

The **new EIF AGRI** guarantee facility:

How it works and who can benefit

Supporting the agricultural sector in Languedoc Roussillon Midi Pyrénées (France)



Tackling the investment gap

EIF's AGRI guarantee instrument is a novel initiative that aims to support the development of the agricultural sector and provide better access to finance for farmers, agricultural holdings, and entrepreneurs active in the forestry business or the rural economy. This example was developed in collaboration with the Managing Authority of the French region of Languedoc Roussillon Midi Pyrénées and the European Commission's Directorate General for Agriculture and Rural Development (DG AGRI).

The **EIF's AGRI guarantee instrument** is a "first loss portfolio guarantee" that enables financial intermediaries to provide loans at more favourable conditions to the targeted groups of final recipients in the agricultural sector. It provides a partial guarantee covering losses up to a capped amount, which is expected to incentivise financial intermediaries to provide more financing, ensuring that the guarantee's benefit is passed on to final recipients. This benefit consists of a reduction of interest rate and/or collateral requirements.

The instrument has delivered significant added value using European Regional Development Fund (ERDF) resources in other sectors, and now is to cover also the agricultural sector.

Phil Hogan,
EU Commissioner for Agriculture
and Rural Development



I strongly believe that financial instruments are a very useful tool for boosting investment in EU agriculture, creating growth and jobs. Through working with the EIB and EIF, we are expanding our outreach, and this specific EIF Agri guarantee facility is a good example of how we can offer EAFRD Managing Authorities a fully-fledged and well-tested instrument, with which they can respond to farmers' investment needs, including young farmers.

Financial instruments under the EAFRD

Financial instruments co-funded by the European Structural Investment Funds (ESI Funds, ESIF) are a sustainable and efficient way to invest in growth and development in EU Member States and their regions.

Traditionally, these funds have been invested in the form of non-repayable grants. However, the use of financial instruments – primarily in the form of loans, leases and guarantees but also equity in the case of some initiatives – has become more common over the past years. They can support investments in businesses and infrastructure falling under a broad range of development objectives with the potential for EU funds to leverage

additional public and private contributions and/or to be re-used for further investments. EIF has been successfully managing similar initiatives that effectively combine ESI Funds (notably ERDF) with other resources since 2007.

The European Agricultural Fund for Rural Development (EAFRD) is one of the five ESIF and is implemented under shared management with decisions taken by Member States. In 2014-2020, its total volume reaches almost **EUR 100bn**. The majority of the EAFRD investment volume is programmed for agriculture (about **EUR 23bn**), followed by investments in rural micro- and small businesses and farm diversification (**EUR 7.5bn**), rural services and infrastructure (**EUR 6.6bn**), and forestry (**EUR 4.6bn**). A small proportion of these resources used in the form of financial instruments, such as the EIF's AGRI guarantee, could generate enormous financial and growth potential for the area concerned. It could unlock access to funding for many businesses in agriculture and new non-agricultural activities.



Agriculture represents the 2nd most important economic sector in Languedoc-Roussillon

Based on the positive experiences of implementing joint financial initiatives during the previous programming period, the French region of Languedoc Roussillon Midi Pyrénées decided to entrust part of its EAFRD resources as well as additional own budget to EIF with a view to developing a new financial instrument dedicated to boosting investments in its agricultural sector.

Cooperation between EIF and a Managing Authority





Implementing the EIF AGRI guarantee in Languedoc Roussillon Midi Pyrénées (France)

French agricultural production is the leader in Europe.

In this context, an ex-ante assessment for financial instruments was carried out in 2015 by the EIF Group, which underlined the necessity of improving the investment climate and access to finance for final recipients that are active in the agricultural sector. The implementation of a first loss portfolio guarantee instrument with an inherent risk-sharing mechanism would incentivise local financial institutions to scale their financing activity in this field. In order to allow for an EAFRD contribution to the guarantee instrument, the region's Managing Authority has also introduced the necessary legal provisions in its Rural Development Programme for 2014-2020.

