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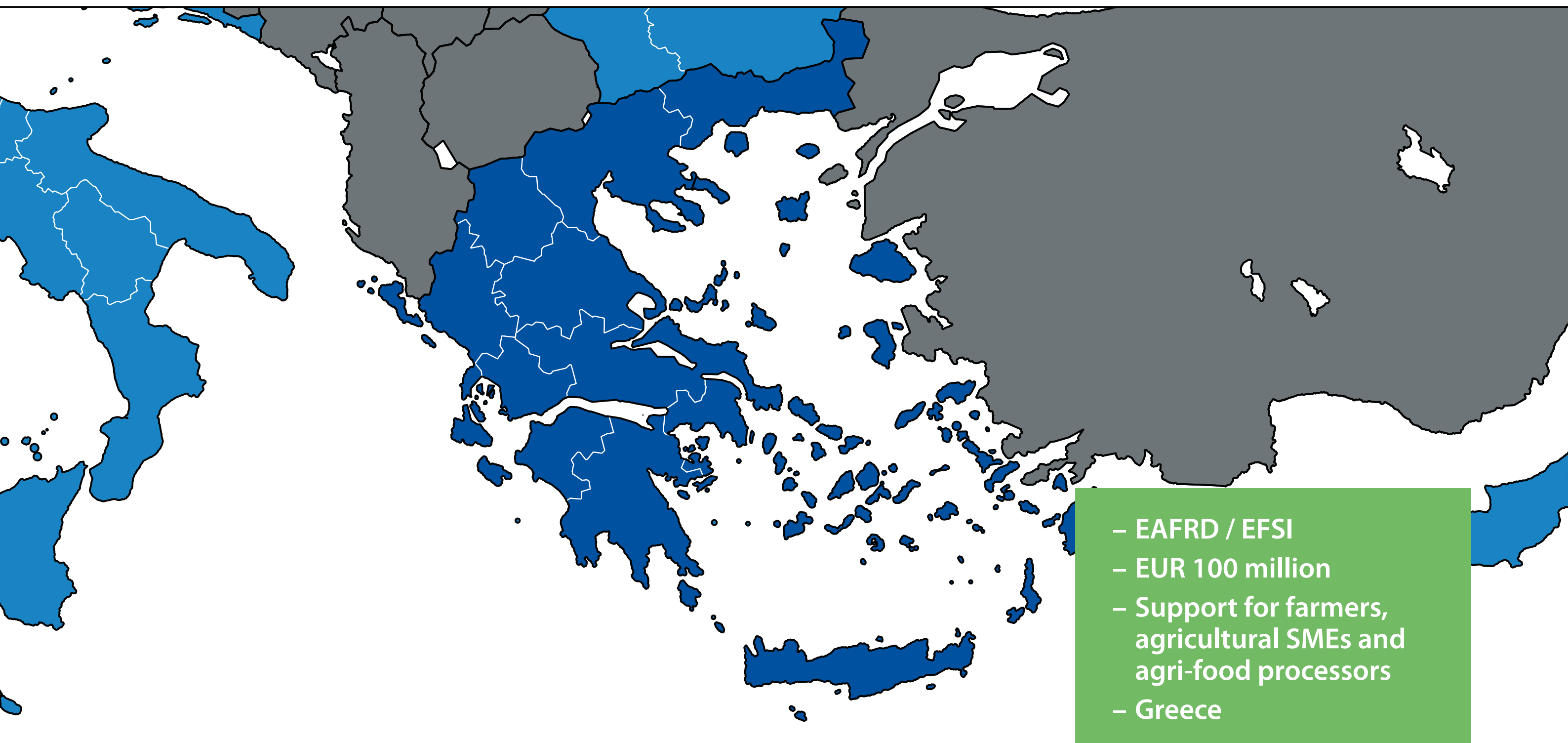

- EAFRD / EFSI
- EUR 100 million
- Support for farmers, agricultural SMEs and agri-food processors
- Greece

... improving access to finance for agriculture and agri-food enterprises...

EAFRD Guarantee Fund 2014-2020 Greece

Case Study

European Commission

European Investment Bank

The EU bank

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Abbreviations

Abbreviation	Full name
CPR	Common Provisions Regulation
CRII	Coronavirus Response Investment Initiative
DG AGRI	Directorate-General for Agriculture and Rural Development
EAFRD	European Agricultural Fund for Rural Development
EFSI	European Fund for Strategic Investment
EIB	European Investment Bank
EIF	European Investment Fund
FoF	Fund of Funds
GGE	Gross Grant Equivalent
IACS	Integrated Administration and Control System
NACE	Nomenclature of Economic Activities
RDP	Rural Development Programme
SMEs	Small and medium-sized enterprises
TFEU	Treaty on the Functioning of the European Union

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1. Summary

This case study presents the financial instrument introduced for the Greek agricultural sector, featuring a portfolio guarantee under a Fund of Funds (FoF) structure set up in 2019. The financial instrument is supported by the Rural Development Programme (RDP) 2014-2020 of Greece with a contribution of EUR 80 million from the European Agricultural Fund for Rural Development (EAFRD), plus support from the European Fund for Strategic Investment (EFSI) of up to EUR 20 million.

