

2. European *fi-compass* conference on financial instruments under the EAFRD

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Dear colleagues, ladies and gentlemen,

First and foremost, let me thank Commissioner Phil Hogan for the invitation to this conference. It is an honour for me that I can speak today to this broad spectrum of professionals, also from the point of view of the current Council Presidency.

Let me look at the topic of today's meeting in a broader context – as the **access of farmers to finance**. It would be probably hard to find a topic that is more “European” by its very nature – be it a small farmer with a few hectares of land in the Northern Europe, a family enterprise for instance in France or a large farm in Slovakia, this topic is of similar interest to everyone.

The Common Agricultural Policy is an exceptional concept that has been serving the farmers for the past decades to better face the challenges inherently connected with agriculture. The ambitious goals set out in the Treaty are fulfilled through a comprehensive “menu” of instruments. The most important ones are, of course, of financial

nature – it is therefore natural that the CAP needs a considerable budget for that.

Agriculture is a sector that can hardly be compared to other types of business activity. Here I will mention Slovakia – after the Velvet revolution, major structural challenges occurred in our economy; among them also the shift from agriculture towards industry and services. After 1989 we have experienced an unprecedented decline in all economic indicators of agri-food industry; whether it was its share in the GDP, the employment rate or the numbers of livestock – this all has affected the viability of Slovak countryside, which, however, remains to be home to the majority of Slovak population. However, thanks to the accession to the EU, we have had the opportunity to participate already in four rural development programmes that have delivered numerous investments and their positive effects are visible across the whole country today. **Well-configured tools of the Common Agricultural Policy have undoubtedly an essential impact on the rural economy** precisely because they facilitate the access to finance for agricultural businesses.

Besides farmer's own sources and payments from both pillars of the CAP, loans are a significant source of financing, whether short-term or long-term. Agri-businesses often use short-term loans to bridge over the period of financing their agricultural activities until obtaining profits from their production or support from the CAP. In Slovakia, we note that there is a considerable year-on-year increase in these

loans – as well as longer-term loans that are used mainly to finance investments in physical assets. From 2009 to 2015 the volume of loans increased by more than 37 %. This is clear evidence that **farmers need banking products for the development of their activities**, but the very nature of this sector causes that farmers are often less attractive clients for commercial banks. The results of their activities are largely dependent on factors they cannot influence, such as weather and the subsequent instability of harvests. In addition, they face low profit margins and price volatility on global commodity markets. The situation is aggravated by the level of fixed costs that the farmers need for their activities and the issue of sufficient guarantees for obtaining a loan. Small and medium enterprises are particularly vulnerable when it comes to the available level of funding.

So, like other policies, the CAP strives to evolve in order to react to global developments in a dynamic fashion. In this context, I consider **financial instruments in rural development** to be such reaction to the needs of farmers – entrepreneurs that need the support of private sector in their economic reality. It should be stressed that farmers often need tailor-made products – whether it's working capital financing in different forms or long-term investment loans. For instance, in Slovakia one of such products is a specific loan for the purchase of land, as of this year also available to young farmers.

To come back to the topic of financial instruments, we know that they are based on different principles than the more traditional tools of the

CAP, and maybe that's why their implementation in rural development programmes has been approached with some caution so far. Grants of course play a fundamental role in the rural development policy. If, however, we manage to target the financial instruments correctly, they can appropriately complement other instruments of rural development with a view to improving the competitiveness of agri-food sector.

Dear colleagues, investments in agriculture and European rural areas have to be a priority. This is also one of the main messages of the Cork 2.0 declaration. As regards the Council, we note the efforts of the European Commission and the EIB group to promote the use of financial instruments. In this regard, the importance of this conference and other similar platforms needs to be stressed, in particular as far as the exchange of know-how and “first-hand” experience is concerned. For managing authorities it is crucial to understand this topic, therefore we should not be afraid to ask questions.

At the moment, we as co-legislators are actively discussing the Omnibus draft regulation, where the Commission proposed a significant simplification of the implementation of financial instruments. As Presidency, we dedicated our Informal meeting of Directors for Rural Development to this topic, because it is paramount that all stakeholders hold an **open dialogue on how to bring to agriculture more investments and smart use of resources.**

In this context let me also point out that discussions on the future of the Common Agricultural Policy are starting at the Council level. In

the coming months it will be our joint task to ponder the question of making access to finance easier for farmers - as a means of securing farm income and overall development of the sector. The guiding principle must be the effort to prepare a simple and user-friendly legal framework.

Ladies and gentlemen, agriculture has to remain a strategic sector for the European Union. It is therefore right to seek the means of strengthening this sector. Such strengthening can be found also in the synergy between private capital and public finance.

In conclusion, let me wish us all a fruitful discussion during this conference that I hope will bring many good ideas and insights useful also for the future.