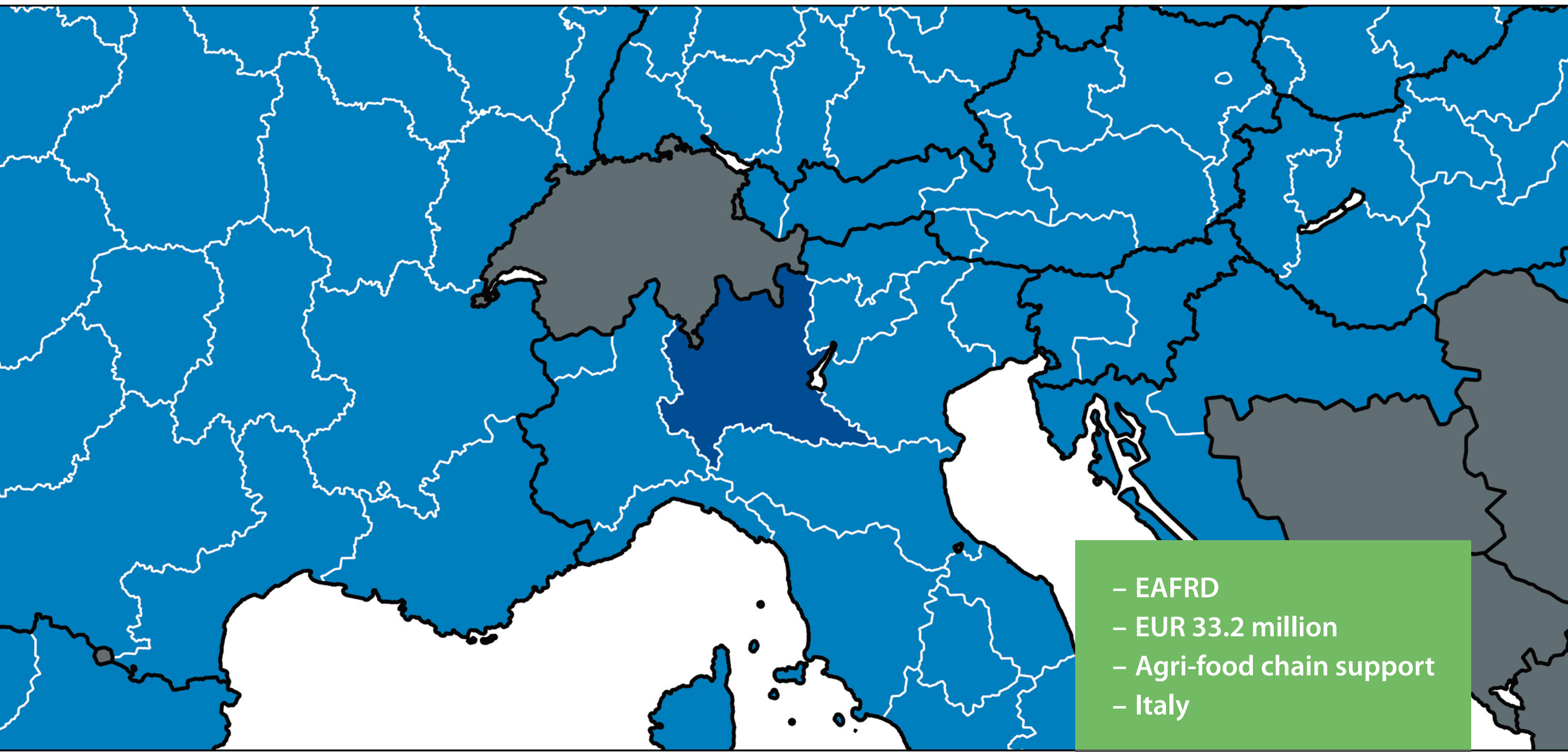

- EAFRD
- EUR 33.2 million
- Agri-food chain support
- Italy

... enabling a more integrated supply chain ...