In Greece since the financial crisis, the agricultural sector has faced significant difficulties in terms of access to finance from the banking system. The main obstacles are a lack of collateral, high tax liabilities and a lack of historical records for primary producers, which is especially relevant for newcomers and young farmers. In the agri-food processing sector, the picture is more varied. While large processing companies can typically access bank financing more easily, as with producers, many micro and small-sized food processors are often discouraged from seeking finance, or are refused by banks, due to a lack of collateral, or their higher credit risk status.

Under these circumstances, the ex-ante assessment for setting up a financial instrument assessed that the financial gap in the agricultural sector was very high, at nearly EUR 4 billion. Setting up an FoF could tackle this gap through one or more financial instruments. The managing authority has appointed the European Investment Fund (EIF) as manager of the FoF, requesting a portfolio guarantee instrument as a first initiative. The portfolio guarantee is implemented through seven selected financial institutions under conditions stipulated in operational agreements with the EIF.

The financial instrument provides loss protection for financial institutions via a capped guarantee of 80% on a loan-by-loan basis up to a maximum amount (cap), as agreed with each financial institution. The financial instrument aims to support new loans and finance leases (hereinafter collectively referred to as loans) for agricultural and agri-food final recipients.

The benefit of the guarantee is transferred to final recipients in the form of lower financing costs, with reduced interest rates, lower collateral requirements and/or decreased transaction fees.

The financial instrument is expected to result in a portfolio of new financing from the banks of EUR 480 million. The first disbursement to final recipients took place in December 2020. Shortly after, due to the COVID-19 outbreak and following legal changes introduced by the Commission and co-legislators, flexibility measures were introduced enabling support for stand-alone working capital and refinancing for final recipients impacted by the COVID-19 crisis. The demand for the instrument has been very high, with over 1 100 applications submitted by potential final recipients via the IT system developed for this purpose, within the first nine months.

EAFRD Guarantee Fund 2014-2020, Greece

THE FINANCIAL INSTRUMENT

Funding sources

EAFRD RDP 2014-2020 Greece
EFSI

Type of financial products

Capped portfolio guarantee for loans and/or finance leases

Financial size

EUR 80 million from the RDP (100% from EAFRD) and up to EUR 20 million from EFSI.
The financial instrument is expected to support a portfolio of up to EUR 480 million.

Thematic focus

Investments in primary agricultural production or processing, marketing and/or development of agricultural products.

Timing

From 2019 to 2023

Partners involved

Ministry of Rural Development and Food of Greece (managing authority)
EIF (FoF manager)
Cooperative Bank of Thessaly, Piraeus Bank, Cooperative Bank of Karditsa, ProCredit Bank (Thessaloniki Branch), National Bank of Greece, PanCretan Cooperative Bank, Eurobank (financial institutions)

ACHIEVEMENTS

EU leverage[1]

6 times

Leverage of public resources[2]

4.8 times

Main achievements

By 30 June 2021, 70 loans had been disbursed to final recipients for a total of EUR 4 million, of which the guarantee cap is EUR 691 000. About 97% of the final recipients are microenterprises, while the remaining 3% are small enterprises. The average loan amount so far is approximately EUR 60 000.
Based on information from the IT application tool developed by the managing authority at the end of September 2021, 1 185 loan applications had been submitted, requesting a total of EUR 109 million.

1 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 480 million (based on the maximum portfolio size), divided by the total EAFRD allocation to this financial instrument, i.e. EUR 80 million, gross of management fees. It does not include the reuse of resources returned to the instrument.

2 Leverage of public resources is calculated as the total amount of finance to final recipients, i.e. EUR 480 million (based on the maximum portfolio size), divided by the total public resources allocated to the financial instrument, i.e. EUR 100 million, gross of management fees. It does not include the reuse of resources returned to the instrument.

2. Objectives

The key objectives of the financial instrument were to:

i. increase access to financing for the target final recipients,
ii. encourage the use of repayable forms of support instead of grants, or in combination with grants,
iii. improve the terms and conditions of lending, and
iv. encourage lending from the financial institutions by covering part of their losses.

The instrument contributes to reducing the financial gap for loans of some EUR 3.5 billion for the Member State and ensures easier access to finance for Greek agricultural businesses and agri-food processors in the 2014-2020 programming period. The ex-ante assessment carried out by the Greek managing authority underlined the difficulties that Greek farmers and agri-food companies face in accessing finance from the banking system. The difficulties include unfavourable pricing and other conditions such as maturity and collateral requirements, as well as the reluctance of banks to finance projects that are regarded by them as too risky, partially due to a lack of credit history for final recipients. As a result, the sector relies significantly more on grants than the rest of the economy.

The ex-ante assessment envisaged a dual approach for the FoF structure, with a first loss portfolio guarantee and potentially an equity co-investment facility. In addition, a risk-sharing microloan instrument was identified as an instrument that could support producers and smaller processors.

In view of the circumstances identified by the ex-ante assessment, a guarantee instrument within the FoF structure should increase the risk-taking capacity of financial institutions, enhancing the portfolio of loans to final recipients. Via the leverage effect, such a guarantee instrument helps address major short as well as medium and long-term financing gaps for agricultural producers and food processors of all sizes.

3. Design and set-up

The Ministry of Rural Development and Food of Greece requested an ex-ante assessment for the deployment of EAFRD resources through financial instruments during the 2014-2020 programming period, focusing on the agricultural sector. The study reviewed the financial and economic context and assessed the RDP strategy along with the measures for which financial instruments were envisaged. The report was published in May 2018.

