



Main findings from *fi-compass* ‘Study on financial needs in the agriculture and agri-food sectors in Estonia’

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European Investment Bank



 #ficompass



Financing gap – Methodological notes



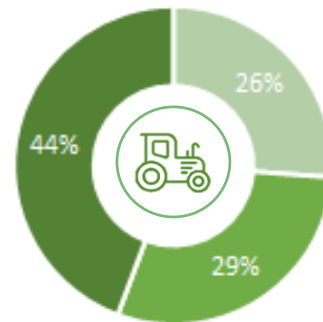
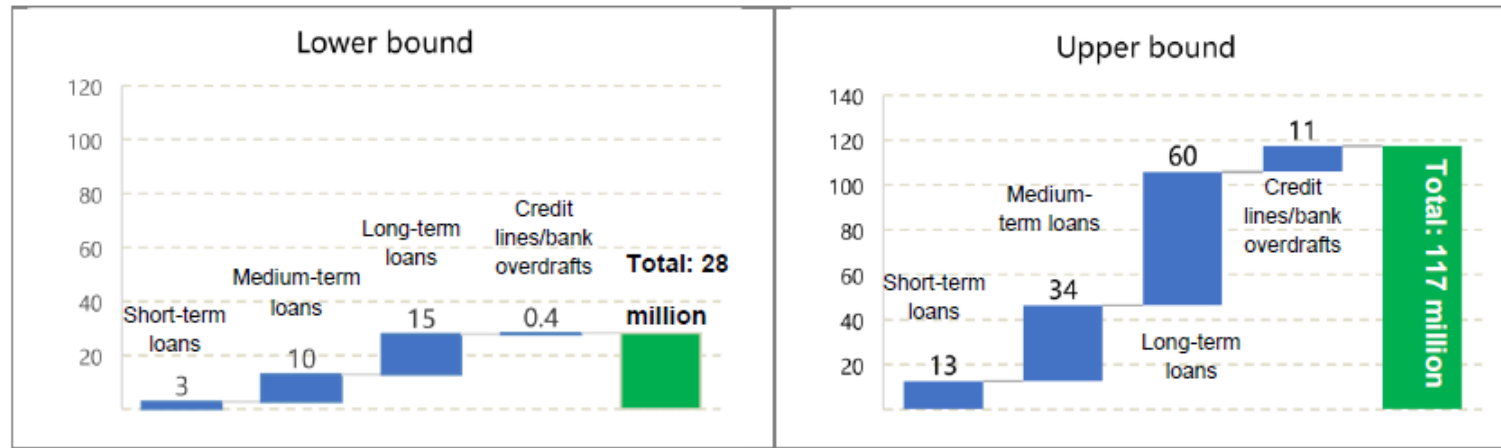
Methodological tools:

- ▶ Telephone survey on **7 600 farms** in 24 MSs
- ▶ Telephone survey on **2 200 agri-food enterprises** in 24 MSs
- ▶ Interviews with more than **400 main stakeholders** at MS level

Gap calculation:

- ▶ **Unmet financing demand, from viable enterprises:**
 - **(i)** lending applied for but not obtained
 - **(ii)** a lending offer refused by the potential borrower
 - **(iii)** lending not applied for due to expected rejection
- ▶ **Viability criterion:**
 - **Lower bound:** enterprises declaring a stable (non-negative) turnover and no cost increase in the previous year
 - **Upper bound:** enterprises which reported a stable (non-negative) turnover