EAFRD Credit Fund Lombardy 2014-2020, Italy

Case Study

European Commission

European Investment Bank
The EU bank

DISCLAIMER

This document has been prepared with the support of a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, Infeurope and Spatial Foresight.

Abbreviations

Abbreviation	Full name
EAFRD	European Agricultural Fund for Rural Development
ESIF	European Structural and Investment Funds
EU	European Union
RDP	Rural Development Programme

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1 Summary

The Credit Fund was set-up under the Rural Development Programme (RDP) 2014-2020 in Lombardy Region, Italy to support agri-food companies, aiming to increase value added along the entire food production chain. Having experienced a severe cut in investments for innovation in the agri-food sector, the ex-ante assessment on the use of financial instruments in RDP Lombardy 2014-2020 highlighted the need to improve the competitiveness of primary producers. This included better integration within the agri-food chain through product quality schemes, adding value to the agricultural products, promoting products in local markets, short supply chains and associations as well as producer and inter-branch organisations.

The managing authority of the Lombardy Region programmed an operation under the RDP providing a combination of grants and low interest rate investment loans for a total of EUR 54 million. As at the end of 2017, resources allocated to the financial instrument were EUR 33.2 million, of which EUR 14.3 million was the EAFRD contribution and EUR 18.9 million the national contribution to be implemented under sub-measure 4.2 'Processing, marketing and development of agricultural products' through integrated supply chains and integrated territorial projects.

Integrated projects have been designed to bring together a wide network of actors aiming to develop or enhance a specific supply chain or territory. Integrated projects targeted by this financial instrument have included investment projects with individual initiatives agreed for each participant. The investment loans covered 80% of individual project costs and were provided by the Credit Fund (40% of the loan amount) and private banks (60% of the loan amount), while grants covered the remaining 20% of the investment cost.

Under the funding agreement signed in November 2016 Finlombarda SpA (the Lombardy regional development bank) was appointed as fund manager. The instrument became operational in May 2017.

By April 2018, three calls for integrated projects had been launched (and closed). Six projects were accepted for financing from the first call with a total eligible investment of EUR 26.4 million. This included EUR 8.4 million from the financial instrument to support investments under sub-measure 4.2. The first loan tranches of EUR 4.2 million were disbursed. Selection of projects under the second and third call had not been finalised by April 2018.

The financial instrument should improve access to credit for small enterprises by creating synergies of public and private funds, promoting increased responsibility in final recipients and by ensuring longer-term sustainability through the revolving effect.

Credit Fund for rural development 2014-2020, Lombardy Region, Italy

THE FINANCIAL INSTRUMENT

Funding source

EAFRD, RDP Lombardy 2014-2020

Type of financial products

Investment loans combined with grants

Financial size

EUR 33.2 million RDP resources (EUR 14.3 million from EAFRD and EUR 18.9 million from regional resources). An additional EUR 49.8 million of co-investments from credit and financial institutions was expected. This would be 60% of each project loan. EUR 20.8 million of grant resources have been combined with support from the Credit Fund.

Thematic focus

Improve the competitiveness of primary producers, including better integration in the agri-food chain through quality schemes, creating added value for agricultural products, promoting products in local markets, short supply chains, associations and producer organisations and inter-branch organisations (focus area 3a)[1]

Timing

From 2016 to 2023

Partners involved

Lombardy Region (managing authority)
Finlombarda SpA (fund manager)
Credit and financial institutions (co-investors)

ACHIEVEMENTS

Absorption rate

12.6% by April 2018

EU leverage[2]

4.5 times

Main achievements

As of April 2018, EUR 4.2 million had been disbursed to six investment projects foreseeing a total eligible investment of EUR 24.6 million.

1 EAFRD focus area 3a) 'Improving the competitiveness of primary producers by improving their involvement in the food chain through quality schemes, increasing the value added of agricultural products, promoting sales for local markets and short supply routes, producer groups and organisations and trade associations'.

