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Assessing the potential use of Financial Instruments in Greece in agriculture

A study in support of the *ex-ante* assessment for the deployment of EAFRD resources through financial instruments during the 2014-2020 programming period

Final Report

18 May 2018

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The survey covered the estimation of the demand for potential beneficiaries under the following NACE codes that were discussed and agreed between the Managing Authority, EIB and PwC:

- 01 and all its subcodes other than 01.7 & all enterprises falling within the classes, categories, subcategories and national activities of the industry
- 10.1, 10.3, 10.4, 10.5, 10.6 & all enterprises in the classes, categories, subcategories and national activities of these subcodes
- 10.84.11 & all businesses included

- 10.89.12 & all businesses included
- 10.89.19 & all businesses included
- 10.91 & all businesses that fall into the classes, subcategories and national classroom activities
- 11.01, 11.02, 11.03, 11.04, 11.05, 11.06 & all businesses in the categories, subcategories and national activities of these subcodes
- 12.0 & all businesses that belong to the classes, categories, subcategories and national activities of the industry
- 13.10 & all businesses included within the classes, subcategories and national activities of the subcode

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Notes		

Table of Contents

Table of figures

Table of tables

List of Acronyms

AWU	Annual Working Units
BoG	Bank of Greece
BRF	Base Rate for Farmers' Loans
CAGR	Compound annual growth rate
CAP	Common Agricultural Policy
CDR	Commission Delegated Regulation
CL	Credit Limit
CLLD	Community Led Local Development
CPR	Common Provisions Regulation
COSME	Europe's programme for small and medium-sized enterprises
EaSI	EU Programme for Employment and Social Innovation
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortization
EC	European Commission
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EIP(s)	European Innovation Partnership(s)
EAFRD	European Agricultural Fund for Rural Development
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF /ESI Funds	European Structural and Investment Funds
ELSTAT	Hellenic Statistical Authority
EU	European Union
EUROSTAT	Statistical Office of the European Communities.
FA(s)	Funding Agreement(s)
FADN	Farm Accountancy Data Network
FI(s)	Financial Instrument(s)
FLPG	First Loss Piece Portfolio Guarantee
FoF	Fund-of-Funds
GBER	General Block Exemption Regulation

GGE	Gross Grant Equivalent
GVA	Gross Value Added
ha	Hectare
HF	Holding Fund
HFM	Holding Fund Manager
HFSF	Hellenic Financial Stability Fund
IB	Investment Board
ICT	Information and Communication Technologies
InnovFin	Finance for innovators
IFI(s)	International Financial Institution(s)
IPE	Investment Plan for Europe
IS	Investment Strategy
JEREMIE	Joint European Resources for Micro to Medium Enterprises
KEAO	Centre of Collection of Insurance Charges
LAG(s)	Local Action Group(s)
LEADER	Liaison Entre Actions de Développement de l'Économique Rurale
MA(s)	Managing Authority(ies)
MIN AGRIC	Ministry of Agriculture
MFIs	Multilateral Financial Institutions
MS(s)	Member State(s)
NACE	Nomenclature des Activités Économiques dans la Communauté Européenne
NPB(s)	National Promotional Bank(s)
NPL	Non-performing loans
NSRF	National Strategic Reference Framework
OA(s)	Operational Agreement(s)
PEs	Private Equity Funds
RDI	Research, Development and Innovation
SME(s)	Small and Medium-sized Enterprise(s)
TA	Technical Assistance
TFEU	Treaty on the Functioning of the European Union
VC	Venture Capital
WCF	Working Capital for Farmers

Executive summary

Context and objective of the study

This report has been prepared as part of the study "Assessing the potential future use of Financial Instruments (FIs) in Greece's agricultural sector in the 2014- 2020 programming period". The report is analysing the economic context of Greece's agricultural sector, the RDP's strategy and measures for which Financial Instruments are envisaged, as well as experiences from the establishment of other Financial Instruments for the sector. In the context of the current report a thorough analysis of the supply side is also illustrated as well as a qualitative approach of the demand side.

Supply Side

On the supply side, there are many financial products offered to the agricultural sector by the commercial and cooperative banks, including agro-carta, contract farming programmes, working capital financing, investment financing, as well as support from EU programmes. On the other hand, the supply of financial products to the agri-food processing sector refers mainly to the banks' corporate or business banking products.

A great amount of public funding is budgeted for the agriculture and agri-food processing sector which is estimated at EUR 14,200m for direct support and EUR 463m[1] for investments in the sector in the context of the RDP 2014 – 2020.

The maximum volume of financing for producers expected to be offered by the banking system and could be combined with Financial Instruments (FIs) is estimated around EUR 278.3m until the year 2020. Concerning the loans disbursed by the banks, a key issue is that commercial banks require a large range of collaterals and guarantees from small and large farmers in order to provide them with financing.

The maximum volume of financing for agri-food companies expected to be offered by the banks and that could be combined with Financial Instruments (FIs) is estimated around EUR 363.2m until year 2020. Concerning the loans disbursed by the banks, a key issue as for producers is that commercial banks require a large range of collaterals and guarantees from small-sized processors in order to finance them.

The agricultural sector is facing significant difficulties in terms of access to financing from the banking system, namely the most important issues are the lack of guarantees that producers can provide, high level of tax liabilities, and lack of historical records in the financial system -especially for the newcomer farmers. In the agri-food processing sector, only the small-sized food processing firms have difficulties in accessing the traditional banking system. Large processors have easier access to bank financing as they have historical records in the banking system and banks are generally willing to finance them.

Farmers and processors needs for finance

Agriculture in Greece is characterised by small farms and low capital investment. Lower agricultural productivity in Greece, compared to other EU Member States, is correlated to the smaller average size of holdings. The economies of scale offered by modern farming practices have limited impact on the small plots of land typically used in Greece.

Greece's financial crisis has affected all areas of the economy, including agriculture. Besides the impact of the financial crisis, the share of the agricultural sector in the total GDP in Greece has been declining

[1] Sub – measure 4.1

due to sustainable development of rural areas and to its inability to modernise despite applied national and European strategies. As a result, a declining contribution to the GDP has occurred in absolute terms since 1985, the share of agricultural output as a share of total GDP has increased since 2009 (Table 1, page 19) during the crisis to 4.1% as of 2015. This is due to newcomer farmers utilising fallow land, applying new technologies and high quality standards for promoting exporting of Greek farming products and to strong efforts of modernising existing capacities to meet internal and external demand.

Modernisations of production as well as the application of new methods across the value chain, generate needs for investments. Most of the existing farmers lack additional capital for investments since its need is to cover working capital. Greek producers and micro/small sized food processors feel discouraged when seeking banking finance due to a lack of willingness, guarantees, and credit risk level, on the part of the banks to provide such funding. Based on our interviews and data gathering, most of them stated that they faced a lack of support from domestic commercial banks. Furthermore, farmers' assets are already mortgaged for loans granted in previous periods mainly by the former Agricultural Bank. It should be noted that all processors interviewed are planning to proceed with future investments, where the materialisation of their investment plans is highly dependent on their access to finance.

Preliminary findings about financing needs and issues

As stated above, a large number of agricultural holdings, irrespective of size, cannot be financed or have only very limited access to financing through the financial institutions (mainly commercial banks) because are considered highly risky. Therefore, producers appear to rely mainly in the receipt of public grants, which do not exceed EUR 20,000 and of loans from family & friends. In addition, micro-loans are seen as a relevant financing product also. However, Greek farmers' lack of equity often appears to be an important factor that restricts them from receiving financing from banks.

Their financial needs can be categorised into:

- Short-term needs for working capital, mainly for the purchase of agricultural inputs (up to one-year loans, typically ranging from EUR 10,000 to EUR 25,000)
- Medium and long-term needs related to the financing of investment plans - mainly for equipment purchases (machinery) and other investments in fixed assets (land purchases, plant extensions, etc.). The average duration of the loans that meet these needs is around 8 years.

In terms of availability of the financing they need, it is should be highlighted that less than half of the farmers have obtain the full amount they sought for over the last 3 years.

With regards to processors, it should be noted that banks do not differentiate their approach towards food processors relative to how they approach companies in other manufacturing industries, although a distinction is made between micro- and small-sized processors on the one hand, and large and medium-sized food processing companies on the other hand. Processors appear to have relatively easier access in a wider range of financing products – compared to farmers- and especially micro-loans.

Processors, similarly to producers, receive financing mainly from public grants and family/friends, but they also state that all types of banking loans are relevant to them. Still, for the next 12 months, micro-financing and other types of loans are not expected to cover the financing needs of processors, who mainly intend to seek for financing through public grants.

In terms of needs, processors need financing mainly in order to purchase equipment and materialise their investment plans, as well as for marketing and promotion of their products abroad. For medium sized and large processors, which have easier access to financing compared to micro and small firms, there is a need for more favourable financing terms and conditions in order to enhance their competitiveness (e.g. they could benefit from a potential reduction in the interest rate by around 2%, in order to become more competitive relative to foreign companies in their sector). In particular, medium sized and large processors' financing needs can be summarised by the following key points:

- Significant needs for financing the purchase of inputs (raw materials)
- Significant needs for the financing of their investment plans
- Needs for marketing and promoting their products abroad

Finally, it is noted that circa 40% of the processing firms would provide own shares and equity for receiving financing, while some companies also expressed their willingness to finance themselves through the issuance of bonds or additional shares in order to acquire the financing needed.

Investment Strategy

Based on the findings of the survey and interviews, three financial instruments for different segments of the market have been identified. These are

- a first loss portfolio guarantee instrument covering M4.1, M4.2 and M19.2
- an equity co-investment facility for high-potential producers and processors, and a
- risk-sharing micro-loan instrument for producers and micro-processors.

The four major Greek commercial banks that were interviewed during the soft market testing phase confirmed the relevance of the proposed financial instruments to address identified market needs. Furthermore, they indicated their strong interest for the implementation of the both the first loss portfolio guarantee instrument and the risk-sharing micro-loan instrument.

The setup of an equity co-investment facility could be envisaged initially as a pilot initiative, to test and validate the use of a dedicated equity co-investment structure, particularly to support the equity financing of small but high-potential agri-food processing SMEs. Furthermore, the proposed co-investment facility could be used to finance a limited number agricultural cooperatives or producer groups with strong organisation and management, and solid business plans. The MA should take into account that the decision regarding implementation of the equity co-investment facility should be taken soon as such an instrument only seems feasible if the funding agreement still can be signed by the end of 2018.

The FIs proposed should be designed in a way that it is feasible to combine grants with guarantee or loan products. This can be facilitated through broader eligibility of investments for FIs than for grants, but also through eventual reduction of aid intensity of grants below the maximum set in the RDP in order to improve the complementarity of the two forms of support.

Proposed governance structure of the Financial Instruments

With regards to the governance structure of the proposed financial instruments, two approaches can be taken. One where all FIs are under one Fund of Funds (FoF) and one fund manager or through different FoFs and fund managers. Under this approach all three potential instruments, a first loss portfolio guarantee (FLPG), an equity co-investment facility and risk-sharing micro-loan instrument would fall under a Fund-of-Funds structure, implemented by an entrusted mandated entity (e.g. the European Investment Fund). Alternatively, the a risk-sharing micro-loan instrument could potentially be set up by a mandated entity outside the EIF Fund-of-Funds scheme in a separate FoF, subject to the possibility to identify an experienced fund manager within the Greek market (e.g. ETEAN). The choice of either of these options is a decision of the MA.

When mandating the EIB Group as manager of the fund-of-funds, the MA would benefit from the experience and expertise of the EIB Group to ensure an efficient and rapid establishment of the financial instruments within a FoF scheme. The EIF by capitalising on its experience in handling such financial instruments and through its procedures approved by the EC could act on behalf of the MA in the necessary discussions and when negotiating funding agreements with potential financial intermediaries to determine their appetite to participate in calls for expressions of interest prior to a transparent selection of the financial intermediaries. Past experiences suggest that the set-up and launch of a fund managed by the EIB Group is typically the fastest option for the implementation of the FoF. The mandate to the EIB Group would also facilitate the mobilisation of resources from the European Fund for Strategic Investments (EFSI) for the proposed FIs, which would be provided by the EIB to the FoF.

With regards to the micro- instrument, the MA could consider implementing this FI through a 100% public owned entity (e.g. ETEAN). In this case the manager of the FoF would need to select financial intermediaries via a public procurement procedure. The MA should conduct a due diligence process in order to assess its capacity to establish the FI, select the financial intermediaries and negotiate the operating agreements with the selected financial intermediaries. This will enable the Managing Authority to ensure that ETEAN has the capacity to effectively implement the financial instrument and to determine the risks associated to the management of the financial instrument.

Next steps

The final chapter outlines the steps the MA should take to ensure a rapid, successful and effective implementation of the proposed financial instruments. These steps are:

1. Amendment of the Rural Development Programme (RDP)
2. Take ownership of the results of the ex-ante assessment
3. Communication and change management
4. Organisational set-up
5. Selection of the financial intermediaries
6. Monitoring and evaluation

These steps are primarily recommendations for the implementation of the proposed investment strategy. They do not refer to the related European regulations and are not a requirement of the ex-ante assessment. Finally, an indicative calendar for the implementation of the financial instruments is presented. This calendar aims to provide the MA with effective guidance for the implementation of the financial instruments proposed and should therefore be seen as a roadmap to help the MA to understand the steps and timing for an effective implementation of the financial instruments.

1. Background/Introduction

Financial Instruments for agriculture under EAFRD in Greece

This Assignment aims to provide analytical support and guidance to the Ministry of Rural Development and Food of the Hellenic Republic ("MIN AGRIC") of the Hellenic Republic as the Managing Authority ("MA") of the Rural Development Programme ("RDP") co-funded by the European Agricultural Fund for Rural Development ("EAFRD") in the assessment of the potential future use of Financial Instruments (FIs) in the 2014-2020 programming period.

The main objectives of the RDP is to support the Hellenic Republic in enhancing farm viability and competitiveness, preserve and enhance ecosystems and promote local development. This will be done within the RDP[2] by:

1. Strengthening competitiveness and agri-food system productivity and enhancing the value chain of domestic agricultural products
2. Upgrading of human capital and strengthening the entrepreneurial culture
3. Protecting and managing natural resources and biodiversity, as well as mitigating and adapting to climate change
4. Providing basic services and improving the quality of life in the countryside
5. Diversifying the economic base and strengthening social cohesion in rural areas

Objectives and description of the study

The objective of the study for the Ex-Ante Assessment ("EAA") is to assess the existence of market gaps or deficiencies in the financing of the agricultural production and agri-food processing sector and rural development in Greece, in view of the potential implementation and use of Financial Instruments in agriculture, as specified in the investment priorities of the Regional Development Programme for Greece for the 2014-2020 programming period.

The assessment needs to justify the appropriateness, adequacy and necessity of the proposed Financial Instruments to achieve the aforementioned investment priorities as set out in the Rural Development Programme.

The allocation for FIs proposed in the RDP is up to 3% of the total EAFRD contribution around EUR 141m. The measures for which the use of FIs is envisaged in the RDP and that will be examined under this assessment are the following:

- M04 – Investments in physical assets, sub-measures 4.1 and 4.2
- M16 – Co-operation schemes throughout the value chain of agribusiness for developing new products, practices, procedures and technologies
- M19 – LEADER /CLLD, sub-measure 19.2 (financial instruments under this sub measure may be launched independently from the individual CLLDs).

The assessment will focus on M04 and its sub-measures 4.1 and 4.2 that target the modernisation of agricultural holdings and the processing of agricultural products, respectively. The analysis will take

[2] Hellenic Republic, Ministry of Economy, Development and Tourism, Rural Development Programme: https://www.espa.gr/en/pages/staticRuralDev.aspx

into consideration the proposed calls for grants under sub-measures 4.1 and 4.2. The analysis will consider the possible combination of grants with FIs.

The ex-ante assessment will also consider the potential use of FIs in a broader scope by analysing the other measures for which the potential future use of FIs is envisaged in the RDP, namely M16 and M19, as outlined above.

Definition of financial instruments and their benefits

FIs are defined as: "*Union measures 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*" (EU Financial Regulation 966/2012).

The main advantages of using Financial Instruments are the following:

- Revolving nature of funds;
- Leverage effect;
- Incentives for better performance, thus improving project quality;
- Reduce dependency on grants;
- Benefit from expertise and technical assistance.

FIs co-funded by the EAFRD can contribute to several cross-cutting EU priorities for rural development:

- Fostering knowledge transfer and innovation in agriculture and rural areas;
- Enhancing competitiveness of all types of agriculture and enhancing farm viability;
- Enhancing the organisation of the food value chain;
- Explore potential for complementarity and synergies with grants schemes;
- Promoting resource efficiency and supporting the shift towards a low-carbon and climate resilient economy in the agriculture and food sectors; and
- Promoting job creation, social inclusion, poverty reduction and economic development in rural areas, in particular through the creation and development of small enterprises, in line with the RDP.

Methodological approach

The study is built based on data and information collected through several channels, including:

- Desk research covering existing documentation and available data, including
  - The RDP analysis and strategy
  - The ex-ante evaluation of the RDP
  - Farm indicators extracted from the Farm Accountancy Data Network (FADN)
  - EU farm economic series issued by the EC
  - Eurostat indicators
  - Other documentation provided by the Managing Authority, as mentioned in the previous section
  - Past sectoral assessments and evaluations, statistical data, policy documents, and other relevant material.
- Interviews with relevant stakeholders, covering both the demand-side and the supply-side, including the representatives of private and public sector bodies (banks, agricultural organisations,

development agencies etc.), in order to collect qualitative data on the demand and supply of financing to the agricultural sector, as well as the views of policy makers, other agencies & key experts

- An online survey directed to 500 Greek producers of agricultural products and 200 Greek firms processing agricultural products
- Focus groups with representatives of farmers (individual farmers and cooperatives), processors (small, very small processors, medium-sized and large processors), representatives of development agencies, university professors etc.

The detailed methodology used for the current study is presented in Annex 2 – Methodological approach.

2. Key indicators pertaining to agriculture and agri-food processing[3]

The agricultural sector, including forestry and fishing, accounts for 3.8% to the total Gross Value Added (2014)[4]. In terms of employment, 13.6% of the employed population is in the agricultural sector and the agri-food processing sector represents 3.3% of the total employed population.

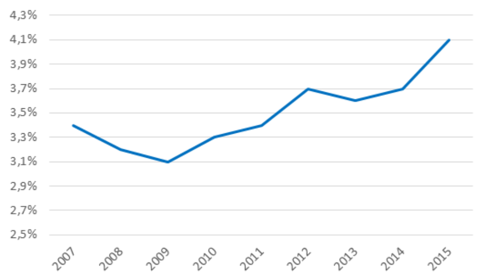
Overview of the agricultural sector in Greece

Table 1: Main Eurostat Data (2013) on Agriculture in Greece

Agriculture in Greece
708,700 Land Holders
800 Legal Entities
EUR 9.7bn Agricultural output
EUR 8.1bn Standard Output
4.1% the share of agriculture in total GVA
440,000 Total farm labour force

Source: Eurostat, 2015

Figure 1: Sector added value (as % of total GVA):



Source: Eurostat, 2015

Main sectoral data

Table 2: Land Utilisation in Greece

Total agriculture area:	Utilised agricultural area:	Utilisation%:
5,062,500 ha	4,856,780 ha	96%

Source: Eurostat, 2013

Farming activity, supported by exceptional climatic conditions, agriculture is a key sector for the Greek economy, comprising 4.1% of total GVA and 14% of employment (compared to an EU average of 1.2% and 5%, respectively). Since the beginning of the crisis GVA from the agricultural sector has declined, but not to the same degree as the overall Greek economy. This means that the share of the sector in the country's GVA has increased, reversing the trend from the years before the crisis[5].

3 The tables, graphs and other supportive material of the current chapter is in Annex 9 – Overview of the primary agricultural production agricultural sector in Greece

4 EC, Statistical factsheet Greece, 2016: https://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/el-annex_en.pdf

5 NBG Sectoral Report of Agricultural Sector, 2015

Table 3: Some key aspects of the current situation with respect to farming in Greece include[6]

Farm structure[7]	• There are around 709,500 (in year 2013) agricultural holdings, which represent 6.5% of total agricultural holdings in EU 28; • Farm size is in general quite small, 76.7% of agricultural holdings being less than 5 hectares (ha) and many of them even around 2 ha. Farms are composed of small and fragmented land parcels; the average of the farm size slightly increased, reaching 6.8 ha (in year 2013) of Utilised Agricultural Area (UAA) per holding. This is similar to Member States such as Romania, Cyprus, but very low compared to the EU average, which is around 76 ha/holding[8]; • 50% of the farms have an economic size measured in terms of standard output of less than EUR 4,000 per farm, while around 30% of farms are between EUR 4,000 and EUR 15,000 (in year 2013).
Land characteristics[9]	• More than a half (around 78%) of the UAA is characterised as areas with natural constraints, of which 53.9% is mountainous regions, hence there is an extensive presence of farm holdings in Less Favoured Areas (LFA); • Forests represent around half of the total land area of the country; • Irrigated land represents around a fifth of the UAA and 86% of the water in Greece is consumed in agriculture, often with significant water losses; • Some 3.8% of farmland is dedicated to organic farming.
Labour force	• There are in total 1.2m persons working in agriculture; out of which 77% are employed exclusively in the holding, 3% mainly in the holding and 20% secondarily; 11.4% of total employment (4.7% in EU 28) in 2014 • There is a low level of Annual Working Units[10] (AWU) per farm; • There is a lack of a skilled workforce in the agricultural sector which hinders the growth of the farms as only 3.5% of all farm managers have agricultural training; In 2005, 5.4% of farmers held full and basic agricultural education, while in 2013 this figure was 6.1%, slightly decreasing the deviation from the average in EU which is 28.7%. The proportion of farmers aged less than 35 years with basic and full-time agricultural education, accounting for 22% out of the total number of farmers in the respective age group in 2013, compared to 20.8% in 2005. The percentage of farmers aged less than 35 years with full agricultural education in 2013 is 1.9% compared to 0.9% in 2005. • Farming is characterised by an ageing workforce, as among the farm managers, only 5.2% of them are less than 35 years old while 31.3% of holders are over 64 years old. • The number of new farmers in 2015 was 38,000, out of them only 25% were under 40 years. • Family members dominate the structure of farms' labour force.

Source: FADN & Eurostat, years 2013-2017

[6] EC, Factsheet on 2014-2020 Rural Development Programme for Greece, 2015; Factor Markets, The impact of CAP Reforms on Farm Labour Structure in Greece, 2013, p. 2; EC, Statistical factsheet Greece, 2017: http://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/el_en.pdf
[7] Relative charts and graphs in Annex 9 – Overview of the primary agricultural production agricultural sector in Greece
[8] Calculated based on data in FADN on total utilised agricultural area
[9] Relative tables and graphs in Annex 9 – Overview of the primary agricultural production agricultural sector in Greece
[10] AWU is defined as the work volume corresponding to one full-time employed worked, source: EC, Statistical factsheet Greece, 2016, p.9: http://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/el_en.pdf

Current situation and key trends

Agriculture has registered a sharp decline in the last two decades in its relative size, number of employed workforce, as well as change in the structure of its labour force.

The number of agricultural holdings has been declined as a total compared the years 2005 and 2013, as well as per all size classes and all economic sizes except from the highest levels of economic sizes more than EUR 50,000, which is a positive sign to the whole situation[11].

Based on a report published by the National Bank of Greece's, Greek production value had difficulties to exploit the surge of the global sector, increasing by less than 20% during the past 25 years (compared with 220% globally and 86% in Europe)[12].

Greek agriculture used to be traditionally dominated by family farms with a near absence of hired labour force. However, the decline in the absolute level and relative importance of farm labour led to a reallocation of labour from family to off-farm workers. In addition, the decline in the farm labour force can be attributed to a reduced growth in the demand for farm output and higher productivity.[13]

The number of agricultural holdings faced a decline of 15% in 2013 compared to 2005, while Utilised Agricultural Area increased by 22%. The average UAA per holding was enlarged from 4.8 to 6.8 ha.

Central Macedonia and Crete present the highest number of agricultural holdings in Greece, being also the greatest crop areas in the country. This results in a higher concentration of financing needs in these areas compared to other agricultural areas in Greece.

With regards to GVA, agricultural value added in Greece posted a drop of about 10% during 2007-2015 covering 3.8% of the total GVA (EU-28: 1.6%). Total output has increased with a CAGR of +0.8% over the period 2007 – 2015.