Taking into account the ex-ante assessment recommendations, the managing authority has identified the priorities, potential budget and eligibility criteria for the instrument, which are the basis for the product.[3]

In parallel, the managing authority has submitted the relevant amendments of the RDP to the European Commission (EC), to ensure consistency with the financial instrument.

Having received formal approval of the RDP amendment from the EC and having clarified the investment strategy and business plan for the instrument, the managing authority signed a funding agreement with the EIF on 5 September 2019.

The call for expression of interest to select the financial institutions was launched by the EIF on 6 December 2019 and closed on 14 February 2020.

The first operational agreement between the EIF and a financial institution was signed on 28 August 2020 and six more followed by December 2020.

The first disbursement to a final recipient was in December 2020.

In May 2021, the EIF and the managing authority introduced flexibility to the eligibility rules of the instrument as a response to the COVID-19 crisis (see Section 4).

Table 1: Timeline for setting up the financial instrument

Date	Event
May 2018	Ex-ante assessment for the use of financial instruments in RDP 2014-2020
September 2019	Funding agreement signed between the EIF and the managing authority
December 2019	Publication of the call for expression of interest to select financial intermediaries
February 2020	Closing of the call for expressions of interest
August-December 2020	Operational (guarantee) agreements signed between the EIF and the selected financial institutions
December 2020	First disbursement to final recipients
May 2021	Amendments in response to the COVID-19 crisis

3 The EAFRD managing authority also requested and benefitted from targeted coaching on EAFRD financial instruments delivered by fi-compass and experts from the European Commission Directorate-General for Agriculture and Rural Development (DG AGRI).

3.1 Ex-ante assessment[4]

The objective of the study was to assess the existence of market gaps or deficiencies in financing for the primary agricultural and agri-food processing sectors in Greece, in view of a potential implementation of financial instruments. The assessment aimed to justify the appropriateness, adequacy and necessity of the proposed financial instruments to achieve investment priorities for the RDP for the 2014-2020 programming period.

Agriculture, benefiting from exceptional climatic conditions, is a key sector for the Greek economy with 4% of Gross Value Added and 14% of employment in 2015. A large share of agricultural land in Greece is devoted to cereals and forage crops, followed by olives. Agriculture in Greece is fragmented, with most production on small, family-run farms resulting in low productivity and low capital investment. Compared to other EU Member States, Greece has a generally low level of technology in agricultural production.

Agri-food contributed 31% of Greek manufacturing industry Gross Value Added in 2014. The vast majority (95%) of agricultural companies are micro, family businesses, employing less than 10 people. However, these companies generate only around one fifth of the sector's revenues.

Greece's financial crisis between 2009 and 2018 affected all areas of the economy, including agriculture. During the crisis, the share of food processing in the manufacturing sector increased, mainly due to a major decline in other sectors. However, from the supply side, the crisis led to many foreign banks reducing their exposure resulting in a heavily concentrated banking sector, with few players controlling the majority of the Greek market. Increasing concentration in the retail sector, with large supermarket chains increasing their bargaining power, resulted in downward pressure on pricing and increased working capital needs for agri-food processors.

Investment is needed to modernise existing technology and production capacity to meet internal and external demand as well as to apply new methods across the value chain. Most farmers, however, lack the capital for such investments as their own resources mainly cover working capital. Furthermore, many farmers have used part of their assets as collateral for loans which greatly increased with the financial crisis.

In financial terms, agricultural producers have medium and long-term needs for investment (mainly for machinery/equipment or fixed assets such as land, facility extensions, etc.) and short-term needs for working capital (mainly to purchase agricultural inputs). The average duration of loans is around 8 years for the former category and up to one-year for the latter. For food processors, the demand for financing is mainly to purchase equipment, for investment plans, as well as for marketing and promoting their products abroad. In addition, medium and large processors also need more favourable financing terms and conditions to enhance their competitiveness.

According to the ex-ante assessment, the financial gap for agricultural producers is between EUR 332 million and EUR 413 million for short-term loans and EUR 993 million to EUR 1.1 billion for medium and long-term loans. For food processors, the gap is estimated to be up to EUR 270 million for short-term loans and from EUR 654 million to EUR 837 million for medium and long-term loans. In addition, producers generally find microloan extremely difficult to access, leading to an additional financing gap of EUR 837 million to EUR 943 million.

