



State of play of Financial Instruments in the 2014-2020 portuguese RDPs

Vienna, 1 October 2015



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Past experience, comparison data of the sector

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THE PAST EXPERIENCE

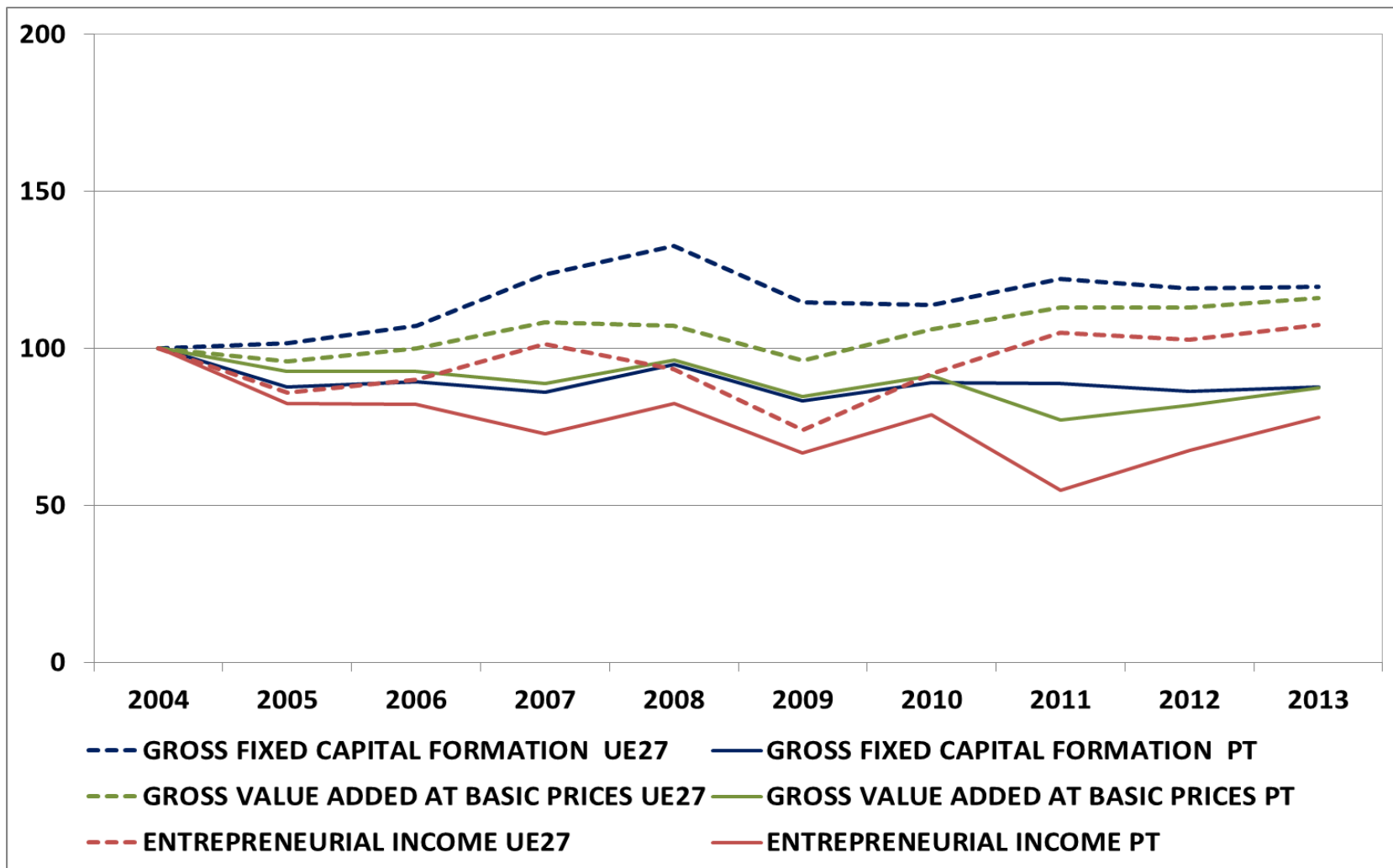
Financial instruments had a **first experience in the agricultural sector** in the programming period 2000-2006 with the implementation of the called "Financial Engineering" measure from the AGRO program.

