion points

Comments /reactions from participants:

On the basis of the inputs provided by the presenters the main points of discussion highlighted that:

- Some experiences (for instance within the ESF) showed that administrations are reluctant to take up the possibilities offered by financial instruments. This is mainly due to difficulties in establishing a dialogue with the economic counterparts, which operate in a profit-driven scenario. From the EU perspective the establishment of centrally-managed funds/instruments can provide room for simplification in this respect.
- The presentations provided an overview of some of the currently centrally-managed at EU level financial instruments. They also highlighted that there is the need to improve knowledge about them and especially to further explore how these instruments can be used in combination with (support) the EU funds under a shared-management.
- From the point of view of the beneficiary, it is not relevant to understand how such financial tools are coordinated at EU level. Instead, it is important that the 'whole mechanism' works well and transparency in operations is ensured.
- Provision of technical assistance and actions of awareness-raising would be crucial to provide the stakeholders with the appropriate understanding and knowledge. This applies not only to entrepreneurs but also to investors as well public administrations and, at large, the broader public.
- Collaboration with regional banks would help by establishing dialogue with local stakeholders and understanding their specific needs.
- It is also recognised that specific sectoral-knowledge and understanding have been missing from banks and financial intermediaries so that they do not evaluate properly the potential real risks related with a specific agricultural or rural activity (carpenters, butchers, foresters, etc.). In this respect the EU action could focus on providing to such intermediaries the assistance

required to integrate the missing knowledge into their internal banking systems (e.g. through technical support).

- In the view of promoting simplification, at EU level more focus should be given on the efforts for coordination and creation of a single access point for beneficiaries. Pioneering work has been carried out in this respect which deserve further thinking (the example of [www. access2finance.eu](http://www.access2finance.eu) was provided).

Presentation on 'What are the information needs – support for programme planning and design, delivery, role of various stakeholders What tools? (for whom, on what, by when?) by Donald Aquilina (ENRD Contact Point)

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At the conclusion of the seminar the ENRD Contact Point stressed the need for further information and awareness rising about the new tools, how they can be used and who can use them.

A set of existing resources produced by the ENRD in collaboration with its stakeholders was presented to the audience, which includes:

- [Edition 13 of the EU Rural Review](#) on Financial instruments;
- a thematic webpage recounting the activities and initiatives of the NRN joint thematic initiative on rural finance;
- e-library illustrating an array of relevant resources;
- the work of the NRN task force on rural finance including;
- the Final report on the thematic initiative on rural finance; and
- My ENRD forums in order to encourage discussions

Discussion points

All interest stakeholders were invited to provide suggestion and ideas on what other information would be needed and, encouraged to contribute to populate the web-based resource. Participants were also reminded about the horizontal technical assistance platform that the EC where planning to launch.

At the conclusion of the meeting a short video clip and explanation of the concept and functioning of the 'crowd equity funding' system adopted in Sweden was provided by Mr. Leonidas Padazakos. This example is one of the many rural finance models described in the Annex of the [Final Report on Rural Finance](#) that one can find on the dedicated webpage of the ENRD website.