The rollout of the AGRI guarantee facility in the Languedoc Roussillon Midi Pyrénées region is a pilot project, paving the way for potentially expanding the geographical reach of this initiative also elsewhere in France and other countries.

Financial instruments: Supporting the rural development programme

When using ESI Funds, Managing Authorities may decide to complement grants with financial instruments in order to optimise the use of public resources. The decision on which financial instruments are the most appropriate, how they

should be implemented and with what volumes, has to be determined in an ex-ante assessment.

In Languedoc-Roussillon, the ex-ante assessment's recommendations were used to adjust the Rural Development Programme and introduce the details of the financial instrument. The following four thematic investment areas were identified as priorities to be supported by the guarantee instrument:

- 1) Investments in agricultural holdings;
- 2) Investments in processing and marketing (by agricultural holdings and of agricultural products);
- 3) Investments in creating and developing non-agricultural activities in the regions' rural areas; and
- 4) Investments in forestry technologies and processing, as well as marketing of forest products.

These thematic investment areas managed to achieve a clear distinction between the targeted groups of final recipients that could be best supported through revolving financial instruments as opposed to grants. Through the close collaboration between the Managing Authority of the Languedoc Roussillon Midi Pyrénées region and DG AGRI, it was decided to introduce the use of financial instruments in the Rural Development Programme in line with the objective of deploying guarantees. This enabled EIF to undertake a more accurate market testing which was carried out among various potential financial intermediaries in autumn 2015.

The agri-food sector in Languedoc-Roussillon¹



Employs approximately
9 600 people

Comprises
**19%
of SMEs**
in the region



Counts around
**350
cooperatives**

In addition:



There are
29 400 farmers
operational in the region

Main production scopes are:
viticulture, fruit
and **vegetables, livestock,**
crops and **cereals** (hard wheat),
and **forestry**

It is the largest French
producer of **wine**,
second largest French producer
of **farm- and
organic products**



Around **1 200 enterprises**
(mainly SMEs) account for an annual
turnover of **EUR 8.6bn**

¹ Source: Languedoc-Roussillon region, Agreste database, 2012 (<http://agreste.agriculture.gouv.fr/>)

Modifying the Rural Development Programme to include financial instruments

When a Managing Authority decides to set up a financial instrument supported by the EAFRD (through its Rural Development Programme) and so far the possibility for this type of support was not envisaged, the Managing Authority shall modify its programme. Following an amendment of the EAFRD rules, a request for such modification can be submitted by the Managing Authority any time and without limitations. The Managing Authority has to describe in its Rural Development Programme the financial instrument that will be set up, the sub-measures under which it will operate, the eligibility rules that would apply, and the support rates and principles of the selection criteria.

The main characteristics of the EIF AGRI guarantee in Languedoc Roussillon Midi Pyrénées (France)

What are its objectives?

EIF’s guarantee instrument aims to facilitate greater access to finance to targeted final recipients (such as farmers, agricultural holdings) and to promote investments in the development, processing and marketing of agricultural products. It also targets the creation and development of non-agricultural activities in rural areas and forestry technologies.

