



Experiences of EAFRD managing authorities in preparing or using financial instruments

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Presentation overview



- State of play in preparing financial instruments
- Key characteristics of the Greek agricultural and food processing sector
- Brief presentation of the Greek banking sector
- Lessons from the implementations of FIs in RDP 2007 - 2013
- Preliminary evidence on the supply of and demand for financing in agriculture and food sector
- First key findings and policy vision



Preparing the set-up of financial instruments



- Ex-ante assessment (EIB)
 - Methodology:
 - Desk research
 - Interviews with relevant stakeholders
 - Online survey (still on going)
 - Focus groups
 - Interim report:
 - Economic context of Greek agricultural sector,
 - RDP's strategy and measures for which Financial Instruments is envisaged,
 - Experiences from the establishment of other Financial Instruments for the sector,
 - Preliminary analysis of the supply and demand side.
 - Final report (end of October 2017):
 - Complete analysis of the supply and demand side
 - Identification of financial gaps
 - Proposed strategy



Greek agriculture and food industry



A fragmented structure of agricultural holdings...

710.000 agricultural holdings

4,9 million ha UAA

6,8 ha/holding average physical size

16,1 ha/holding in EU28 (range: 1,2 – 133)

Source: Eurostat, 2013



Greek agriculture and food industry



...with high economic and social importance ...



5,8 billion EUR GVA
3 % of GDP

12,4 % employment
4,2 % average EU28

Source: Eurostat, 2015



5,5 billion EUR GVA
3 % of GDP

3,4 % employment
2,3 % average EU28

Source: Eurostat, 2014



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Greek agriculture and food industry



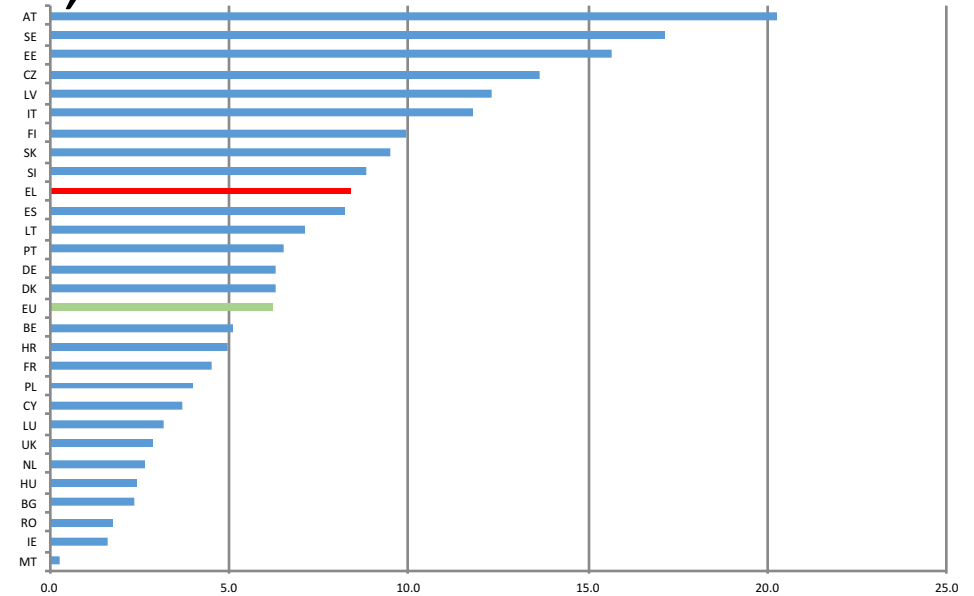
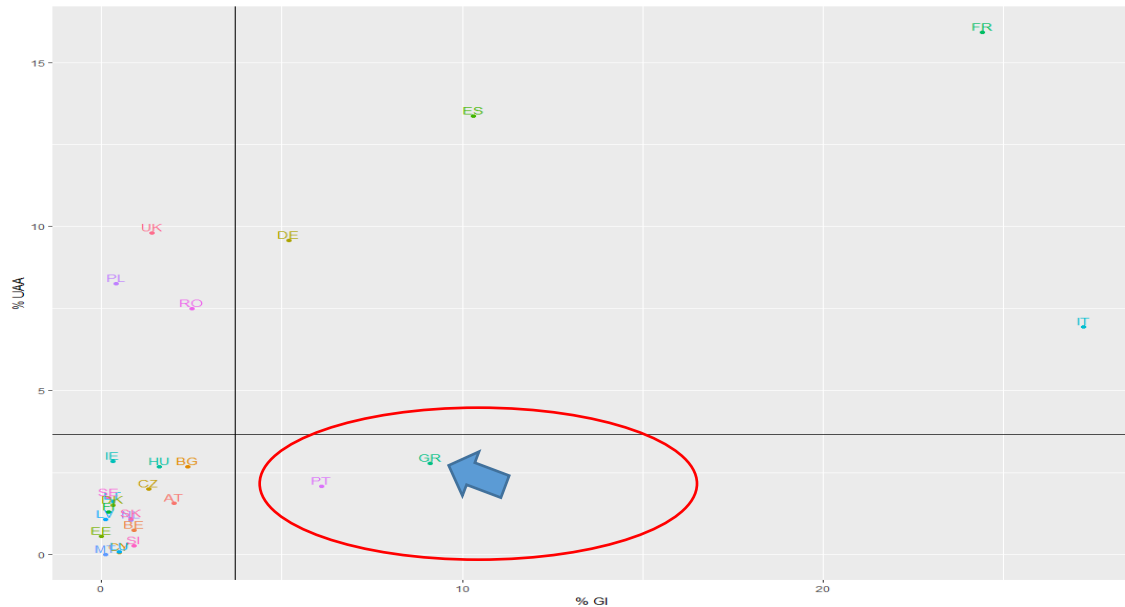
...produces a wealth of quality products...