With regards to the stratification of production, the main types of production covering a large share of total utilised agricultural area are cereals and forage crops, followed by olive groves. From a progress perspective, total utilised agricultural area slightly increased over the last decade, while there has been a decrease in the number of farms. Among the key categories of crop production in terms of utilised agricultural area, cereals registered a slight decrease over the last decade, while forage crops production is now almost five times bigger than a decade ago. Olive groves remained relatively unchanged.[14]

The total value of agricultural goods output was EUR 9.6bn (in year 2015), which represents 2.6% of the EU-28 total (slightly increased in the last three years). Crop output represents 73% of the total agricultural output; hence, it is the dominant category compared to animal output. Key crop outputs sub-categories with high values out of the total agricultural goods output include fruits (27.9%), vegetables and horticultural products (25.2%), olive oil (15%), and cereals (12.1%). Among the animal output, milk (21.9%), and sheep and goats (11.9%) are the main output components. Thus, these are the key sub-sectors in the Greek primary agricultural production.

Looking at the crop production only, an important observation is that the evolution of the total crops output/ha has been linear and slightly decreasing over the last decade. On the contrary, the

[11] Relative table in Annex 8 – Overview of the primary agricultural production agricultural sector in Greece)

[12] Ibidem

[13] Analysis based on data extracted from FADN database

[14] Ibidem

total value of output crops and crop production shows a fluctuating trend over the last decade. This could be correlated with the evolution of the price of crops.

Overall, total intermediate consumption and fixed capital consumption decreased in the last three years as well as overall input components. The input components of intermediate consumption with the highest costs are feeding stuffs (37.9% of all intermediate consumption) and energy and lubricants (23.6% of all intermediate consumption). Nevertheless, both categories have slightly decreased over the last three years. The input categories which registered an increase in the last three years up to 2015 are: plant protection products, maintenance of buildings, seeds and planting stock and maintenance of materials[15].

Both farm net income and farm net value added registered a sharp decrease from 2010 to 2013. Compared to other Member States, the value of the Greek farm net income (in year 2013) was less than a half of the EU average (around 44% of the EU average) and six times lower than the net farm income in the Netherlands, the country with the highest value. It was close to values in Cyprus, Latvia, Malta, and Poland[16]. Farm net income and value added in Greece was among the lowest in the EU (in year 2015) and decreased since 2010. It is four times less the EU average value. However, when expressed per agricultural work unit, it is half the EU average.

Concerning financial situation of farms, the gross investment has had a fluctuating evolution in the past decade while the net investment has registered a decrease. Moreover, while the gross investment was at positive but low values, the net investment was at negative values. Compared to the EU MS and the EU average, gross investment is almost inexistent in Greece. With regard to the net investment, other EU Member States with negative values in year 2015 are Finland, Spain, France, Croatia, United Kingdom, Slovenia, Estonia, Italy, Poland and Romania. The average farm capital is also very small compared to the EU average and other MS and is the second lowest in the EU after Romania. It has slightly increased from 2010. Both cash flow and cash flow/farm total capital registered a decrease since 2010. From an EU perspective, the cash flow is lower than the EU average; however is not at lowest values levels in the EU. With regard to the cash flow/ farm total capital, Greece registered in 2013 the third highest value after Portugal and Czech Republic.

In terms of evolution of the balance sheet indicators of agricultural holdings from 2004 to 2015, total assets per farm have been increased by more than 50%, while in 2015 decreased by ~6%. Fixed assets per farm represent the vast majority of total assets reaching ~95%. Return on assets ratio (ROA) shows negative evolution, as from 15% to 17% that fluctuates throughout the years 2004 to 2010; from 2010 onwards, it reaches 9% to 11%, which means that the average farm produces less profit for each expenditure it has invested in its assets. On the other hand, a positive sign is observed concerning total liabilities, which are continued to decline in the referred period, driving to a total decrease of almost 90%. Total liabilities have been driven both by short-term loans and long & medium term loans; the latter represent more than 60% out of the total. In this context, solvency ratio is characterised as satisfactory.[17]

As a result, farm net worth, which is the difference between total assets and total liabilities, appears to have an increasing trend with some fluctuations at the same time. The highest point that recorded was in 2014 (EUR 130,000)[18].

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15 The percentage values calculated are average values for intermediate consumption for the years 2013-2015. Source: EC, Statistical factsheet Greece, 2016, p.6: http://ec.europa.eu/agriculture/sites/agriculture/files/statistics/factsheets/pdf/el_en.pdf

16 Analysis based in data from FADN

17 Analysis based on data extracted from FADN database

18 Detailed analysis could be found in Annex 8

Structural issues of the Greek agricultural sector[19]

Investigating the reasons why Greece continues to score poorly on exploiting the flourishing global demand for agricultural products despite the country's climate that it is extremely favourable for the production of several agricultural products, the following challenges remain high on the agenda.

1) **The agricultural holdings are in general characterised as small and scattered.** This is due to factors such as geographical relief, lack of adequate spatial organisation of land use, adherence to traditional management models (inheritance and property). Most agricultural units in Greece are small, family-owned holdings. Specifically, the average farm is about 4.8 ha (compared with 12.5 ha on average in other Mediterranean countries), with more than ½ being extremely small, i.e. smaller than 2 ha (versus 44% in other Mediterranean countries). Sole holders and other family members cover 83% of employment (in terms of annual working units (AWU)), slightly higher than the Mediterranean average (74%). The most important effect of small holdings is the cost disadvantage since Greek farmers cannot benefit from economies of scale like many of their competitors.
2) **Low levels of farmers' organisation in cooperatives** are a common practice in the country's agricultural sector. Organisation in cooperatives usually limits the negative consequences of fragmented production and increases the bargaining power of smaller farmers. However, agricultural cooperatives have a small market share of about 20% in the Greek market, compared with 40% on average in Europe. Moreover, Greek cooperatives face problems regarding their efficiency, including quality control and traceability, hindering the promotion of premium products. Therefore, their operation is often limited to the distribution of production subsidies to farm owners and other administrational activities for production of products in bulk, instead of acting as an organized enterprise with a clear business strategy.[20]
3) **Technological sophistication is low** in the agricultural sector. Compared to other EU countries, Greece shows a low level of technology in agricultural production. Specifically, while global expenditure on agricultural R&D has doubled during the past two decades, reaching EUR 27bn in 2012, Greece was lagging behind in this field. In fact, research and development (R&D) investments in Greek agriculture amount to just EUR 38m annually or EUR 11 per ha (compared with EUR 33 per ha on average in the EU and EUR 19 per ha globally).

[19] NBG Sectoral Report of Agricultural Sector, 2015

[20] Ibidem

Overview of the agri-food sector (food processing) in Greece

The Greek Food and Drink industry is a driving force of the Greek economy as it continues to grow and to be one of the most competitive industries.

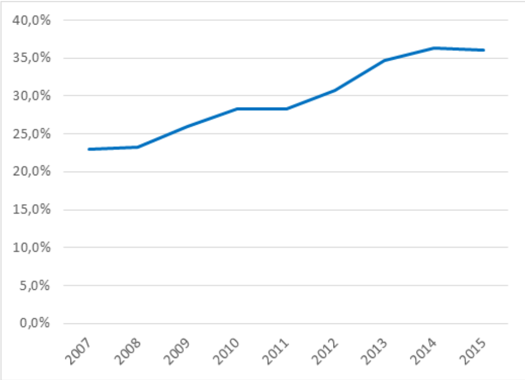
Main sectoral data

The table below summarises key data about the food & drink industry in Greece.

Table 4: Main Eurostat Data (2014) on Food & Drink Industry in Greece:

Food & Drink Industry in Greece	
14,400	Legal entities
EUR 13.2 bn	Revenues
EUR 4.7bn	Imports
EUR 2.7bn	Exports
EUR 1.9bn	Trade balance
30%	of total labour force in processing
31%	of GVA in processing & 2% of total GVA in Greece

Figure 2: Sector added value (as% of GVA to total manufacturing), years 2007-2015



The contribution of the Food and Beverage sector to the Greek economy is of high importance, given the fact that it represents around 3.5% of the Gross Value Added in Greece in 2014, above European average rate (~2.1%), while the respective output reached 7% of the GDP in 2014. In the manufacturing sector food processing is of great importance as it represents 31% of the GVA from manufacturing. During the crisis, the share of food processing has increased, particularly given the strong decline of other manufacturing sectors.

In 2014, the sector was composed by 14.400 companies, generated aggregated revenues of EUR 13.2bn, and constituted 19% of the processing sector's total revenues. More than 84.000 people are employed in the sector, constituted more than 23% of the total processing sector's workforce.

Food consumption decreased when the retail price index rose initially and until 2012. Since then a downward trend in the prices by 3.3% per year on average can be observed due to the extensive promotions and offerings deployed by the processing companies and large super markets. Due to the economic situation this has not resulted in an increase in consumption.

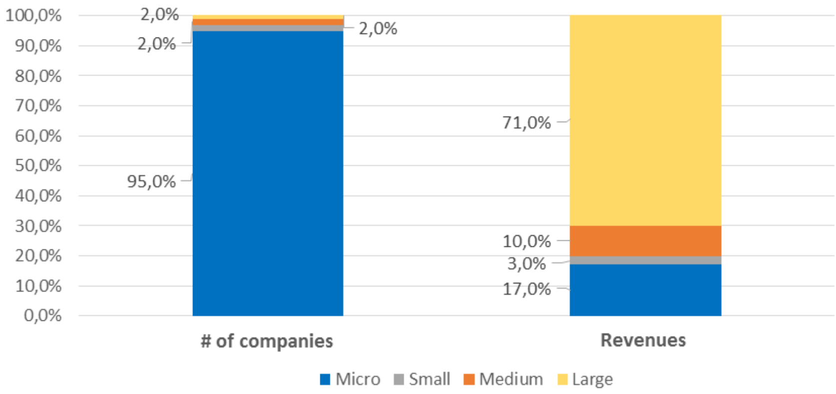
The Greek agri-food processing sector has generally been affected by the trend towards an increasing concentration of the domestic grocery retail sector over the last few years. The latter, translated into stronger bargaining power of the large domestic supermarket chains, led to a downward pressure on pricing and increased working capital needs of agri-food processing companies.

However, exports evolution from 2008 to 2014 remained constant, while olive oils, nuts, dairy and ice cream constitute the majority of the total exports.

Companies' stratification of the agri-food sector

The majority of the companies (out of 13,684 in 2014) are small, family businesses, which employ less than 10 people in total. However, these companies generated only 17% of the total revenues in the sector (EUR 2.2bn).

Figure 3: Companies' segmentation based on the total number of employees (2014 data):



Source: Eurostat, Small Medium Enterprises Analysis

On the contrary, larger business that employ more than 50 people, have demonstrated great stability and sustainability, when at the same time their revenues have increased the last 4 years to reach EUR 9.3bn on 2014. The remaining 13% of the sector's total revenues come from small and medium-sized businesses that employ 10 to 50 people in total. Furthermore, 71% of the total revenues generated in the sector come from 2% of the companies.

Financial situation of the agri-food sector

The production and retail companies in the Food & Beverage sector managed to stabilise their revenues after a challenging three-year period (2010-2012) and rationalise their liabilities, while their EBITDA has not recovered yet after the period of economic crisis.

A collapse was observed for investments in the agri-food processing sector in 2013 and 2014. The strong under-investment in the last years could translate into a strong pent-up demand for investments, which could materialise and lead to an increase in demand for financing in the sector as general economic and financing conditions improve. The share of enterprises in the manufacturing of food products within the total manufacturing industry rose, both in terms of total number and turnover.

Main outcomes

Key messages on the economic context of the agricultural sector in Greece:

1) Agriculture is a key sector for the Greek economy, comprising 2.9% of GDP and 14% of employment. However the sector has registered a sharp decline in the last two decades in its relative size, number of employed workforce, as well as change in the structure of its labour force.

2) Structural Issues of the agricultural sector are summarised to the existence of small and fragmented agricultural holdings, the low organisation level of farmers, and the lack of

technological and knowledge sophistication.

3) The Greek Food and Drink industry is a driving force in the domestic economy as it continues to grow, being one of the most competitive industries representing approximately 6% of the total Gross Value Added in Greece, a rate higher than the European average rate (~1.5%), while the respective production value comes up to 7% of the GDP. The majority of the companies (out of 13,684 in 2014) are small, family businesses, which employ less than 10 people in total. However, these companies generated only 17% of the total revenues in the sector (EUR 2.2bn).

3. Investment priorities for the agricultural sector in Greece in the 2014-2020 programming period

Investment Priorities in the RDP

Greece's Rural Development Programme, outlines the priorities for using EUR 5.64bn[21] available for the programming period 2014-2020 (EUR 4.72bn from the EU budget and EUR 0.92bn the national co-financing). The Greek RDP will fund actions under all six Rural Development priorities – with a particular emphasis on the competitiveness of the agricultural sector and sustainable forestry, and on restoring, preserving, and enhancing ecosystems related to agriculture and forestry. The six rural development priorities are briefly presented in the table below:

Table 5: Investment priorities in the Rural Development Programme 2014-2020 in Greece that will be examined for the use of Financial Instruments:

Investment priority	Total budget per Investment priority (in EUR m)	Share of total budget per Investment priority (%)
Priority 1 - Knowledge transfer and innovation[22]	-	-
Priority 2 - Competitiveness	860.4	16%
Priority 3 –Food chain and risk management	406.9	7%
Priority 4 –Ecosystems management	2,335.0	43%
Priority 5 – Resource efficiency and climate	1,162.0	21%
Priority 6 –Social inclusion and local development	677.0	12%
TOTAL public allocated amounts	5,441.4	
Out of which EAFRD contribution	4,718.3	

Source: Managing Authority of Rural Development Programme for Greece, MIN AGRIC, 2017

Sub- measures that will be examined for FIs

The allocation for FIs is set in the RDP up to 3% of the total EARFD contribution, which would be around EU 141m[23]. The measures for which the use of FI is envisaged in the RDP and that will be examined are the following:

[21] According to the latest data provided from the Ministry of Rural Development
[22] This priority is horizontal (transversal) and sources from other priorities are allocated in its measures
[23] Rural Development Program 2014-2020 (p.389 of RDP 2014-2020), Greece

Sub-measure 4.1: Investments aimed at improving the performance and sustainability of farms

Beneficiaries of this sub-measure can be natural persons or legal entities, farm owners that are actively involved in agriculture or groups and cooperatives which operate according to the National legislation. The table below presents the total budget for sub-measure 4.1 per focus area:

Table 6: Total public cost per focus area

Sub-measure	Focus Area	Total budget (in EUR)	% of total budget
4.1	2A - Farm performance	398.8m	7.1%
4.1	5A - Water efficiency	36.2m	0.6%
4.1	5C - Renewable energy	19.3m	0.3%
4.1	5D - Reducing GHG and NH3	1.2m	0.0%
4.1	4B – Water management	2.4m	0.0%
4.1	4C – Soil management	6m	0.1%

Source: Managing Authority of Rural Development Programme for Greece, MIN AGRIC, 2017

Sub-measure 4.2: Investments in the processing, marketing and/or development of agricultural products

Support is provided mainly to micro, small and medium enterprises (SMEs), but also to large enterprises, up to a specific investment budget. The table below presents the total budget for sub-measure 4.2 per focus area:

Table 7: Total public cost per sub-measure and focus area:

Sub-measure	Focus Area	Total budget (in EUR)	% of total budget
4.2	3A - Competitiveness of producers	193.6m	3.4%
4.2	5B - Energy efficiency	6.1m	0.1%
4.2	5C - Renewable energy	3.6m	0.1%
4.2	3A - Competitiveness of producers	31.2m	0.6%
4.2	5C - Renewable energy	6.1m	0.1%
4.2	5B - Energy efficiency	6.1m	0.1%
4.2	3A - Competitiveness of producers	12.4m	0.2%

Source: Managing Authority of Rural Development Programme for Greece, MIN AGRIC, 2017

Sub-measure 16.1-2: Creation and operation of operational groups under the European Innovation Partnership (EIPs) targeting the productivity and sustainability of agriculture, including investments similar to those of sub-measures 4.1 and 4.2

Beneficiaries of this sub-measure are the co-operation schemes with a legal entity identifying the lead partner in the operational groups of EIP on productivity and sustainability of the agriculture and having internal regulation of operations (co-operation agreement). The table below presents the total budget for sub-measure 16.1-2 per focus area:

Table 8: Total budget per sub-measure and focus area

Sub-measure	Focus Area	Total budget	% of total budget
16.1-2	2A - Farm performance	11.1m	0.2%
16.1-2	4B – Water management	5.6m	0.1%
16.1-2	5A - Water efficiency	8.9m	0.2%
16.1-2	5E - Carbon conservation /sequestration	5.6m	0.1%
16.1-2	3A - Competitiveness of producers	11.1m	0.2%
16.1-2	4A – Biodiversity, HNV and landscapes	5.6m	0.1%
16.1-2	4C – Soil management	5.6m	0.1%
16.1-2	5C - Renewable energy	5.6m	0.1%
16.4	3A - Competitiveness of producers	11.1 m	0.2%

Source: Managing Authority of Rural Development Programme for Greece, MIN AGRIC (2017)

Sub-measure 16.4: Horizontal and vertical cooperation for short supply chains and local markets and promotion activities

Beneficiaries are the co-operation schemes with a legal entity identifying the lead partner and having internal regulation of operations (cooperation agreement). Members could be farmers, cooperatives, professional organisations, processors, retailers, municipalities, consumers and their organisations. The table below presents the total budget for sub-measure 16.4:

Table 9: Total budget per sub-measure and focus area

Sub-measure	Focus Area	Total budget (EUR m)	% of total budget
16.4	3A - Competitiveness of producers	11.1m	0.2%

Source: Managing Authority of Rural Development Programme for Greece, MIN AGRIC, 2017

Sub-measure 19.2: Support for the implementation of actions under Community-led local development strategies (CLLD) (financial instruments under this sub measure may be launched independently from of the individual CLLDs)

Beneficiaries of this sub-measure are the regional and local authorities, private entities which their statutory purpose is the implementation of corresponding projects, as well as natural persons or legal entities whose eligibility will be specified in the relevant national institutional framework. Beneficiaries of this action may also be Local Action Groups. The table below presents the total budget for sub-measure 19.2.

Table 10: Total budget per sub-measure and focus area

Sub-measure	Focus Area	Total budget (EUR m)	% of total budget
19.2	6B - Local development	296.3m	6.1%

Source: Managing Authority of Rural Development Programme for Greece, MIN AGRIC, 2017

Main outcomes

Key messages on the investment priorities for the agricultural sector in Greece for the 2014 – 2020 programming period:

1) **In the period to 2020, the new CAP is going to invest more than EUR 19.6bn in Greece's farming sector and rural areas. The funding aims to address the needs of the following key political priorities:**
    a. **jobs and growth in rural areas' sustainability**
    b. **modernisation of the agricultural sector**
    c. **innovation, and**
    d. **quality of agricultural outputs**
2) **Within the RDP 2014-2020, approximately EUR 5.7bn has been budgeted for eligible beneficiaries. The amount dedicated to the measures that are within the scope of this study is EUR 1.94bn (35% of the total RDP funding).**
3) **Furthermore, it is noted that almost 25% of the RDP funding will be directed to actions under measure 4, aimed in particular at enhancing farms' performance and competitiveness.**

4. Experiences from the establishment of Financial Instruments in the Agricultural sector

Agricultural Entrepreneurship Fund - TAE

The Agricultural Entrepreneurship Fund (Tameio Agrotikis Epixeirimatikotitas - TAE) which operated form February 2013 until December 2015, was the first and only Financial Instrument under the previous RDP (2007-2013), and was established to facilitate the financing of investment projects that were part of the Rural Development Program 2007-2013. The project was co-funded by the Greek State and EAFRD.

In particular, the Greek State funded ETEAN SA (Hellenic Fund for Entrepreneurship and Development)[24] with the total capital of EUR 116.0 m to be allocated from the RDP 2007-2013 to the "Rural Entrepreneurship Fund", aiming at improving beneficiaries' access to finance, enhancing entrepreneurship, investment and accelerating the implementation of investments to be part-financed in the Rural Development Program 2007-2013. More specifically, ETEAN SA became responsible for taking all the necessary steps to select the financial institutions in view of maximising the expected benefits for potential beneficiaries.[25]

The TAE's mission was to secure the most advantageous loans in economically viable enterprises and / or professional farmers active in:[26]

- the production, processing and marketing of agricultural products, as well as in various sectors of the local economy - other than the primary sector
- the improvement and organisation of the tourist product in the intervention areas
- According to the business plan of the fund[27], its purpose was to promote the effective use of resources than had been provided from the RDP 2007-2013 related to the financing of five, specific measures:
- Measure 121 (Modernization of agricultural holdings)
- Measure 123 A (Investments in the processing and marketing of agricultural products)
- Measure 311 (Differentiation to non-agricultural activities)
- Measure 312 (Support for the creation and development of micro-enterprises)
- Measure 313 B (Encouragement of tourist activities)

In order to maximise the efficiency in the use of the resources, the fund used the method of co-investing funds, combining the RDP funding (EUR 116m) with funds of the co-operating bank

[24] ETEAN SA is an integral part of the wider Greek financial sector focusing in the design, implementation and management of specialized financial actions through the application of innovative financial instruments, delivered by financial institutions to the small and medium size enterprises.

[25] Financing agreement for the establishment of a loan fund by the name "rural entrepreneurship fund"

[26] http://www.etean.com.gr/PublicPages/Program6.aspx

[27] TAE Business Plan, March 2013 (document provided by the MA)

(EUR 138m)[28]. This enabled the fund to increase the funds available, and share the risk of borrowing between the fund and the financial organisation[29], reaching a total available capital EUR 253m.

The conditions for granting the loans to the potential beneficiaries were the following:

- beneficiaries, should have been subject to measures 121, 123A, 311, 312 and 313B of the RDP 2007-2013
- beneficiaries should have tax and insurance information
- beneficiaries should have at their disposal a decision to join the relevant Rural Development Program measures (121, 123A, 311, 312 and 313B) [30]

The Fund (TAE), offered favourable loan terms, which of the mainly concerned the low interest rate on the loan, which was achieved due to the contribution of the Fund's funds at a zero interest rate. In particular, the type of investment aid that was provided by TAE was the interest-rate subsidy - guarantee for the granting of low-interest loans, since the offered rate of bank capital, together with the offered rate of the Agricultural Entrepreneurship Fund, created a final around 4%. The average loan maturity was of 6 years to be repaid before 2021. The duration of the loans was long-term (up to 10 years) with a grace period of up to 2 years, in order to help investor in the early years of their investment[31].

The table below, the break-down of TAE funding per measure of interest:

Table 11: Financing per measure under TAE:

Measure description	Amount of financing in m EUR
Measure 121 (Modernization of agricultural holdings)	77.1
Measure 123 A (Investments in the processing and marketing of agricultural products)	23.1
Measure 311 (Differentiation to non-agricultural activities)	2.4
Measure 312 (Support for the creation and development of micro-enterprises)	2.4
Measure 313 B (Encouragement of tourist activities)	11.0
Total public expenditure	116.0

Source: Managing Authority of Rural Development Programme for Greece, MIN AGRIC, 2017

As it is illustrated in the table above, EUR 116m were planned to be granted through TAE, most of which concerned activities related to the modernisation of agricultural holdings (measure 121).The table below presents the results of TAE during its operation.

[28] Call for expression of interest for the selection of financial institutions for the co-investment of funds of the along with the capitals of the "Rural Entrepreneurship Fund"(TAE), April 2013

[29] TAE Business Plan, March 2013 (document provided by the MA)

[30] http://www.etean.com.gr/PublicPages/Program6.aspx

[31] TAE Business Plan, March 2013 (document provided by the MA)

Table 12: Total amount of loans granted by TAE:

Selected RDP measures (2017-2013) for funding from TAE	Projected TAE funding per measure of interest in EUR	Number of contracted loans (approved from TAE)	Total amount of approved investment loans by TAE in EUR	% amount of the projected funding that was contracted	Total amount of disbursed loans by TAE in EUR	% amount of the projected funding that was disbursed
Measure 121 (Modernization of agricultural holdings)	77,115,000	60	3,080,559	4%	2,193,564	2.8%
Measure 123 A (Investments in the processing and marketing of agricultural products)	23,140,000	4	570,858	2.5%	384,931	1.7%
Measure 311 (Differentiation to non-agricultural activities)	2,360,000	3	292,320	12.4%	216,782	9.2%
Measure 312 (Support for the creation and development of micro-enterprises)	2,360,000	0	0	0%	0	0%
Measure 313 B (Encouragement of tourist activities)	11,025,000	7	585,000	5.3%	572,348	5.2%
Total public expenditure	116,000,000	74	4,528,737	3.9%	3,367,625	2.9%

Source: Managing Authority of Rural Development Programme for Greece, MIN AGRIC, 2017

As indicated by the table above, only EUR 3.4m out of the EUR 116m were granted for investment projects under the specific measures.