2 EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 103.8 million, including grant support from the RDP, divided by the total amount of EAFRD allocation, i.e. EUR 23.3 million (EUR 14.3 million for the financial instrument and EUR 9 million for grant support). It does not include the reuse of resources returned to the instrument.

2 Objectives

The agri-industrial system in Lombardy Region covers all activities that primarily use raw materials from agriculture for their own production, both for food and non-food purposes. This system can be distinguished between the production (agriculture and breeding, transformation) and the commercial (marketing and distribution) phases. The sector has been strategic, not only for its economic and social impact, but also as a key innovation driver in the Region. For this reason, it is one of the thematic areas included in the Regional smart specialisation strategy.[3]

As stated in the ex-ante assessment for the financial instrument, production and related activities in 2012 made up about 3.7% of Lombardy's GDP and involved around 67 000 production facilities.[4] In 2011 the value of production exceeded EUR 12.2 billion, of which more than EUR 7.2 billion was agricultural and forestry production, some 14.5% of the national value. Another EUR 5 billion was from added value for food, beverages and tobacco, which was about 20% of the value added for the national food industry. However, an analysis of economic trends showed only a modest increase in added value for the industrial and food sector from 2008 to 2012, with more limited benefits from this increase for primary producers.

This indicated the need for a more integrated supply chain to improve competitiveness, while ensuring that the benefits reach agricultural producers.

For this reason, RDP Lombardy 2014-2020 has provided support for investments related to processing/marketing and/or development of agricultural products that can:

- improve the competitiveness of primary producers by integrating them better in the food supply chain through quality schemes;
- create added value for the agricultural products;
- promote local products, short supply chains, as well as producer and inter-branch organisations.

Given these objectives, as well as the difficulties for enterprises in the sector to access finance and the limited resources available for public support, financial instruments were already identified as a potentially suitable form of support during programming of the RDP. In particular, the RDP emphasises the capacity of financial instruments to attract private resources and the possibility to reuse public resources to support additional projects.

Financial instruments were also considered by the managing authority to support market development, by helping to build an entrepreneurial and managerial culture in the sector and promote a closer relationship between financial intermediaries and enterprises.

3 See www.s3.regione.lombardia.it.

4 Il Sistema Agroalimentare della Lombardia, Rapporto 2013.

3 Design and set-up

The ex-ante assessment was prepared in 2015, with the main results and outcomes being presented to the RDP monitoring committee in October 2015. The ex-ante assessment identified difficulties to access finance in the sector and an unbalanced distribution of added value in the supply chain. Based on its recommendations, the financial instrument was established in April 2016 and Finlombarda SpA was appointed as fund manager. After the fund was promoted in the Region, the selection process for projects opened in July 2016 and the first contracts were signed with final recipients in March 2018.

Figure 3.1: Timeline of the financial instrument

Date	Event
September 2015	Ex-ante assessment completed
October 2015	Presentation of ex-ante assessment to the RDP monitoring committee
April 2016	Request for European Commission opinion on compliance of advance payment to the fund established and fund manager designated
July 2016	Opening of the call for applications of integrated supply chain projects under RDP operation 16.10.01 'Integrated supply chain projects'
September 2016	Start of activities promoting the financial instrument in the Region
November 2016	Funding agreement signed between the managing authority and Finlombarda SpA
March 2017	Approval of integrated supply chain projects under RDP operation 16.10.01 Invitation for financial intermediaries to co-invest in projects published by the fund manager
May 2017	First agreements with financial intermediaries signed
November 2017	Selection of individual investment projects under RDP operation 4.2.01 'Processing, marketing and development of agricultural products' by the managing authority
March 2018	First contracts signed with final recipients
December 2023	End of financing eligibility period

3.1 Ex-ante assessment

Completed in September 2015, the ex-ante assessment provided evidence that a financial instrument would address a funding gap and would contribute to the achievement of EAFRD programme objectives.