252 GI products

9 % of EU28

8,4 % UAA organic

6,2 % in EU28



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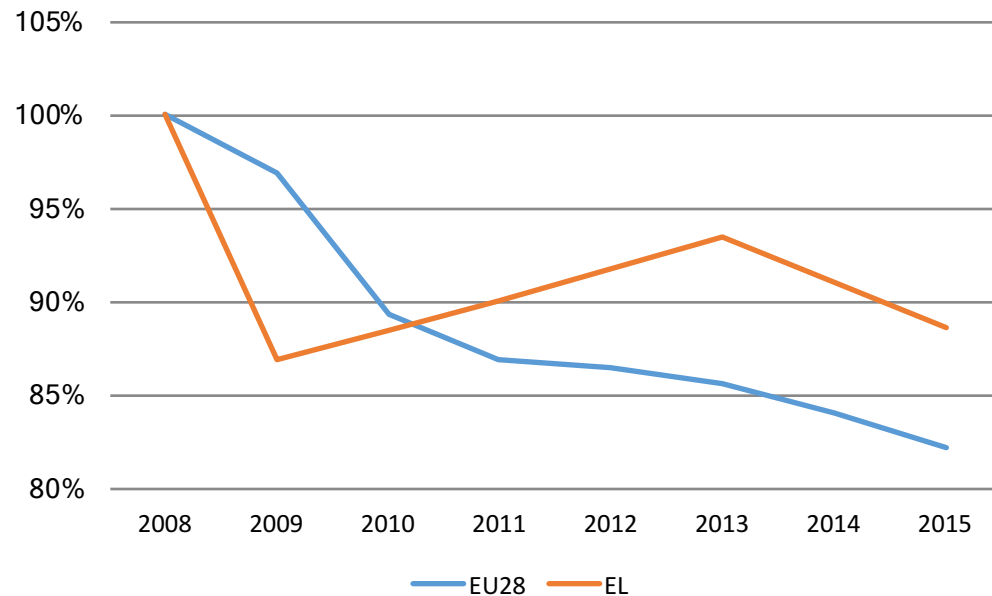


Greek agriculture and food industry

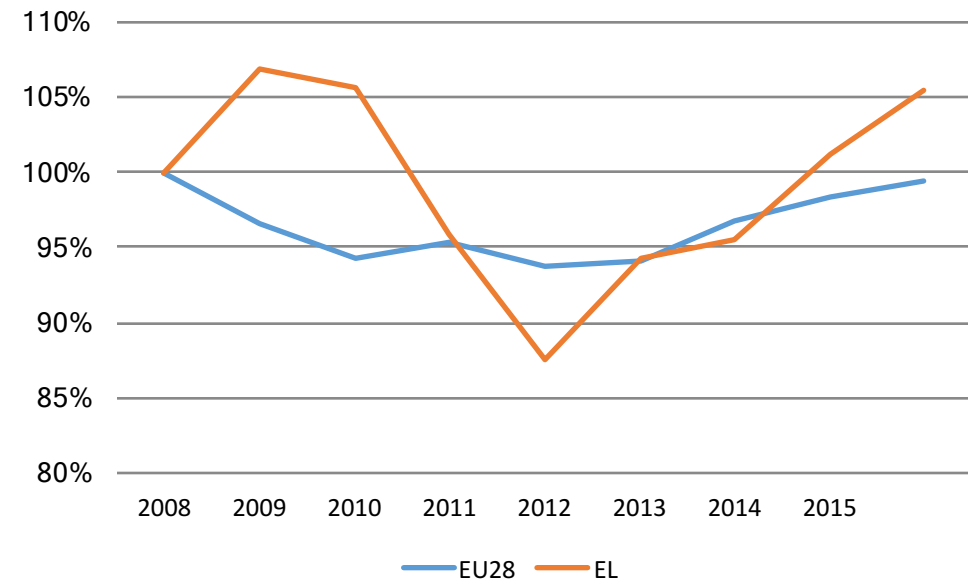


...and showed a remarkable resilience during the crisis.