This low absorption (percentage of disbursement) of available funds can be attributed to the following factors[32]:

- There was no relevant previous experience for the implementation of the fund.
- The fund was not properly designed. In particular, the mapping of the needs of potential beneficiaries was not representing, failing to address their needs. Moreover, the fund was not timely launched compared to the beginning of the previous RDP (2007-2013).
- The timing that the fund was launched was unfavourable due to the economic crisis where little investments were undertaken.
- Many stakeholders from the demand side and key stakeholders who have knowledge of the market stated during the interviews that the bank selected as the collaborating bank, having

[32] Material from interviews with stakeholders

provided the best proposal, with the lowest interest rate and the biggest client base, did not promote TAE as much as expected (through TV campaigns etc.).

- The product was not appealing to the interested parties and this is implied by the low percentage of disbursement (2.9%) of the available resources. This was mainly due to the fact that the beneficiaries were unaware that the benefit deriving from the lower interest rate of the loan would be offset and deducted from the total amount of the grant. The beneficiaries also benefited from the grant only at the end of the investment (the aid was backwards) rather than at the beginning, despite the fact that they primarily needed liquidity at the start of their investment.
- The architecture of the FI was not attractive to the farmers. This is mainly due to the fact that there was no benefit for farmers when they applied to be financed for up to 60% of their total investment (maximum amount of financing), since they were supposed to return part of the grant as a result of the application of state aid rules. Moreover, the farmers receive the grant after the completion of the investment, while their financing needs should be covered at the beginning of their investment. Furthermore, beneficiaries to TAE were not allowed to apply to another programme in the context of RDP, such as Leader.
- The target audience (farmers) could not provide the appropriate guarantees in order to apply for a loan. Most of them had high bank debts, in addition to the fact that the farming sector is generally characterised as a sector with low credit rating given its inherent risk characteristics (subject to unpredictable weather conditions, fluctuations in the market prices of agricultural products, health risks of animals in the case of livestock, etc.).
- The financial intermediary selected to implement the instrument should have competitors, in order to avoid monopolistic market conditions and provide potential beneficiaries with the opportunity to apply to more than one financial intermediary.

Entrepreneurship fund (TEPIX) [33]

The National Fund for Entrepreneurship (TEPIX) was introduced as Portfolio Fund (Capital), following the Joint Ministerial Decision No. 12017/1245[34], in view to achieving the objectives of operational programs in Greece, thus improving the competitiveness of Greek businesses.

The Fund aims at improving access to finance and entrepreneurship, fostering investments and contributing to the development of small, micro and medium-sized Greek enterprises.

The Fund is co-financed by the European Union (ERDF) and national funds, through the regional operational programmes (ROP) and the operational programme "Competitiveness and entrepreneurship" (E.P.A.E.) for the programming period 2007-2013. Following the Government decision[35].The implementation of the actions of TEPIX were extended until 31.1.2017.

The final budget balance on 31/12/2016 amounted to EUR 372m. The total number of disbursements reached 7,587 whereas the total amount of approvals amounted to EUR 750.4m in loans and to

[33] Source: Financial Statements of ETEAN S.A. - December 31, 2016
[34] GG 1697/B/27.10.2010
[35] No. 7954/1500/B2/21.12.2016 (Government Gazette B '4370/30-12-2016)

EUR 68.6m loan guarantees, with the corresponding support from the Fund amounting to EUR 330.3m and EUR 1.2m respectively.

The following three funds operated via Entrepreneurship Fund (TEPIX) during 2016:

Entrepreneurship Fund (Entrepreneurship Fund -Business Restart)

The Entrepreneurship Fund (TEPIX)-Business Restart was established as a separate financial unit with funds co-invested from the Fund For Entrepreneurship and 14 collaborating banks. Its main mission is to facilitate access to finance through the provision of business development loans, special-purpose capital and/or loans that finance investment projects on favourable terms to eligible businesses.

Until the end of 2016, 4,602 loans were approved, with a total budget of EUR 507.7m, out of which the Fund's contribution amounted to EUR 253.8m.

Entrepreneurship Fund (TEPIX)-Sponsorship

This fund provides guarantees for micro, small and medium-sized enterprises for business development loans and/or investment projects. The Fund provides guarantees of up to 80% for investment and business development.

Until the end of 2016, 1,229 loan applications were approved, with a total value of EUR 128.8m.

Entrepreneurship – Island & Tourism Entrepreneurship Fund (TANE)

This fund with an initial budget of EUR 80m provides small loans (up to EUR 30,000) and highly favourable conditions for businesses and investments in islands. For instance, this fund provides loans with 2.8% interest rate to enterprises on islands with over 3,100 residents and a zero interest rate for those on islands having less than 3,100 residents. The fund is intended to provide support to small and micro-enterprises in the tourist sector.

Entrepreneurship Fund (TEPIX) II

TEPIX is continued for the programming period 2014-2020. It was set-up as an independent financial unit within the framework of the National Entrepreneurship & Development Fund (ETEAN SA). A financial agreement was signed between the Government and ETEAN, under which the Government allocates EUR 400m to ETEAN under the Public Investment Programme.

The objective of TEPIX II is to develop financial instruments to facilitate the access of Greek businesses to finance, supporting viable enterprises in innovative, particularly in dynamic and promising sectors and activities of the economy. This is expected to improve access to finance and, improve borrowing conditions and to close the financial market gaps. The aforementioned objectives of the Entrepreneurship Fund II will be implemented in the first instance by the creation of financial instruments i.e. by investing in Loan Funds, Guarantee Funds.

International experiences and best practices for the implementation of Financial Instruments in Agriculture

Financial instruments have become widely used in many sectors, covering multiple thematic objectives. However, the use of FI to support the agricultural sector remains limited. During the previous programming period (2007-2013), loans coming from EAFRD FIs were rarely used, whereas guarantees were more prominent, having national schemes in most MS. In addition to the “classic” financial instruments (e.g. loans, microcredit, guarantees, equity, etc.) FI may also be offered in combination with grants and other forms of support, which is often a pre-requisite for enhancing their attractiveness for investors. This is particularly important in the agricultural sector, as the limited number of private investors as well as the difficulties to access to finance hinder the development and transformation of the sector. Under the EAFRD, FI can also contribute to the diversification of the sector, opening new market opportunities, while at the same time reducing the high risk perceived by banks/other financial institutions with regards to this sector.

Nonetheless, the limited number of existing financial engineering instruments across the EU hinders the possibility to develop a comprehensive benchmark to support this evaluation. It is possible to gather lessons learnt from past experiences in the implementation of Financial Instruments co-funded by the EAFRD through the case-studies developed by *fi-compass*. *fi-compass* provides horizontal, multi-regional and programme-specific assistance to MS, MA and other ESIF stakeholders with regards to the development of FI. In addition to the development of guidance and manuals, as well as awareness raising and learning opportunities through training, *fi-compass* develop case studies and examples of practice that have become a major tool for the gathering of lessons learnt.

Examples of financial instruments that have been implemented in other EU member states

The following examples of FI will be used to gather best practices with regards to the development of FI in the agricultural sector.

Estonia EAFRD loan fund[36]

The main objective of this fund was to fill the market gap in financing for agricultural and rural enterprises (agricultural holdings, processing and marketing of agricultural products and diversification towards non-agricultural activities) with an envelope of EUR 36 m from the Estonian RDP funds. The financial instrument should overcome this issue by improving the access to credit of these enterprises and the credit conditions provided by banks.

The ex-ante assessment concluded that about 60% of the targeted producers and rural SMEs encountered problems with financing investments, whereas 50% of the producer groups have encountered problems with financing for investments.

Despite the preliminary assessment of off-the-shelf instruments, the development of a tailor-made financial instrument was finally selected, while incorporating many elements from the off-the-shelf in terms of governance and delivery. In addition, the analysis recommended the development of a financial instrument in complement to non-refundable support. This had two major advantages: (1) completed grant schemes with a contribution of the beneficiaries, extending the limited budget available for non-reimbursable support (i.e. grants) and (2) increased the number of grants applications and hence funded projects.

However, the implementation process took longer than expected, particularly given the lack of previous experience of the MA and the need for reviewing some of the recommendations, particularly those related to State aid implications. It was highlighted that the financial instrument may include State aid or *de minimis* aid to the final recipient, depending on the type of investment. This particularly concerns investments under measures related to diversification and processors, as loans can have an interest rate which is lower than the normal market interest rate. Hence, the

[36] Loans for rural Development 2014-2020, Estonia Case study
https://www.fi-compass.eu/sites/default/files/publications/case-study_Estonia.pdf

gross grant equivalent for each loan needs to be calculated in compliance with State aid rules. The main challenge in selecting the implementing body was to understand how the regulatory implementation options and the general rules on public procurement applied to the rural development foundation, given its status as a public state foundation.

Two types of financial instruments were finally proposed: (1) a growth loan scheme for micro and small enterprises, and (2) a long-term investment loan for SMEs.

Table 13: Financial instruments proposed in the Estonian EAFRD loan fund:

	Growth loan of micro and small enterprises	Long-term investment loan
4-year target	EUR 14.2m	EUR 16.1m
Target group	Micro and small enterprises	SMEs
Amount of loan	EUR 5,000 – 100,000 Direct loan or co-lending	EUR 250,000 – 1,000,000 (EUR 250,000 – 1,000,000 for producer groups) Co-lending at least 50%
Duration	Up to 5 years (+ up to 3 years' grace period)	1 to 15 years (+ up to 5 years' grace period)
Collateral	At least 50%	At least 80% (30% for producer groups)
Interest	6% + ECB refinancing rate (lower than the market)	Market conditions (bank interest)
Other conditions	Lower interest rate for start-ups and microenterprises, disabled people, women (4% + ECB); young farmers and producer groups (2% + ECB)	Lower interest for start-ups and microenterprises, handicapped people, women (2% + ECB); young farmers and producers groups (1% + ECB)

Source: Loans for rural Development 2014-2020, Estonia Case study

The first months of implementation showed that final recipients clearly need such instrument. The conditions are generally suitable for agricultural and rural entrepreneurs, helping to overcome the existing market gap. The financial instrument was launched in February 2016, and as of September 2016, the level of absorption was as follows:

- 46 submitted applications (EUR 13.2m);
- 26 applications for growth loans (approx. EUR 2m) and 20 applications for investment loans (approx. EUR 11m);
- 30 applications have been approved, accounting for EUR 6.5m, or 18% of the total allocation;
- in the first 6 months EUR 3.4m were disbursed;
- EUR 5.5m private co-investment was attracted.

Latvia's Rural Credit fund[37]

The Rural Credit Fund was composed by EUR 44.7m from the EAFRD and the European Fisheries Fund (EFF) to counteract negative effects of the 2008-2009 crisis, particularly with regards the access to finance. The market assessment revealed that many projects were not eligible for grants as those where provided only after the completion of the project, which limited the number of potential recipients. Hence, before these instruments, commercial credit through banks was the sole option for many farmers to finance their projects. In addition, banking sector was reluctant to finance these activities, which were considered as being of high-risk, contributing to the increase of the market failure.

The objective of the Rural Credit Fund was to complement the investment grants already provided to overcome liquidity issues faced by potential recipients of these grants during the implementation of the projects. In addition, the implementation of this financial instrument contributed to address the lack of existing loans in the market while at the same time reducing the interest rates, ensuring the availability of funds to implement projects. The precise measures targeted by the financial instrument contributed to the following objectives of the RDP:

- Improve the competitiveness of agricultural and forestry businesses
- Diversify and develop business activities in rural territories and improve existing rural infrastructure
- Enhance the competitiveness of fishery and aquaculture product processing.

In addition to the financial support provided through the instrument, beneficiaries could also benefit from other national schemes, such as state guarantees or microcredits. The establishment of this financial instrument addressed the existing gap given its attractiveness (reduced interest rates and much longer repayment periods). However, only 71% of the allocated funds were actually delivered because (1) commercial loans became more accessible following the crisis and (2) the grants supplemented came to an end.

This case study shows that market gaps can be addressed through the combination of grants and financial instrument. Nevertheless, the Latvian model is not compliant with the 2014-2020 ESIF regulation, as the grant has been used to repay the loan. An effective awareness-raising strategy, particularly through the organisation of conferences with associations of potential recipients, was also a key element for the success of this financial instrument.

Romania's fund-of-funds facility[38]

Romania's agricultural sector is one of the pillars of the economy, employing 1/3 of the total workforce. However, upon the entrance of the Romania in the EU (2007), the country's rural sector was in high need of modernisation. The low productivity, combined with an aging, declining and low-income population, represented a significant barrier for the development of this sector. In order to tackle this issue, the NRDP 2007-2013 identified three key priorities to foster the development of the sector:

[37] The Latvian Credit Fund: Case Study – https://www.fi-compass.eu/sites/default/files/publications/case_study_the_latvian_credit_fund_latvia_1.pdf

[38] Rural Credit Guarantee Fund, Case Study https://www.fi-compass.eu/sites/default/files/publications/case_study_rural_credit_guarantee_fund_romania_0.pdf

- helping transform and modernise the agricultural and forestry sectors, as well as their corresponding processing sectors in order to make them more competitive;
- improving environmental conditions in rural areas;
- increasing diversification in the rural workforce, moving away from agriculture towards other sectors

In addition to these three priorities, the fourth priority axis is the 'LEADER' programme, which enables rural communities to coordinate parts of rural development programmes.

The analysis of the MA showed that commercial banks were reluctant to provide loans to this targeted public even if funds for doing so were available. One of the major issues for banks was the assessment of the risk as these structures were – in many cases – not able to provide a solid financial record. In addition, administrative costs were seen as particularly high, limiting the demand for this type of financing.

Given this, the MA decided to implement a new guarantee scheme to improve access to finance by increasing confidence of banks while at the same time attracting additional private funds.

This decision was based on (1) market signals received from the previous guarantee instrument, and (2) consultations with the banks, that indicated that a guarantee scheme was the best option to address the existing market gap. This scheme was split into two types of guarantees: the first product will target agriculture and the second will focus on the SMEs. These two guarantees were fully funded using EAFRD funds (80%) and national funds (20%), with a total allocation of EUR 116m, divided in EUR 97.1m for the agricultural guarantee scheme, and EUR 18.9m for the SME guarantee scheme, with a total revolving effect of 249.7%. In addition, agricultural guarantees have a fixed fee set by the MA, while SMEs are charged according to their perceived risk.

The revolving effect of the instrument was also an essential factor for its success, as funds from the initial guarantee are released back into the fund and used to guarantee other loans. In addition, the beneficiaries who take most advantage of the guarantee schemes are SMEs that also made use of EU grant co-financing for their projects.

In the end, the guarantee scheme supported the use of EU resources by creating 4.56 times more in loans than the EAFRD allocation, and by granting over 1,100 guarantees to some 694 beneficiaries. In addition, a shift was observed with regards to the type of support available, as now farmers and rural SME can find more divergent types of credit for financing their activities. In addition, the full alignment with State Aid rules was also a factor of success, ensuring procedural stability for both beneficiaries and financial institutions. Given its success, this guarantee scheme was extended until the end of 2015.

Main outcomes

Key messages on the experiences from the establishment of FIs in agriculture are:

1) TAE (February 2013 until December 2015), was the first and only FI under the previous RDP (2007-2013), being co-funded by the Greek State and the EAFRD, aiming to promote the effective use of resources that had been provided from the RDP 2007-2013 related to the financing of five, specific measures. However, only a very small part of the total funding (EUR 3.4m out of the EUR 116m) was granted for investment projects under the specific measures.

2) This low absorption of available funds can be attributed mainly to the following factors:

- **The Fund was not properly designed, failing to meet the specific needs of the farmers: Designed to offer a lower interest rate, but it did not address collateral requirements.**
- **The fund was not launched on time: there was a delay in its establishment. Its launch occurred at the end of the RDP (2007-2013). The timing of the fund was unfavourable due to the economic crisis, a time where little investment was undertaken.**
- **TAE's financial instrument needed to be more actively promoted to the potential beneficiaries.**
- **The potential beneficiaries had to provide lots of supporting documents in order to receive loans, while bureaucratic costs for the application were relatively high.**
- **The loan was provided before the investment, but the grant was provided only after the investment was undertaken. This required the farmers to have additional financing for the grant part.**
- **Beneficiaries to TAE were not allowed to apply to another programme in the context of RDP, such as Leader.**

3) The FI could be implemented by multiple financial intermediaries in order to avoid monopolistic market conditions and provide potential beneficiaries with the opportunity to apply to more than one financial intermediary.

Furthermore, recent experiences using financial instruments in the agricultural sector have proved their potential for improving the access to finance of agricultural SMEs, opening new market opportunities and contributing to the diversification of the sector.

In addition, the main success factors of these instruments should be taken into account when designing the investment strategy. These are:

- **The attractiveness of FIs combined with other forms of support, such grants.**
- **Use of guarantees to reduce the risk of banks given the lack of solid financial record of agricultural holdings, while at the same time attracting additional private funds.**
- **The importance of being in compliance with State aid regulation to facilitate a rapid implementation and ensuring procedural stability for beneficiaries and financial institutions.**
- **Interest rate below market conditions and a comfortable grace period to ensure the absorption of the funds.**
- **Need to develop an effective awareness-raising strategy.**

5. Analysis of the supply of agricultural financing

The supply-side analysis provides an overview of the Greek banking sector regarding the supply of financial products available generally and especially for agriculture and agri-food processing. Included in the analysis is an overview of the supply of finance provided by other market players, both at international and national levels. A subsequent section summarises the analysis conducted, highlighting the potential supply side market weaknesses that may contribute to sub-optimal investment situations.

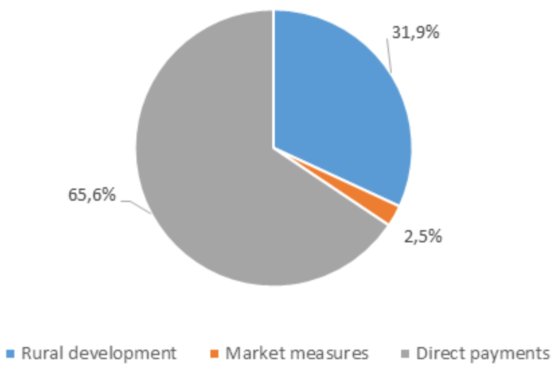
Public financing

Direct payments

The small farmers benefit from a flat-rate simplified system of support (the Small Farmers Scheme), with a maximum of EUR 1,250 support per farmer p.a., this scheme reduces the administrative burdens for small farmers, lessens the controls on cross - compliance, and exempts them from greening rules. The Greek authorities have decided to earmark 7.42% in 2015 to 8% in 2019 of the direct payments envelope for voluntary coupled support (targeting mainly sheep and goats, beef and veal and fruit and vegetables).

With the goal of achieving a fairer distribution of the support, the amounts of direct payments for the largest beneficiaries will be capped at EUR 150,000. Other changes introduced in the 2013 CAP reform include stricter rules on active farmers eligible for direct payments and a new 25% aid supplement for young farmers for the first 5 years, in addition to already existing installation grants.[39] Direct payments have been a key safety net and a driver for the modernisation of agricultural holdings. In 2014 Greek farmers received more than EUR 2.2bn in direct payments, benefitting more than 709,270 farmers and farm businesses, 81% of whom received a payment below EUR 5,000[40].

Figure 4: Distribution of CAP expenditure (2016):



Source: EC, Statistical factsheet Greece, 2017

39 EC, Agriculture and rural development> The CAP in your country: https://ec.europa.eu/agriculture/sites/agriculture/files/cap-in-your-country/pdf/el_en.pdf

40 EC, Agriculture and rural development, The CAP in your country: https://ec.europa.eu/agriculture/sites/agriculture/files/cap-in-your-country/pdf/el_en.pdf

The RDP for Greece under the CAP

Greece's Rural Development Programme, outlines the priorities for using EUR 5.6bn[41] available for the programming period 2014-2020 (EUR 4.7bn from the EU budget and EUR 0.9bn the national co-financing).

The Greek RDP focuses mainly on enhancing farm viability and competitiveness, preserving and enhancing ecosystems and promoting local development in rural areas. In particular, farmers will receive support to put 10.3% of the Greek farmland under contracts to preserve biodiversity, 12.1% to improve water management, and 10.7% to improve soil management and/or prevent soil erosion. Investment support for restructuring and modernisation will be provided to 6,300 agricultural holdings and 23,900 young farmers will receive start up aid. In addition, over 8,300 agricultural holdings will receive support to develop short supply chains, local markets and to carry out promotional activities and about 600 agri-food businesses will receive support for investments in processing and marketing of agricultural products. Support for knowledge and innovation activities makes up over 6% of the planned public expenditure and the programme will create around 86,640 training places for farmers and other rural businesses[42]. The RDP will also support local development via LEADER Local Action Groups covering nearly half of the country's rural population and improve access to basic services for approximately 10% of the rural population, including IT infrastructures (e.g. broadband internet).

The RDP is structured into six main investment priorities and several focus areas under each investment priority. By combining the focus areas and the investment priorities, several measures for specific investments have been created under the RDP. They comprise of the familiar type of measures and new measures such as the ones for cooperation actions and CLLD (Community-Led Local Development).

Bank financing

Bank positioning and strategy in the agricultural sector

The banking sector in Greece remains structured in three different segments, with large market concentration in a few banks. The three segments are:

- Domestic commercial banks;
- Cooperative banks;
- Foreign banks.

There are several major players in Greece's banking sector, most of which have faced significant operational challenges in the wake of the global financial crisis. The crisis in the Greek economy led to many foreign banks reducing their exposure to the Greek market over recent years, while in turn Greek banks were forced to sell off and withdraw from other regional markets, particularly in the Balkans.

As a result of the crisis trading conditions in the market remain extremely difficult in light of very high debt levels and poor asset growth and further closures, mergers or acquisitions are likely to occur. The Bank of Greece reports that in 2017 there are just 38 registered credit institutions in operation in the market, though this number is boosted by the number of European banks which

41 According to the latest data provided from the Ministry of Rural Development

42 EC, DG AGRI, Factsheet on 2014-2020 Rural Development Programme for Greece

can operate in Greece through freedom of service arrangements. After a series of mergers & acquisitions following the Greek government-debt crisis, the banking sector is currently concentrated in four major commercial banks, which control more than 90% of the market and three cooperative banks.

Commercial banks are:	Active cooperative banks are:
Piraeus Bank	Pancretan Cooperative Bank
National Bank of Greece	Cooperative Bank of Karditsa
Eurobank Ergasias	Cooperative Bank of Thessaly
Alpha Bank	

Based on information derived from interviews, all of the referred banks have a specific approach and strategy concerning the agricultural sector.

Generally, based on the interviews with supply side stakeholders, cooperative banks show a more social and indulgent behaviour and approach to the farmers in contrast with systemic banks.

As **Piraeus Bank** acquired Agricultural Bank including the bank's portfolio and client historical records, the majority of farmers have loans to the former Agricultural Bank with many bad debts and many collaterals and property mortgages. The agricultural sector identifies Piraeus Bank as the only bank that provides financial products to farmers. For these reasons, 95% of farmers have loans to Piraeus Bank according to estimations derived by the interviews with commercial and cooperative banks. As Agricultural Bank of Greece (ATE) stopped its operations, it is known that there is a financing gap due to the fact that Piraeus Bank managed ATE as a separate department of the bank and reviewed many of the policies of the ATE and it did not embody all of its activities/policies.

As mentioned in interview with Piraeus Bank, the agri-food department is expanding and serves mainly farmers/natural persons, rather than enterprises. Focus is given on the primary sector and especially on the agri-food sector. Piraeus Bank employs 40 people in the agri-food department, which has the role of coordinator between farmers and companies and stands as financier & responsible for the implementation of the programme. Also, the agricultural sector is correlated with many unstable situations, and that's why Piraeus Bank adjusts its requirements / approach to receivables, as well as makes effort to the personalisation of pricing policy.

With regards to **Eurobank Ergasias**, the bank finances mainly the sectors of processing companies and less in the primary sector. Nevertheless, the bank entered recently agricultural sector with the provision of agro-carta after invitation from the MIN AGRIC. Agro-carta has no interest rate, however in the future the interest rate will increase, probably less than 2%, 5% (COSME) and 9.95% in case of non-existence of guarantee. The program targets to small farmers, although there is low demand for agro carta. In contrast to the other systemic banks, Eurobank does not have contract farming programmes but has an interest in offering this type of programme in the near future. Currently, the bank is seeking to collaborate with large processing companies and develop contract farming in order to determine the procedure and specific terms and commitments.

