

**Public Consultation Paper**

**Proposal to introduce Financial Instruments under the Rural Development Programme 2014-2020 and the European Maritime Fisheries Fund Operational Programme 2014-2020**

Department of Agriculture, Food and the Marine

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**Introduction**

Financial instruments are a form of support which may be made available under the European Structural and Investment Funds. They may be introduced under one or more funds, provided that an ex ante assessment has established that prevalent market failure or suboptimal investment exists, justifying their introduction.

In order to assess the potential for the introduction of Financial Instruments under the [European Agricultural Fund for Rural Development](https://www.agriculture.gov.ie/ruralenvironment/ruraldevelopmentprogrammerdp2014-2020/) (EAFRD) and the [European Maritime and Fisheries Fund](http://www.agriculture.gov.ie/emff/) (EMFF) , the Department of Agriculture, Food and the Marine (DAFM) commissioned Indecon International Economic Consultants to carry out an ex ante assessment. This assessment involved a detailed evaluation of access to finance for enterprises in the agriculture and seafood sectors in Ireland.

The ex ante assessment has been finalised and recommends the introduction of a Financial Instrument, covering both Funds. The views of stakeholders are now being sought on this proposal so that an informed decision may be made on whether to introduce the proposed Financial Instrument.

The ex ante assessment is published and available on the Department of Agriculture, Food and the Marine’s website at the following link: <https://www.agriculture.gov.ie/ruralenvironment/ruraldevelopmentprogrammerdp2014-2020/>

**Background**

In the past EU market intervention and investment in agriculture and seafood has typically occurred in the form of grants and subsidies. However, economic difficulties experienced in Europe post-2008 have led to a re-evaluation of such practices. The economic constraints of individual member state budgets have fed through to the EU’s budget, the Multiannual Financial Framework (MFF) 2014-2020. Therefore, various European institutions have sought more effective leverage of the five European Structural and Investment Funds (ESIF). Financial Instruments are one proposed method of alternative intervention. A Financial Instrument (FI) is defined under Article 2 (p) Regulation (EU/Euratom) no 966/2012 as a *“Union measure of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk sharing instruments, and may, where appropriate, be combined with grants”.*

Financial Instruments or revolving forms of finance allow funds such as the ESIF to make more effective and sustainable use of limited funding. These Financial Instruments occur in a number of formats (e.g. loans, investments and guarantees) and may be combined with private resources. In the case of guarantees, the ESIF may opt to guarantee a percentage of a loan, thereby reducing risk to private entities and lowering the cost of credit to applicants. By using funds in this manner it is possible to leverage funds a number of times, to expand their impact, while reducing reliance on grant aid.

An ex-ante-assessment for financial instruments is compulsory under the Common Provision Regulation (CPR) 1303/2013[[1]](#footnote-1). The introduction of mandatory ex-ante assessments is aimed at ensuring sound evidence-based decision-making on the part of the Operational Programme Managing Authority in terms of use of financial instruments.

If it is envisaged that more than one FI, across a number of ESI Funds, will be launched at the same time, the work can be combined in one ex-ante assessment as long as it includes different bundles of assessments taking into account the specificities of each of the Operational Programme(s) in question, therefore providing specific conclusions at the level of each Programme contributing to the FI(s).

Once an ex-ante assessment is complete a decision can be made on whether or not to implement a FI. If a decision is made to proceed with FIs then an agreement must be reached between the Managing Authority and other potential stakeholders/financial institutions on a clear investment strategy that is developed from the gaps, if any, identified in the ex-ante assessment. Following this, an appropriate amendment would have to be made to an Operational Programme(s).

**Summary Ex-Ante Assessment Findings**

* The agriculture and seafood sectors face higher output price volatility than many other sectors. This represents a source of uncertainty for financial institutions evaluating lending applications to support investments in these sectors. An additional source of uncertainty arises from the potential impacts of Brexit on key markets for agricultural and seafood exports.
* The agricultural representative bodies consulted by Indecon supported the finding that there were restrictions on access to finance in the agriculture sector and, in particular, for younger farmers.
* The representative organisation for the fish processing sector also suggested that credit access is a challenge for the seafood sector and that EMFF backed financial instruments have a role to play in overcoming this challenge.
* The independent Credit Review Office also assessed that there were market failures in the provision of finance for the agriculture and seafood sectors
* Indecon’s modelling estimates, based on anticipated output values in Foodwise 2025, indicate a potential funding gap for capital investment in agriculture of around €105 million in 2016 and that this could rise to nearly €350 million by 2025 if the sector expands in line with national targets.
* Indecon’s modelling estimates for the seafood sector suggest a potential financing gap of over €20 million in the seafood processing and aquaculture sectors, rising to around €42 million by 2025.
* The challenges faced by agricultural and seafood enterprises in accessing capital are likely to be related to the capital constraints facing the Irish banking sector following the financial crisis which occurred in the Irish economy and international banking markets.
* There is evidence of higher interest rates faced by enterprises in the agricultural and seafood sectors relative to those charged to enterprises in other sectors of the Irish economy. Irish enterprises in these sectors also face higher interest rates relative to the prevailing rates in other EU Member States.
* Survey evidence suggests that a significant reason for banks refusing loan applications was a lack of borrower credit history. This represents an information asymmetry between the potential borrower and the lender.
* The absence of sufficient collateral by SMEs in the agri and seafood sectors is likely to impact on the willingness of institutions to lend to these enterprises. For some agri and seafood enterprises, the difficulty of separating principal private residences from businesses is also an issue.