Employment in agriculture



Employment in food industry



Source: Eurostat

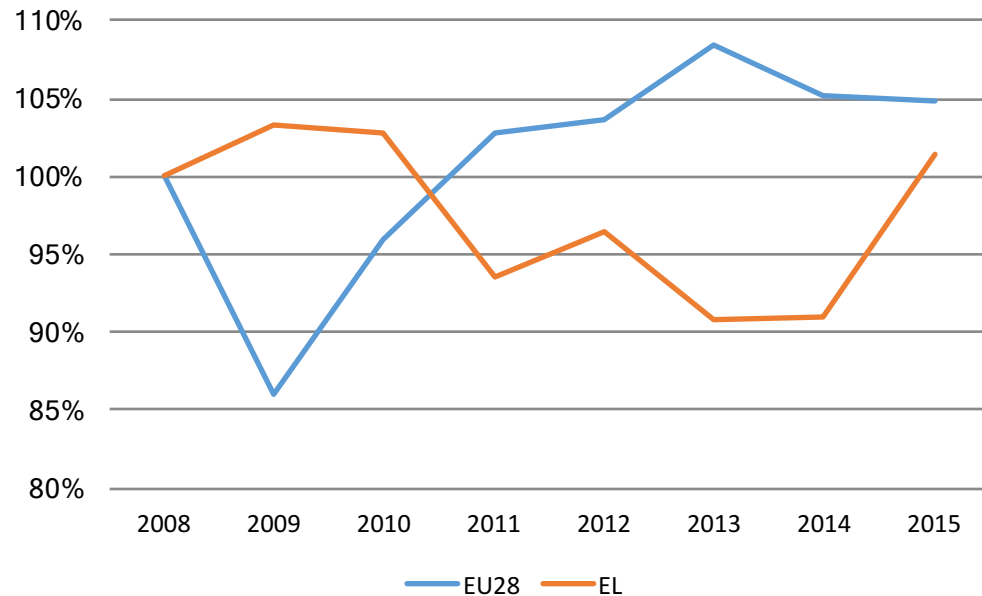


Greek agriculture and food industry

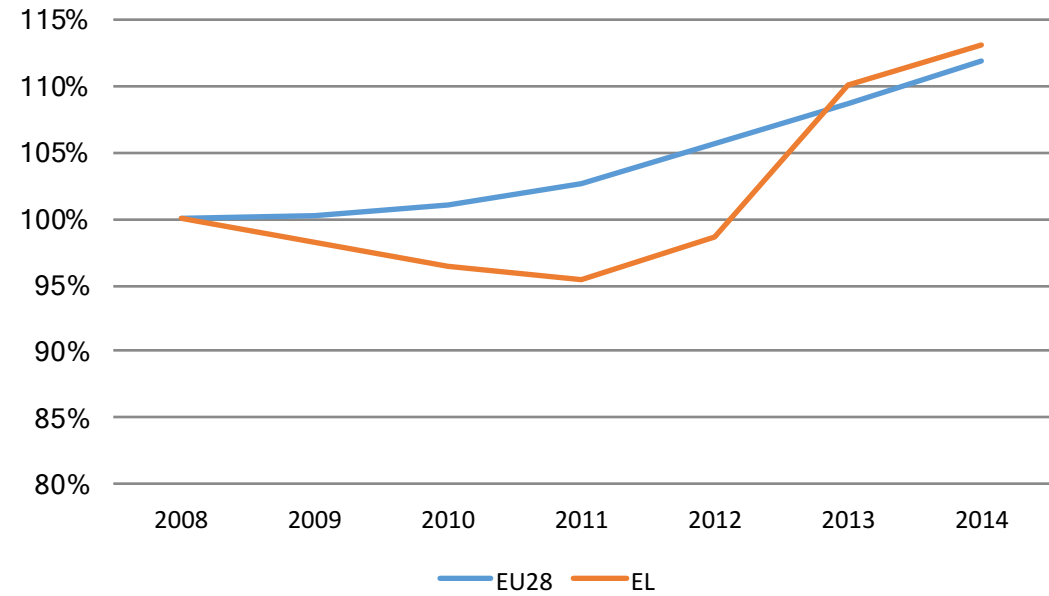


...that showed a remarkable resilience during the crisis.