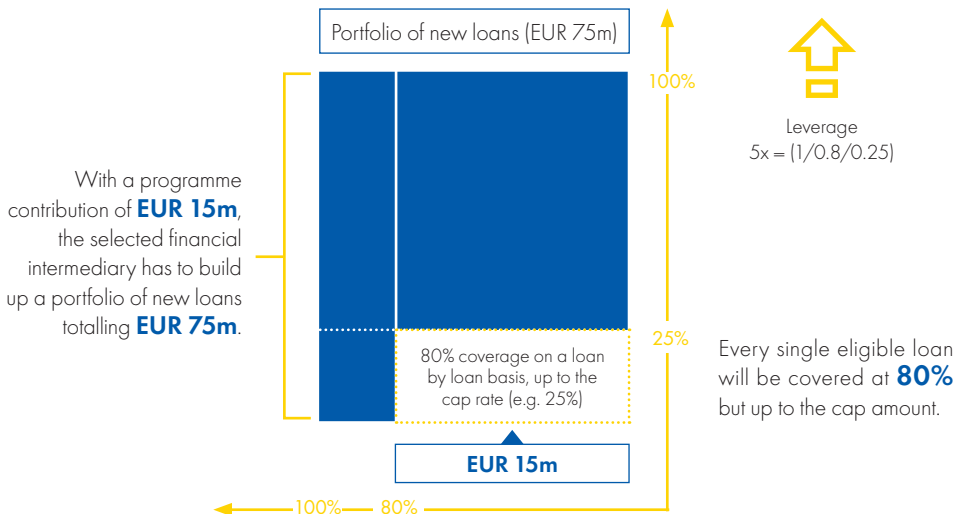
loan by loan basis for the creation of a portfolio of loans with a maximum loss amount of up to 25%. This cap rate ensures an alignment of interest on the financial intermediaries’ side. The guarantee covers losses incurred by financial intermediaries in respect of each defaulted loan in accordance with the guarantee rate.

How does it work?

The first loss portfolio guarantee enables financial intermediaries to undertake greater business volumes by providing credit risk coverage on a

Financial intermediaries build up a portfolio of loans under this initiative within an agreed period ranging between 3 to 5 years. The guarantee can also be structured as a counter-guarantee instrument, or may be combined with other EIB Group financing facilities, subject to a separate loan application process.

Indicative schematic representation of the guarantee



Main features at a glance:

- **Objective:** Create access to finance for targeted final recipients.
- **Structure:** First loss portfolio guarantee (using typically an EAFRD contribution) providing credit risk coverage on a loan by loan basis for the creation of a portfolio of new loans/leases to eligible final recipients by a selected financial intermediary at a fixed guarantee rate (up to 80%) and up to a maximum loss amount (cap).
- **High leverage:** This instrument provides a high leverage creating larger market impact (depending on the guarantee rate and cap rate set) of the programme contribution (EAFRD and national/regional resources).
- **EIF as a guarantor:** EIF is acting in its own name but for and on behalf of, and at the risk of the region/ EU Member State.

Added value for final recipients

(see also page 10):

- Facilitates access to finance particularly for riskier final recipients and/or for final recipients lacking sufficient collateral;
- Improves financing terms - for example reduced collateral requirements and/or reduced interest rates.

Added value for financial intermediaries (see also page 11):

- Risk protection on a loan by loan basis or lease by lease basis;
- Coverage of losses at portfolio level, up to the portfolio cap which is set in accordance with the estimated expected and unexpected loss;
- If applicable: Benefiting from its multilateral development bank's status, EIF guarantee potentially offers capital relief (subject to the regulator's approval).





The EIF **AGRI** guarantee instrument in practice

■ EIF's role

If a Managing Authority decides to provide a financial contribution (EAFRD and national/regional co-financing) to a financial instrument set up under its Rural Development Programme, these can be entrusted by direct appointment to EIF through a funding agreement, establishing a fund of funds.

For the implementation of the fund of funds, EIF's role will be, among others, to:

- **Propose** the relevant financial instrument taking into account the following main principles: the market need, the objectives and investment scope of the Rural Development Programme, and the relevant EU regulations);
- **Market-test** the expected instrument with potential intermediaries;
- **Issue** a call for expression of interest document for each instrument;
- **Select** financial intermediaries in an open, transparent and non-discriminatory process according to the standard due diligence process;
- **Conduct** negotiations before signing the final operational agreement;
- **Manage and monitor** activities on an ongoing basis to ensure the contractual reporting requirements; and
- **Close** the financial instrument **and re-use** the resources or re-invest the proceeds of operations in accordance with the funding agreement.

This instrument has been **successfully implemented** for many years in all EU-28 Member States under various programmes - including the Multiannual Programme for Enterprise (MAP), the Competitiveness and Innovation Framework Programme (CIP), the JEREMIE initiative, the Greater Anatolia Guarantee Facility (GAGF) and the Erasmus+ Master Guarantee Facility; and it has been proposed for use in others - such as the new Cultural and Creative Sector Guarantee Facility (CCS).