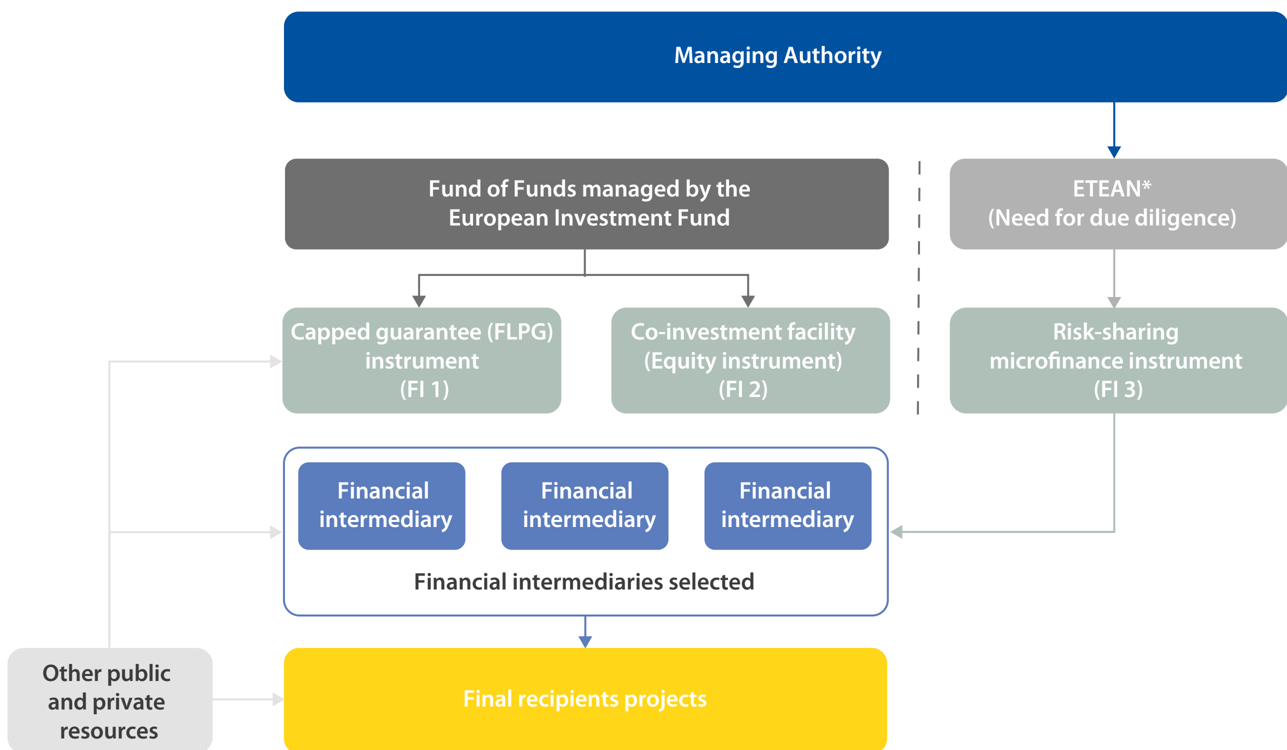
4 Data in this chapter are based on the ex-ante assessment: 'Assessing the potential use of Financial Instruments in Greece in agriculture', 2018.

The ex-ante assessment identified three financial instruments for each market segment:

i. a first loss portfolio guarantee instrument covering sub-measures M4.1 'Investments in agricultural holdings', M4.2 'Investments in processing and marketing agricultural products' and M19.2 'The implementation of operations within CLLD strategy',
ii. an equity co-investment facility for high-potential producers and processors (potentially as a pilot initiative), and
iii. a risk-sharing microloan instrument for producers and microprocessors. The assessment also recommended this be designed so loan products can be combined with grants.

For governance of these financial instruments, the ex-ante assessment recommended an FoF structure, with either one FoF with one fund manager for all three products, or two FoF schemes with the risk-sharing microloan instrument set up by a separate entity.

Figure 1: Proposed governance structure



Source: Ex-ante assessment, 2019.

Note: *ETEAN/Hellenic Development Bank (HDB)[5].

5 HDB is a specialised financial institution, supervised by the Bank of Greece for capital adequacy, liquidity and investment in cash reserves. HDB was identified in the ex-ante assessment as potentially able to manage the proposed risk-sharing microloan instrument, which at the time of writing this case study has not been launched. Further information is available at: https://hdb.gr/en/.

3.2 Selection of the implementing body

The managing authority has entrusted the EIF with the creation of an FoF within the meaning of Article 2(27) of the Common Provisions Regulation (CPR)[6] to address market failures identified by the ex-ante assessment through the implementation of one or more financial instruments. Pursuant to the funding agreement, the EIF is responsible for managing resources made available according to Article 39a(5)(b) and Article 38(4)(b)(i) of the CPR[7].

The managing authority has requested the EIF to set-up a capped guarantee instrument which may be a counter-guarantee, depending on the market, without the co-investment facility. Implementation of the financial instrument is to be in cooperation with selected financial institutions active in the Greek market.

The product features a portfolio guarantee with no guarantee fee, thanks to the contribution from RDP 2014-2020. This is subject to (i) debt finance supporting investments and costs eligible under the RDP, and (ii) the benefits of the portfolio guarantee being transferred to final recipients via improved conditions such as pricing and reduced collateral. It is also expected that the guarantee will enhance the risk appetite of the financial institutions, leading to increased support for projects including those that have a higher risk of default.

Prior to selecting the financial institutions and fine-tuning the product features, the EIF carried out comprehensive market testing to explore the market interest and to assess the potential absorption capacity and expected risk profile of the proposed product. The market testing concluded that financial institutions were very interested, with indicative volumes well above the expected portfolio amount.

The selection of financial institutions was through an open call for expression of interest. This call made the product term-sheet available and outlined the eligibility criteria in the funding agreement between the EIF and the managing authority. The expression of interest by applicants had to include an implementation strategy, proposals to improve financing conditions for final recipients and the loan approval process. The EIF received eight applications from institutions with a market share of some 98% of existing agricultural loans.

Selection was in three phases. A pre-selection phase was on a 'first come, first assessed' basis, where the expressions of interest were evaluated according to criteria such as place of operation and financial standing, as well as the application quality including the implementation strategy and loan approval process. This was followed by due diligence including assessment of the financial institutions' track record in the agricultural sector, their ability to build up the envisaged portfolios and their proposed approach to transfer benefits to final recipients. The third and last phase involved the EIF either selecting, placing on a reserve list or rejecting each expression of interest.