GVA in agriculture



GVA in food industry



Source: Eurostat



Greek banking sector



- Greek banking sector is dominated by four banks.
- Piraeus Bank has acquired the Agrotiki Bank, a bank specialized in agriculture
- Main cooperative banks
 - Pancretan Cooperative Bank
 - Cooperative bank of Karditsa
 - Cooperative bank of Thessaly

Bank	Total Assets	Total Weighted Risks	Total Common Equity	Number of Employees
Piraeus Bank	81,501	53,266	9,824	18,995
National Bank of Greece	78,531	N/A	7,587	16,296
Eurobank Ergasias	66,393	38,511	6,362	16,285
Alpha Bank	64,872	N/A	9,098	12,699

Sources: Business Monitor International (BMI), Bank of Greece (BoG), 2016



Previous experience in FI implementation



- The Agricultural Entrepreneurship Fund (Tameio Agrotikis Epixeirimatikotitas -TAE)
 - Operated between February 2013 and December 2015
 - Risk-sharing loans combined with grants, under M121, 123A, 311, 312 and 313 of RDP 2007 – 2013
 - Managed by ETEAN SA
 - Only one Financial Intermediary
 - Very low percentage of disbursement (2.9%) of the available resource



Lessons learned



- Careful planning of the instruments, so the types selected reflect the real needs of the target population.
- In case of combination with grants, the timings of the launch of the grant scheme and the FI should be aligned.
- The terms of the instruments, including state aid rules, must be clearly communicated to the potential beneficiaries.
- More competition at the level of financial intermediaries could have led to better performance of the instrument.
- Need to develop an effective awareness-raising strategy

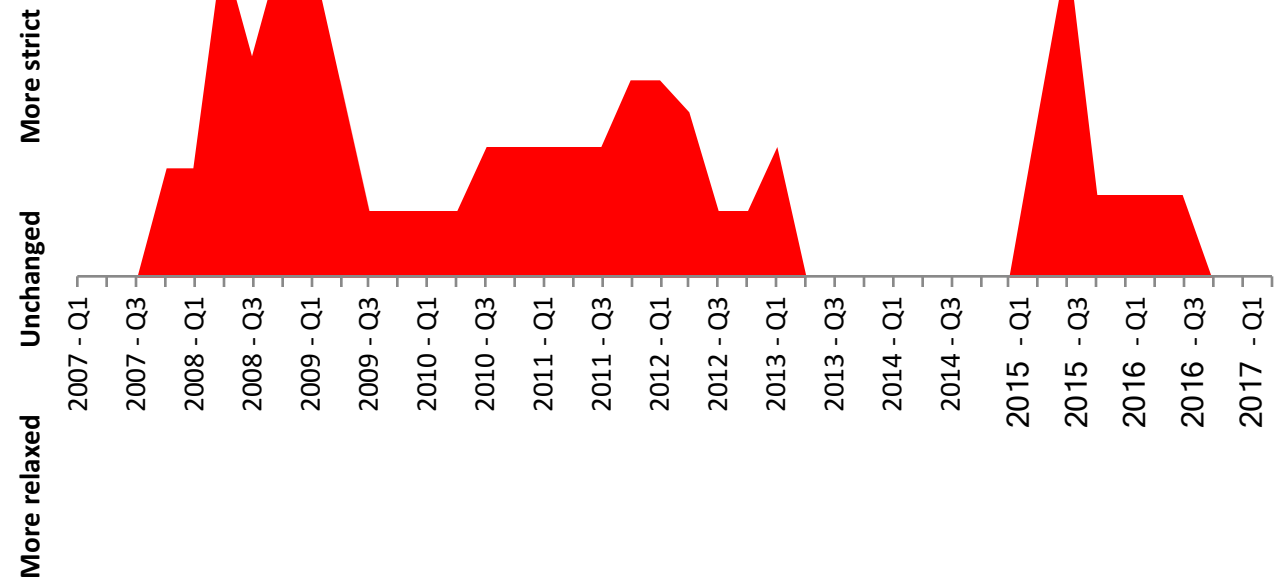


Change in bank's lending policy



- Credit standards for approving loans were becoming stricter from late 2007 until early 2013
- Remained unchanged from 2013 to mid 2015
- Became even more strict during 2015 and 2016

Changes in bank's credit standards for approving loans to enterprise in past three months



Source: Bank Lending Survey (BoG)