The implementation of those measures allow:

- Make **available for the first time**, financial engineering instruments to the agricultural sector;
- Observe **good adequacy of guarantee instruments** to the sector's needs;
- In reverse, verify the **difficulties** of the projects relative to **Venture Capital** to be supported;

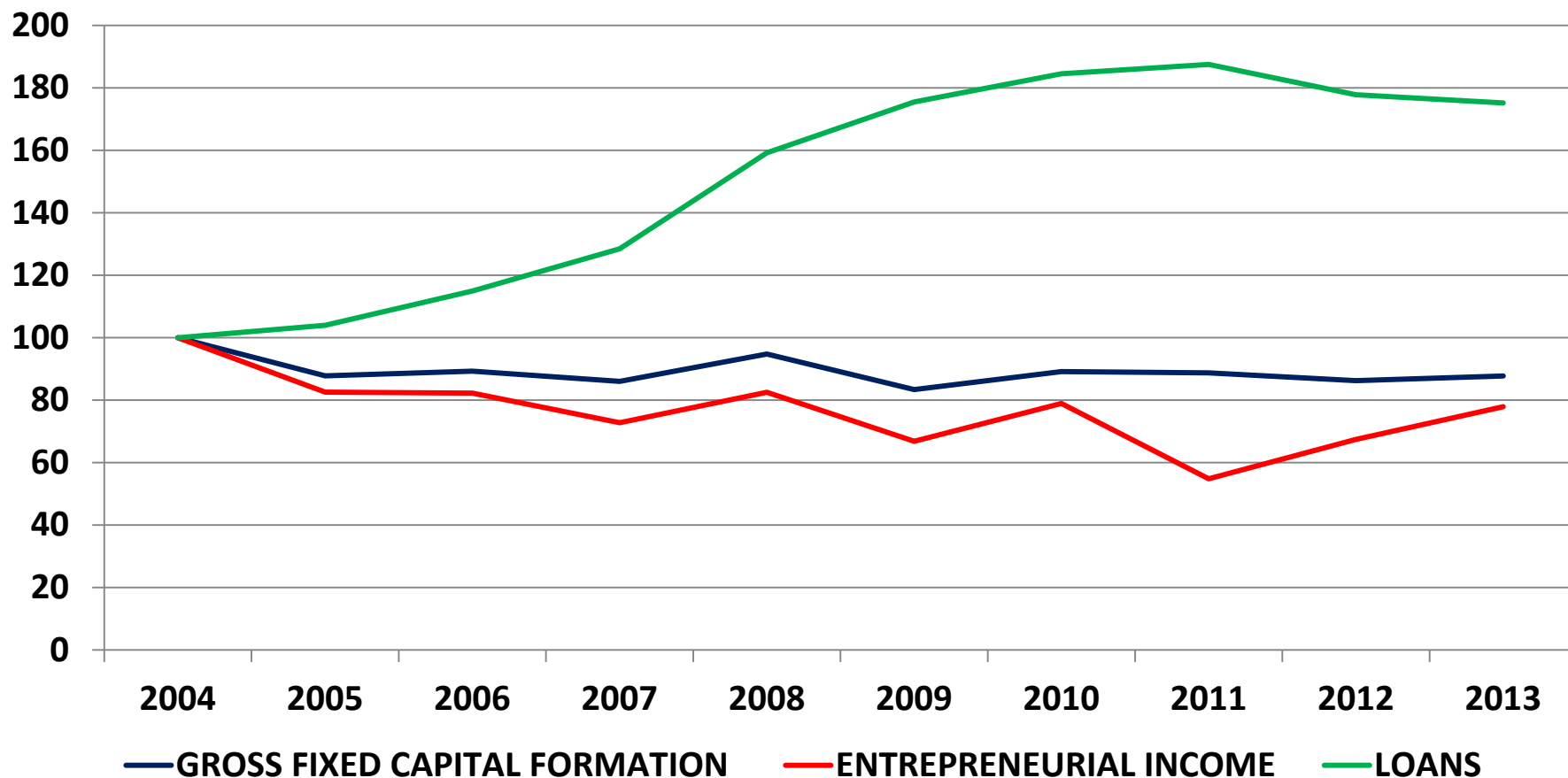


COMPARISON DATA PT vs EU27





Some PT economic and financial data





Mainland Rural Development Program 2014-2020

RDP 2014-2020 Objectives

SUSTAINABLE growth of the AGROFORESTRY SECTOR Throughout the COUNTRY

Increase the value added of the agroforestry sector and improve the trade balance

Efficient management and protection of resources

Economic and social enhancement of the countryside

Increase capacity for innovation and knowledge transfer in the agroforestry sector

Improve capacity-building and advisory services for agricultural and forestry producers, particularly in terms of management and efficient use of resources



GPP

SECRETARIA DE
PLANEAMENTO, POLÍTICA
E ADMINISTRAÇÃO RURAL

Structure of Mainland RDP 2014- 2020 and Public Support

A1. Innovation and knowledge

(97 M€ = 2,3%)

M1. Innovation

Ac1.1. Operational groups

M2. Knowledge

Ac2.1. Capacity-building and dissemination
Ac2.2. Advisory services

A2. Competitiveness and organisation of production (1.780 M€=42,7%)

M3. Valorisation of agricultural production

Ac3.1. Young farmers
Ac3.2. On-farm investment
Ac3.3. Investment processing and marketing of agricultural products
Ac3.4. Collective infrastructure

M4. Valorisation of forest resources

M5. Organisation of production

Ac5.1. Creation of PG/PO
Ac5.2. Interbranch organisations
Ac5.3. Business cooperation

M6. Risk management & restoring production potential

Ac6.1. Insurance
Ac6.2 Risk prevention & restoring production potential

A3. Environment, efficient use of resources and climate (1.991 M€ = 47,7%)

M7. Agriculture and natural resources

Ac7.1. Organic farming
Ac7.2. Integrated production
Ac7.3. Natura network payments
Ac7.4. Soil conservation
Ac7.5. Efficient use of water