Seven financial institutions were selected and operational agreements were duly signed with Cooperative Bank of Thessaly, Piraeus Bank, Cooperative Bank of Karditsa, ProCredit Bank (Thessaloniki Branch), National Bank of Greece, PanCretan Cooperative Bank and Eurobank.

6 An FoF can contribute support from a programme or programmes to several financial instruments. The body implementing an FoF for financial instruments is considered to be the only beneficiary as a public or private body or a natural person responsible for initiating or initiating and implementing operations.

7 The managing authority may entrust implementation tasks, through the direct award of a contract to the European Investment Bank (EIB) Group.

3.3 Funding and governance

The instrument combines an EAFRD component funded with EUR 80 million from the RDP and up to EUR 20 million funded via the EFSI SME Window. The latter was made available thanks to the dedicated EAFRD-EFSI Initiative launched by the EIB Group and DG AGRI in cooperation to stimulate greater allocations of EAFRD resources to financial instruments. This Initiative offers a comprehensive package for managing authorities, including the potential to mobilise EFSI resources. Use of EFSI is subject to reaching a certain portfolio volume to justify the need for added coverage by the guarantee. This way, EFSI funds can increase the maximum portfolio up to EUR 480 million, which would result in a leverage on RDP resources of six times.

Table 2: Funding sources and amounts

Funding source	Amount
EAFRD	EUR 80 million
EFSI	Up to EUR 20 million
Financial institutions	Up to EUR 380 million

Source: Funding Agreement, Operational Agreements.

The combination of resources means also that Article 38(1)(c) of the CPR (as amended by Regulation No. 2018/1046)[8] is the legal basis for the instrument and EIF is entrusted with implementation pursuant to Article 39a(5)(b) of the CPR.

The funding agreement sets out the roles and responsibilities of the managing authority and the EIF. The EIF is authorised to manage the FoF bank accounts, pursue the investment strategy, select financial institutions and negotiate operational agreements with them, as well as audit and monitor implementation of the financial instrument.

Governance of the instrument is through an investment board with five members, appointed and empowered by the Member State, operating under terms set out in the funding agreement. The investment board approves the terms of any call for expression of interest and monitors and supervises implementation of the investment strategy and business plan.

8 Financial instruments combining contributions of the managing authority with EIB financial products under EFSI.

Figure 2: Governance structure

Managing Authority
RDP Greece 2014-2020
Contribution + management fees
Amounts not committed

Fund of Funds
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Financial Instrument
Portfolio Guarantee
Payment in case of defaults

Financial Institutions
Cooperative Bank of Thessaly
Piraeus Bank
Cooperative Bank of Karditsa
ProCredit Bank (Thessaloniki Branch)
National Bank of Greece
Pancretan Cooperative Bank
Eurobank

New loans
Repayment

Final recipients
Farmers and SMEs

Source: Funding Agreement, Operational Agreements.

4. Implementation

As set out in the investment strategy and business plan in the funding agreement, the FoF includes a capped guarantee instrument to provide credit risk coverage for each financial institution's portfolio of newly originated loans provided to eligible final recipients.

Each financial institution should achieve a target portfolio volume. A maximum portfolio volume and an agreed portfolio volume are determined by the EIF for each financial institution and defined in their operational (guarantee) agreement. The agreed portfolio volume is the size of the portfolio of loans for which the guarantee is committed to cover possible losses of the banks. This can be adjusted in line with their disbursements. Each increase, up to the maximum portfolio volume, is effective when the EIF sends the financial institution an extension notice. Starting from signature of an operational agreement, each financial institution has 36 months to build up the loan portfolio.

Shortly after implementation started, as a response to the COVID-19 crisis, the EIF and the managing authority introduced flexibility measures, including support for stand-alone working capital and refinancing in line with the Commission's Coronavirus Response Investment Initiative (CRII) amendments[9]. Under this new regulatory framework, final recipients impacted by the COVID-19 crisis can receive working capital financing for up to EUR 200 000 without an investment or business plan. The amendments also allow the financial institutions to select and thus fund operations retrospectively, including those that have been physically completed or fully implemented.

4.1 Financial products and terms

In the capped portfolio guarantee structure, EFSI ranks senior to the RDP. So, RDP funds would be allocated as the first loss piece to cover losses on individual loans and EFSI resources would be assigned to the second piece.

The guarantee covers 80% of each eligible financing default in the portfolio on a transaction-by-transaction basis. The guarantee is provided to the financial institutions free of charge. In return, the financial institutions must ensure that benefits of the guarantee are fully transferred to final recipients. This should be in the form of better financing conditions such as lower interest rates, lower collateral requirements, longer maturities, reduced transaction fees, or a combination of these compared to standard debt financing not covered by the guarantee. The maximum liability of the FoF is a percentage ('Cap Rate') of the guaranteed share of the portfolio as agreed with each financial institution. For the EFSI component this is up to 25%.

9 To rapidly mobilise ESI Funds to combat the COVID-19 health and economic crisis, European co-legislators approved amendments to the CPR as part of the CRII and CRII Plus package. The first amendments set out in Regulation (EU) No. 2020/460 came into force on 31 March 2020, while the second amendments implemented by Regulation (EU) No. 2020/558 came into force on 24 April 2020.