Currently, Eurobank is particularly active and tries to be established itself into the sector. They interviewed relevant stakeholders across country's regions in order to understand and quantify the needs of the sector, to be prepared to implement RDP. Subsidies are also being processed through COSME.

National Bank of Greece has a low market share to the financing of farmers. The bank has no significant relationship with farmers but is interested in being part of a productive trading chain and being stable in cooperation with processing companies. Under the SMEs department of the bank, there is an agriculture subsector which is concerned with agro-carta, although the main activity refers to contract farming and livestock farming.

Alpha Bank has shown interest in gaining a more substantial market share in the agricultural and food processing sectors, offering several products targeting these segments, such as agro-carta, direct payments or the flexible contractual entrepreneurship programs. However, despite its gradual interest, the agricultural sector remains a new field for Alpha Bank, with a low market share and small participation to the financing of the agricultural sector. In the past, Alpha Bank has financed the agricultural sector in combination with guarantee programmes so far, such as COSME, as well as, with co-financing programmes, such as JEREMIE & InnovFin.

Starting with cooperative banks, **Pancretan Cooperative Bank** has significant market share on the island of Crete (deposits: 14% in total island) and in terms of financing SMEs the bank's portfolio is amounted at EUR 858.7m, out of a total of EUR 1.63bn in 2016. During 2016, the bank's portfolio for farming and livestock reached EUR 39.9m from EUR 38.9m (Annual notes 2016).

With regards to **Cooperative Bank of Karditsa**, the bank finances at a large scale SMEs, but focuses also on the agricultural sector. The bank focuses on sectors with small production variations, such as cotton production (0.4-0.5 ha is calculated a critical size of production and viability) rather than grains.

Finally, regarding the **Cooperative Bank of Thessaly**, its purpose is to finance it members, aiming at improving and protecting industry and craft, trade, agriculture, livestock and fishing, and generally all stages of economic activity. During 2015, the bank's portfolio for farming and livestock reached EUR 3.1m out of EUR 51.4m loans to SMEs (Annual notes 2015); 6% of their total loan SME portfolio. Commerce was 31.1% numbered as a strategic priority.

Overview of the financial products for the agricultural and agri-food sector to the Greek market

This section presents major specific financing products available in Greece targeting agricultural activities.

Supply in the agricultural sector cannot be quantified as relevant data are not available. The existing short and medium-long term financial products that are provided by the commercial and cooperative financial sector to producers – farmers, are summarised below in the following summary tables, in which there are the available customised financial products provided by each bank to the agricultural sector. The first table presents the short-term financial products offered by the banking system in agricultural sector, while the second table presents the medium-long term supply in the sector. (Detailed analysis of present financial products are included in Annex 11 –Bank financing).

Table 14: Summary of financial products offered by the banking system in agri-food processing sector:

Financial Intermediaries	Contract Farming Programme	Working Capital for Farmers (WCF)	Agro-carta	Farmers' Micro-finance
Piraeus Bank	• Loans agreements with farmers and buyers of the crop or animal production • Interest rate of 5.5% • The range of the financing amounts is € 10,000- € 60,000 • The duration of contract farming typically ranges from 6 months to 1 year • 22.000 agricultural holdings are being financed per year • Piraeus bank gives € 700 m for contract farming addressed to 250 leading companies and 2,000 producers in total	• The applicants to WCF are key players of the sector and disciplined in their capital management. • The credit line depends on the type of crops or livestock and the size of the crop. • The duration of WCF is one year (plus a one-year extension option), and the total amount is up to 90% of the eligible CL. • Interest rate is variable for the entire term of the loan, currently at 7.10% • The bank intends to decrease interest rate by 1%	• Beneficiaries are the same as of CAP Pillar I - direct payments. • Credit limit is linked to the amount of the CAP Pillar I direct payments that the producer receives. • No issuing costs for the card, no annual fee and no collaterals is required (i.e. mortgage)	• A Credit Limit (micro-finance) is extended to farmers, in order to cover unpredictable expenses • Microfinance applies to all kinds of agricultural holdings • There is floating during the entire loan period: currently 7.10% (BRF: 7.10%) plus margin 0.3%, plus levy according to L.128/75 currently at 0.12% or 0.60% depending on the Farmer's main professional activity

Financial Intermediaries	Contract Farming Programme	Working Capital for Farmers (WCF)	Agro-carta	Farmers' Micro-finance
National Bank of Greece	• Farmers and livestock breeders recommended by an NBG-partnered trading/manufacturing business, with whom they have entered into an agreement for the sale of their products (with or without the mediation of an agricultural cooperative). • The funds are disbursed through the special debit card "AGROKARTA DEBIT MASTERCARD"	NA	NA	NA
Eurobank Ergasias	NA	NA	• Each card has a credit limit • No interest rate at the moment • This programme targets particularly small farmers, which have to reapply for the agro-carta every year	NA
Alpha Bank	• Support of the chain from the production and processors up to the export of agricultural products. • Interest rate is variable depending on the relationship between the beneficiary and the bank (currently 6%-6.5%)	NA	• Direct payments to beneficiaries of the first pillar of the Common Agricultural Policy (CAP Pillar I) • Favourable conditions, as it is free of charge and offers a privileged interest rate	NA

Financial Intermediaries	Contract Farming Programme	Working Capital for Farmers (WCF)	Agro-carta	Farmers' Micro-finance
Pancretan Cooperative Bank	NA		• Preferential Farm Account "ONE FOR ALL", which combines a deposit account with a limit of overdraft which is used through the Pan-European VISA Card • No issuing costs for the card, no annual fee and no collaterals is required • New product of the bank • To date, 37 applications have been submitted out of which 23 have been approved. The total amount of approved credit lines is ~€109,000 with a credit limit of €4,700	• Pancretan Cooperative Bank Ltd (PCB) is joining the group of microcredit providers under Progress Microfinance. Thanks to a guarantee, PCB will be able to offer up to EUR 6 m of micro-loans to Greek micro-entrepreneurs, with a focus on financing start-ups up to three years and new borrowers with a robust business plan. • With a leverage of 1.5 times, PCB will generate up to EUR 13m micro-loans to micro-enterprises

Financial Intermediaries	Contract Farming Programme	Working Capital for Farmers (WCF)	Agro-carta	Farmers' Micro-finance
Cooperative Bank of Karditsa	NA	NA	NA	• Support of either freelancer who want to establish or expand a micro company (fewer than 10 employees) or unemployed people who are temporarily withdrawn from the labour market or people who cannot easily take a conventional credit. • More than 50,000 micro enterprises and social enterprises can apply for the loan; mainly loans up to €25,000
Cooperative Bank of Thessaly	NA	• Working capital financing: 6.50% base loan rate plus 5% margin	NA	-

Source: Websites of each bank

Financial Intermediaries	Investment financing for Young/New Farmers	Investment Loans for Farming Activities, Premises and Equipment	Leasing
Piraeus Bank	• Eligible beneficiaries are persons aged 19-50 who want to become farmers, whether or not they have participated in a State subsidy programme must have submitted the relevant application • Interest rate is variable based on the BRF • The loan amount varies from €5,000 to €150,000. Maximum Financing Amount is up to 80% of the estimated investment cost and up to 80% of estimated value of the mortgaged property	• The investment loan duration is up to 7 years for mechanical equipment & intangible assets and up to 10 years for building premises and purchasing plots of land. • Interest rate is variable based on the BRF plus a spread of 1.4%. Currently, the level of interest rate is 7.5%-8% • The investment loan is given to the beneficiary who receives 50% grant financing (public subsidy) over the total investment amount	NA
National Bank of Greece	NA	NA	NA
Eurobank Ergasias	NA	NA	NA
Alpha Bank	NA	NA	NA
Pancretan Cooperative Bank	NA	• Cooperation with the European Investment Bank for total funding of € 175 since 2007 to support investment projects of SMEs and Local Authorities of Crete • Cooperation in the ERDF funded programme "Upgrading micro & small businesses to develop their skills in the new markets" • The budget for each project is around €15,000 to €200,000 and the duration of implementation is 24 months	NA
Cooperative Bank of Karditsa	NA	NA	NA

Financial Intermediaries	Investment financing for Young/New Farmers	Investment Loans for Farming Activities, Premises and Equipment	Leasing
Cooperative Bank of Thessaly	NA	• Assets and Mechanical Equipment Financing: 5.50% base loan rate plus 5% margin	• Property leasing: Duration 10 – 25 years • Vehicle leasing: Duration 3 – 7 years, • Equipment leasing: Duration 3 – 7 years • All forms of leasing has floating interest rate according to the Basic Loan Rate – 7% base loan rate with variable margin 0%-2%

Source: Websites of each bank

Financing conditions to the agricultural and agri-food sector

Agricultural sector

The current section includes synthesis of information extracted by interviews and focus groups concerning financing conditions and eligibility criteria of financing that are valid in commercial and cooperative banks.

Equity requirements and Collaterals

Commercial banks commonly require a percentage of equity (around 25%) to provide financing in order that businesses are not overleveraged.

There is additionally a wide range in the amount of collaterals requested from farmers by banks, such as business property, urban property, cash guarantees equal to the loan requested or equal to the total investment amount in case of funding of investments. . Nevertheless, in contract farming, the requirements for collaterals are lower.

The required value of collaterals commonly ranges from 100% to 140% of the financing amount. There are many cases where the banks provide financing to farmers who are not bankable without guarantees by using direct payments as collaterals. These cases are only limited to short term loans for small amounts (less than EUR 10,000). In few cases of large farmers there is requirement of guarantees, such as contracts with the farmers' clients – which is a kind of factoring.

With regard to cooperative banks, a percentage of equity (around 25%) is commonly required for financing.

Eligibility criteria

For contract farming program, contracts between processing/commercial companies and farmers/agri-groups, which consists of the number of acres that would be cultivated, production and product, are reviewed by banks' legal department. Following the necessary due diligence process, all provided data is inserted to the OPEKEPE system in order to calculate the total financing amount to each farmer on an annual basis. Banks safeguard the contracts as collaterals for the financing.

Financing criteria refer to financial (simple books consist mostly of imputed incomes) and qualitative data (credit history, sector):

- Short-term financing depends on product and geographical area, type of cultivation, ownership status, existence of family business
- Long-term/ Investment financing depends on investment attitude and profile of beneficiary

Criteria of financing also relate to breakdown of expenses to environmental purposes and innovation purposes. Referring to cooperative banks, the eligibility criterion in relation to direct payment is the legal assignment of the grant to the bank. The criteria beyond the direct payment are presented below:

- Property contributed as collateral
- Receipt of the grant through bank
- Guarantee of mortgaged property
- Personal guarantee of borrower
- Fixed order for loan repayment

Loan maturity - Volume of financing – Financing conditions

There are two types of financing in the agricultural sector:

a. Financing for **short-term needs**, depending on the type of cultivation and the geographical area conditions, such as climate, soil conditions, and water availability (e.g. working capital for farmers). The average duration of those loans is 6-8 months and the provided financing amount is less than EUR 25,000 per beneficiary annually, while the average financing amount per beneficiary at each case is around EUR 1,500. The banking system provides in a tight period (around 2-3 months) small amounts of money with an interest rate of 5% annually.

b. Financing for **Investment needs** for approximately 7,000 development plans providing financing plans for 65,000 farmers via the RDP 2014-2020. The average amount of financing for investment needs is expected to range between EUR 80,000 - EUR 100,000 on an annual basis. This type of financing is expected to cover more than 20,000 development plans, depending on the geographic area and age of the farmer (the average investment is estimated at 150,000 and 50% – 75% of the investment is subsidised). The duration of the loans granted by the banks for the financing of investments is equal to the useful life of the financed assets and is estimated at approximately 7-8 years on average (minimum duration 5 years and maximum 10 years). The financing thresholds set by the bank amount to 40%-45% of total investment amount.

Furthermore, there are three exclusive schemes of financing as mentioned above that are have specific features, according to interviews' input. These are the following:

a. **Agro-carta**, with an average of funding of EUR 3,500 – 80% of the total amount being provided upfront in order to start the cultivation.
b. **Contract-farming programmes**, with the duration of contract farming typically ranging from 6 months to 1 year. Under this exclusive scheme 22,000 agricultural holdings are financed per year in the context of the Contract Farming Programme of Piraeus Bank (largest commercial bank). In particular, Piraeus Bank gives EUR 700 m for contract farming which is addressed to 250 leading companies and 2.000 producers. With regards to contract – farming programmes it should be noted that the National Bank of Greece estimates that outstanding loan balances (financing for investments included) regarding loans to farmers, processing firms and wholesalers is estimated at approximately EUR 700-750m. Default rates contract farming remain low compares to other financial products.
c. **Flexible Contractual Entrepreneurship Programmes**, with the range of the financing amounts disbursed through Flexible Contractual Entrepreneurship Programs ranging from EUR 10,000 to EUR 60,000. In this type of financing, the bank manages a family with fragmented agricultural holdings as one client in order to give a substantial amount of financing. Under the Flexible Contractual Entrepreneurship Programmes there is a limit of overdraft to the contractual card and overdrafts are controlled by the bank.

Furthermore, as mentioned in focus groups, small farmers are financed with an interest rate of around 8% - 8.5% p.a., while large farmers are financed at interest rates ranging from 5.5% (short term) to 6.5% p.a.

With regard to the average duration of loans for the products granted is:

- Short-term loans: 12 months with an average recycling interval of 7.1 months
- Medium term and long-term loans: 4.2 years

For the calculation of the average maturity for the two types of loans, loans that have been disbursed until May 5th, 2017 were taken into account. Supply of loans of small amounts - on average EUR 10,000, if the upper limit is EUR 25,000 – requirement of the bank in order to finance own capital 10%-30% at the most of cases and up to 50% if the investment is risky.

Cooperative Bank of Karditsa provided 100 loans to agricultural sector during 2017 – average financing amount EUR 15,000.

a) Agricultural loans: purchase of supplies/ raw materials (with invoices of EUR 7,000-EUR 8,000) to be used in production.
b) Contract Farming Programme: tripartite agreement – serves collective schemes and farmers who do not have past data (investment readiness support) – grace period is about 6 months to 2 years – investments are included.

According to the Pancretan Cooperative Bank, which is the only bank that provided the requested data, the total financing and new financing in the agricultural sector refers to EUR 39,209,952 and EUR 747,707 respectively in 2016.

Factors restricting farmers' access to finance

Farmers' access to finance is restricted by a wide range of factors. Farmers may lack business culture or business acumen, own capital and willingness to invest their own equity capital or financial history. Occasionally, the lack of business culture, along with the seizure of guarantee letters and bank accounts and due to debts to KEAO (Centre of Collection of Insurance Charges) may lead to low credit ratings for the potential beneficiaries. Moreover, the limited capacity of small and large farmers to provide banks with the required guarantees (i.e. personal property) and outstanding tax and social security liabilities (an increasing number of farmers are facing issues in terms of access to finance because of payable tax or social security liabilities), can also be significant factors that restrict the farmers' access to financing.

Banks prefer to finance business initiatives of individual farming enterprises rather than collective schemes, as in collective schemes there are risks concerning possible disagreements between members and non-implementation of the business plan. Nevertheless, there are many remarkable agricultural cooperatives.

Overall, there are many difficulties of small and large farmers on takings loans despite high liquidity. Furthermore, it was mentioned during interviews that the percentage of financing to farmers out of total financing issued to small businesses is about 2%-3%. Most of them are financed through COSME – an EU level financial instrument implemented by the EIF, offered by all four systemic banks- which provide banks with a 50% guarantee on the total loan amount in case of default.

Agri-food processing sector

Financing conditions and eligibility criteria of financing that are valid in commercial and cooperative banks and are addressing to the agri-food sector, as it derives from the interviews with the supply side, differentiate from those of the agricultural sector.

Collaterals - Guarantees

From the side of commercial banks, collaterals required by small processing companies are fluctuating from 50% to 100% of the requested loan amount.

Eligibility Criteria

The eligibility criteria for financing are:

- Level of maturity of the business
- Historical records and relationship of the business with the banking system
- Sales network

Loan maturity - Volume of financing – Financing Conditions

The processing sector filed approximately 50,000 development plans; only 20,000 of them were bankable, during the 2007 – 2013 programming period. Average funding of processing companies varied from EUR 300,000 to EUR 500,000. Until April 2017, the processing sector was financed (granted) with EUR 458m.

According to the answered received, the agri-food processing SMEs require at least 40% financing for covering their total expenses. They are preferring funding from the Rural Development Programme (significant demand) instead of State tax exemption, while local banks prefer to fund exporting companies based on existed delivery orders. Applicable interest rates for financing for small size processors range from 5.5% p.a. to 7% p.a., while large size processors can be lent with a 4% to 6% p.a.

It was mentioned by Central Bank of Greece that almost 50% of loans to agri-food processing sector (food, drinks and tobacco are non performing). Processing companies prefer funding from the Rural Development Programme (significant demand) instead of tax exemption, while banks prefer to fund exporting companies. Interest rates for financing to small processors fluctuate from 5.5% to 7%, in contrast with large processors, who borrow with 4% to 6%.

Factors restricting processing companies' access to finance

According to commercial and cooperative banks, the main factors restricting agri-food processing companies from access to finance is the lack of guarantees (i.e. personal property by the side of small processors) and the high default rate which is recorded in the agri-food processing sector.

Quantification of the supply of agricultural financing in Greece

In this sub-chapter the supply of agricultural financing for producers and processors is presented.

The quantification is based on the data provided by the Bank of Greece and the Hellenic Statistical Authority. The amount of gross new loans disbursed each year by banks to the agricultural sector and to the food-processing sector was not available. Therefore, two methodologies were applied for quantifying the supply of agricultural financing in Greece.

The first methodology is based on the available data for the total amount of outstanding loans to the sector, while the second one is based on the results from the survey data. The combination of these approaches leads to the estimation of the range for the supply of bank financing.

The methodology used for the quantification of the supply is detailed in Annex 12.

Quantification based on the outstanding loans[43]

Table 15 below presents the estimates of the total supply of new short-term loans to the agricultural sector. The range of new lending ranges from EUR 247m to EUR 273m, with about ¾ of which are short-term loans.[44]

Table 15: Estimation of the supply of new loans to the agricultural sector:

Supply of loans (in million EUR)	2017 (lower estimate)	2017 (higher estimate)
Estimated amount of new short-term loans	194	215
Estimated amount of new medium- long-term loans	53	59

43 See Annex 12 - Estimation of supply

44 It is noted that the impact of any estimation errors in the estimation of the write-offs would not be material, since the estimated total amount of write-offs for all categories of loans does not exceed EUR 9.5 m.

Total	247	274

The supply of loans in the processing sector is significantly higher than among producers. It ranges annually from EUR 1,080m to EUR 1,304. Majority of the supply is concentrated on new and short-term loans.

Table 16: Estimation of the supply of new loans to the food, beverage and tobacco products manufacturing sector

Supply of loans (in EUR m)	2017 (lower estimate)	2017 (higher estimate)
Estimated amount of new short-term loans	963	1 170
Estimated amount of new medium- long-term loans	117	134
Total	1 080	1 304

The current methodology does not allow the identification of the supply of micro-loans. Indeed, the total amount of microfinance products is included in the amount of new short-term loans. In order to estimate the total supply of micro-finance products, the amounts of micro-loans obtained from the survey results were extracted from the estimated amount of short-term loans. These calculations are detailed in Chapter 7.

Quantification based on the survey data[45]

According to the estimation of the supply based on the survey results, the following estimations have been derived[46]:

i. Producers

The loan supply for producers was estimated between EUR 226m and EUR 250m. The largest part of the loans is estimated to be allocated to medium-sized producers (more than 40%), where a ~20% of total loans were allocated to small producers; while the amount calculated for large producers was even lower (16%). For large producers, this estimation implies a low degree of dependence to financing from loans.

Table 17: Loan supply for producers based on survey results

Firm size	Lower bound (in EUR m)	Higher bound (in EUR m)
Large	36.6	40.5
Medium	100.3	110.9
Small	46.3	51.2
Micro	42.5	47.0
Total	225.7	249.6

[45] See Annex 12

[46] Quantification of supply is not provided for equity financing since the supply cannot be estimated based on the number of responses (3 in total). Besides the reference in very low amounts in equity financing for those who replied to the question implies in general that the supply of equity financing is extremely limited

ii. Processors

The loan supply for processors was estimated to be approximately EUR 508m to EUR 561m. Findings per size class are consistent to those of the producers, where the largest part of the loans was allocated to medium-sized processors (43% of processors' loan supply). However, due to the large number of micro enterprises (almost 90% are micro-enterprises), supply is also relatively high for micro- processors too (39% of total supply). The degree of dependence to loan financing remains low.

Table 18: Loan supply for processors based on survey results

Firm size	Lower bound (in EUR m)	Higher bound (in EUR m)
large	34.9	38.6
medium	218.0	240.9
small	196.9	217.6
micro	58.2	64.3
Total	508.0	561.4

Estimated range for supply of bank loans

The approaches followed above for the estimation of the supply of loans to the agricultural sector yield consistent results. For producers, the loan supply estimates derived from the approach based on outstanding loans are slightly higher than the estimates derived from the survey. Indeed, the actual amount of loan supply to producers is estimated to lie in the range between the estimates produced by these approaches. Therefore, the range of the estimates for the supply of loans to producers was finally estimated by combining the ranges estimated using the two above approaches[47].

Table 19: Estimated range of the supply of loans to producers in 2017

Supply of loans (in EUR m)	2017 (lower estimate)	2017 (higher estimate)
Estimated amount of new short-term loans[48]	173	215
Estimated amount of new medium- long-term loans	53	59
Total	226	274

Σχόλιο [LNA1]: 215 + 59 = 274, not 374

For processors, on the contrary, the estimations derived from the outstanding loans are higher than those derived from the survey data. This may be related to the fact that given the lack of published data on the amount of outstanding loans to the food processing sector, and the fact that the latter were estimated based on the total outstanding loans for the processing sector as a whole and the estimated share of food processing in the total GVA of the processing sector. The fact that the

47 Since the survey results did not provide the breakdown of debt financing amount obtained by type of loan, the breakdown of the total amount of loan supply estimated from the survey data was estimated that the breakdown is the same as estimated based on outstanding loans.

48 The estimated supply of short-term loans includes micro-loans.

increasing trend of the share of the GVA of the food processing sector observed until 2015 was assumed to have continued in 2016-2017, may have led to an over-estimation of outstanding and new loans to the food processing sector.

Based on the above, it is estimated that the supply of loans to the food processing is within the ranges estimated through the above two approaches. The table below presents the estimated range combining the two approaches[49]:

Table 20: Estimated range of the supply of loans to the food processing sector

Supply of loans (in EUR m)	2017 (lower estimate)	2017 (higher estimate)
Estimated amount of new short-term loans[50]	475	1 170
Estimated amount of new medium- long-term loans	33	134
Total	508	1 304

Existing and estimated supply of financing

Agricultural sector

The Greek financial services sector stands as a weak link in the EU due to its low performance. The country narrowly avoided a return to recession in early 2017, with first quarter GDP growth coming in at just 0.4% and many banks remain in a precarious position, despite pressure to reduce exposure to non-performing loans. Public and private debt levels in the country are extremely high.

This chapter analyses the volume of financing by the financial system to primary agricultural production and agri-food processing sector throughout the past years as well as estimation about the upcoming volume of financing to the respective sectoral areas.

It is noted that the financing amounts do not include the bad debt of the companies under liquidation. Domestic financing to agriculture, forestry & fishing by domestic MFIs reached EUR 1,207bn in July 2017, as there was a sharp decline (~40%) in the amount of outstanding loans to the sector over the period 2010 to 2017. Short-term loans are accounting for 41% of total outstanding loans in the sector, while long-term loans represent 45% of total outstanding loans. Non-performing loans (NPL) ratio is 59% in 2017 with NPLs reaching EUR 787m.

Estimation of the potential bank financing of investments in the primary agricultural production sector in the context of the RDP

The total potential volume of bank financing to the agricultural sector was estimated taking into account the new public commitments for financing until the year 2020.

According to interviews with banks, farmers are financing the implementation of the total investment amount by taking part to a Rural Development Program (RDP) with 50% grant as estimated, by

[49] Since the survey results did not provide the breakdown of debt financing amount obtained by type of loan, the breakdown of the total amount of loan supply estimated from the survey data was estimated that the breakdown is the same as estimated based on outstanding loans.