The assessment noted that private sector investments were disproportionately affected by negative macroeconomic developments. In 2009, for instance, regional GDP fell by around 4%, but investments decreased by 11%. In particular, the high level of uncertainty and low liquidity appeared to have amplified the fall in investments, though impacting individual components of the supply chain to different degrees. While the level of uncertainty was linked to the macroeconomic context and political-institutional instability, the lack of liquidity for enterprises was found to be strictly connected to reduced credit offered by financial institutions.

On this basis and examining the sector, the ex-ante assessment quantified the funding gap in three steps. First, data from the national institute of statistics was used to calculate the number of enterprises operating in the Region with 'bad', 'poor', or 'good' liquidity conditions. Second, an average investment per enterprise, as well as the number of enterprises not investing due to a lack of liquidity were estimated based on the volume of total gross fixed investments in the sector and assuming that only enterprises with suitable liquidity conditions could invest. The estimated investment gap under different liquidity scenarios was estimated at between EUR 1.3 and 1.8 billion. Third, having assumed that 20% of the investments would not have been carried out under any circumstances and assuming a debt/equity ratio of 55 to 65%, the ex-ante assessor estimated that EUR 560 to 930 million of additional credit would be needed during the 2014-2020 programming period.

Given the objective to address this lack of credit, the ex-ante assessor identified food processing enterprises as the most suitable target to maximise the effectiveness of RDP support. These enterprises appeared to provide a higher level of long-term sustainability due to their ability to repay support, which would maximise the revolving use of public funds while also generating positive effects for farms.

Furthermore, a combination of grants and loans was compared to using either just grants or interest rate subsidies. This helped identify the added value of each option, based on the following assumptions:

- EUR 5 million average investment;
- grant support would cover 30% of the eligible investment;
- the combined support from grants and loans would cover 20% and 80% respectively, where the loans use both public (40%) and private (60%) resources;
- interest rate subsidies of 5% on a fixed interest rate loan;
- 10-year loan maturity for the combined grant and loan support, and for the interest rate subsidy options.

On this basis, the grant and loan combination appeared to maximise the resulting investment. This option, including the revolving resources, was expected to generate EUR 230 million of investments given an initial EAFRD contribution of EUR 23.3 million. This option was also preferred due to its higher capacity to enhance access to credit, attract private co-financing and ensure long-term sustainability.

3.2 Selection of the implementing body

Under a framework agreement signed in January 2016 Finlombarda SpA, the in-house regional development bank for Lombardy Region, operated as fund manager for ESI Funds implementation in the Region. Therefore, in April 2016, while establishing the financial instrument, Lombardy Region appointed Finlombarda SpA as fund manager for the Credit Fund.

As an in-house company, Finlombarda SpA contributed to the implementation of regional economic, social and territorial development programmes. It has designed, implemented and managed innovative financial products and services using its own, regional and EU resources along with co-financing from other financial intermediaries. Final recipients have included companies, citizens and public administrations in the region.

Support from the financial instrument was expected to be conditional on co-investment from private financial intermediaries. So in March 2017, Finlombarda SpA launched an open call inviting all financial institutions that complied with the requirements of the financial instrument to act as co-investors in projects. Agreements with intermediaries have included basic requirements such as a minimum period for storing the original documents and the need to allow site visits for audit purposes. By the end of January 2018, Finlombarda SpA had signed agreements with 11 banks.[5]

3.3 Funding and governance

The financial instrument has been financed through the RDP budget under sub-measure 4.2 'Processing, marketing and development of agricultural products'.