Financing conditions to the agricultural sector



- Collaterals – Guarantees
 - ~25% of equity commonly required
 - Requirements for cash, easily liquidated assets and personal property (urban property)
 - Value of collaterals between 100% - 140%
 - Lower collateral requirements for:
 - Contract farming
 - Short term loans for small amounts (< EUR 10.000) with direct payments as guarantee
- Interest rates:
 - Short term: ~5%
 - Long term
 - Small farmers: ~8%
 - Large farmers: ~6,5%



Financing conditions to the agricultural sector



- Eligibility criteria
 - Short term: product and geographical area, type of cultivation, ownership status, existence of family business
 - Long term / investments: investment attitude and profile of beneficiary

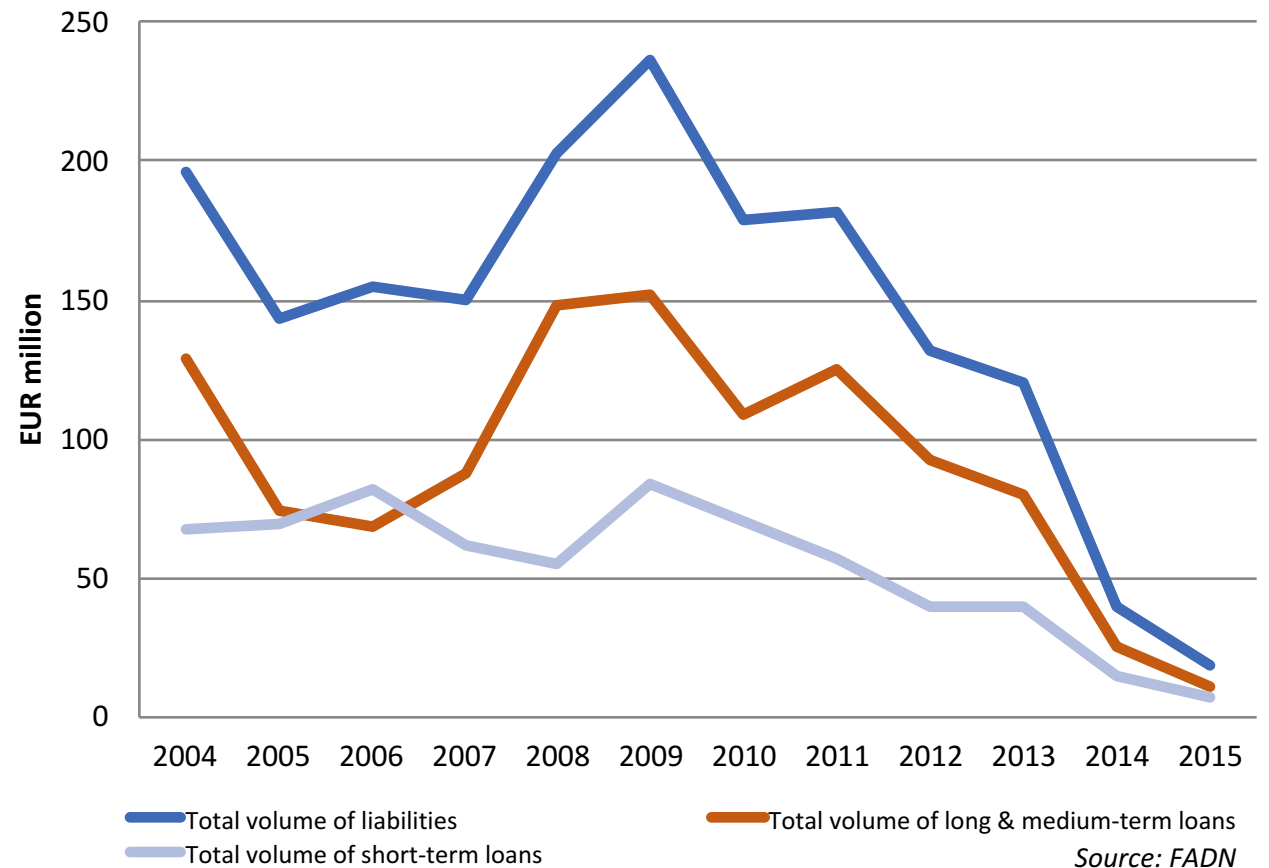


An extreme reduction of financing in agriculture



Total liabilities of farms showed a sharp decline after reaching a maximum in 2009