Ac7.6. Traditional permanent crops
Ac7.7. Extensive grazing
Ac7.8. Genetic resources
Ac7.9. Agroforestry landscape
Ac7.10. Forest-environment actions
Ac7.11. Non-productive investments
Ac7.12. AE support to beekeeping

M8. Forest protection and rehabilitation

Ac8.1. Sustainable forestry
Ac8.2. Management of hunting resources and aquaculture

M9. Maintenance of agricultural activity in less favoured areas

A4. Local development (221 M€ = 5,3%)

M10. LEADER

Ac10.1. Preparatory support

Ac10.2. Implementation of strategies (namely):

- Small investments in farms and in processing & marketing
- Diversification into non-agricultural activities
- Renovation of villages
- Short chains and local markets
- Promotion of local quality products

Ac10.3. LAG Cooperation Activities
Ac10.4 Operation and animation



Mainland Rural Development Program 2014-2020

Financial Instruments - indicative allocation

Mesure 4 - Investments in physical assets
(exemples: support for investments in agricultural holdings or in processing/marketing of agricultural products)

18,5 M€
EAFRD

Mesure 8 - Investments in forest area development and improvement of the viability of forests
(exemples: support for afforestation/creation of woodland)

8,4 M€
EAFRD

TOTAL
26,9 M€
EAFRD



The Economic context

- Portuguese enterprises, when compared to those in more developed European countries, **are generally less capitalised and more indebted, especially in terms of short-term debt**, with greater difficulty in accessing financing and higher financing costs
- Economic activity in Portugal **has contracted** sharply in recent years, accompanied by a **generalised collapse in financing and investment**. As a result, namely the SMEs **economic and financial situation has deteriorated** significantly, with important repercussions for debt and capitalisation levels.
- The **credit crunch had heavier consequences for SMEs** than for large enterprises, namely in the agro-food sector, leading to **major vulnerability** to negative impacts stemming from shocks to the Portuguese financial system.