Financing gap - Agriculture



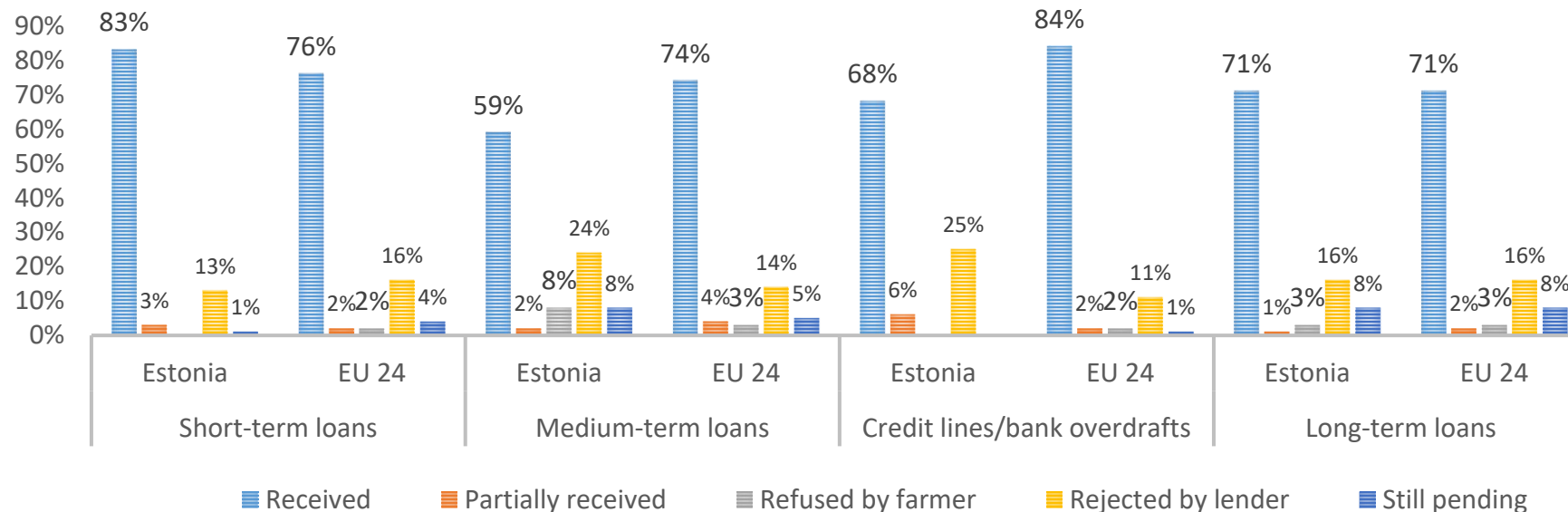
44% (upper bound) of the gap refers to young farmers

- Small-sized Farms
- Medium-sized Farms
- Large-sized Farms

Access to finance - Agriculture



- ✓ farms discouraged from applying for loans for fear of rejections are below EU average (2.5% against 9%)
- ✓ Rejection rates for loan applications are above the EU average



- ✓ 16.9% of farmers sought finance from private individuals such as family members or friends in 2017, above EU 24 average (11.4%)

Main gap drivers - Agriculture



Lack of collateral



- Young farmers
- No land ownership
- Guarantee of above 100% often requested
- Guarantee requirements lead to applications rejections but also discourage farmers from applying

Farmers' lack of financial knowledge



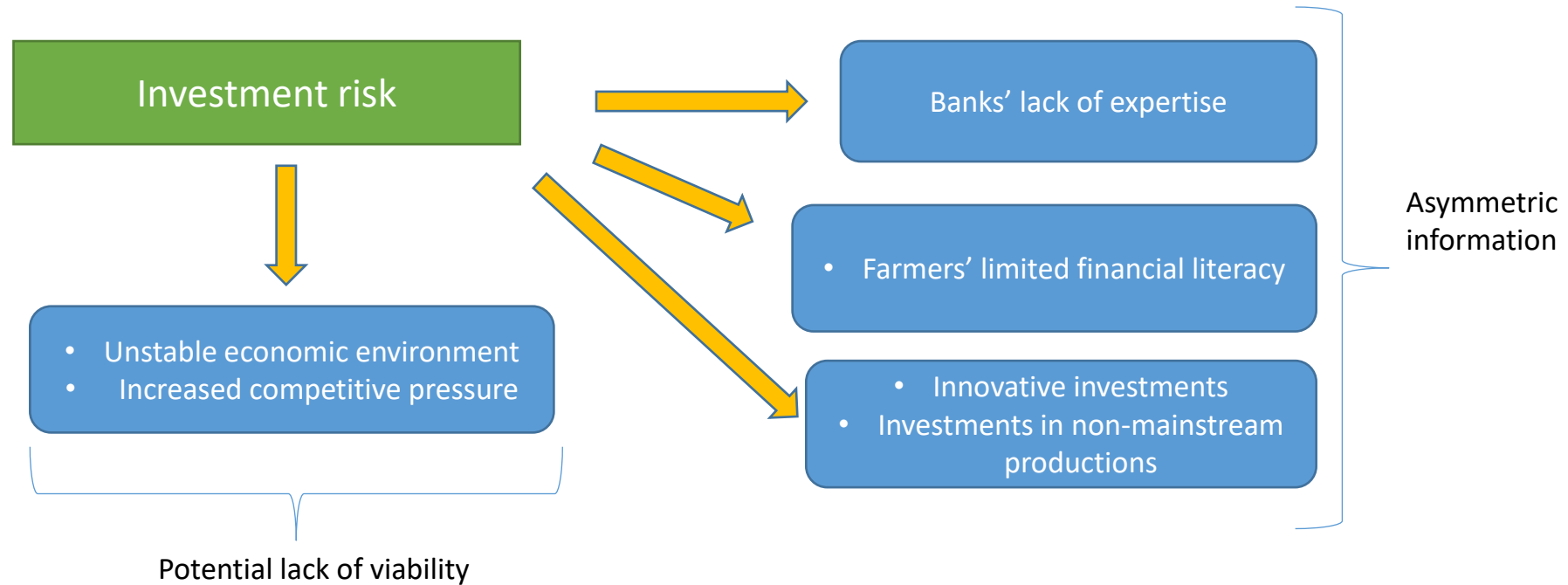
- Difficult dialogue with banks
- Rejections and discouragement