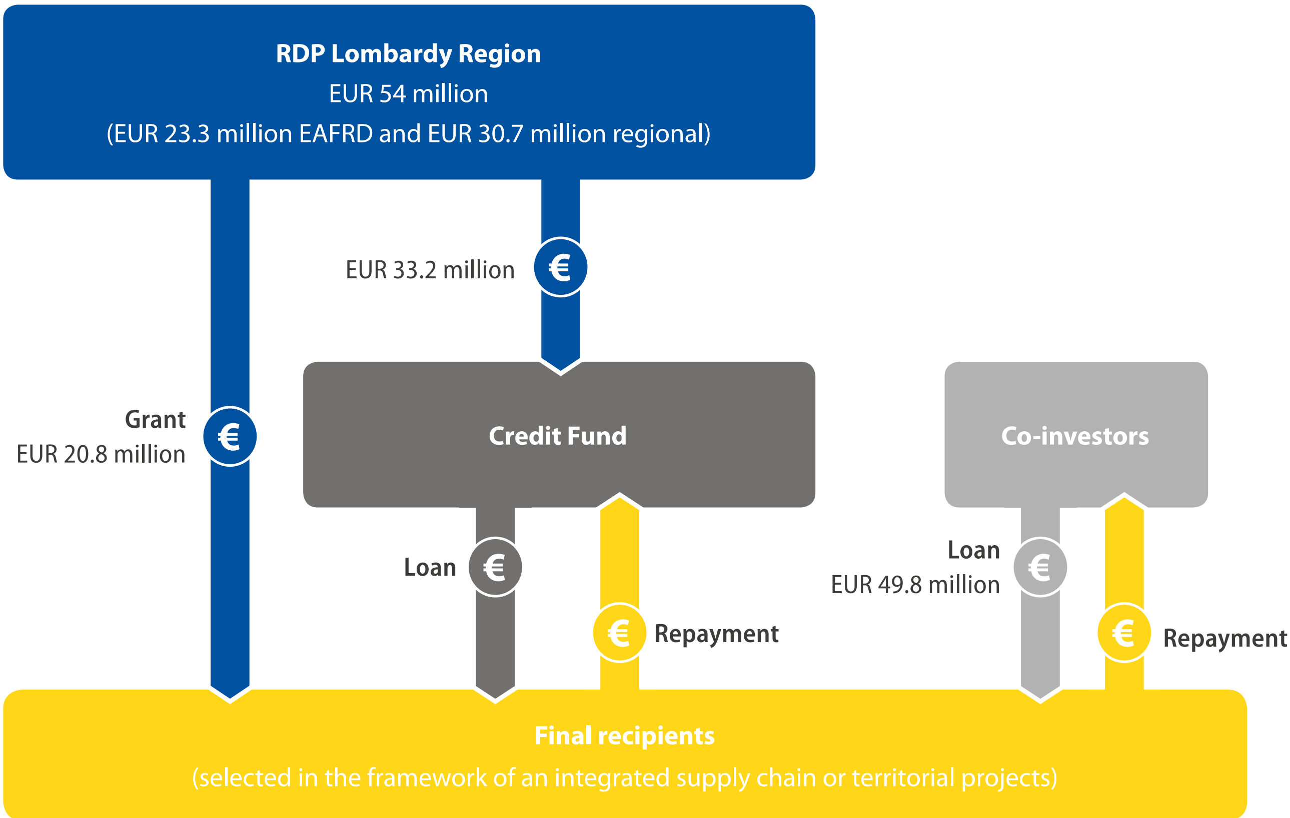
Figure 3.2: Funding sources and amount

	Funding source	Amount
Financial instrument	EAFRD	EUR 14.3 million
	National resources	EUR 18.9 million
	Total financial instrument	***EUR 33.2 million***
Grant support	EAFRD	EUR 9 million
	National resources	EUR 11.8 million
	Total grant support	***EUR 20.8 million***

5 These are: Banca Popolare Di Sondrio, UBI Banca, BCC Agrobresciano, Banco BPM, BPM SpA, Mediocredito Italiano (Gruppo Intesa Sanpaolo), Unicredit, MPS, Credit Agricole Cariparma SpA, Credito Valtellinese, BCC Banca Centropadana.

The Credit Fund was set up with the managing authority having overall responsibility for the initiative in the framework of the RDP, including the selection of final recipients. The paying agency has been responsible for authorising, executing and recording payments. Further, Finlombarda SpA has been responsible for management and implementation of the financial instrument. Financial institutions should co-invest in final recipient projects according to conditions agreed with the fund manager. The oversight of the financial instrument has been guaranteed by the RDP monitoring committee.