[50] The estimated supply of short-term loans includes micro-loans.

requesting a loan equal to 30% of total investment amount and by investing own capital equal to 20% of total investment.

The potential volume of bank financing for farmers that could be combined with Financial Instruments (FIs) is estimated around EUR 278.3 m until year 2020, while annual financial needs are estimated at EUR 92.7m per year.

This estimation derived from the new public funding budget for the measure 4 and sub measure 4.1., which is addressed to farmers.

It is noted that this estimation refers exclusively to investments and not to short-term financing, such as working capital and includes only the eligible investments financed by RDP (e.g. investments in livestock is not be taken into account). Also, it is highlighted that the estimated financing amounts are not considered as financing gap.

Table 21: Estimated potential volume of financing to the agricultural sector until 2020:

RDP Measure (examined in the context of the current study)	Description	Budgeted amount in the RDP (m EUR)	Estimated banks' maximum contribution to the co-financing of RDP beneficiaries
4.1	Investments aimed at improving the performance and sustainability of farms	463.8m	278.3m

Source: PwC analysis based on MA data, 2017

Agri-food processing sector

This chapter analyses the volume of financing by the financial system to primary agricultural production and agri-food processing sector throughout the past 7 years as well as estimation about the upcoming volume of financing to the respective sectoral areas.

Domestic financing to processing by domestic MFIs reached EUR 18.17bn in July 2017, as there was a decline (~23%) of the loans given to the referred sector over the period 2010 to 2017. Short-term loans refer to 43% out of total financing; while long-term represent 32%. The NPL ratio is 47% in 2017 with a total amount of EUR 9.2bn.

Estimation of the potential volume of bank financing to the agri-food processing sector

The total potential volume of financing to the agri-food processing sector was estimated taking into account the new public commitments for financing until the year 2020.

According to interviews with banks, farmers are financing the implementation of the total investment amount by taking part to the Rural Development Program (RDP) with 50% grant as estimated, by requesting a loan equal to 30% of total investment amount and by investing own capital equal to 20% of total investment.

The volume of financing for processors that could be combined with Financial Instruments (FIs) is estimated at EUR 363.2m until year 2020. This estimation derived from the new public funding for the measure 4 - sub measure 4.2 and measure 19 – all sub measures, which are addressed to processors.

Table 22: Estimated potential volume of bank financing to the agri-food processing sector until 2020

RDP Measure (examined in the context of the current	Description	Budgeted amount in the RDP (EUR m)	Estimated banks' maximum contribution to the co-financing of RDP beneficiaries

study)			(EUR m)
4.2	Investments in the processing, marketing and/or development of agricultural products	258.9	155.4
19.2	Support for the implementation of actions under Community-led local development strategies (CLLD) (financial instruments under this sub measure may be launched independently from of the individual CLLDs).	346.3	207.8[51]
Total		**605.2**	**363.2**

Source: *PwC analysis based on MA data, 2017*

It is noted that this estimation refers exclusively to investments and not to short-term financing, such as working capital and includes only the eligible investments financed by RDP (e.g. investments in livestock is not be taken into account). Also, it is highlighted that the estimated financing amounts are not considered as financing gap.

In the context of the above assumptions, the table above outlines the specific volume of potential bank financing estimated for the upcoming years until 2020, while annual financial needs are estimated to EUR 121.1m per year.

Existing European Financial Instruments

This section presents available EU and national sources of grant finance that are target the agricultural sector and the agri-food processing sector in Greece.

There are different forms of financial instruments that can address all agri sectors. Some are funded by the EU budget and implemented in collaboration with the EIB-Group; these are the COSME-LFG, EFSI, EaSI and the JEREMIE initiative (all instruments are presented in detail further below). These initiatives refer to loans given or guarantees. Furthermore, there are national grants, such as funds from ETEAN, which is intended to the processing sector.

[51] The maximum contribution of banks to the co-financing of potential beneficiaries of M19.2 has been estimated based on the total budgeted amount for M19.2. in the RDP. It should be noted that the scope of M19.2, and hence the total budgeted amount for this sub-measure in the RDP, includes both agri-food sector beneficiaries, private sector beneficiaries carrying out investments in non-agricultural activities such as tourism activities, as well as public infrastructure investments. Although only part of the total budgeted amount for M.19.2 in the RDP concerns agri-food processing, the total budgeted amount for M19.2. was taken as the basis for the calculation since a breakdown of the total budgeted amount for M19.2 by category of beneficiaries was not provided, either in the RDP or during interviews with key stakeholders. Therefore, the estimated maximum contribution of banks to the co-financing of potential beneficiaries of M19.2. in the table represents the maximum contribution of banks to the co-financing of all types of investments eligible under M19.2. (i.e. including not only investments in agri-food processing, but potentially also investments in the private sector that do not contribute to the agri-food sector and investments in public infrastructure).

Below there is a short description of each one of these financial instruments offered by the local financial intermediaries.

Table 23: Summary of available guarantee instruments offered by the banking system in agricultural sector:

Financial Products	Competitiveness of Enterprises and SMEs – Loan Guarantee Facility (COSME-LGF)	European Fund for Strategic Investments (EFSI)	EaSI programme	JEREMIE initiative
Piraeus Bank	√	√	√	√
National Bank of Greece	√	√	-	√
Eurobank Ergasias	√	√	√	√
Alpha Bank	√	√	-	√
Pancretan Cooperative Bank	-	-	√	-
Cooperative Bank of Karditsa	-	-	√	-
Cooperative Bank of Thessaly	-	-	-	-

Source: Website of each bank

COSME - LFG

COSME, the EU programme for the Competitiveness of Enterprises and SMEs, supports SMEs in:

- Facilitating access to finance through the Loan Guarantee Facility and the Equity Facility for Growth;
- Supporting internationalisation and access to markets through various initiatives namely the Enterprise Europe Network, the Your Europe Business portal which provides practical information on doing business within Europe, and IPR (Intellectual Property Rights) SME Helpdesks;
- Creating an environment favourable to competitiveness by encouraging SMEs to adopt new business models and innovative practices;
- Encouraging an entrepreneurial culture by strengthening entrepreneurial education, mentoring, guidance, and other support services.

Today there are four eligible financial intermediaries in Greece that offer the Loan Guarantee Facility (LGF) to their customers. The agreed maximum respective portfolio is as follows:

Table 24: Financial Intermediaries for COSME & portfolio allocation as of December 2017

(Two increases are pending for EIF BoD approval in January 2018):

Bank	COSME Portfolio
	in m EUR
Alpha Bank SA	200.0
Eurobank Ergasias SA	260.0
National Bank of Greece	500.0
Piraeus Bank Group	170.0
Total	**1,130.0**

Source: European Investment Fund

Concerning COSME, the guarantee rate on a loan by loan basis is 50%, guarantee cap rate is fixed at the level of expected losses (max 20%). The parameters for this financial program are summarized below:

- Reduced applicable interest rate
- Main purpose is to finance SME for a) Working capital (including revolving credit lines, maximum maturity of 5 years (negotiable per bank), and overdrafts; excluding factoring and credit or loans resulting from utilization of credit card limits), and b) Investments
- It has disbursements amounting to EUR 40m per month for SMEs – 20-25% of the total amount is for processing companies – 25% of 25% in food processing
- Average funding for enterprises falling under the scope of the 4.2 measures is between EUR 50k and EUR 300k, whereas the average funding for processing companies is generally higher (EUR 300k – EUR 500k).

European Fund for Strategic Investments (EFSI)

EFSI is an initiative launched jointly by the EIB Group - European Investment Bank (EIB) and EIF - the European Commission to help overcome the current investment gap in the EU by mobilising private financing for strategic investments. EFSI is one of the three pillars of the Investment Plan for Europe that aims to revive investment in strategic projects around Europe to ensure that money reaches the real economy.

EFSI is a EUR 16bn guarantee from the EU budget, complemented by a EUR 5bn allocation of the EIB's own capital. EFSI has two components to support projects with wide sector eligibility:

- the Infrastructure and Innovation Window, deployed through the EIB, and
- the SME Window, implemented through EIF. The financial instruments used for the purposes of the EFSI SME Window are mainly guarantees and equity investments.

EFSI has its own dedicated governance structure which has been set in place to ensure that investments made under EFSI remain focused on the specific objective of addressing the market failure in risk-taking which hinders investment in Europe. In doing so, EFSI is increasing the volume of higher risk projects supported by the EIB Group.

Table 25: Case study – Creta Farm industrial and commercial company

Creta Farms SA in 10 May 2016 signed a EUR 15m financing agreement with the European Investment Bank (EIB) with a tenor of five years, marking the first EIB transaction in Greece that benefits from the support of the EU budget guarantee under the European Fund for Strategic Investments (EFSI), the financing arm of the Investment Plan for Europe. The new finance used to invest in Research & Development Investments and grow their innovative, agri-food business throughout the use of the expertise at the EIB which has established an expanded team in Greece, as well as the European Investment Advisory Hub. Creta Farm is a Greek company founded in 1970 in Crete. Creta Farm is a leading integrated processed meat and dairy food manufacturer in Greece and the biggest pork producer in the country. It is a leading Greek exporter in the food industry with two large production facilities and high-quality livestock farms. The company's competitive advantage comes from the innovation it has brought into the food sector, replacing animal fat with extra virgin olive oil. Since 2001, Creta Farms has registered 17 patents producing innovation, high dietary value products with the "En Elladi" brand in Greece and the "Oliving" brand in international markets. Creta Farm aims to lead in the global trend towards healthy nutrition, producing innovative products that reinforce the profile of Greek businesses worldwide. Company's annual turnover exceeds EUR 100 m and the EBITDA margin is above 10%,

while its efforts are supported by more than 700 employees.

EaSI Guarantee Instrument

The EaSI Guarantee Instrument is funded from the EaSI Programme and is specifically dedicated to microfinance and social entrepreneurship. One of its key objectives is to increase the availability of and access to finance for vulnerable groups wishing to launch their own enterprises, micro-enterprises and social enterprises, both in their start-up and development phases.

The EaSI Guarantee Instrument builds on the success of the European Progress Microfinance Facility (Progress Microfinance) an EU initiative launched in 2010 and managed by EIF that has so far mobilised more than EUR 440m spread across more than 50,000 micro-borrowers.

The selected financial intermediaries for this financial instrument in Greece are Cooperative Bank of Karditsa, Eurobank Ergasias, and Pancretan Cooperative Bank.

Within the EaSI programme, there is a cap rate of 15% at portfolio level and a guarantee rate of 80% at a loan level.

JEREMIE initiative

The JEREMIE initiative was a framework providing a series of coherent actions to promote increased access to finance for micro, small and medium-sized enterprises funded from ERDF in the 2007-2013 period.

The JEREMIE initiative in Greece was organised through the European Investment Fund acting through the JEREMIE Holding Fund. Through the JHF, the EIF managed funds made available from the European Regional Development Fund and related public expenditure awarded for utilisation under the JEREMIE initiative.

Four domestic banks were selected after tender procedures, and signed a First Loss Portfolio Guarantee product (FLPG - debt product), to provide loans to local SMEs. The impact of this financial instrument is summarised below:

- Leverage and recycling of JEREMIE resources
- Easier accessibility to finance for Greek SMEs
- Job creation
- Support of entrepreneurship, innovation, extroversion
- Strengthening of the local Venture Capital ecosystem (VC JEREMIE part)

Table 26: JEREMIE loans to the agricultural sector via financial intermediaries in Greece:

Region - Sector	Sum of SME loan amount (EUR m)	Loans/SME	Average size loan
A01 - Crop and animal production, hunting and related service activities	35,000	1	35,000

C10 - Manufacture of food products	16,056,952	108	148,675
C11 - Manufacture of beverages	3,515,000	14	251,071
Grand Total	**19,606,952**	**123**	**159,406**

Source: European Investment Fund

Of a total of 4,200 loans provided, 123 were for agricultural sector SMEs. The small size of loans given is due to the general characteristic of the JEREMIE program, not targeting specific sectors, applicable to all Greek SMEs. Amount to the primary sector is due to eligibility criteria of the JEREMIE instrument.

InnovFin SME Guarantee Facility

The InnovFin SME Guarantee Facility -managed by EIF- is, in addition to InnovFin Equity, part of "InnovFin – EU Finance for Innovators", an initiative launched by the European Commission and the EIB Group in the framework of Horizon 2020.

The InnovFin SME Guarantee Facility can be deployed by eligible local banks, leasing companies, guarantee institutions, etc. which are selected after a due diligence process following the launch of a Call for Expression of Interest. Once selected by EIF, these local partners act as financial intermediaries.

EIF, as the implementing body covers a portion of the losses incurred by the financial intermediaries on loans, leases and guarantees between EUR 25,000 and EUR 7.5m which they provide under the InnovFin SME Guarantee Facility. In this way, the EU via EIF allows the provision of more debt financing to innovative SMEs and Small Mid-caps (up to 499 employees).

The InnovFin SME Guarantee Facility is a demand-driven, uncapped instrument that builds on the success of the Risk Sharing Instrument (RSI), developed under FP7, the 7th EU Framework Programme for Research and Technological Development (2007-2013) managed and implemented by EIF.

Table 27: Financial Intermediaries implementing the InnovFin SME Guarantee Facility in Greece and planned amount of loans:

Bank	Planned amount of loans (in m EUR)
Alpha Bank SA	100.0
Eurobank Ergasias SA	100.0
National Bank of Greece[52]	100.0
Piraeus Bank Group	100.0
ProCredit	20.0
Total	**420.0**

Source: European Investment Fund

[52] Approved to be signed early 2018

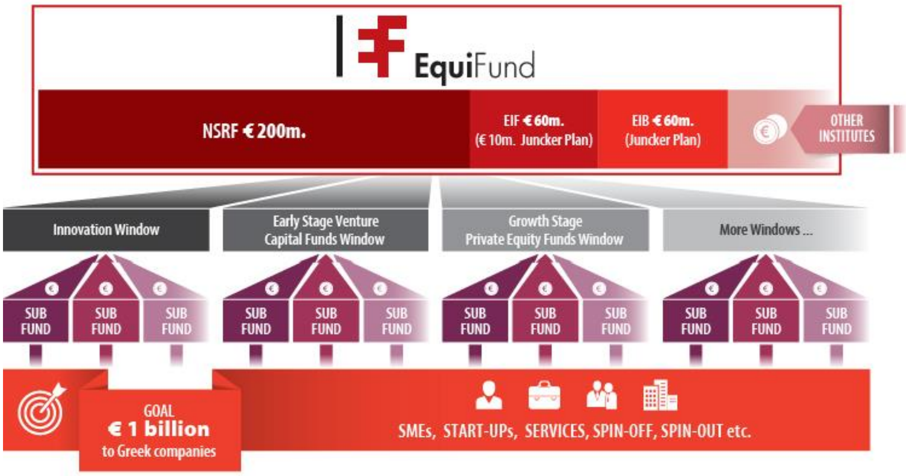
EquiFund [53]

This new EUR 260m Fund-of-Funds programme, launched on 22 December 2016 and managed by the EIF, aims to boost entrepreneurship and create a lasting impact on local businesses, by attracting private funding to all investment stages of the local equity market, ranging from entrepreneurship steps even before the early stage start-ups up to mature expansion companies. EquiFund will be instrumental in unlocking the equity potential in the Greek market.

The Fund-of-Funds is co-financed by the EU through Structural and Investment Funds (ESIF) resources from the Operational Programme Competitiveness, Entrepreneurship and Innovation 2014-2020 and through the European Fund for Strategic Investments (EFSI), the heart of the Commission's Investment Plan for Europe. It is the first time that European Structural and Investment (ESI) Funds and the EFSI are combined in Greece.

Under this new programme, EIF is looking to invest in private-sector led, market-driven venture capital and private equity fund managers across Europe, focusing onto Greek companies. The new ESIF Fund-of-Funds will support technology transfer funds in Greece and will also kick-start investments into accelerator funds.

The new fund-of-funds will focus on three sectors ("windows") :



For the "Research and Innovation window", the goal is for 1-3 funds to be established in two sub-sectors: - Technology Transfer; aiming at projects and companies coming from universities, research centres and other institutions. The "TT Fund" will finance business plans from existing companies, setting up spin-offs and spin-outs, commercial exploitation of patents etc. in pre-seed, proof-of-concept and seed stages.

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[53] Sources: EIF, http://www.eif.org/what_we_do/resources/esif-fund-of-fund-greece/index.htm and Ministry of Finance and Development of Greece, NSRF, www.espa.gr

The Acceleration Fund aims at supporting projects, teams or startups in incubators, co-working spaces, technology parks and similar structures. The "Acceleration Fund" is set to be eyeing projects and companies in pre-seed, proof-of-concept and seed stages.

For the "General Entrepreneurship window" the goal is for 4-8 funds to be established in two sub-windows (2-4 funds each): - Early Stage Venture Capital; - Growth Stage Private Equity. In both stages, the funds that will be created are set to be investing in any kind of businesses, although the focus will be on strategic economy sectors, ie. tourism, energy, **agriculture**, gastronomy, environment, logistics, ICT, health and pharmaceuticals, creative industries, culture and materials-construction. The unexpected high number of applications received by the sub-funds in the growth segment show a strong demand from the food-processing sector.

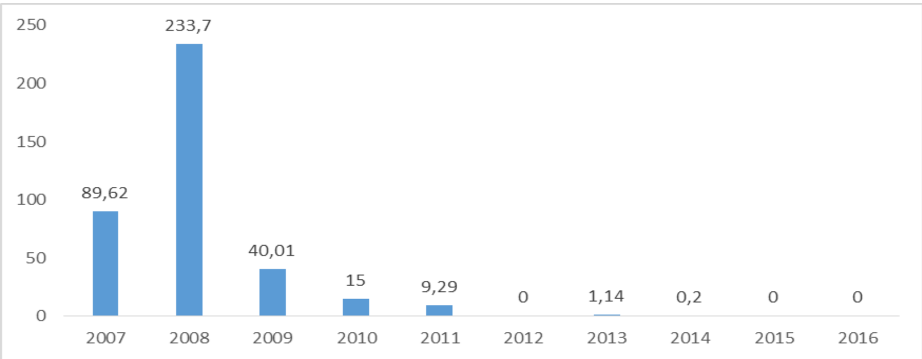
Private Equity and venture capital in Greece

Venture Capital and Private Equity financing are relatively underdeveloped in Greece.

Private Equity

The graph below illustrates the total amount of investments in private equity companies in Greece from 2007 to 2016. It can be observed that total private equity investments decreased overall during the period under observation, reaching a value close to EUR 0 m in the last three years. The largest total value of private equity investments was found in 2008, when total private equity investment of almost EUR 234 m was recorded.

Figure 5: Total amount of investments in private equity companies in Greece from 2007 to 2016 (in M EUR)



Source: Statista, 2016

Venture Capital

There are 21 venture capital funds in Greece (members of the Hellenic Venture Capital Association[54]) with approximately EUR 1.2bn under management, but only few of the funds are currently open for investment. However, venture capital investment in Greece was close to 0% of GDP in 2016 and, despite the emergence of a vibrant technology entrepreneurship and financing ecosystem over the last five years, VC activity remains extremely low compared to other European countries.

[54] http://www.hvca.gr/

Most of the funds that were active over the last ten years were incorporated with the participation of TANEO, which is aiming at the development of venture capital funds supporting SMEs. Through the TANEO funds, it is estimated that more than EUR 89.5m have been directed to Greek SMEs between 2005 and 2015, according to data in TANEO's annual report 2015. However, all funds of the TANEO have reached the end of their investment period or have closed.

In the past few years (2012-2013), several new venture capital funds have opened their doors - and their check books - to Greek entrepreneurs. Among them are the Odyssey Ventures, First Athens, Openfund I & II, Piraeus JEREMIE Tech Catalyst, and many more. These four venture capital funds, mainly through the JEREMIE program, managed funds received from the European Structural funds national sources and private contributions, amounting to EUR 85m - EUR 120 m. However, this recent generation of domestic VC funds is focused on the ICT sector, so they do not represent a potential source of financing for the agricultural producers and agri-food processing sectors.

Indicative list of past private equity and venture capital investments in the agriculture and agri-food processing sectors in Greece

The table below provides an indicative list of private equity and venture capital investments carried out in Greece in the agriculture and food processing sectors over the last 25 years. Even though the list may not be exhaustive, it provides a representative sample of the venture capital and private equity activity in the sector in previous years.

The number and amount of investments in the sector by private equity and venture capital funds has been historically very limited, and with very few recent success stories. It is important to note that not all of these enterprises are eligible under EAFRD.

Table 28: A list of identified indicative Private Equity and Venture Capital investments in the Greek agriculture, food and beverage processing sectors over the last 25 years:

Fund	Name	Sector	Sub-sector	Acquired	Exit	Sold	Amount invested (EUR m)
Global Finance							
	Chipita	F&B	Snack food producer	1992	Yes	1999	N/A.
	Chipita	F&B	Snack food producer	1999	Yes	2006	25 - 30
	Boutari	F&B	Wine and beer producer (Mythos beer)	1999	Yes	2005-2007	N/A.
	Nikas	F&B	Meat processing	2003	No	N/A.	60.6[55]
	Chipita	F&B	Snack food producer	2010	Yes	2014	N/A.
TANEO FUNDS							

[55] Source: Mergermarket

Fund	Name	Sector	Sub-sector	Acquired	Exit	Sold	Amount invested (EUR m)
Attica Ventures (Zaitech Fund)	Mastihashop (Mediterra)	F&B	Mastic gum products	2005	Partial	2008	N/A.[56]
Capital Connect	Krocus Products Kozanis	F&B	Saffron products producer	2007	Yes	2008	1.10[57]
Attica Ventures (Zaitech Fund)	Craft Microbrewery	F&B	Beer production	2008	No		N/A.[58]
Alpha Ventures	Kritis Gi	F&B	Bakery producer	2009	No		N/A.
Alpha Ventures	Piraiki Microbrewery	F&B	Beer production	2009	No		N/A.
Alpha Ventures	Dipyrites Handakos	F&B	Food products	2010	No		N/A.
Alpha Ventures	Biokid	F&B	Baby food producer	2010	No		N/A.
Aims Funds Management	Panagopoulou & Sia	Agriculture	Cattle breeding	2010	No		N/A.

56 The company's total investment plan amounted to over EUR 6 M. The investment was co-financed by the Zaitech Fund and the Tsakos Group. Hence, it can be assumed that the fund's investment was lower than EUR 6 M. Source: http://www.attica-ventures.com/news/03-12-2007.php

57 According to the press release published on Capital Connect's website, the fund contributed to the share capital of the company, amounting to EUR 3.68 M, with a participation of 30%.

58 The investment amount was not published according to data on Pitchbook. According to the press release published on Attica Ventures' website: "Thanks to the capital injection from Attica Ventures the company will commence a new investment scheme of EUR 5.6 million which includes setting up a state-of-the-art bottling plant that can handle 10,000 bottles per hour and modernising its current industrial beer production facilities."
Source: http://www.attica-ventures.com/news/26-02-2008.php

Fund	Name	Sector	Sub-sector	Acquired	Exit	Sold	Amount invested (EUR m)
Piraeus TANEO Capital	Unismack	F&B	Snack food producer	2011	No		N/A.
Deca Investments							
Diorama Investments	Damavand S.A.	F&B	Processing, packaging and trading of tomato and peach	2016	No		7.0[59]
Hellenic Capital Partners[60]							
	Solid SA	F&B	Processing of coffee trading and other consumer goods	2001			0.5
	Venetis SA	F&B	Manufacturing and distribution of bakery and confectionery products	2001			0.6

59 Source: http://www.decainvestments.eu
60 Source: Hellenic Capital Partners, 2017

The total amount invested by TANEO funds in the agriculture and food processing sectors in Greece was estimated using the following approach:

First, the average investment amount per investment of each TANEO fund was calculated by dividing the total amount invested in portfolio companies by the fund's total number of investment.

This estimated amount was then multiplied by the number of investment executed by the fund in the agriculture and food processing sectors.

Finally, these estimated total investment amounts in the sector for each fund were summed across all TANEO funds in order to derive a total invested amount of all TANEO funds.

Table 29: Total estimated investment in the agriculture and agri-food processing sectors in Greece by TANEO funds over the last 10 years:

TANEO Funds	Investments' average amount (in m EUR)	Number of investments in the sectors	Total investment in the sectors (in m EUR)
Capital Connect	.10[61]	1	1.10
Attica Ventures (Zaitech Fund)	1.50	2	3.01
AIMS Funds Management	0.65	1	0.65
Alpha Ventures	1.14	4	4.55
Piraeus TANEO Capital	2.51	1	2.51
GRAND TOTAL		**9**	**11.82**

[61] The actual investment amount was used instead of the fund's average investment amount since the data concerning this specific investment was available.