Supply side determinants



- Market concentration
- Limited availability of long-term loans
- IR for the sector are higher than the average

Main gap drivers - Agriculture



Recommendations - Agriculture



1

Existing loan instruments could be extended beyond current limits; for example, to cover loans between EUR 100 000 and EUR 250 000.

2

Combination of financial instruments and grant support offer possibility to:

- Increase support on financing cost
- Design targeted instruments for young farmers

3

Public guarantee offering should be reviewed to assess the adequacy of the available budget, alongside access conditions and costs.

4

Support the offer of **long-term loans** (beyond 7 years maturity)

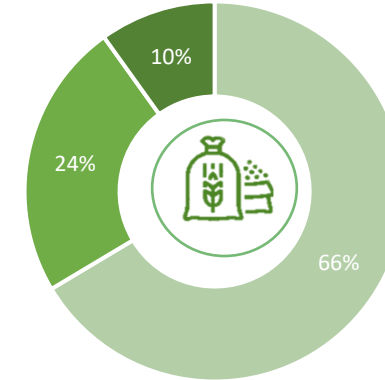
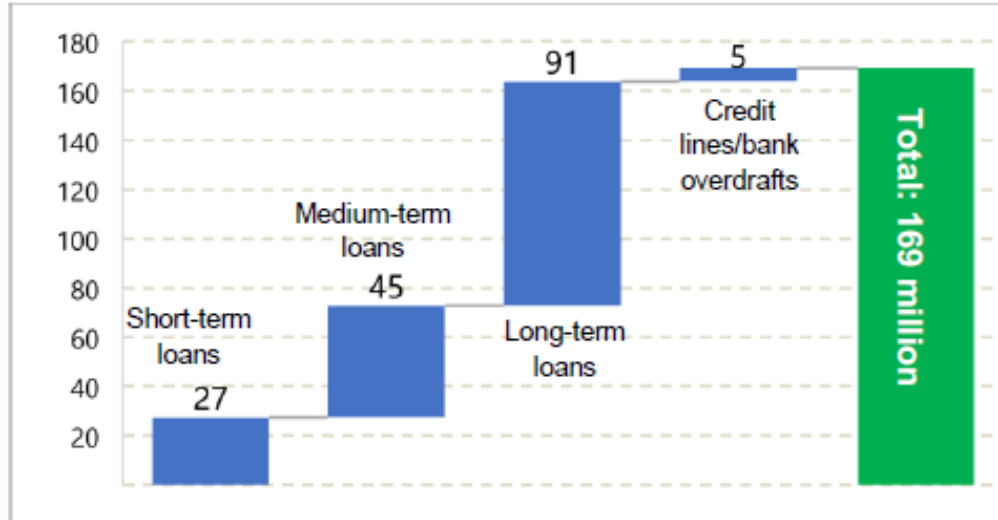
5

Technical support to develop business plans and improve financial management of farmers

6

Strengthening banks' understanding of the agriculture sector and production

Financing gap – Agri-food



- Small-sized enterprises
- Medium-sized enterprises
- Large-sized enterprises

- Almost 90% of the gap refers to small-sized enterprises
- Lack of finance for large projects (above EUR 10 million)