■ I am a Managing Authority

What is in there for me?

- **Quick and easy access** to funding by final recipients ensuring a fast achievement of the programmes' targets;
- **High leverage** of this type of instrument (leverage is known ex ante) minimum 3-4 times, depending on the guarantee rate and guarantee cap rate set in advance;
- **Strong partner** in relationships with financial intermediaries;
- **Adaptable parameters** such as the guarantee rate or the availability period according to needs during the development process;
- **Attraction of additional private resources** that are adding to the volumes disbursed in the economy;
- **Revolving instrument** enabling you to finance additional final recipients with little resources;
- **Significant visibility** of the instrument;
- **Lower national contribution** due to higher EAFRD contribution rate;
- **Regular updates** by EIF on the progress of the implementation;
- **Annual reporting** cycle.

What are my roles and responsibilities?

As a Managing Authority, here are the most important steps you need to follow:

- You have to undertake an ex-ante assessment of the foreseen instruments. This can be done by the Managing Authority - if you have the necessary capacity and information; or by the

EIB Group based on a contractual agreement; or by a private body selected in accordance with the public procurement rules.

- If you are willing to use financial instruments but do not have the knowledge and experience yet, you may wish to take advantage of capacity-building and coaching. To obtain such training, DG AGRI should be contacted.
- In parallel to you launching the ex-ante assessment, it is recommended that you contact EIF at an early stage to discuss plans and the next steps. Furthermore, the modification of the Rural Development Programme may be prepared in close collaborating with DG AGRI and EIF.
- Once the financial instrument is designed and tested, and the Rural Development Programme is modified, you may start implementing the financial instrument in accordance with the agreements concluded with EIF.

Finally, Managing Authorities are required to report annually on the programme's implementation and results.

How can I start?

Before any modification of the Rural Development Programme, it is recommended that the Managing Authority sends a free-form letter to EIF explaining the concept and the underlying motivation for cooperating.

DG AGRI is able to help establishing the necessary contacts with EIF.



Patrice is a fourth generation livestock farmer on a family farm located in the Languedoc Roussillon Midi Pyrénées region of France.

His family has been raising cattle and goats for many years therefore Patrice believes to have the traits of the profession in his blood. After finishing school, it was a natural choice for him to study agriculture and continue the family tradition.

At the same time he also wanted to explore innovative ways of doing business that would lead to new sources of growth for the family farm. For example, by diversifying his sources of income and making the farm more competitive. Patrice wanted to offer additional services and he decided to develop his activities by setting up a brand new processing plant to transform milk into cheese, and also opening a farm shop.

Patrice turned to his bank for financing and his advisor brought the EU-supported financing under the EAFRD to his attention, offering more favourable conditions for loans targeting agricultural investments in the region. In short, projects similar to Patrice's plans.

As the demand for products based on organic and ecological production processes is growing among consumers, Patrice is confident that the farm will grow and his production capacity will increase. Therefore, he is currently looking into employing 2-3 additional helpers both on the farm as well as in the shop in the upcoming season.

■ I am a final recipient

(Farmer, Agricultural holding, Cooperative, Rural micro- or small enterprise, Forestry business, or other eligible final recipient)

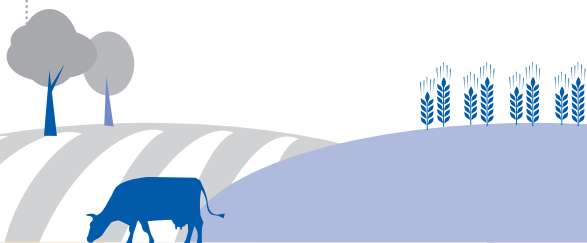
What is in there for me?