Figure 3.3: Governance structure



Marketing and promotion in the Region have been mainly been done by Lombardy Region. Seven seminars were organised across the Region to inform potential beneficiaries about the call to select supply chain integrated projects and about support from the financial instrument.

A meeting with interested financial intermediaries was organised by Finlombarda SpA in April 2017 to promote the financial instrument and to provide information about the conditions to join the initiative.

4 Implementation

Integrated projects have been designed to bring together a wide network of actors to develop or enhance a specific supply chain or territory. Integrated projects should be submitted by a lead partner under sub-measure 16.10 'Other forms of cooperation'. Under these projects, individual investment projects have included individual initiatives in pursuit of common objectives agreed for each participant. The individual projects have been supported under different sub-measures of the RDP[6] depending on the activity of the final recipient and the type of investment. In particular, they should include projects for processing, marketing and developing agricultural products, supported under sub-measure 4.2 through the financial instrument.

A first call for integrated supply chain projects (under RDP operation 16.10.01 'Integrated supply chain projects') was launched by the managing authority in July 2016 within the framework of measure 16 and led to the selection of six projects.

A second call for the same type of projects was launched in July 2017 with project selection expected to be completed in July 2018.

A third call just for integrated territorial projects (under RDP operation 16.10.02 'Integrated territorial projects'), was launched in July 2017. Preliminary selection of projects was completed in April 2018.

While integrated supply chain projects have looked to enhance production chains in Lombardy Region, integrated territorial projects have promoted the territorial, economic and social development of local rural systems, through the integration of public and private actors in the territory.

4.1 Financial products and terms

Total eligible cost for each individual investment project has been between EUR 500 000 and EUR 10 million. Investments by final recipients could be financed (100%) combining grants[7] (20%) and loans (80%).

Loans have been in two parts with 40% (which is 32% of the total eligible investment cost) from the Credit Fund and the remaining 60% (48% of the total eligible investment cost) from a financial intermediary that signed an agreement with Finlombarda SpA. Financial intermediaries have been chosen by the final recipient. To finance a project, the final recipient must sign one contract with the fund manager for resources provided by the Credit Fund, and another contract with the financial institution. Grant and loan support could be provided only in combination.

6 Integrated projects submitted under sub-measure 16.10 could also receive support from sub-measures 1.1, 1.2, 3.1, 4.1, 4.2 and 16.2.

7 Disbursements of capital grants have been governed by provisions issued by the paying agency. This could be either an advance payment of 50% and the balance at the end of the investment programme, or a single final payment at the end of the investment programme.

The maximum aid intensity is 30%[8] of the total eligible expenditure:

- 20% as a grant;
- up to 10% as the gross grant equivalent of subsidies on the loan from the Credit Fund.

Half the Credit Fund loan should be disbursed at contract signature and the remaining half after investments have been made, subject to verification by the regional paying agency of investment related expenditures.

The maximum maturity of a Credit Fund loan should be 10 years with up to 3 years grace period.

Eligible expenditure would include the construction or improvement of processing or marketing facilities, the acquisition of new plant and machinery, as well as the acquisition of new information technology equipment directly related to the investments.

The following table summarises the terms and conditions of financing.

Figure 4.1: Financial products key characteristics

	Grant	Credit fund loan	Co-investor loan
Target group	Companies from the agri-food industry		
Contribution[8]	20%	32%	48%
Maturity		Max. 10 Years (with up to 3 years grace period)	Max. 10 Years (with up to 3 years grace period)
Interest rate		0.5% annual rate	The interest rate is dependent on individual enterprise creditworthiness and the project risk.
Repayment		Early repayment possible at any time	Depending on the agreement

4.2 State aid

The financing of agri-industrial enterprises under this operation falls entirely within the scope of Annex I of the Treaty and complies with Regulation (EU) No 1305/2013, Art. 17 (Investments in tangible and intangible assets).