Decline was most prominent for long and medium term loans



Ambiguous farm leverage levels

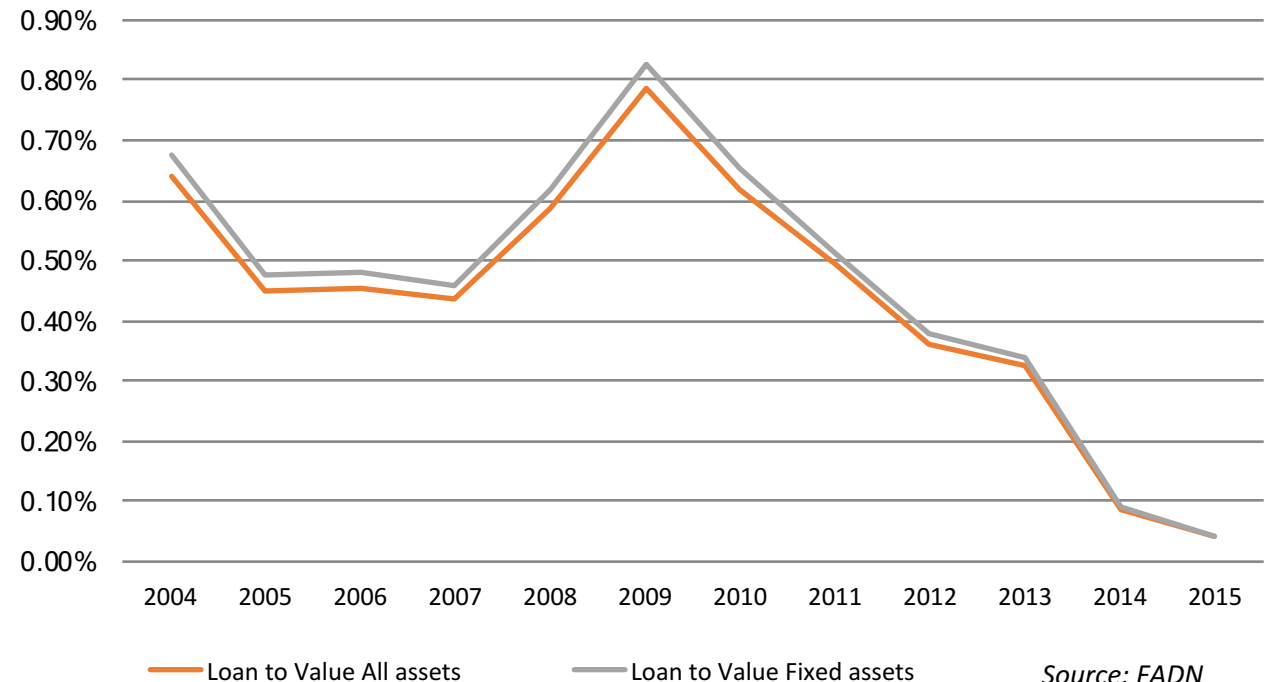
Loan to value data show extremely low leverage

BUT

- Most of the interviewees mentioned that farmers' assets are already mortgaged
- Almost ALL holdings are proprietary, hence the holder may have private liabilities not included in the books of the farm