The Agri-food context

- **Scarcity of bank financing is a relevant constraint** to the competitiveness of the agricultural and food processing sector, blocking innovative initiatives, entrepreneurship and the setting-up of new businesses; (-)
- **The agricultural sector is being transformed by qualified entrepreneurship** (partly for survival purposes), led by young farmers in specialized fields (berries, medicinal and aromatic plants...); (+)
- In the agricultural sector, **high growth companies** have a **higher weight** and a **higher survival rate** than in the economy as a whole; (+)
- **Excessive weight of short-term debt** and of the use of lines of credit, overdrafts and subsidies in the balance sheet of agricultural enterprises is a drawback. (-)



The main findings of Ex ante Assessment

- **Excessive financing costs** as compared to the profitability and risk of the operations (in the primary sector the cost of financing is 2.5 percentage points higher than the average in the euro area)
- **Existing investment is insufficient** to achieve the potential growth of the sector, due to unsatisfied demand.
- **Volumes of credit** granted to companies **insufficient** to meet investment needs
- Many companies with **insufficient levels of capitalization**
- **Volume of venture capital insufficient** to support new high-risk and innovative business initiatives.



The main findings of Ex ante Assessment

CONCLUSIONS of the analysis unequivocally confirms the **existence of market failures and insufficient investment levels** both in terms of availability and financing cost and in terms of capitalization levels and supply of capitalization instruments:

* The **financing gap in debt instruments** (loans and equivalents) is **between 240 and 370 M€** (evidence of unmet financing demand, due to lack of collateral and banking track record – credit history)

*The **financing gap in capitalization needs** is **between 39 and 59 M€** (amount of equity needed to provide the appropriate financial balance and turning holdings and processing companies viable)



The main findings of Ex ante Assessment

PROPOSED INVESTMENT STRATEGY for FI is **improving access to finance for viable enterprises**, namely by:

- **Bridging market failures** concerning the financing of innovative investments
- **Supporting viable investments** that are unable to raise sufficient funding on the market
- **Additional public and private resources** to be potentially raised, expanding the RDP intervention
- **Efficiency gains** due to the repayable nature of funds (recycling)



The main findings of Ex ante Assessment

DESIGNING AGRI-FOOD FI – the diversity of problems faced by Portuguese agro-food companies justifies the **mobilization of a wide and diversified range of FI:**

-DEBT INSTRUMENTS [leverage effect: 1-10 for guarantees and 1-3 for loans]

(Guarantees, loans and interest rate bonus) – *responding to market failures associated with the cost of financing and inadequate funding. In certain segments where guarantee mechanisms seem not to provide the appropriate resources or where companies face additional funding difficulties, loans might be used, eventually shared with EIB, with long-term maturities oriented to agricultural investments in long-cycle productions.*

-EQUITY AND QUASI-EQUITY INSTRUMENTS [leverage effect: 1-4/5]

(Mezzanine, equity, venture capital and business angels) – *reducing the equity gap needed for leveraging additional loans, increasing the early stage, and start-up capital, supporting the development stage of holdings and agri-food companies.*