8 If the gross grant equivalent exceeds 30% the application will not be financed.

9 As a percentage of the total eligible expenditure for the investment.

In order to verify compliance with the maximum aid intensity, for each loan the gross grant equivalent has been calculated, irrespective of the type of investment and based on the project risks, including the value of collateral and the financial rating of the final recipient. This verification has also involved an exchange of information with the paying agency, to check for any other support received by the final recipient.

The final recipient must also declare that they have not received and not reimbursed or deposited in an escrow account[10] any aid that is identified as illegal or incompatible by the European Commission.[11]

4.3 Appraisal process

Individual investment projects applying for support under sub-measure 4.2 need to be part of an integrated project approved under measure 16 'Cooperation'.[12] An evaluation team within Lombardy Region assessed the administrative and technical features of the project, including the completeness, reliability, reasonableness and eligibility of expenses. In this phase, selection criteria have prioritised:

- technological investments, possibly leading to process or product innovations, quality or organic products, or an efficient use of resources;
- projects submitted by agricultural cooperatives or producer organisations, or where the price for agricultural products has been higher than market prices, or projects involving many farms;
- projects located in disadvantaged mountain areas or in protected natural areas.

As a second step, the fund manager made a financial and economic assessment. Projects considered too risky have been excluded from financing, and some less risky projects should provide collateral.

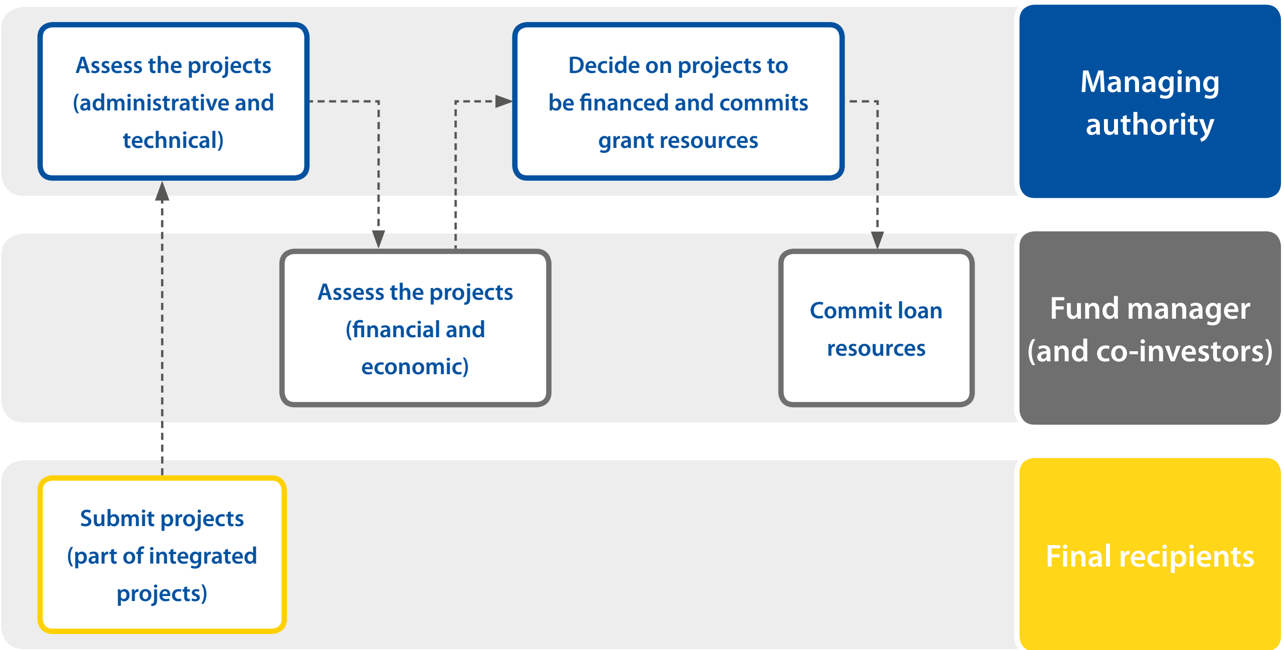
Applications managed electronically meant that successful applications were approved within about 180 days. The final recipient should present the required documentation within 90 days to Finlombarda SpA. The subsequent Credit Fund contract must be signed within 130 days of the grant notification.