**Summary of Recommendations and Proposed Investment Strategy**

* Indecon recommends that the Managing Authorities for the two funds should introduce, on a pilot basis, a Financial Instrument for the agricultural and seafood sectors involving partial loan guarantees and interest subsidies.
* This FI, in Indecon’s view, should be accessible to enterprises in the agriculture and seafood sectors in receipt of other RDP/EMFF grant funding. Non SME seafood processors should also be eligible for a partial financial guarantee as part of the FI although these firms are not eligible for grant funding.
* In terms of structure, the loan guarantee aspect of the proposed FI and the interest rate subsidy should be structured as a single Financial Instrument while the grant portion of RDP/EMFF funding continues to be administered separately by the respective Managing Authorities.
* The proposed FI should be implemented by the Managing Authorities in partnership with a specialist agency such as the Irish state development bank, the Strategic Banking Corporation of Ireland (SBCI) or the European Investment Bank (EIB). The implementing body should be appointed in line with public procurement rules.
* The FI should be established based on a combination of funding from the EAFRD and the EMFF. Without combining the funding sources, Indecon believe that a FI for the seafood sector would not reach a sufficient scale to justify the introduction of a standalone FI and would be an unviable instrument.**Key Elements of the Pilot Financial Instrument as Proposed**
* Lending of between €100 - €130m will be supported in the pilot Scheme.
* This lending would be underpinned by a DAFM contribution from the RDP/EMFF.
* As lending is repaid the funds are issued again in new lending.
* Standard Credit Criteria will be applied.
* A maximum of 70% of any individual loan to be guaranteed, but raised to 80% for young farmers and seafood start-up businesses.
* Guarantee capped at 15% of the total loan portfolio but a cap of up to 25% of the lending portfolio to be guaranteed for young farmers and seafood start-up businesses.
* Total aid provided via the proposed FI will be capped in line with State Aid regulations with account to be taken for potential accumulation of aid via the proposed FI and other forms of aid. For the RDP this would mean that farmers who avail of a FI **will receive a lower grant than farmers who do not,** as the aid intensity of 40% (or 60% for Young Farmers) must be respected and the cost of the guarantee plus interest subsidy plus management fees plus grant is included when reaching that threshold; this would come from the existing RDP allocation for TAMS.
* For the EMFF, Indecon’s Ex-ante Assessment recommends support through financial instruments for capital investment in the aquaculture and seafood processing sectors. The maximum aid intensities specified in the EMFF Regulation for private enterprises in the two sectors concerned is 50% for SMEs and 30% for non SMEs. A higher rate of 60% is permitted for collectives such as registered cooperatives. Generally speaking, the schemes implemented under Ireland’s EMFF Operational Programme provide maximum aid for capital investment below these maximum permitted aid intensities. For example, 30% is provided to SME seafood processors and 40% to aquaculture SMEs. These represent the vast bulk of grant recipients potentially affected by the proposed financial instruments. However, there are some exceptions where aid is already provided at the maximum permitted aid intensity specified in the EMFF Regulation. Non-SME aquaculture enterprises are presently allowed aid of the maximum 30% permitted under the Regulation, while new entrants to the aquaculture sector are allowed the maximum 50% permitted. In addition, special incentive rates of 50% are allowed to SME aquaculture enterprises for investment in seaweed aquaculture, integrated multi-trophic aquaculture and closed containment system aquaculture and these are at the maximum permitted under the EMFF Regulation. Therefore, in order to avail of additional aid in the form of financial instruments, the exceptional cases detailed above would see a corresponding reduction in grant aid, so that the overall aid is maintained within the limits of the maximum aid intensity permitted under the EMFF Regulation.
* No additional EAFRD or EMFF funding to be made available for the introduction of the Financial Instrument.

**The Consultation Process**

To ensure that maximum stakeholder input is received you are invited to give us your views on the proposal, as outlined in Indecon’s report, to introduce a Financial Instrument under the Rural Development Programme and the European Maritime and Fisheries Fund Operational Programme.

The closing date for submissions is **Friday 13th October, 2017.**

When responding, please indicate whether you are farmer, a member of the fisheries or aquaculture sector, a professional adviser, representative body, a financial institution, non-governmental organisation or member of the public.

Once these views have been received and considered, a decision will then be taken on whether this type of Financial Instrument should now be introduced under these Programmes.

*How to respond*

The preferred means of response is by email to: financialinstruments@agriculture.gov.ie

Alternatively you may respond by post to:

Financial Instrument Consultation

Rural Development Division

Department of Agriculture, Food and the Marine

Agriculture House

Kildare Street

Dublin 2

*Freedom of Information*

Responses to this consultation are subject to the provisions of the Freedom of Information Acts. Parties should also note that responses to the consultation may be published on the website of the Department of Agriculture, Food and the Marine. Respondents should avoid including in their submissions personal or sensitive information that they do not wish to see published.

*Meetings with key stakeholders*

DAFM may also invite key stakeholders to meet with them.

1. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1303&rid=1> [↑](#footnote-ref-1)