Table 30: Relevant case study – Masticha Shop

First venture capital investment by the ZAITECH FUND, managed by ATTICA VENTURES (a member of the Bank of Attica Group) in Masticha Shop were successfully completed in 17 May 2005. Within a short period of time the company managed: **1. To develop a network of 5 stores trading under the name Masticha Shop in key locations (Chios, Syndagma Square in Athens, Thessaloniki, Athens El. Venizelos International Airport, Heraklion Crete).** **2. Develop innovative, unique gum mastic-based products after many years of research and important business partnerships with major producers – suppliers which ensure product quality. It is worth noting that from 2003 to date 10 research programmes have been completed or are under way at 3 universities in Europe in collaboration with the renowned R&D Department of the EMX.** **The innovative approach and business activity of Masticha Shop at all levels (in terms of its business model, products, R&D, packaging, marketing, communication) has been confirmed by the numerous prizes and awards that the company has managed to attain (numbering more than 10 in total) in just 2.5 years in business.** **Mediterra S.A. (the company operating the Masticha Shops and a subsidiary of the Chios Masticha Growers Association (EMX)) was established in 2002 as a result of a decision taken by the EMX to highlight and advertise the many possible uses of gum mastic via innovative and ground-breaking products and activities.**

Existing Financial Instruments

M&A activity in Greece

In 2016, 38 M&A deals of EUR 4.4bn total value were completed, of which the five largest reached EUR 3.8bn. The total deal value increased significantly by 230% compared to 2015, mainly driven by the disposal of non-core assets by the systemic banks, while the average deal size increased by 152% to EUR 116m.

The economic uncertainty persisted in 2016 with the privatization program delayed and the second assessment not completed as expected. The M&A market in Greece is very shallow and the exit from the recession is not yet visible. The small transaction sizes and the very few international deals give the tone. Greek companies in 2016 attracted in total EUR 4.4bn, of which 75% referred to sales of non-core assets by the systemic banks, EUR 1.6bn through international traded corporate bonds. In 2016, 2.4% out of total M&A value refers to industry, in which the agri-food processing sector is included.[62]

Based on discussions held with banks, it seems that there is currently not a strong trend towards consolidation in the agri-food processing sector in Greece (despite a very limited number of major deals, e.g. the mega-merger between Delta and Mevgal in the dairy sector). Banks generally see limited M&A activity among small food processing firms with turnover up to EUR 2.5m. They consider that various factors explain this lack of M&A activity among small processors. First, many small processing firms are family-owned businesses that are typically transmitted from one generation to the next and owners are generally not inclined to open up their share capital. Second, there is a cultural aspect, as owners of small processing firms are traditionally reluctant to share ownership and control. Third, small food processing firms (with turnover up to EUR 2.5 m) tend to be less attractive

[62] Source: PwC Report "Deals in Greece 2016"

to potential acquirers than their medium-sized and large counterpart, which typically have stronger brands, stronger market awareness, are usually better organised, etc.

However, there is an empirical perception among some actors that a consolidation trend is likely to take shape in the sector, given the highly fragmented structure of the industry in Greece. Indeed, there is a need for small food processing firms to merge with others, in order to reach a critical mass to compete effectively in the marketplace. This trend seems to concern primarily export-oriented companies that are looking to expand internationally, and need to achieve such critical mass and develop their distribution networks in order to be successful in international markets.

Supply-side actors consider that the key catalyst that is likely to trigger increased M&A activity in the sector is the timing and the way in which banks will manage their portfolios of non-performing loans. If banks decide to sell their portfolios of non-performing loans more aggressively, this will trigger mergers and acquisitions. This M&A catalyst is likely to materialise in the near future as banks are under pressure to address the issue of non-performing loans in 2018. Banks' restructuring plans include specific plans with regards to the management of NPL portfolios. Given the targets set for NPL reduction by 2019, some players consider it as likely that banks will become more aggressive in restructuring their NPL portfolios in the next year. Given that the agri-food processing industry represents about 20% of the total manufacturing industry, and the large percentage of non-performing entities, a more aggressive approach by banks towards the restructuring of their NPL portfolios could trigger significant M&A activity. It is expected by some actors that this forced M&A activity will initially concern mainly medium-sized and large companies.

Summary of the supply analysis

Agricultural sector and agri-food processing sector are being financed in order to cover their everyday operating needs, as well as their investment needs by two sources, which are on the one hand public funding in the form of direct support (Pillar 1) and grants (Pillar 2), and on the other hand financing from the traditional financial system in the form of credit cards, short term, medium-long term loans and many other types of co-funded loans with EIB group.

Public Financing

Below, a summary table of total public funding (grants and direct support) disbursed on behalf of farmers and processors over the previous (2007-2013) and current (2014-2020) Rural Development Programmes.

Table 31: Direct Support to agricultural and agri-food processing sector (2007-2020)

Year	CAP 2007-2013 (in EUR m)	CAP 2014-2020 (in EUR m)
2007	N/A	
2008	N/A	
2009	N/A	
2010	2,245.42	
2011	2,392.12	
2012	2,503.4	
2013	2,258.73	
2014		2,344.29

Year	CAP 2007-2013 (in EUR m)	CAP 2014-2020 (in EUR m)
2015		1,855.3
2016		2,000
2017		2,000
2018		2,000
2019		2,000
2020		2,000
Total amount	9,399.67 [63]	14,199.59 [64]

[63] Based on available data by the MA – The referred amounts as presented in the ex-post assessment of LKN Analysis -No available data for years 2007 - 2009

[64] Amounts presented on years 2016 are an average direct support disbursed annually. As derived from the interviews, Pillar 1 finances EUR 1.8bn – EUR2.2bn annually and the annual fluctuations of financing amounts are insignificant

Table 32: Grants – Pillar 2 to agricultural and agri-food processing sector over the years 2007-2020:

RDP Measure 2014-20 (subject of the current study)	Description	Total public expenditure (in m EUR)	RDP Measure 2007-2013 (relevant to the subject of the current study)	Description	Total public expenditure (in m EUR)
4.1	Investments aimed at improving the performance and sustainability of farms	463.8	1.2.1	Modernisation of agricultural holdings	450.0
4.2	Investments in the processing, marketing and/or development of agricultural products	258.9	N/A	N/A	N/A
16.1-2	Creation and operation of operational groups under the European Innovation Partnership (EIPs) targeting the productivity and sustainability of agriculture, including investments similar to those of sub-measures 4.1 and 4.2	58.9	1.2.4	Cooperation for development of new products, processes and technologies in the agriculture and food sector and in the forestry sector	N/A
16.4	Horizontal and vertical cooperation for short supply chains and local markets and promotion activities	11.1			

RDP Measure 2014-20 (subject of the current study)	Description	Total public expenditure (in m EUR)	RDP Measure 2007-2013 (relevant to the subject of the current study)	Description	Total public expenditure (in m EUR)
19.2	Support for the implementation of actions under Community-led local development strategies (CLLD) (financial instruments under this sub measure may be launched independently from of the individual CLLDs).	296.3	4.1.1	Competitiveness	30.0

Financing from the traditional financial system

The analysis of domestic financing by domestic MFIs shows that the Greek financial sector is strict concerning loan provisions, especially to agricultural sector rather than agri-food processing sector.

The above fact in conjunction with the evolution of non-performing loans and exposures throughout years 2007 – 2016 which are gradually increased, results to the fact that the outlook for Greece's beleaguered banking sector remains subdued.

With regard to agricultural sector, there is a limited range of financial products with restrictive conditions compared to other businesses and this fact is often a factor limiting access to finance for agriculture. Holdings generally are not being able to access financing because they cannot comply with the terms and conditions of the providers. For instance, agricultural holdings often have difficulties meeting the requirements for collateral. Also, they do not have enough regular cash flow to repay a loan consistently (e.g. because of the dependency on weather, type of production process or market price fluctuations) and they have delayed returns on investments (e.g. permanent crops). Compared to other sectors, agricultural businesses have more volatile returns and lower resilience to external influences such as the weather, commodity market price volatility, trade barriers, unexpected trade limitations, or public concern regarding diseases.

In the context of this study, there are two key categories and four subcategories of stakeholders, who are standing as beneficiaries of bank loans and potential financial instruments (FIs):

Producers - farmers

- Small and large scale farmers – individuals
- Medium and large scale farmers in the form of cooperative or company

Processors

- Very small and small agri-food processing companies
- Medium and Large agri-food processing companies

Producers - Farmers

Supply of loans over the past five years and projections for 2017 could not be calculated due to the lack of publicly available information.

Interviews with stakeholders indicated that commercial banks during the last seven years of the financial crisis have become extremely risk-averse when considering financing investments for the agricultural sector.

Besides the inability to handle financing properly from small/medium sized farmers, the sector in general, is also criticized by banks as a high credit risk and, certainly, unstable when also depends on weather and unstable environmental. Also many farmers do not have a credit record. The majority of individual farmers are included to the Default Financial Obligations System of Greece[65] (Tiresias) due to bad debts coming from the granted loans of ex-Agricultural Bank and many of their properties are mortgaged.

[65] http://www.tiresias.gr/en/index.html

From the side of banks, there are high requirements in collaterals and guarantees by individual farmers, such as business property, urban property, money guarantees equal to the loan requested or equal to the total investment in case of funding investments. Also, there is no common treatment to this type of farmers regarding collaterals' requirements. Mainly, required range of collaterals varies from 100% to 140% of funded amount. Except from all these restrictions for the access to the banking system by the individual farmers, interest rates are the highest (8% - 8.5%) among all the other mentioned categories. Based on all these conclusions, there is inexistence of individual farmers to the financial system as the supply of financing to them is theoretical, while banks do not proceed to promotional activities in order to communicate the existing financial products that are addressed to this category of farmers.

On the other hand, there are medium and large scale farmers that they operate in the form of a cooperative or company, who have almost the same treatment as the previous mentioned category, with slightly more favourable terms and conditions. Although there are many players in this category, that they have achieved to build high-profile and innovative processes and products, there is high possibility of no access to the financial system. Banking system requires collaterals and personal guarantees except from guarantees of factoring. Interest rate fluctuates from 5.5%.

Processors

The estimate of supply of loans over the past five years and projections for 2017 could not be calculated due to lack of publicly available information.

Interviews with stakeholders indicated that commercial banks are becoming risk-averse, when considering financing investments for the agri-food processing sector. Nevertheless, the intention of banks to finance this sector is estimated as higher in contrast with the agricultural sector.

In the agri-food processing sector, concerning small processing companies there is a more favourable treatment by the banking system. The terms and level of funding is depending on the level of maturity of the business, the historical records and relationship of the business with the banking system, as well as the sales network of the businesses. Banks require own guarantees but they also take into account the factoring and deals as guarantee for financing. There is no mentioned financial supply to start-ups or new companies as they are faced as risky investments. Interest rates for financing small processors fluctuate from 5.5% p.a. to 7% p.a.

Large agri-food processing companies have the easiest access to finance compared to all previous categories of beneficiaries. There are no requirements of guarantees in case of loan grant and lending rates are really favourable as vary from 4% p.a. to 6% p.a.

The presence of banks to the large processing companies is very active, as the financial system stands adaptive to the needs of those companies by introducing new exclusive financial products.

Main outcomes

Key messages on the supply of the agri-financing:

1) **There are many financial products offered to agricultural sector by the commercial and cooperative banks, including agro-carta, contract farming programme, working capital financing, investment financing and co-funded and guarantee European programmes.**
2) **Also, the public funding to agriculture and agri-food processing sector is estimated to EUR 14,200 m for direct support and EUR 463m for investments in the sector in the context of RDP 2014 – 2020.**
3) **The volume of financing for farmers expected to be offered by the banking system and could be combined with Financial Instruments (FIs) is estimated around EUR 206.4m until year 2020.**

4) **Concerning the loans disbursed by the banks, there is a large range of collaterals and guarantees that commercial banks are requesting by small and big farmers in order to be financed.**
5) **The agricultural sector is facing difficulties in accessing bank financing due to lack of guarantees, outstanding of tax and social security liabilities, lack of historical track records in the financial system etc.**
6) **All farmers are facing many obstacles in accessing financing of the banking system, however small farmers have higher difficulty in comparison with large farmers.**
7) **The supply of financial products to the agri-food processing sector refers mainly to the products of the banks called as "business banking", including working capital financing, investment financing and many co-funded and guarantee European programmes.**
8) **In agri-food processing sector, only the small processors have difficulties for access to finance. Large processors have relatively easy access to finance as they have historical records in the banking system and banks proceed to many efforts for financing them.**

6. Analysis of the demand of agricultural financing

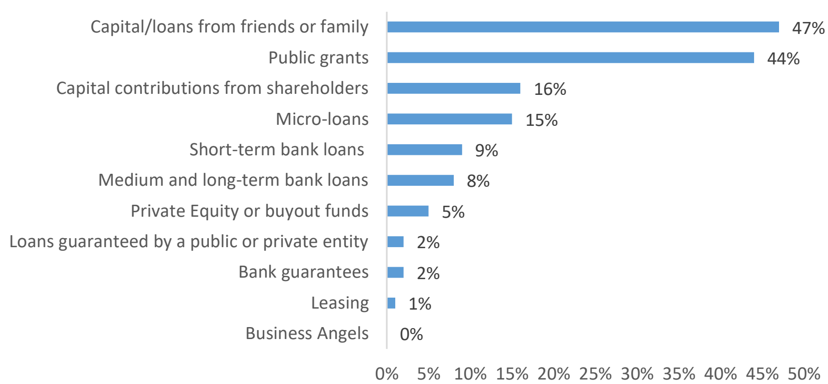
Producers

Access to finance

Key findings related to the access of farmers to finance (in general) and bank financing (in particular) suggest that a large number of agricultural have only limited or no access to financing from commercial banks. This finding is confirmed by the online survey results, which shows that with regards to the financing needs of producers over the last three years (2014 – 2017), the most common sources of financing, used by almost half of producers, were capital/loans from family and friends (47%) and public grants (44%)[66]. However, although almost half of the producers appear to benefit from public grants, irrespective of their characteristics, there are some particular types of farmers who deviate from this pattern. In particular, producers in crops and "undifferentiated" producers[67] appeared to be less dependent on public grants over the last 3 years.[68]

Except for the high degree of dependence on financing from family/friends and public grants, the survey indicated that only few producers (less than 1 out of 5) benefited from bank loans (micro, short-term and medium- and long –term loans). In terms of size[69], micro, small and medium-sized producers appear to have very limited access to all types of bank loans (micro, short, medium and long-term loans), while larger producers appear to have access to a wider range of financial products, although they are also dependent to a significant degree to public grants and family financing.

Figure 6: Financing sources used by producers within the last 3 years (2014 - 2017):



Source: Survey results

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[66] The table percentages refer to the frequency of selection of each financing source, since the survey respondents could use more than one options in the question "Has your business benefited from any of the following sources of financing over the last three years?". Question option "other financing sources" is exempted from the analysis.

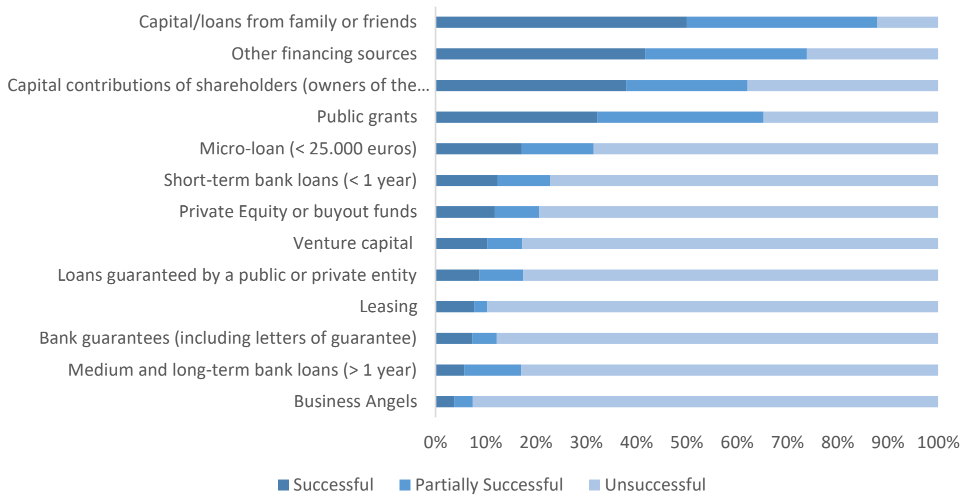
[67] Farmers who do not exhibit premium quality characteristics (i.e. premium branding, designation of origin, and/or organic certification)

[68] See Annex 14 – Presentation of Survey Results

[69] Micro producers (UAA less than 2 ha), Small producers (UAA 2 to 4.9 ha), Medium producers (UAA 5 to 20 ha), Large producers (more than 20 ha)

Producers' low level of access to financing is also indicated by the high rejection rates of producers' applications for most financing products except public grants. In particular, although 2 out of 3 producers were partially successful/successful when they applied for public grants, the vast majority of them could hardly obtain any other financing product, since approximately four out of five applicants were unsuccessful for all types of products, irrespective of their size. Overall, it appears that even when they manage to have access to the banking system, the most accessible product is the micro-loan (up to EUR 25,000), but still only for 1/3 of survey respondents. In that context, it is evident that producers' access to the banking system is extremely limited, irrespective of their size class.

Figure 7: Success rates of obtaining financing products during the last three years (2014-2017):



Source: Survey results

This finding is also consistent with the interviews' findings, which indicated that, indeed, banks have become highly selective in lending even to healthy agricultural businesses, due to the economic crisis, explaining the limited access of agricultural holdings to loan financing from commercial banks.

Demand analysis for the last 3 years

Financing sought

Concerning the demand for financing within the last three years, more than half of the producers (59%) sought for amounts up to EUR 25,000, while 13% of them asked for amounts higher than EUR 100,000. In particular, micro and small producers sought mainly for amounts up to EUR 25,000, while the majority of the medium and large producers sought for higher amounts. Financing needs for more than EUR 250,000 were very limited across all size classes (6% of all respondents irrespective of their size).

Table 33: Distribution of producers per size class and financing sought (2014-2017):

Amount categories in thousand EUR	micro	small	medium	large	Total
0 to 25	65%	66%	47%	18%	59%
26 to 100	23%	26%	39%	45%	29%

Amount categories in thousand EUR	micro	small	medium	large	Total
101 to 250	4%	2%	13%	27%	7%
251 to 500	2%	4%	0%	9%	3%
501 to 1,000	2%	2%	0%	0%	2%
over 1,000	2%	0%	0%	0%	1%

Source: Survey results

In terms of growth phase (Table 31), the majority of the producers (more than 50%) across all size classes sought for amounts up to EUR 25,000, while the rest of the producers, sought for financing up to EUR 100,000, which illustrates that the development phase is not an important factor influencing the financing needs of the producers, since only a limited number of producers in post-creation, maturity and development stage would ask for financing higher than EUR 500,000.

Table 34: Distribution of producers per growth phase and financing sought (2014-2017):

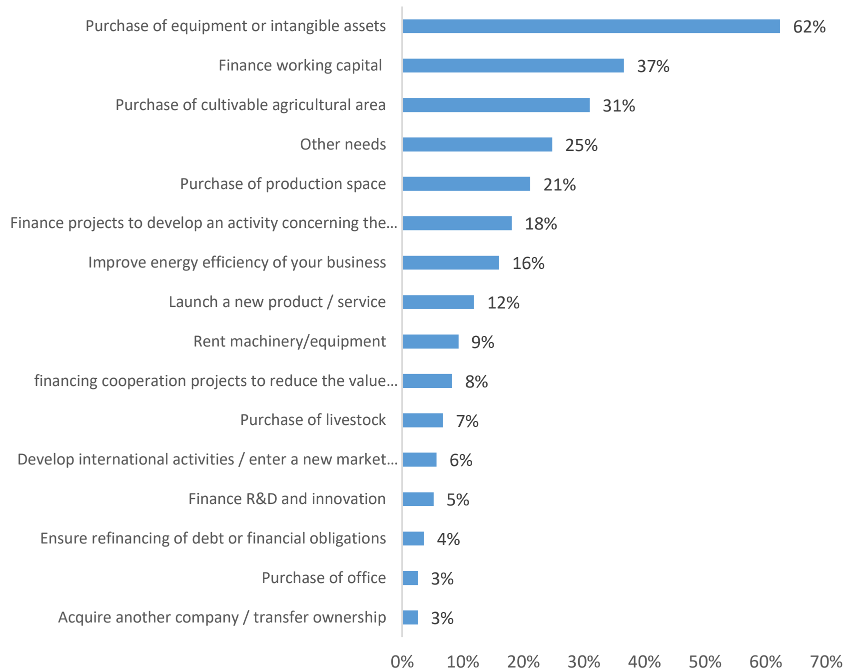
Amount categories in thousand EUR	Growth phase						
	Initiation	Creation	Post-creation	Development	Maturity	Reorganisation	Takeover / transfer
0 to 25	54.5%	66.7%	66.7%	57.6%	54.8%	56.8%	70.0%
26 to 100	36.4%	33.3%	14.8%	30.3%	25.8%	29.7%	30.0%
101 to 250	4.5%	0.0%	7.4%	6.1%	9.7%	10.8%	0.0%
251 to 500	4.5%	0.0%	3.7%	0.0%	6.5%	2.7%	0.0%
501 to 1,000	0.0%	0.0%	3.7%	6.1%	0.0%	0.0%	0.0%
over 1,000	0.0%	0.0%	3.7%	0.0%	3.2%	0.0%	0.0%

Source: Survey results

It should be noted that, the type of farming was not a decisive factor for the amount of financing sought over the last 3 years too. Indeed, all farmers irrespective of the type of farming (crops/ animal farming) sought mainly for amounts lower than EUR 100,000 (only 11% of crop farmers and 15% of animal farmers sought for amounts higher than EUR 100,000).

The main purpose for asking financing in the last 3 years was by far for the purchasing of equipment or intangible assets (62% of producers), while almost 1 out of 3 producers had also asked financing in order to finance working capital (37%) or purchase cultivable agricultural area (31%). Noticeably, only 3.6% of the producers needed financing in order to ensure refinancing of debt or financial obligations.

Figure 8: Purpose of financing sought within the last 3 years (2014-2017):



Source: Survey results

In terms of size, the majority of small and micro producers, except for the purchase of equipment, had minor needs for financing, while large producers needed also financing for the purchase of land (43%), the purchase of production space (43%) and the finance of working capital (43%).

In terms of growth phase, except for the purchase of equipment, producers at the initiation (43%), post-creation (42%) and development phase (49%) also needed financing for the financing of working capital.

However, it should also be noted that financing needs may vary, according to the farming type of the producers, since more than half of the producers which are active in crops (61%) sought for amounts up to EUR 25,000, while 45% of the livestock producers had financing needs up to EUR 25,000 and 40% of them sought for financing from EUR 26,000 to EUR 100,000[70].

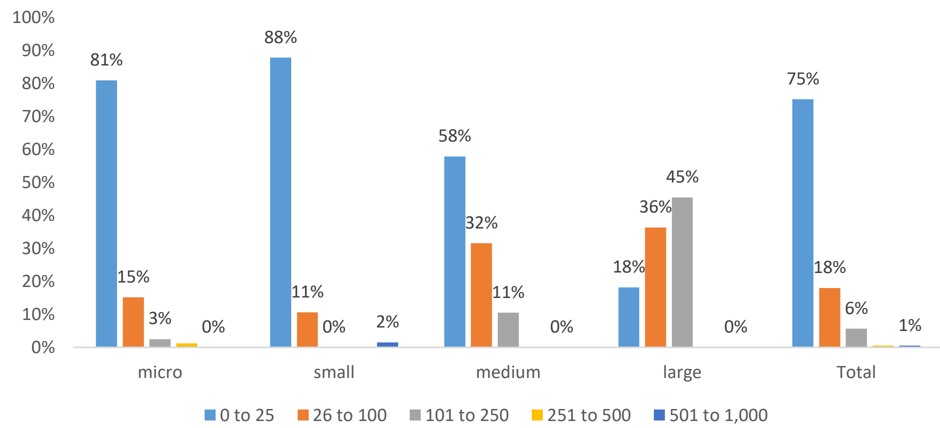
Financing obtained

In general, 3 out of 4 producers obtained within the last three years financing up to EUR 25,000, while only very few of them (around 7%), obtained amounts higher than EUR 100,000. The comparison of the percentage of the farmers who sought for financing up to EUR 25,000 (59%) with the percentage of the farmers who obtained financing up to EUR 25,000 (75%) implies that the that applications for higher amounts could not be satisfied. Especially for micro and small producers (more than 80% of the

[70] See Annex 14 – Presentation of online survey results

producers), financing did not exceed EUR 25,000. The majority of medium producers also received micro amounts of financing, while 1 out of 3 also received amounts up to EUR 100,000. On the contrary, large producers appeared to have easier access to higher amounts of financing, since they received mainly amounts between EUR 100,000 and EUR 250,000 (45% of those who received financing).