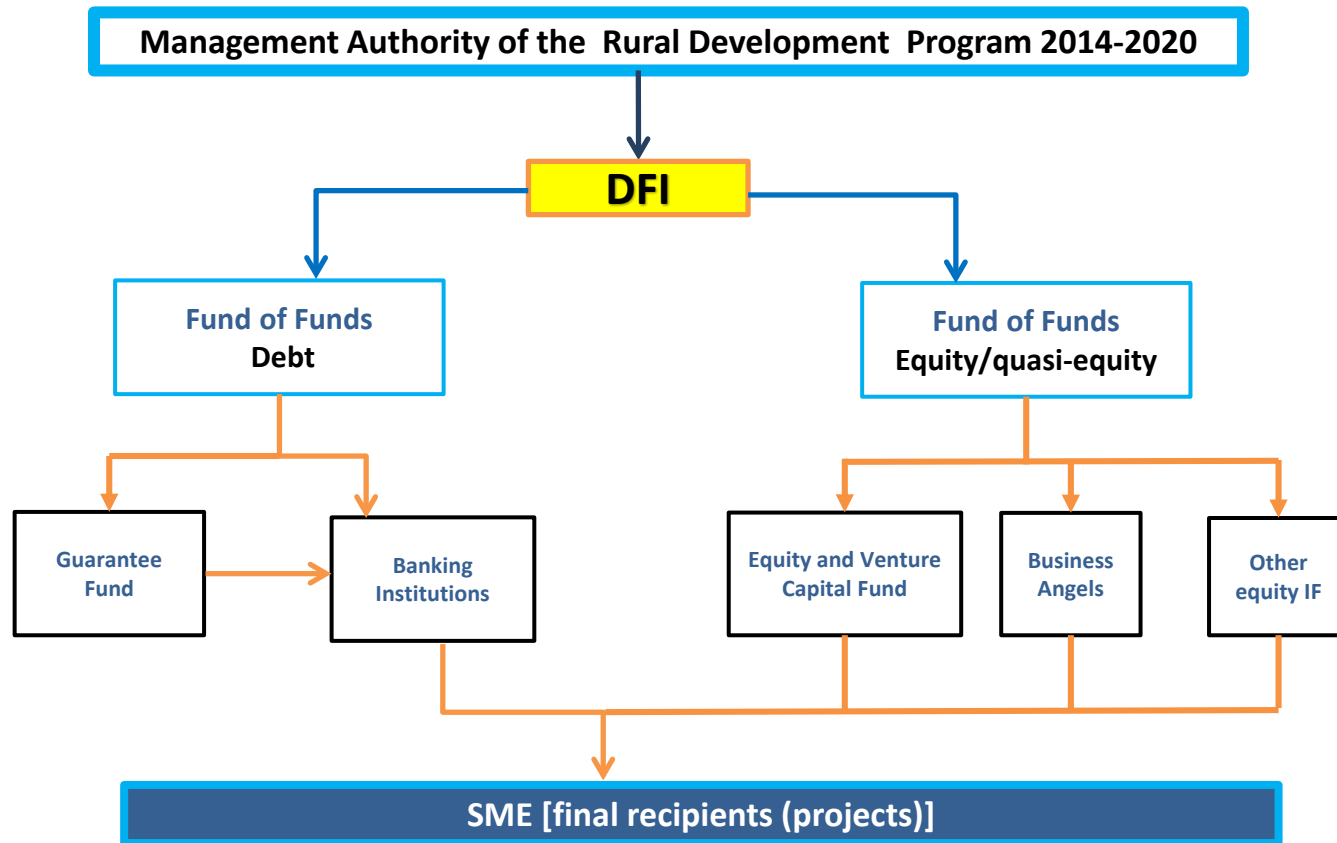


Operational model

- Portugal will have a **centralized management model planned by the DFI** (Development Financial Institute), a body dedicated to implement FI (a “financial wholesale”) that **will be responsible for the management of the financial resources allocated to FI**, as well as ensuring the involvement of various key actors in the management.
- The DFI will be also responsible by the **management of the repayable Funds (ESIF)**
- For that purpose, the **DFI concludes financial agreements with the MAs.**



Governance model





The future decisions

OPTIONS UNDER DISCUSSION for the programming of the FI in the RDP

2014-2020:

- Chose of the **kind of FI** (debt instruments and equity instruments)
- Use FI only for certain **types of investment or sub-measures**
- Support only for **investment** or also to **working capital**
- **Autonomous support** or possible **complementary support of grants** in the same operation
- Instruments with **possible articulation with EIB loans**
- **Financial allocation** and expected **impacts**



Thank you

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