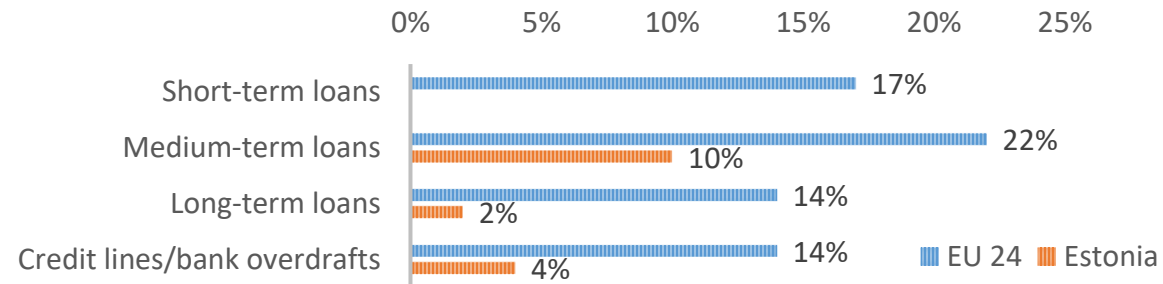
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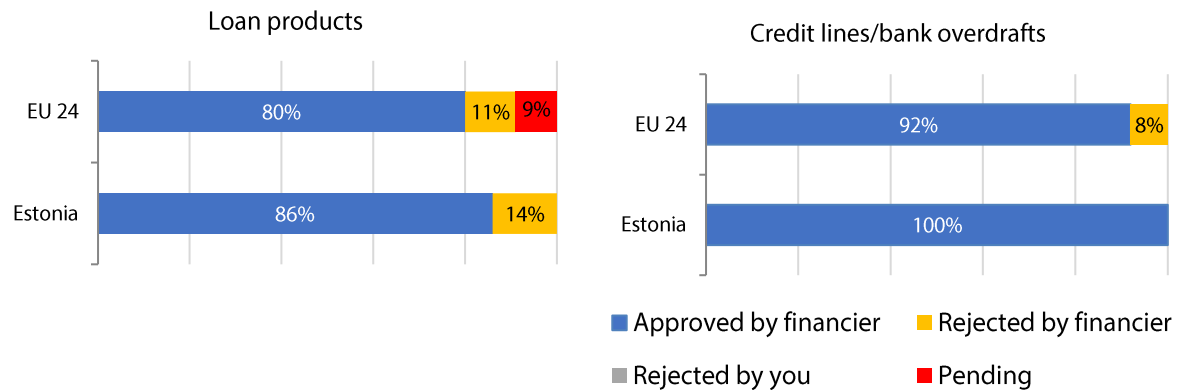
Demand – Agri-food



✓ **Financial products applied for in 2018**



✓ **result of loan applications in 2018**



discouraged applications represented approximately 2% of agri-food enterprises

✓ **Interviews with agri-food companies reveal that there is an unmet need for short-term loans for financing inventories**



Main gap drivers – Agri-food



Lack of collateral



- Small-sized businesses located in rural areas (low value and illiquid rural estate market)
- Available credit guarantees may be expensive

low financial awareness



- Small-sized and micro enterprises

Supply side determinants



- Market concentration
- Limited availability of long-term loans (negative impact on cash-flow)
- Transaction costs considered of high impact on smaller operations
- Risk considerations due to market volatility (stricter lending criteria)

Insufficient provision of finance



- Launch of new products
- Start-ups lacking business and credit history
 - Investment above EUR 10 million

Recommendations – Agri-food



1

Public guarantee offering should be reviewed to assess the adequacy of the available budget, alongside access conditions and costs.

2

Further actions to support access to finance at favorable conditions for start-ups and new entrants may be needed

3

Combination of financial instruments and grant support (including technical support) offers opportunity to design effective instruments for new entrants and small-sized enterprises

4

Dedicated support to large-scale investment (above EUR 10 million) might be considered



financial instruments capacity building Farming
 Rural development funding agreement EU guidance
 added technical support co-financing ex-ante assessment final
 value seminars governance intermediaries recipients
 leverage EAFRD fi-compass case studies
 Agriculture thematic objectives Targeted coaching
 business plan **Thank you** equity
 advisory services private investors
 RDP guarantees life cycle combination of support
 conferences banks revolving
 fund of funds loans microfinance CAP
 manuals managing authorities factsheets
 DG AGRI Agricultural products investment strategy EIB Group