Figure 9: Ranges of financing obtained in thousand EUR, within the last 3 years, per size class (2014 – 2017):



Source: Survey results

These findings clearly demonstrate that producers financing, irrespective of their characteristics (size, growth phase[71] etc.), is limited to micro-loans (EUR 25,000), having low accessibility to commercial banks' financing. The survey analysis further supports this view, since it appears that the main source of financing obtained from the vast majority of the producers within the last three years, was through grants/subsidies (77%). Thus, it is clear that the most accessible source of financing for the producers is grants. However, the average amount of the aid does not exceed in most of the cases EUR 20,000 for micro and small producers[72].

Table 35: Types of financing obtained by producers within the last 3 years (2014-2017):

	Micro	Small	Medium	Large	Total[73]
Debt (all types)	11%	14%	32%	45%	18%

[71] Sectoral analysis shows, however, that more than half of the producers in animal farming, received financing higher than EUR 25,000 over the last 3 years. Moreover, average financing obtained for animal farming producers is relatively higher to those obtained by producers in crop farming.

[72] Annex 14 – Presentation of online survey results

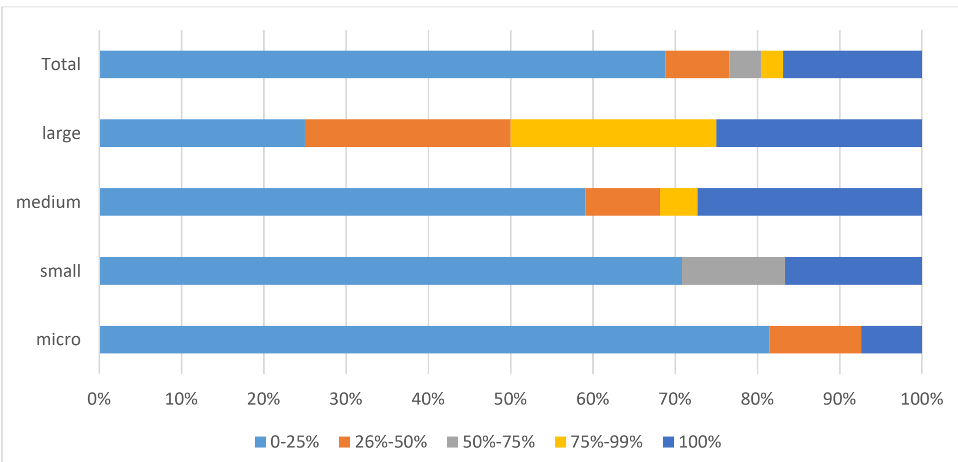
[73] Column percentages refer to frequency of selection do not sum to 100%, since respondents could reply for more than one types of financing. The frequencies are derived from the respondents who referred in specific amounts of financing in their answers

Grants or subsidies	76%	79%	71%	91%	77%
Equity finance (all types)	39%	33%	32%	36%	36%

Source: Survey results

In terms of obtainability of financing within the last 3 years, further analysis was applied in relation to the debt financing obtained during the last 3 years, and more specifically the degree of obtainability of the requested financing for producers, which is calculated as the amount of financing obtained as a percentage of the amount of financing sought by producers. Findings confirm producers' low degree of access to the banking system, since less than 1 out of 5 producers (17%) managed to receive the whole amount they sought. In particular, more than 80% of micro and small producers received up to half of the financing they had asked for. Even though obtainability rates for medium-sized producers were higher (almost 33%), the results validated that irrespective of the size class, most producers had difficulties in covering their financial needs through debt financing.

Figure 10: Obtainability of financing for producers within the last 3 years (2014-2017):



Source: Survey results

However, it should be noted that the type of farming, appears to be an important factor, differentiating the obtainability of loans. In particular, although producers in animal farming appear to have received equal amounts of financing to those they sought across almost all ranges of amounts higher than EUR 500,000 are exempted), producers in crops received lower amounts of financing compared to those they initially sought, since only 16% of them received financing higher than EUR 25,000, although 28% had sought for financing between EUR 25,000 and EUR 100,000.

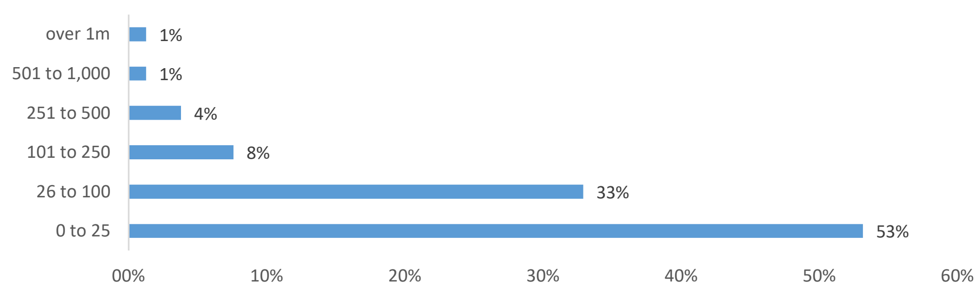
Table 36: Ability to obtain financing for producers within the last 3 years (2014-2017) per sector:

	Animal Farming		Crops	
Ranges in thousand EUR	Sought	Obtained	Sought	Obtained
0 – 25	45.0%	47.0%	61.0%	77.0%
26 – 100	40.0%	40.0%	28.0%	16.0%

101 - 250	0.0%	7.0%	7.0%	5.0%
251 - 500	5.0%	7.0%	3.0%	0.0%
501 – 1,000	5.0%	0.0%	1.0%	1.0%
Over 1,000	5.0%	0.0%	1.0%	1.0%

Lastly, with regards to the level of the financing gaps (financing sought – financing obtained), it seems that overall, the unsatisfied demand was in most cases up to EUR 25,000, while one out of three producers has unmet financing needs between EUR 26,000 and EUR 100,000. Higher financing gaps were mainly observed for large producers (40% had gaps higher than EUR 100,000) and producers at the post-creation phase (30% of the financing gaps higher than EUR 100,000)[74].

Figure 11: Ranges of financing gaps (sought but not obtained) (2014- 2017) (in thousand EUR):



Source: Survey results

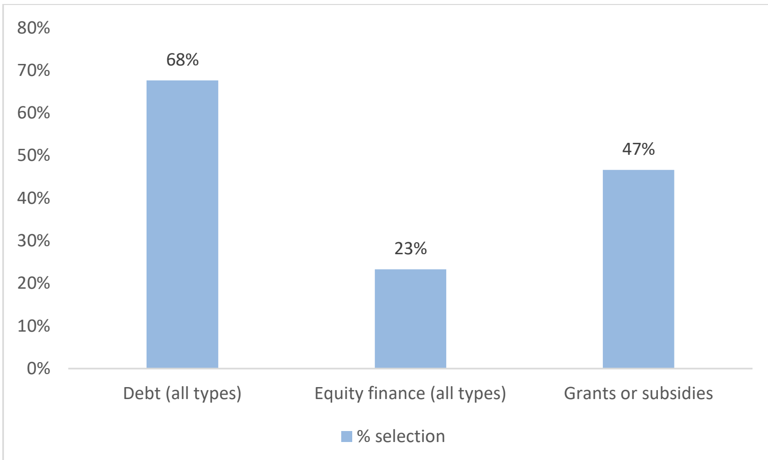
Financing sought but not applied for

Interviews with farmers have shown that Greek farmers feel discouraged when seeking for finance, since they usually experience a decreased willingness and lack of support from commercial banks to provide financing. This perception of the farmers possibly creates hidden demand for financing, especially for new farmers, who are confronted with the –perceived- unwillingness of banks to provide loans that will facilitate their investment plans.

With regards to this finding, the survey showed almost two out of three farmers, within the last 3 years, had planned but not applied for debt financing (all types), confirming the interviews' finding. Moreover, 50% of the producers, avoided applying for grants/subsidies, while. Moreover, almost one out of four producers, did not apply for equity financing.

[74] Annex 14 – Presentation of online survey results

Figure 12 Percentage of selection of types of financing that were avoided within the last 3 years (2014-2017):



Source: Survey results

In terms of amount of the financing that was avoided, in most cases, it reached EUR 25,000 and hardly exceeded the limit of EUR 100,000, since only 7.6% of the survey respondents declared that avoided financing higher than EUR 100,000.

Additionally, it is highlighted that for grants/subsidies, the average amount that producers intended to seek (around EUR 75,000) was on average significantly higher than the average amount obtained from grants (around EUR 20,000) and the average amount sought from grants (around EUR 46,000). This could potentially reveal (the fact that the amounts obtained are quite lower than the amounts sought) their inability to cover their own participation.

Reasons for unsuccessful loan financing and obstacles to growth

In terms of reasons for unsuccessful loan financing, a useful finding from the interviews with farmers indicates that farmers' familiarity with the banking sector mainly derives from their experiences with the former Agricultural Bank (Agrotiki Trapeza), which may partly explain the low degree of farmers' penetration to the banking system, since farmers had lower interaction with other commercial banks. In particular, it was mentioned by most of the interviewees that farmers' assets are already mortgaged in relation to loans granted in previous periods, mainly by the former Agricultural Bank[75].

Except for this, farmers' expressed the opinion that one important reason for their limited success to enter the banking system was the economic crisis, since banks have mostly stopped lending money, even to healthy businesses. Moreover, it was also reported, that banks do not make clear to farmers the terms and conditions for lending and that there is lack of fairness or a lot of "grey areas" in the farmer'

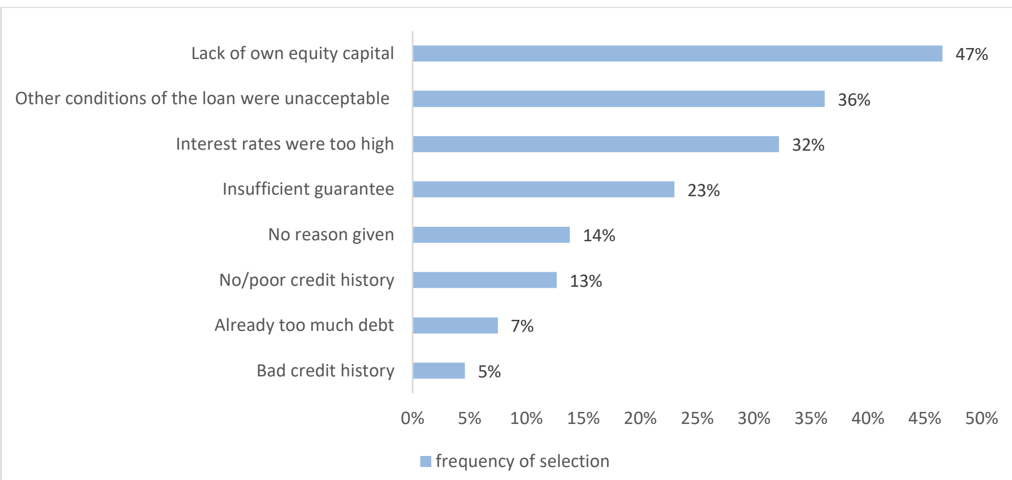
[75] Regarding the former Agrotiki Trapeza opinions are mixed, but the one that prevails is that the agricultural sector needs the state's support and extra comfort should be provided, thus a Bank dedicated to the sector with a more favourable approach towards the sector than the others (an Agricultural Bank) should operate in Greece.

exchanges with the banks. In general, Greek farmers appear to feel discouraged, since they usually experience a decreased willingness and lack of support from commercial banks to provide financing.

Furthermore, lower level of education on financial matters leads to the phenomenon of asymmetric information in the sector. For instance, though farmers report great needs for financing, many of them state that they are reluctant in entering the banking system because they feel insecure, since the dominant perception among them is that banks "covet their properties". Another example of the chasm between banking and the agricultural sector is the perception for extreme bureaucracy. Indeed, most farmers are not able to fully understand the requirements of the banks and they perceive it as an obstacle created from the finance sector in order to prevent them from entering into the banking system.

Supplementary to the those findings by the interviews, further analysis carried out in the context of the online survey[76] , provided additional explanation to the reasons leading to unsuccessful bank financing for farmers. In particular, according to the figure below, almost half of the producers mentioned the lack of own equity as the most important reason for unsuccessful applications (47%). It is important to note that high interest rates, had been a rejection reason for only 1 out of 3 producers (especially large producers – 43%), although the majority of the respondents stated that interest rates have increased within the last 3 years. Other reasons play a lower role as reported by the survey respondents.

Figure 13: Reasons for farmers' being unsuccessful in obtaining loan financing:



Source: Survey results

In terms of main obstacles to agricultural growth, both the survey and the interviews' findings showed that excessive taxation (and constantly changing tax laws) is the most important factor limiting agricultural growth (for 59% of producers). In particular, in the context of interviews it was stated that for farmers there is an increasing credit crunch due to more aggressive measures taken by the state to collect farmers' tax and social security liabilities.

76 the frequency of selection of the reasons that were related to unsuccessful applications for loan financing of the producers within the last 3 years.

The increasing cost of labour is important for only 1/3 producers (31%), while the 3rd most important factor is the small size of agricultural holdings (29% selection frequency). These results, demonstrate that excessive taxation is a limiting factor for the majority of producers, while the rest of the factors apply to only smaller certain groups of producers.

Demand analysis for the next 12 months

Relevance of financing products

An initial indication of the relevance of the financing products to the needs of the farmers, derives from the interviews with the farmers and the focus groups, which showed that farmers are unsatisfied with bureaucracy and difficulty of securing collateral for loan finance. This implies that the development of microfinance might greatly aid farmers with low accessibility to finance, who often require smaller amounts, and up to now relied for collateral on guarantees and familiar networks that are not attractive to banking institutions. Interviews' findings are consistent with the survey findings, which reveal a need for micro-loans financing for producers of all size classes (49% of total respondents).

Moreover, except for micro-financing, interviews showed that the main financial needs of farmers concern:

- Short-term needs for the financing of working capital - mainly for the purchase of agricultural inputs (up to one-year loans, typically from 10,000 to EUR 25,000)[77]
- Medium-long term needs[78] related to investments, mainly for equipment purchases (machinery) or fixed investments (plant extensions, land purchase, etc.)

For the coverage of this needs, apart from micro-loans, which were already mentioned, farmers also consider as relevant type of financing, the financing from public grants (almost 75% of the producers who replied to the survey). As far as the relevance of other banking products, is concerned, some producers regard that medium and long-term loans can also cover their needs (for almost ¼ of the producers), while approximately 20% of the producers thinks that short-term loans are relevant too. It should be noted that loans from family/friends remain a relevant source of financing for 42% of the producers.

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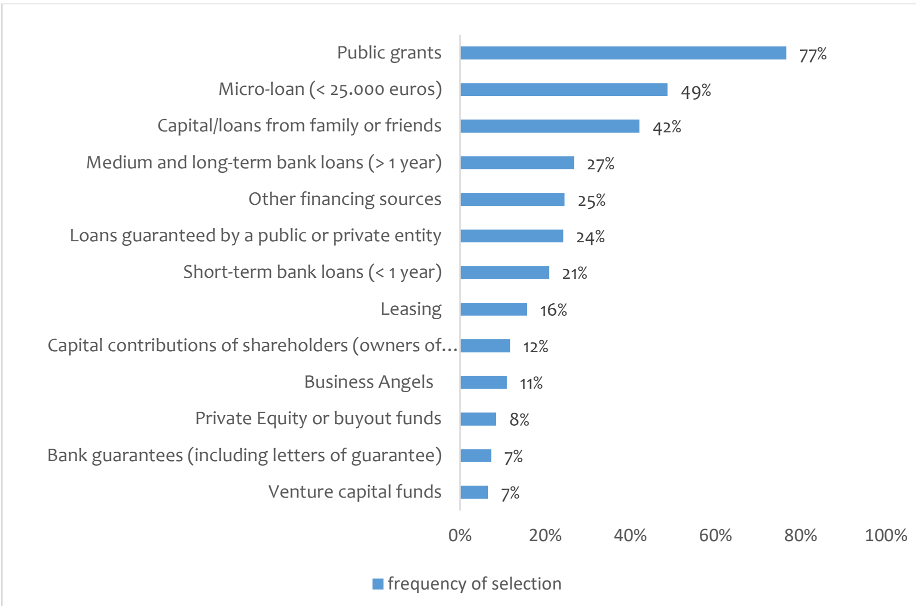
[77] Inputs which constitute farmer's yearly needs are fertilisers, water, gas, energy supply, seeds, etc.

[78] The average duration of the loans that meet these needs is around 8 years.

Figure 14: Relevant sources of financing for producers:



Source: Survey results

Lastly, concerning the relevance of bank financing to farmers it should be noted that, further to the relevance of particular financing products, it is also important to consider the expressed need for low interest rate, low collateral[79] and long maturity instrument when considering instruments in the form of loans.

[79] Interview findings show that traditionally, farmers and very small and small processors in Greece have primarily been financed through banking institutions with personal guarantees or collateral. However, in light of the recent banking crisis, they have entered into a new, unknown area of limited access to this customary form of financing. There is currently a lack of finance and complete lack of formal bond market making it more difficult for the demand side to access finance. The need for such markets means policy makers should consider deploying a set of policy instruments at both the demand and the supply side.

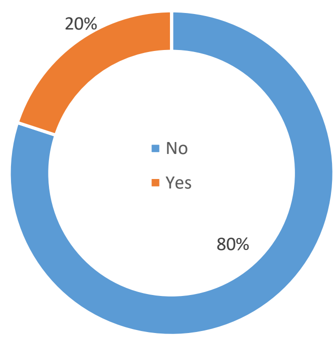
The use of guarantees has, in the recent past, worked as an important provider of the necessary guarantees to be able to acquire finance. The traditional guarantee system of Greece depends on family and other personal contacts to guarantee loans. Loans were often provided on lower collateral if sufficient personal guarantees were in place by persons that the bank considered trustworthy. In fact, for the cooperative system, personal guarantees of members of the cooperative were expected prior to the provision of the loan. While taking into account that correlation is not causation, it is clear that the high dependence of Micro enterprises in loans is related to the ability of these companies to use these personal guarantees of their family and social circle to provide collateral for the bank. This system of personal guarantees was under severe stress during the financial crisis, as many guarantees were called in to cover non-performing loans prior to securing the collateral. This has led to banks being less willing to accept personal guarantees, as well as to individuals being less willing to provide such guarantees. Thus the ability of the sector to access finance has been affected by the reduction of the important (and the supply) of personal guarantees.

Financing needs for the next 12 months

The financing needs of the producers for the next 12 months, in terms of potential use of financing products, are expected to be covered in a significant degree by public grants (59.5% selection frequency), while almost one out of three producers is expected to use micro-loans. The order of the selection of the financing products to be used within the next months by the producers, follows in a significant degree the order of the relevance of the financing products mentioned above (Figure 14), validating thus that public grants, bank loans and borrowing from friends and family are the most relevant sources of financing for producers and only few of them are interested to make use of other bank products.

It is should be mentioned that regarding the potential use of equity share in exchange of equity financing, as indicated by the online survey, 20% of the producers would be willing to provide equity for financing.

Figure 15: Willingness to provide shares to an investor in exchange for equity financing:



Source: Survey results

However, the willingness may vary for different categories of producers. For example, potential use of equity financing is higher for producers in animal farming (32% of the producers), differentiated producers (29%) and especially farmers with a more innovative (60%) or growth-oriented profile (49%).[80]

In terms of amount of financing that is expected to be sought in the next 12 months, 54.4% of the financing will be up to EUR 25,000, while more than 80% of the survey respondents will not ask for financing higher than EUR 100,000 (especially micro producers will be limited to financing up to EUR 100,000) and only 10% of the producers will seek for financing higher than EUR 250,000[81].

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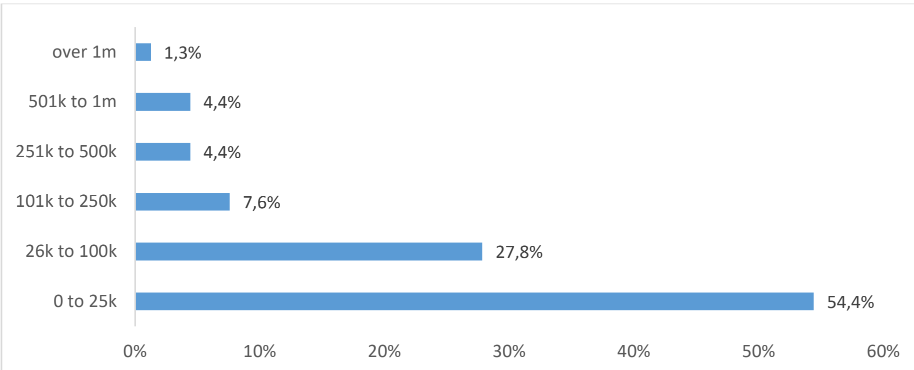
80 Refers to producers who intend to use financing in order to finance a) the launch of a new product or service, b) R&D or innovation projects, c) internationalisation of activities, d) initiatives aimed at shortening the supply chain

81 Annex 14 – Presentation of online survey results

Figure 16: Ranges of financing needs within the next 12 months:



Source: Survey results

Financing needs for most of the producers, appear not to differ significantly between different sectors, with some exceptions. In particular, the needs of animal farming producers, as well as the needs of innovative and growth-oriented producers, appear to be significantly higher for the next 12 months, as indicated in Table 37. Moreover, producers whose financial situation improved within the last three years are also more likely to ask for financing higher than EUR 250,000, compared to producers whose financial situation deteriorated.

Table 37: Financing to be sought within the next 12 months:

Ranges in thousand EUR	Innovative Profile	Growth-oriented profile	Animal farming	Better financial situation	All producers
0 - 25	17.0%	33.0%	38.5%	26.0%	54.5%
26 - 100	50.0%	27.0%	38.5%	32.0%	27.8%
101 - 250	0.0%	13.0%	0.0%	5.0%	7.6%
251 - 500	0.0%	3.0%	7.7%	16.0%	4.4%
501 – 1,000	33.0%	17.0%	7.7%	16.0%	4.4%
Over 1,000	0.0%	7.0%	7.7%	5.0%	1.3%

As far as the reasons for obtaining financing are concerned, in the context of the interviews and focus groups it was reported that many Greek farmers are attempting to turn to processing, bottling, and exporting their products themselves, since a surplus value is added to their agricultural products when they process them, so they can make a bigger profit. Many farmers are also attempting to create websites to sell their products online, in that way they promote their own products and take more of the profit margin than big supermarkets. Farmers may also have additional financing needs due to the fact that they invest in the alteration of the distribution methods. According to interviews' findings, modernisation of production as well as application of new methods in the value chain, generate needs for investments too.

Supplementary to these findings, survey data reveal additional reasons for obtaining financing, such as the purchase of equipment and intangible assets (as per 57.3% of the producers) and financing of working capital (44.3%), while producers in the initiation, development, and reorganisation phase, also are very keen in obtaining financing in order to acquire cultivable land[82].

Financing needs for the next 12 months per financial product[83]

The expected demand for micro-loans, short-term loans, medium and long term loans, equity financing[84], calculated for the total population of producers in Greece per size class, is as follows:

i. Micro-loans

The quantification of demand for micro-loans is expected to range in total from EUR 928m (lower bound) to EUR 1,025m (upper bound). The majority of the financing is expected to be sought from micro producers, while the total financing needs of small and medium/large producers appear to be in similar levels.

Table 38: Total estimated micro-loans financing for the next 12 months in million EUR

Size	Lower bound	Upper bound
Medium & Large producers	267.2	295.3
Small producers	272.6	301.2
Micro producers	387.8	428.7
Total	927.6	1,025.2

Source: Survey results

ii. Short-term loans

The quantification of demand for producers' short-term loans indicates that the total demand is expected to range from approximately EUR 450m to EUR 500m. This implies that short-term loans, in terms of demand for financing, are less important compared to micro-loans, which appear to be more relevant for the majority of the producers (especially for micro producers as indicated above). In that sense, as indicated by the quantification, 4/5 of the viable demand concerns mainly small producers.