- Increased ability to **successfully apply for commercial credit**;
- Enhanced **access to finance for riskier projects** or for new businesses with no credit history;
- Enhanced **access to finance in case of lack of sufficient collateral** in comparison to standard lending from financial intermediaries;
- **Reduced interest rates**;
- My equity is preserved, meaning that **I maintain full ownership** of my business.



How can I apply?

EIF financial instruments are available only through the network of selected financial intermediaries. An updated list of banks and financial institutions under the AGRI guarantee in your country is available on the website: www.eif.org/agri



■ I am a financial intermediary

What is in there for me?

- Significant **risk protection** on a loan by loan basis;
- **Coverage of losses at portfolio level**, up to a portfolio cap set in accordance with the estimated expected and unexpected loss;
- **Quick payment** in case of default;
- **Reduced overall interest rate** and/or **reduced collateral requirements** towards final recipients;
- Increase in the number of **new clients and establishing strong positions** in financing agriculture, agro-food, forestry and/or rural businesses;
- **Additional benefits** stemming from EIF's multilateral development bank status – for example, EIF guarantee may offer capital relief (subject to the Regulator's approval).

What are my roles and responsibilities?

EIF does not provide direct financial support to individuals or enterprises but it implements the facility through local financial intermediaries. As a financial intermediary, you are acting as the only contact point for targeted beneficiaries, disbursing EU-guaranteed loans under EIF's AGRI financial instrument.

Following the signature of the operational agreement and in line with contractually agreed terms, EIF fully delegates the origination, due diligence, documentation and servicing of the loans to you, as its financial intermediary.

EIF supervises and monitors the implementation of the operational agreement via a combination of remote checks (e.g. in accordance with data communicated through the submitted reporting and/or ad-hoc requests) and on the spot monitoring visits.

How is EIF selecting financial intermediaries?

EIF selects intermediaries that have applied under the Call for Expression of Interest following an established due diligence procedure. As a fund of funds manager, EIF is bound by provisions set out in the relevant legal documentation² linked to the legal, financial, economic and organisational capacity of the potential financial intermediaries to be entrusted with the implementation tasks of the financial instrument.

Based on EIF's experiences in ensuring an appropriate implementation of the instrument, some of the key success factors for financial intermediaries are as follows:

- **Proven financial capacity** – you must have the economic and financial capacity as well as an adequate internal organisation and governance capacity to carry out the implementation;
- **Ability to manage the risk** – you need a robust risk rating model;
- **Long-term strategic view** – this is particularly beneficial during the first years that can be quite challenging;



² Article 7(1)(a) to (f) and Article 7(2) first paragraph and Article 7(3) of the Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014.

- **Established network** - you need to be well connected and establish an operational ecosystem (including EIF and the Managing Authority, but also other key stakeholders such as the farmers' unions, business providers, agricultural associations);
- **Adequate work force** - you require skilled employees who are able to effectively promote, use and manage the instrument, and understand the needs of both financial partner institutions as well as final recipients;
- **Solid IT system** - this is essential for carrying out the monitoring and reporting tasks in a timely and reliable manner.



How can I apply?

If you are interested and eligible as a financial intermediary, please consult the Call for Expression of Interest and download the application package from EIF's website: www.eif.org/agri

Further reading /weblinks

- **Legal base:** Regulation (EU) No 1303/2013, Regulation (EU) No 1305/2013 and their relevant delegated and implementing acts.
- **For information on the ex-ante assessment methodology for financial instruments:** http://ec.europa.eu/regional_policy/en/funding/financial-instruments For information on rural development: http://ec.europa.eu/agriculture/rural-development-2014-2020/index_en.htm
- **For a reference guide for managing authorities on financial instruments in ESIF programmes:** http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/fi_esif_2014_2020.pdf
- **Programming Financial Instruments in RDPs 2014 - 2020:** https://www.fi-compass.eu/sites/default/files/publications/presentation_20150624_1000_Martin_Scheele.pdf



Contacts

Further information on the product, application requirements, and selection procedure can be found on EIF's website: www.eif.org/agri

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