Figure 3: The product mechanism

Financial Institutions

Guarantee rate on a loan by loan basis 80% maximum

Portfolio of new loans

Risk retained by the FI*

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Cap rate at portfolio level ≤ 25%

Capped guarantee providing risk coverage

FoF manager

EFSI covers the second loss: a portion of unexpected loss

EAFRD covers first loss: expected loss + a portion of unexpected losss

Based on risk assessment

Risk taking

EFSI

EAFRD

Source: Open Call for Expression of Interest to Select Financial Institutions, 2019.

Note: *Financial Institution (FI).

Loans under the guarantee can be between EUR 10 000 and EUR 5 million, taking into account aid intensity rules (see 'State aid' section of this report). The loan must be paid back in 1 to 15 years.

Table 3: Financial product key characteristics

Loan amount	Minimum: EUR 10 000 Maximum: EUR 5 million
Guarantee rate	80% (on each loan covering final losses up to the cap)
Cap rate	Up to 25% as agreed with each financial institution
Maturity	Between 1 and 15 years (but not beyond 31 December 2035)
Eligible final recipients	Farmers and SMEs established and operating in Greece
Eligible operations	Action 4.1.4 Support for investment in agricultural holdings or Action 4.2.4 Support for investment in processing / marketing and/or development of Agricultural Products[10]
Availability Period	36 months (to build up the loan portfolio, starting from signature of the operational agreement)

Source: Funding Agreement, Operational Agreements.[10]

The loans under the instrument are for economically viable final recipients that are either natural persons (e.g. individual farmers) or legal persons (e.g. SMEs) established and operating in Greece. The enterprises cannot exceed the limits for SMEs as defined by the EC[11].

The loans can be either i) Support for investment in agricultural holdings under sub-measure M4.1 or ii) Support for investment in processing, marketing and/or development of agricultural products under sub-measure M4.2.

In the context of sub-measure M4.1, final recipients can be professional farmers, including young farmers, collective farmer associations or entities qualifying as KINSEP[12]. The smallest (e.g. semi-subsistence) holdings are excluded from the scheme, as the standard output of the farm must be more than EUR 8 000. Under sub-measure M4.2, the instrument supports SMEs in one or more of the following sectors: meat, milk, eggs, sericulture, apiculture, heliciculture, feed, cereals, oil products, wine, fruits and vegetables, flowers, pharmaceutical and aromatic plants, seeds and propagating material, vinegar.

Loans under the instrument can support investments in tangible and intangible assets, as well as general costs[13] and working capital related to the investment project[14] as well as final recipients impacted by the COVID-19 pandemic, for whom stand-alone working capital is also available up to EUR 200 000 per SME.

10 'Agricultural Products' means products listed in Annex I to the Treaty on the Functioning of the European Union (TFEU), with the exception of fishery and aquaculture products covered by Regulation (EU) No. 1379/2013.
11 SMEs are enterprises which employ fewer than 250 people and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.
12 KINSEP are Social Cooperative Enterprises that aim at collective and social benefits. They carry out sustainable development activities or provide services of general interest. They have limited liability and are equally managed by their members. Profits come only from activities of social interest.
13 General costs can include architect, engineer and consultation fees, as well as fees relating to advice on environmental and economic sustainability, including feasibility studies.
14 As set out in Article 45 (5) of Regulation (EU) No. 1305/2013, the total expenditure for working capital cannot exceed EUR 200 000, or 30% of the total eligible costs for the investment, whichever is the higher.

Contrary to eligible investments under pure RDP grant schemes, the instrument can support the acquisition of second-hand equipment, machinery and appliances, provided the acquisition is substantiated in the business plan in terms of value, age and purpose of use. Also eligible are live animals, annual and multi-annual plants and their planting, as well as transfers of property rights related to businesses/operations between independent investors.

The purchase of land can be supported for up to 10% of the eligible expenditure of the investment as defined by EU rules. Loans can also support investments in energy production, as long as the capacity does not exceed the needs of the holding.

The funding agreement also defined additional limits on the location and/or minimum capacity for new slaughterhouses.[15]

In line with the RDP, the instrument does not support the input or output of non-agricultural product processing, projects concerning fishery or aquaculture products, genetically modified products, new olive mills, or investments related to retail sales (irrespective of the product). Pure financial transactions, including consumer credit and real estate development as a financial investment are also excluded from the scheme.

Ineligible costs include fines, financial penalties, legal and litigation costs, charges, premiums, tariffs and costs related to a leasing contract. However, VAT is an eligible cost in line with EU rules (as support is repayable), unlike grants under the RDP.

The funding agreement enabled the possibility to combine the financial instrument with grants, provided: i) separate records are kept for each source of support, ii) the sum of all forms of support covering the expenditure does not exceed the total expenditure for the item, iii) the maximum aid intensity ceiling is respected at the level of the entire project including investment and working capital if applicable, and iv) the aid intensity for the investment when combined with RDP grants (for eligible expenditure in the combination) is complied with.

4.2 State aid

The managing authority decided to limit the financial instrument support to activities related to agricultural products as included in Annex I to the TFEU, where State aid rules do not apply. However, the EAFRD regulation and the RDP define aid intensity thresholds for each operation. This means the Gross Grant Equivalent (GGE) of the loan calculated on the eligible costs, should not be higher than the aid intensity threshold. If the final recipient has more than one transaction supporting the same investment, the GGE is calculated on the total of all transactions.