10 An escrow account is held at a third party, with disbursement dependent on conditions agreed by the transacting parties.

11 According to Decree of the Presidency of the Council of Ministers 23 May 2007 (so called 'Deggendorf Commitment').

12 The selection process for integrated projects should include planned investments by individual interventions, submitted in hard copy by the lead partner.

Figure 4.2: Appraisal process



While grant support has been disbursed by the paying agency, Finlombarda SpA has disbursed the Credit Fund after checking final recipient compliance with corporate and payroll taxes, as well as other obligations.

Projects benefiting from the financial instrument must be completed within 24 months of publication of the approval.[13]

With the involvement of several parties, implementation of this financial instrument has been complex. However, according to the managing authority the participation of multiple financial intermediaries has guaranteed both competition and a quick signing procedure.

Competition (and better conditions for the agri-food sector) was also enhanced by the possibility for final recipients to replace the financial intermediary before signing the agreement with Finlombarda SpA.

13 In the official bulletin of Lombardy Region i.e. BURL.

5 Output

Under the first call for integrated supply chain projects, six applications for projects under sub-measure 4.2 were approved for financing with a total eligible investment of EUR 26.4 million, involving a maximum grant equivalent of EUR 7.9 million. This includes grant support of EUR 5.3 million and EUR 2.6 million maximum gross grant equivalent related to the Credit Fund. The projects have been in the dairy, horticultural and cereals industries.

By 9 April 2018, all six loan contracts with the final recipients were signed for a total amount of EUR 8.4 million and preliminary payments from the first call of EUR 4.2 million had been disbursed. Projects which applied for the second call on integrated supply chain projects were due to be awarded by July 2018. As at April 2018, a third call for integrated supply chain projects was planned to be launched that should result in complete absorption of the resources allocated to the financial instrument.

All in all, and as highlighted in the ex-ante assessment, by the end of the programming period the financial instrument should support 26 companies, benefiting also producers involved in the projects as suppliers. This would not include final recipients that could be supported by revolving the expected repayments under the instrument.

6 Lessons learned

Although at an early stage of implementation, some lessons can be drawn from the RDP Lombardy 2014 2020 financial instrument.

Support for integrated supply chain projects was intended to involve major agri-food companies together with agricultural producers. However, establishing integrated projects proved to be a challenge, especially with joint responsibility for repayment and because both partnership and competition could co-exist along the supply chain.

A rapidly changing financial market may not match public intervention. Market conditions underlying a specific design could change before implementing public support. This has been at least partially the case for the Credit Fund, where improving market conditions made public support less attractive to potential beneficiaries, because finance was more available.

Ensuring all financial intermediaries could participate, subject to an agreement with the fund manager, made it easier for final recipients as they could apply through their current bank. At the same time, given the wide range of eligible banks, final recipients could still look for the most advantageous conditions.

The participation of multiple financial intermediaries also highlighted their interest to co-invest with public resources, sharing the risk of new loans and potentially widening their customer base. From the RDP perspective, this also confirmed the potential to leverage private finance and increase the reach of public support. This could be valuable for situations where public resources become limited in the future.

Cooperation between multiple actors could be complex but outcomes could result in intangible benefits. Experience with the Credit Fund provided incentives for the financial sector to work with agri-industrial businesses, potentially enhancing responsiveness to opportunities in the sector. It also helped agri-industrial supply chains in the region to work together and embrace a culture of project management.

Finally, although the financial instrument has supported integrated projects, entailing additional complexity, it should enhance the benefits for the entire supply chain, in line with EAFRD policy objectives.

Notes

Notes

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