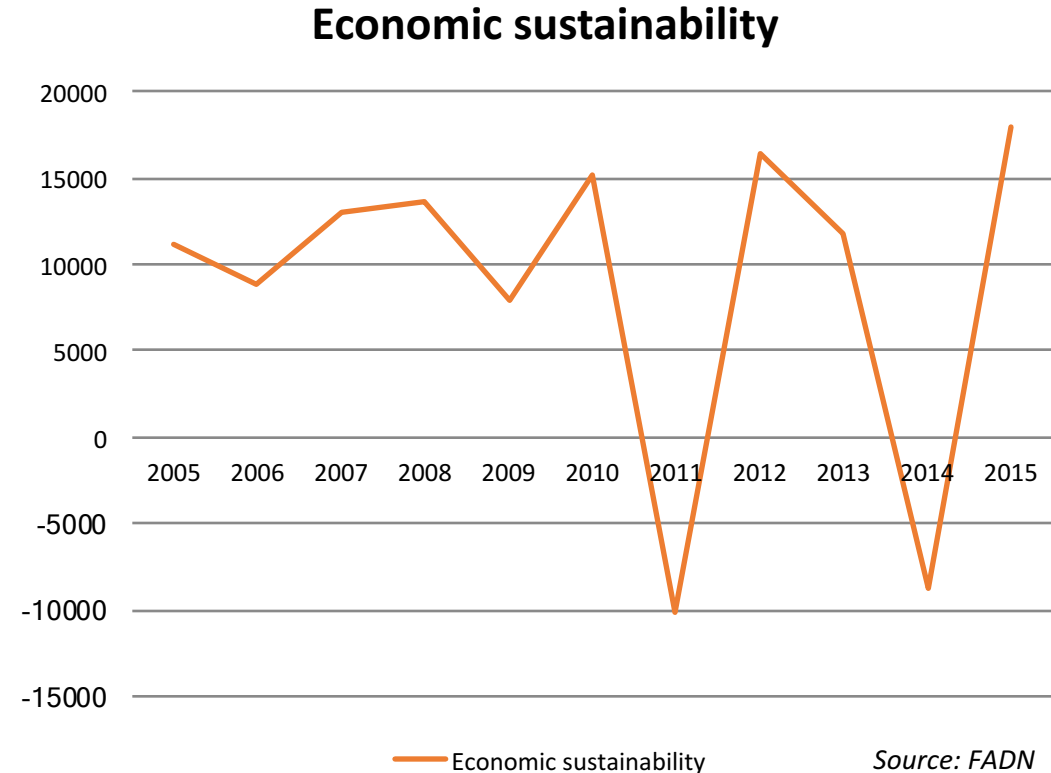
Loan to Value



Low economic sustainability of farms



- Economic sustainability of farms mostly positive (9 out of 11 years)
- Significant fluctuation during the economic crisis
- Generally low in total
- Very high NPL ratios are recorder in the farming sector (62,7%)



A gap between demand and financing conditions



Supply side

Requirements for easily liquidated collaterals

Requirements for personal property

High collateral / loan ratio

High interest rates

Demand side

Low levels of own capital

Reluctance to invest own equity

Ambiguous farm leverage levels

Positive but low economic sustainability

Financing conditions to the food processing sector



- Collaterals – Guarantees
 - Value of collaterals between 50% - 100%
 - Personal property for small processors
- Interest rate:
 - Small processors: 5,5% - 7%
 - Large processors 4% - 6%
- Eligibility criteria
 - Level of maturity of the business
 - Historical records and business relationship with the banking system
 - Sales network



Financing in manufacturing also declined

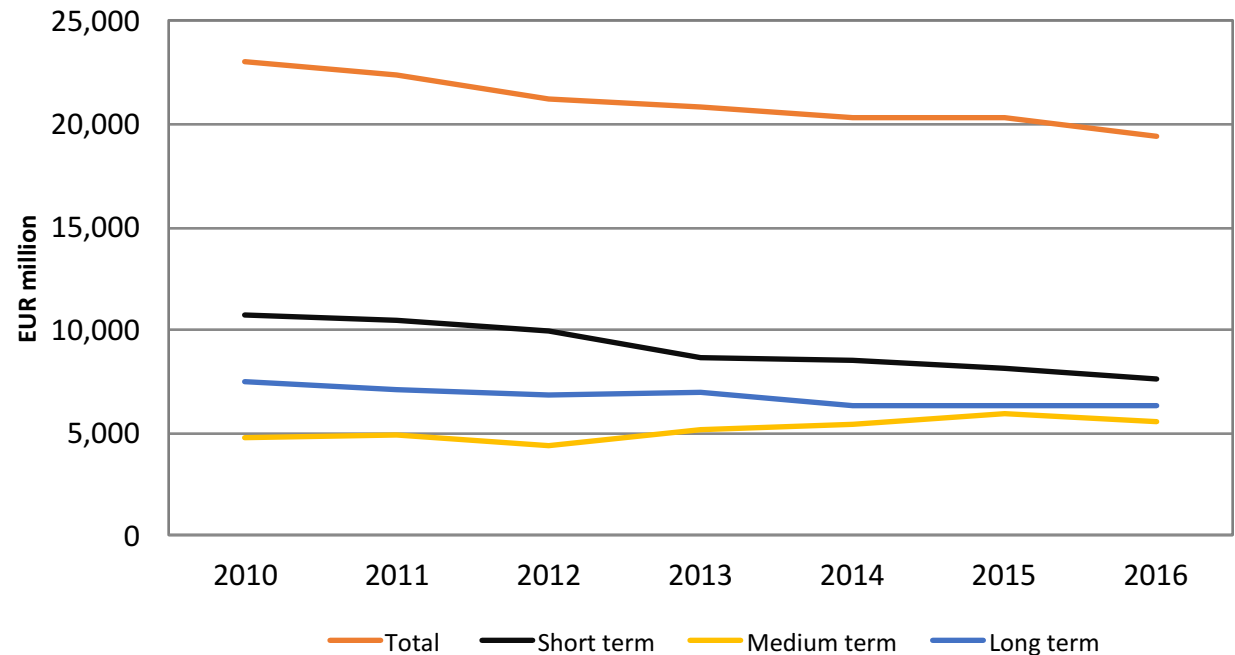


Total outstanding amounts for manufacturing (excluding mining and quarrying) showed a moderate decline.

Decline was most prominent for short term loans and less for long term loans.

Medium term loans generally stable.