The aid intensity thresholds depend on whether the loan is stand-alone or combined with grant support. For stand-alone loans, the maximum aid intensity is 40% of the total eligible costs of the investment. For a combination, the maximum is between 40% and 90%, according to the sub-measure, location of the investment, or type of final recipient (e.g. young farmer, collective farmers' association, etc.) as defined in the RDP in line with the EAFRD Regulation.

15 Meat (other than poultry) slaughterhouses should be located in island regions and have a processing capacity of up to 400 tonnes of meat per year. Poultry slaughterhouses should be located in mountainous or island regions.

4.3 Financial flow and appraisal process

The legal basis for the financial instrument requires contributions from the managing authority to be split in tranches and linked to the disbursements to final recipients. The managing authority while negotiating the funding agreement with the EIF, included the payment schedule as defined in Article 41(1) of the CPR with respect to the interim payments between the Member State and the EC:

- The first tranche of 25% of the total RDP contribution, is available upon signature of the funding agreement between the managing authority and the EIF.
- The second tranche, for the next 25%, is paid to the FoF once at least 60% of the first tranche has been used.[16]
- The third tranche, for the next 25%, is paid to the FoF once at least 85% of the first two tranches has been used.
- The fourth tranche, for the last 25%, is paid to the FoF once at least 85% of the first three tranches has been used.

The guarantee under the financial instrument is unconditional and irrevocable. In case of default, the financial institutions receive a guarantee payment equal to the default amount, multiplied by the guarantee rate for the loan, until the guarantee cap amount on the portfolio is reached.

The financial instrument is implemented under the delegated model, which means that loan applications are appraised by the financial institutions. Individual transactions have to comply with criteria defined in the operational agreements in line with the funding agreement (e.g. for final recipients, investment projects, expenditure and criteria for the relevant RDP sub-measure). To include the loans under the guaranteed portfolio, the financial institutions must verify compliance with these criteria.

Certain supervisory tasks are carried out by the EIF as FoF manager, including monitoring visits. A control report[17] is also provided by the EIF with each interim payment request by the Member State to the EC according to Article 41 of the CPR. The control report includes a list of loans to final recipients as reported by the financial institutions, amounts committed, as well as state of implementation, progress analysis and a summary of the monitoring activities and follow-up actions.

4.4 IT Application tool

An IT system supporting implementation of the instrument has been developed by the managing authority and went online on 1 December 2020. This helps both potential final recipients in their application process as well as the financial institutions in their procedures.

The tool is based on the following principles:

- streamlining the submission of applications through a user-friendly, paperless environment;
- automating, as much as possible, checks and data collection for monitoring and evaluation, by exploiting connections with other IT systems;
- maximising utility of information provided to the financial intermediaries through reports while minimising administrative burden of the tool.

16 'Used' means funds have been allocated to cover possible losses of financial institutions corresponding to amounts disbursed to final recipients or used to pay management fees.
17 As defined in the Implementing Regulation (EU) No. 2019/1140 referred to in Article 40(1) of the CPR.

The first milestones in this process were to develop the application form, along with connections to other IT systems and checks on data entered by the user, including permitted levels of working capital. The form provides all the information that potential final recipients need to understand the characteristics and limitations of the financial instrument as well as the application procedure. More importantly, the tool interoperates with the Paying Agency IACS[18] database to automatically calculate the final recipient farm standard output, utilised area and type of farming. Based on these checks and calculations, most of the eligibility criteria and other regulatory restrictions are automatically evaluated, lowering the risk of error and administrative burden for participating banks and final recipients.

A second phase involved developing connections with IT tools used to manage grant schemes, to identify combinations of grants with the financial instrument, providing the banks and implementing bodies of grant schemes with valuable information to assess compliance with the maximum levels of support.

As a final step, procedures were developed to integrate data on the approved loans from financial institutions. Quarterly reports, as foreseen in the funding agreement, minimise administrative burden for the financial institutions, ensure data validity and are a source of information after their validation by the EIF.

The advantage of the IT tool is that it helps applicants to provide complete, correct and consistent information on their investment project. The information includes the sub-measure, economic activity and main object of the investment, as well as statements regarding personal information. For each economic activity, defined by NACE codes[19], there are products which have unique Combined Nomenclature codes. The final recipient needs to indicate the product most impacted by the investment. Correct identification of the product is paramount as it drives the eligibility of the guarantee, especially for sub-measure M4.2, which is limited to agricultural products covered by Annex I of the TFEU.

Applicants also indicate their preferred financial institution, which receives an automatic notification when the application is submitted. This enables the banks to start the risk assessment and approval process immediately. Communication can be via email, FTP server or web services so each financial institution can choose the best form for its internal IT structure.

Based on this structure, the tool provides reports to closely monitor demand and the progress of the instrument. The managing authority can monitor loan applications, including the number and amounts requested as well as the approval process. The managing authority can also track the potential output on a daily basis (for example by type of investment, activity sector and region) enabling a thorough evaluation of the financial instrument.

18 Integrated Administration and Control System.
19 Statistical classification of economic activities in the European Community.

5. Output

Disbursement of loans started in December 2020 and by 30 June 2021, 70 final recipients had received loans totalling EUR 4 million. The average loan is for EUR 60 000. The large majority of loans have supported investments under sub-measure M4.1, with 65% for investments in crop production, 30% for animal production (mostly sheep and goats) and 3% for mixed farming. 97% of the final recipients are microenterprises, while the remaining 3% are small enterprises, which highlights the focus on supporting individual farmers and small but viable agricultural holdings. The instrument has supported projects all across the country though Thessaly is currently the most supported region, with 40% of the operations.

CHAITAS EFSTATHIOS

Type of finance: Investment Loan

Purpose of the loan: Purchase of farming machinery/ construction of storage facility

Total value of the investment: EUR 276 922

Loan amount: EUR 81 368

Maturity: 10 years

Grace period: None

The final recipient is a young farmer taking over the family business in Karpero, in the Grevena Region. He cultivates approximately 200 hectares of land with durum wheat, maize and vegetables. The loan from Piraeus Bank was used to purchase a tractor with equipment and to build an agricultural warehouse. The new tractor will help to improve and optimise crop production, lowering production costs and CO_2 emissions. The new warehouse will also contribute to reducing costs, as other rented storage facilities will no longer be needed. Also, the cereals will be stored in a well-insulated and modern facility, reducing the risk of animal contamination and improving the quality of the products.

LISGARAS PETROS

Type of finance: Investment Loan

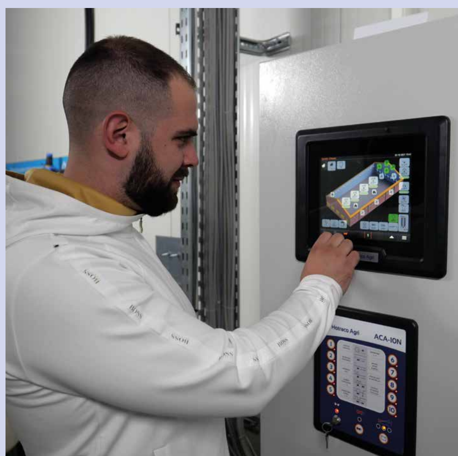
Purpose of the loan: Construction of a poultry farm

Total value of the investment: EUR 207 899

Loan amount: EUR 103 949

Maturity: 14 years and 5 months

Grace period: 3 months



The final recipient is a young farmer, taking over the three-generation poultry farm from his father. The farm is in Katsikas, on the outskirts of Ioannina and has a capacity of more than 10 000 chickens. The farm is part of a cooperative which provides its members with chicks, animal feed and veterinary assistance, as well as transport and meat production services.

The new poultry unit, financed through a loan from Cooperative Bank of Karditsa, has a well-insulated and conditioned environment which will improve breeding conditions for chickens. It will also facilitate work for the farmer, who can remotely monitor and adjust feed and water levels, temperature and ventilation through a state-of-the-art computer connected to the unit. The modern isolation and air circulation panels for the building will generate energy savings and contribute to reducing heat and energy losses.

6. Lessons learned

The financial instrument was the first portfolio guarantee instrument for agriculture in Greece. The instrument focuses exclusively on the agricultural sector (including primary agricultural production and processing activities related to agricultural products and excluding activities resulting in non-agricultural products). Although this limitation resulted in excluding part of the agri-food industry, it allowed the instrument to benefit from State aid exemption and to focus support on investments linked to agricultural products.

By crowding-in additional financing from the private sector, financial instruments play an important role in complementing grants. This helps achieve EU policy objectives particularly regarding innovation, competitiveness and job creation in the agricultural sector. In that respect, the portfolio guarantee in Greece is an important instrument to ease access to financing in agriculture. The guarantee reduces concerns in the financial sector about higher risks from potential clients lacking collateral, which has typically been urban real estate. Through the mandatory transfer of benefits, the financial institutions offer loans with better conditions than standard products. Moreover, the expected leverage of resources allocated by the RDP, including the additional EFSI provision should result in more final recipients accessing funding for their investments.

A favourable regulatory framework was fundamental for implementation of the instrument. The EAFRD-EFSI Initiative from the Commission and simplifications introduced by the Omnibus Regulation[20] are both important in that respect. The latter has brought significant positive impact, notably extending eligibility to cover working capital, greater flexibility by removing limitations on eligible expenditure and new opportunities such as raising the maximum EAFRD contribution rate to 100% for financial instruments combining EFSI resources.

The COVID-19 outbreak brought an unprecedented economic shock that called for immediate response measures by policy makers at all levels. Seizing the opportunity presented by the EU-level regulatory measures, the financial instrument investment board adapted the instrument framework. This included mitigating measures for two areas of intervention, stand-alone working capital and refinancing, both highly relevant for the target group. These measures were important to address immediate liquidity needs (including extinguishing existing debt) of final recipients whose businesses had been impacted by the COVID-19 crisis.

Financial instruments covering the agricultural sector are more complex than for more general products. This is due to more intricate eligibility requirements, which reinforces the need for intensive knowledge sharing and cooperation among those involved, from preparation to implementation.

The IT tool developed by the managing authority with the EIF gave important support for the financial institutions and potential final recipients. As a good practice associated with EAFRD financial instruments, it can be replicated elsewhere.

20 Regulation (EU, Euratom) No. 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No. 1296/2013, (EU) No. 1301/2013, (EU) No. 1303/2013, (EU) No. 1304/2013, (EU) No. 1309/2013, (EU) No. 1316/2013, (EU) No. 223/2014, (EU) No. 283/2014, and Decision No. 541/2014/EU and repealing Regulation (EU, Euratom) No. 966/2012 referred to as the 'Omnibus Regulation'. The Regulation includes revisions that simplify the use of ESIF financial instruments and clarifies the possibility for managing authorities to directly award a contract to national promotional banks.

Notes

Notes

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