Decline in outstanding amounts at end of period in manufacturing



Source: Bank of Greece (BoG)

Financing conditions to the food processing sector



- Factors restricting access to finance
 - Limited capacity to provide banks with the required guarantees
 - High default rate in the food processing sector
- Large processors do not face big difficulties



Financing conditions

First key findings



- There is a high concentration in the financial market with regard to the agri-food sector.
- While there are some financial products offered by the banks the supply remains low.
- High levels of collaterals and easily liquidated assets are required, regardless of the size of the corresponding holdings.
- Interest rates are high, even for large processors, having smooth relationships with the banks.
- The quality of the demand from farmers and small processors is low.
- Grants play a significant role in the financing of agri-food sector.



Financial instruments under Greek RDP



- EAFRD contribution in Greek RDP: **EUR 4,2 billion**
- Currently **3%** (~ **EUR 125 million**) for financial instruments
- FIs mainly targeted at
 - Improving the overall performance and sustainability of the agricultural holdings
 - processing, marketing and/or development of agricultural products.



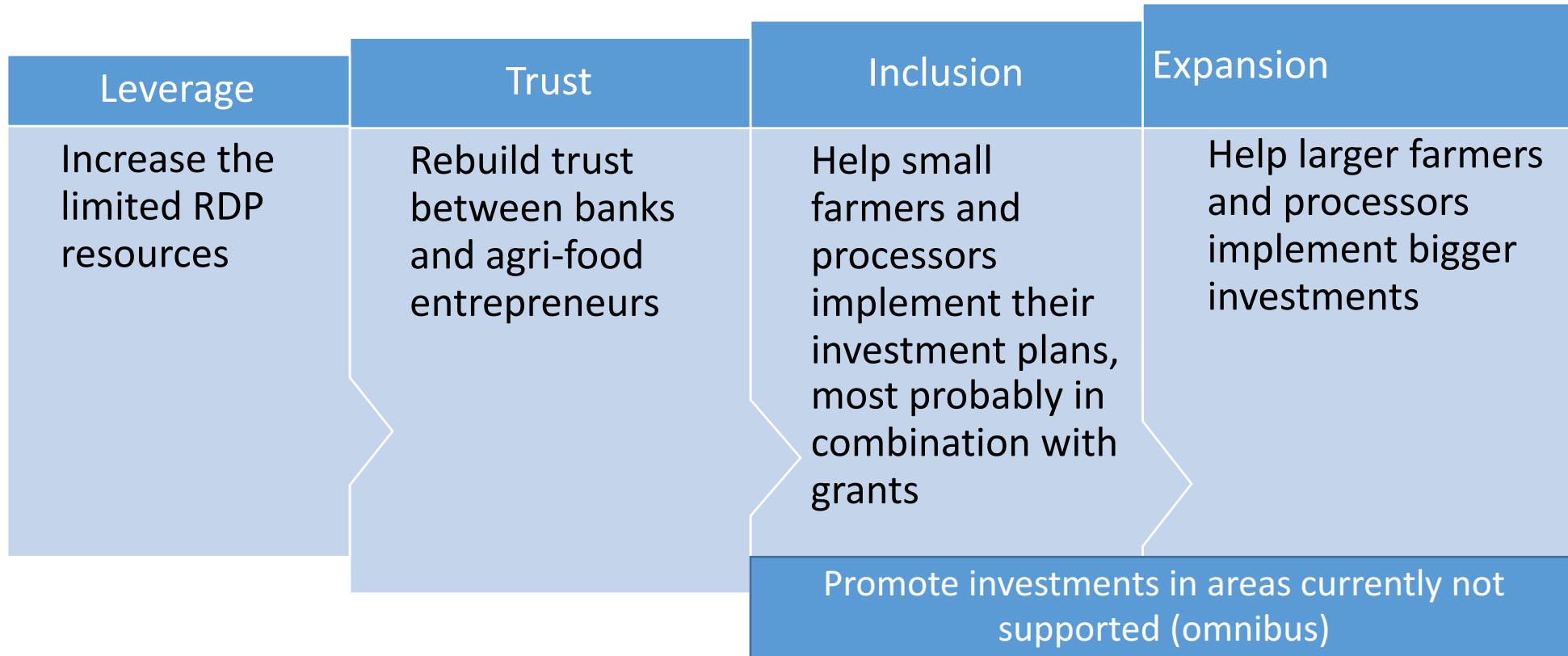
Plans for a national development bank



- Market failures of a permanent nature
 - Strict lending conditions are linked with stricter regulation of the banking sector
 - Poor demand quality reflects the structural pathologies of the Greek agri–food sector
- The government is planning to establish a national development bank
 - Continuously addresses market failures in financing of enterprises
 - Could play a key role in the management of revolving funds from the financial instruments



Policy vision



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Thank you for your attention!



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