Table 39: Total estimated demand for short-terms loans for the next 12 months in million EUR:

Size	Lower bound	Upper bound
Medium & Large producers	44.3	49.0
Small producers	372.2	411.4
Micro producers	39.3	43.4
Total	455.8	503.8

Source: Survey results

[82] Annex 14 – Presentation of online survey results

[83] For the identification of the needs of the producers, the survey results on financing needs for the next 12 months were extrapolated to the total population of the producers. Methodology described on detail Annex 13 – Calculation of the demand for the next 12 months.

[84] Estimation for venture capital and private equity financing

iii. Medium & long-term loans

The estimation of the demand for the next 12 months is expected to range between EUR 1,050 m and EUR 1,160 m, indicating a relatively high demand for medium and long-term loans. As illustrated in the table below (Table 40), the biggest proportion of the total estimated demand is expected to be sought from medium/large producers (around 40%). This implies, that average demand per producer is higher for medium/large producers and consequently this kind of financing is more relevant for them. Moreover, this finding also implies that for micro enterprises, this type of financing will is less relevant.

Table 40: Total estimated demand for medium/long-term loans for the next 12 months in million EUR:

Size	Lower bound	Upper bound
Medium & Large producers	437.7	483.8
Small producers	348.2	384.8
Micro producers	265.9	293.9
Total	1,051.8	1,162.5

Source: Survey results

iv. Equity financing

Producers' demand for equity financing was not estimated as this type of financing was not among the most relevant types of financing for producers. Moreover, future needs on equity financing do not appear to be representative across all size-classes.

Processors

Access to finance

Concerning the financing needs of the processors, interviews' findings showed that there are different categories of processors. In particular:

- Small processors, with insufficient access to the financial system
- Small but dynamic processors in the initiation phase trying to differentiate. This sub-category is divided into those that having a strong relationship with the banking system and those who are in their initiation phase and are not visible to the banking system.
- Medium and large processors, who usually are more visible to the banking sector.

In that context and taking into consideration that the vast majority of processing firms are micro and small enterprises (97.5% according to Eurostat data), it is subsequent that most of the processing firms have not easy access to the banking sector.

This is also confirmed by the survey results, which showed that processing firms mainly benefited within the last 3 years from capitals contributions of their shareholders (37.6%), loans from family and friends (36.9%) and public grants (31.9%). This, moreover, reveals that overall there is no prevalent type of financing for processing firms, which make use of a wider variety of financing products (except for business angels and venture capital funds[85]). In that sense, although many processing firms have limited

[85] No replies were received with respect to these financial sources.

access to banking products, there are also companies, which have benefited from loans within the last 3 years.

In terms of size, micro enterprises relied mostly on family/friends financing and capital contributions of the owners. Small enterprises mainly relied in three types of financing: short-term loans (81.8%), public grants (54.5%) and medium and long-term bank loans (45.5%). Medium and large companies, except for bank loans, also benefited from other sources such as leasing.

It should be noted, that in terms of type of product (sector), half of the livestock processors benefited from micro-loans and 30% benefited from bank guarantees. Crop processors mainly benefited from bank guarantees (37%) and leasing (35%).

Table 41: Financing sources used by processors within the last 3 years (2014 - 2017):

Type of financing	Micro	Small	Medium-sized	Large
Public grants	28.5%	54.5%	50.0%	0.0%
Other financing sources	6.2%	9.1%	0.0%	0.0%
Capital contributions of shareholders (owners of the business)	37.7%	36.4%	0.0%	0.0%
Business Angels	0.0%	0.0%	0.0%	0.0%
Capital/loans from family or friends	40.0%	0.0%	0.0%	0.0%
Venture capital funds	0.0%	0.0%	0.0%	0.0%
Bank guarantees (including letters of guarantee)	6.2%	18.2%	50.0%	100.0%
Leasing	6.9%	0.0%	75.0%	50.0%
Loans guaranteed by a public or private entity	3.1%	9.1%	0.0%	0.0%
Micro-loan (< 25.000 euros)	15.4%	0.0%	0.0%	0.0%
Short-term bank loans (< 1 year)	13.8%	81.8%	50.0%	50.0%
Private Equity or buyout	5.4%	0.0%	0.0%	0.0%
Medium and long-term bank loans (> 1 year)	18.5%	45.5%	75.0%	50.0%

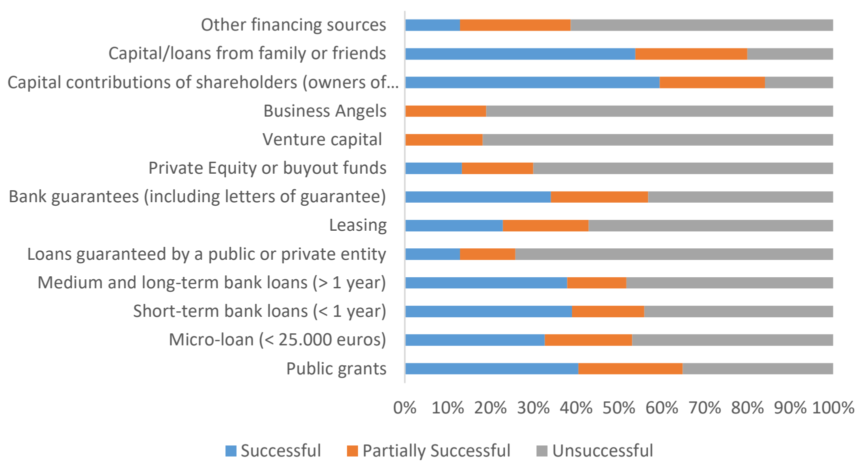
Source: Survey results

The fact that processors, compared to producers, have easier penetration to the banking system, is also confirmed by their success rates in receiving financing. In particular, they appear to be at least partially successful in receiving financing through loans (success rate between 50% and 57% for all types of loans).

In terms of size, one out of two micro firms have successfully obtained a micro loan over the last three years. However, success rates were relatively lower for other types of loans and especially medium or long-term loans (43% success rate). In addition, small firms, appear to have very high rates of success in obtaining micro and short loans, while only one out of three firms has successfully obtained a medium or long-term loan over the last 3 years.

Financing through public grants is also a very successful way of obtaining financing for processing firms, since more than 60% of the processors, irrespective of their size, are successful in obtaining public grants. Concerning private equity and venture capital financing, as well as the use of business angels, processors have still low success rates.

Figure 17: Success rates of processors in obtaining financing products during the last three years (2014-2017):



Source: Survey results

Demand analysis for the last 3 years

Financing sought

Concerning the demand for financing within the last three years, almost 55% of the processors sought for amounts from EUR 25,000 up to EUR 100,000, while almost one out of three asked for amounts higher than EUR 250,000 (around 18% of the processors sought for amounts higher than EUR 500,000). This clearly indicates that processors had different financing needs in terms of amounts, compared to producers, who mainly sought for financing up to EUR 100,000.

In terms of size class, micro-processors had sought mainly for amounts EUR 26,000 to EUR 250,000 (57% of them), while small, medium and large companies had significantly higher financing needs, as shown in Table 42.

Table 42: Financing sought within the last 3 years:

Amount categories in thousand EUR	Micro	Small	Medium-sized	Large	Total
0 to 25	16,0%	9,1%	0,0%	0,0%	14,9%
26 to 100	37,6%	9,1%	0,0%	0,0%	34,0%
101 to 250	20,8%	0,0%	33,3%	0,0%	19,1%
251 to 500	15,2%	9,1%	0,0%	0,0%	14,2%
501 to 1,000	5,6%	27,3%	0,0%	0,0%	7,1%
over 1,000	4,8%	45,5%	66,7%	100,0%	10,6%

Source: Survey results

In terms of growth phase, most of the processing companies irrespective of their growth phase sought EUR 26,000 to EUR 250,000 over the last three years, except for firms in maturity and reorganisation phase (the majority of these firms sought for financing higher than EUR 100,000).

Table 43: Financing sought by growth phase

Amount categories in thousand EUR	Growth phase						
	Initiation	Creation	Post - Creation	Development	Maturity	Reorganisation	Takeover
0 to 25	0.0%	16.7%	16.0%	20.5%	9.4%	14.3%	0.0%
26 to 100	0.0%	33.3%	44.0%	38.5%	28.1%	28.6%	50.0%
101 to 250	0.0%	16.7%	16.0%	15.4%	15.6%	28.6%	50.0%
251 to 500	50.0%	0.0%	12.0%	15.4%	12.5%	17.1%	0.0%
501 to 1,000	0.0%	0.0%	8.0%	0.0%	15.6%	8.6%	0.0%
over 1,000	50.0%	33.3%	4.0%	10.3%	18.8%	2.9%	0.0%

Source: Survey results

Analysis by type of product, showed that livestock processors, sought significantly higher amounts of financing than crops' processors. In particular, almost one out of three processors sought for financing higher than EUR 500,000, compared to only 16% for crops' processors.

With regards to these findings, it has to be noted that financing was sought mainly though debt (62%) or equity financing (50%), while 40% of the processors sought financing through grants/subsidies.

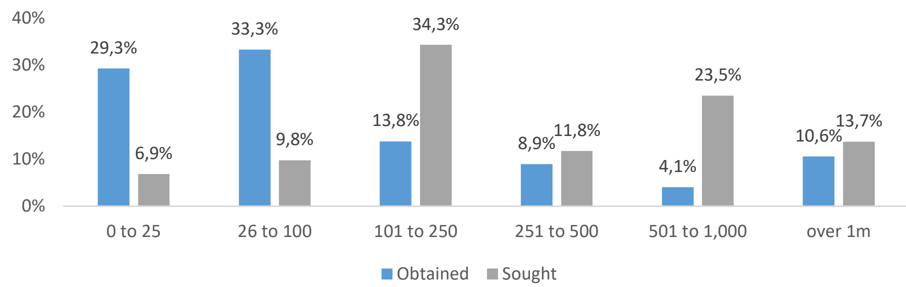
Regarding the purpose of the financing sought, there were two main reasons for most of the processing firms, related to the seeking of financing: the purchasing of equipment (62%) and the financing of working capital (53%). This finding reflects mainly the situation for micro firms, since small, medium and large enterprises do not regard the financing of working capital as a priority.

In terms of growth phase, it should be highlighted that more than 40% of enterprises in development, maturity and reorganization phase seek financing in order to refinance debt or financial obligations.

Financing obtained

Regarding the amounts obtained by the processing firms within the last three years, 2 out of 3 processors received up to EUR 100,000. This shows that although demand for amounts of more than EUR 100,000 was higher, applications for such financing could not be satisfied, resulting in the acquaintance of lower amounts of financing (EUR 100,00). Especially acquaintance rates for financing from EUR 100,000 to EUR 1,000,000 were lower compared to those of financing sought.

Figure 18: Financing obtained/ financing sought per financing size category:



Source: Survey results

In terms of size class, more than 60% of micro enterprises obtained financing up to EUR 100,000, while the majority of small and medium enterprises obtained financing of over EUR 1 m. In terms of growth phase, except for firms in the maturity phase, which obtained financing higher than EUR 100,000, the rest of the processing companies irrespective of their growth phase obtained up to EUR 100,000 over the last three years[86]. Moreover, it should be pointed out that 27% of livestock processors obtained financing higher than EUR 500,000.

From the analysis it appears that the main source of financing obtained, was through equity financing (55.3% of the processors benefited from equity financing). However, the total (EUR 39 m out of EUR 59m) and average volume obtained through debt financing was significantly higher. In total, financing through debts equals to 67% of the total financing obtained. In terms of size, average financing of micro, small and medium-sized businesses was approximately EUR 200,000, EUR 1.2 m and EUR 2.8 m respectively, while in terms of growth phase average financing amounts of debts to the businesses of development and maturity and reorganization were about EUR 0.4 m and EUR 1.2 m respectively (44% of the debt financing was directed to firms in the maturity growth phase). In addition, as indicated in the table below, only 58.2% of the total amount sought by processing companies from grants/subsidies was obtained by them.

Table 44: Financing obtained by type:

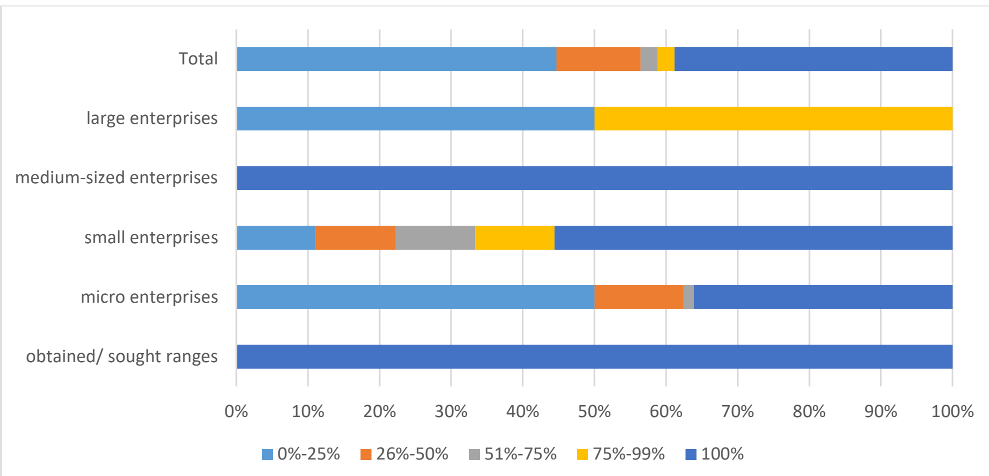
Types of financing obtained	% selection	Total amount per financing type (in EUR)	Average amount obtained per financing type	% of amount obtained (obtained / sought)
Debt (all types)	47.2%	39,579,100	682,398	73.8%
Equity finance (all types)	55.3%	12,334,717	181,393	86.3%
Grants or subsidies	32.5%	7,268,617	181,715	58.2%
All types	100%	59,182,434	481,158	73.6%

86 Annex 14 – Presentation of online survey results

Source: Survey results

Further analysis was carried out with regards to the obtainability rate of debt financing for processors, measured as the debt financing amount obtained as a percentage of the debt financing amount sought. Almost 40% received the whole amount of financing they sought, while the majority (57% of processors) received less than half of the financing amount sought. However, this finding mainly applies to the micro-enterprises, most of whom were confronted with difficulties in covering their demand for debt financing. Findings indicate that most of the small firms obtained the whole amount they sought, while all medium-sized processors were successful in covering their needs.

Figure 19: Obtainability of financing for processors over the last 3 years (2015-2017):

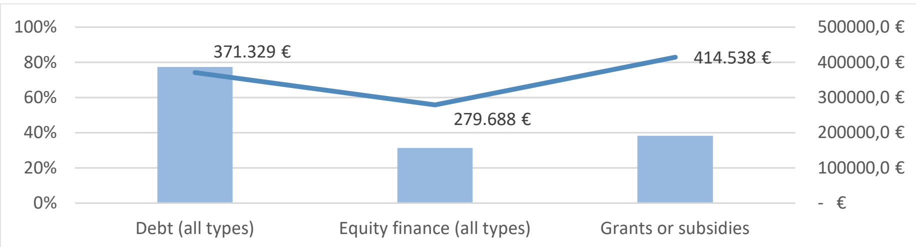


Source: Survey results

Financing sought but not applied for

Regarding the financing needs of the processors, for which they planned but did not apply for, it is shown by the survey that more than half of the processors intended to apply for financing higher than EUR 100,000 and especially for debt financing (77% of the processors). Moreover, one out of three processors avoided applying for financing through grants.

Figure 20 Financing sought but not applied for per type of financing & average amount of financing sought (2014-2017):



Source: Survey results

Especially concerning grants/subsidies, the average amount that processors intended to ask for grants/subsidies (around EUR 414,000) was on average significantly higher than the average amount obtained from debt (around EUR 371,000) and the average amount sought from equity (around EUR 279,000).

Reasons for unsuccessful loan financing

Regarding the uses of unsuccessful loan financing almost half of the processors mentioned high interest rates as the most important reason for unsuccessful applications (36.1%), while the lack of own equity is in the second place (34.1%). In terms of size, insufficient guarantee appears to be an important reason for unsuccessful financing (2 out of 3 processors), while in terms of growth phase, firms in the development phase are mainly confronted with high interest rate issues (39%) or lack of own equity (32%).[87] In terms of product type, half of the livestock processors were mainly confronted with no/poor credit history and 38% of them with issues related to insufficient guarantee.

It should also be noted that results from interviews suggest that another obstacle in bank financing - even in the cases where the businesses fulfil the financing prerequisites - is bureaucracy.[88]

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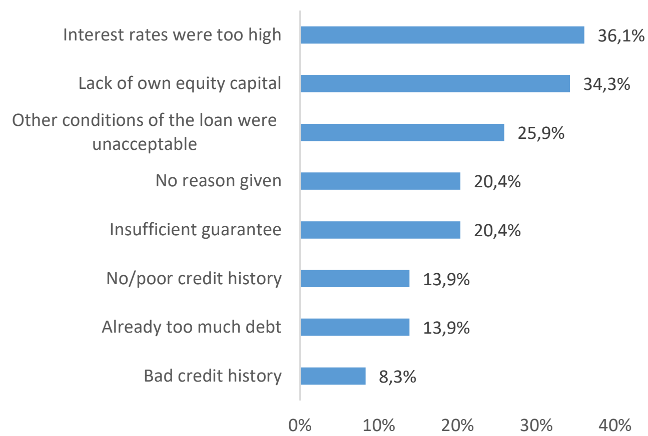
[87] See Annex 14 – Presentation of online survey results

[88] Bureaucracy was defined in the context of the interviews as the total time needed for the approval of a loan application, which depends on the type of loan, and whether the borrower is an existing client of the bank according to interviews' findings

Figure 21 Reasons for processors' being unsuccessful in obtaining loan financing:



Source: Survey results

Demand analysis for the next 12 months

Relevance of financing products

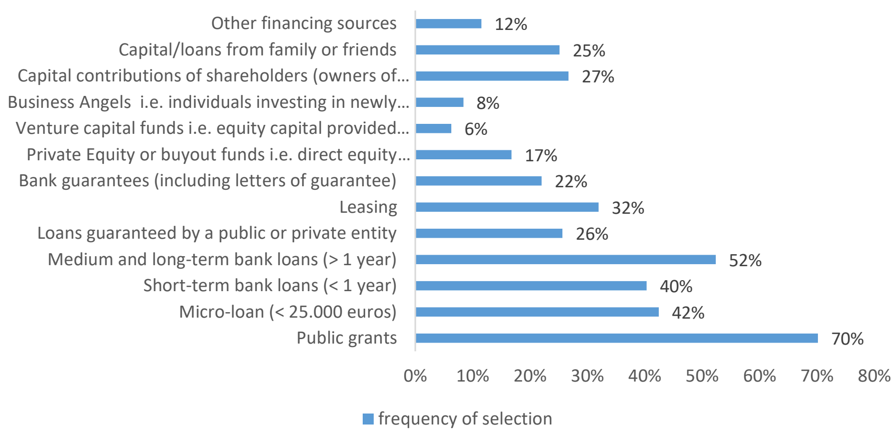
In terms of relevant products, according to survey results the majority of the processors prefers financing through public grants (almost 70% of the processors). This finding, was also strongly supported by the interviews with processing firms, which stated that they prefer grants to loans, since it has lower cost, despite the fact that the application process for grants offered by the government is also time consuming[89].

However, more than half of the processors (52%) regard medium and long-term loans relevant to their businesses. Micro (42%) and sort-term loans (40%) are also among the financing options which are quite relevant to processing firms, along with loans guaranteed by public or private entities (44%).

Although this types of financing are considered as relevant among firms of all size classes and all growth phases, micro firms are mainly interested in public grants, while small firms do also highly consider medium/long term loans (69%), as well as short-term loans (77%). Moreover, medium/long term loans are relevant to more than the half processing firms in the development, maturity and reorganisation phase.

[89] A number of grants have taken more than two years to finalize their decisions, which is a major barrier for entrepreneurs

Figure 22 Relevant sources of financing for processors:



Source: Survey results

Supplementary to the survey findings, outcomes from the interviews with stakeholders, provide a more detailed description of the financing needs of medium and large firms. In particular, medium and large processing firms, which have significant needs in financing their investment plans (marketing and promoting their products abroad, launch new products and differentiate in order to be more extrovert and less depended from local grocery retail market etc.), are seeking for financing products with the following characteristics:

- faster procedures
- more favourable conditions, such as the reduction of the interest rate (around 2%), in order to become more competitive to foreign companies of the sector

Financing needs for the next 12 months[90]

The financing needs of the processors for the next 12 months, in terms of potential use of financing products, are expected to be covered in a significant degree by public grants (55% selection frequency), while almost one out of three processors is expected to use micro, short-term or medium/long –term loans (around 30% frequency of selection for each product).

Regarding the potential use of equity share in exchange of equity financing, as indicated by the online survey, 40% of the processors would be willing to provide equity for financing. In particular, 40% of the micro firms would be positive towards equity financing, as well as firms which are in the post-creation phase (57%) or reorganisation phase (45%) and crop processors (43%). Firms with a more innovative potential are also more likely to provide equity for financing (59% of them).

In terms of amount of the financing that is expected to be sought in the next 12 months, 53% of the financing will be from EUR 25,000 to EUR 250,000, while 39% of the survey respondents will ask for

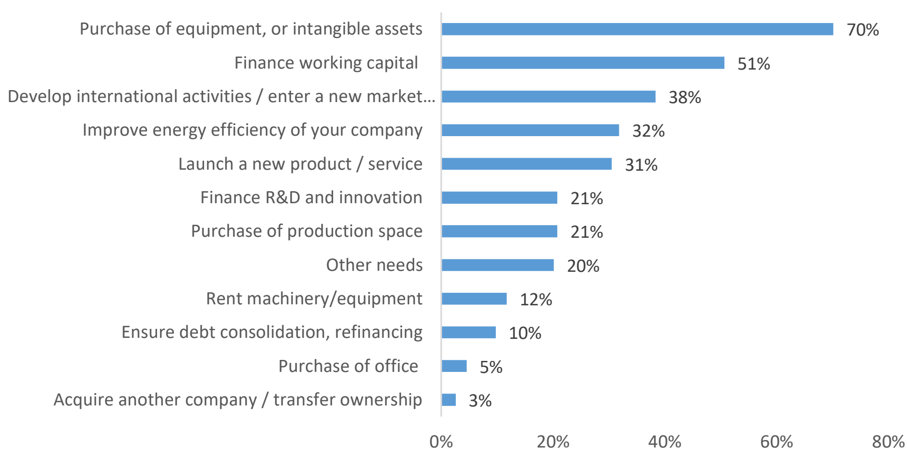
[90] Annex 13 - Calculation of the demand for the next 12 months

financing higher than EUR 250,000[91]. This means that micro financing will not be relevant to processing firms over the next 12 months. In particular, companies in reorganisation phase are expected to seek mainly for financing higher than EUR 250,000 (56% of the firms). In terms of product type, livestock processors (50% of them), are expected to seek for financing higher than EUR 500,000. It should also be noted that companies with exporting activity have particularly high needs in financing, since almost half of them –and especially small, medium and large firms- have financing needs exceeding EUR 250,000. Moreover, more than 50% of exporting firms in the maturity phase are expected to ask for financing higher than EUR 500,000. Additionally, 45% of the firms with retailing activities, are expected to ask for financing higher than EUR 250,000 within the next 12 months.

Prospective financing, will be used mainly for the purchase of equipment and intangible assets (as per 70.1% of the processors) and financing of working capital (50.1%)[92]. In that sense, processors' main needs for the near future are identical to those of producers, across all categories of processors, irrespective of their characteristics.

However, almost one out of three processing firms is also going to use financing for other purposes such as the development of international activities (38%), the improvement of energy efficiency (32%) and the launch of new products or services (30%). Concerning the geographical expansion, the companies interested in developing international activities, are mostly in the post-creation phase (70% of them), as well as the development (34%) and maturity phase (34%). The last are also interested in improving energy efficiency (42% of them.).

Figure 23 Purpose of seeking financing in the next 12 months:



Source: Survey results

[91] Annex 14 – Presentation of online survey results

[92] Especially for the needs related to the financing of working capital the interviews also showed that the demand size depends on the size class of each company.

Financing needs for the next 12 months per financial product

The expected demand for micro-loans, short-term loans, medium and long-term loans, equity financing, was calculated based on the survey results. The results provided represent an estimation of the total financing needs for the next 12 months for the total population of food-processors in Greece per size class, is as follows:

i. Micro-loans

The demand for micro-loans (lower and upper estimate) is estimated only for small and micro firms having answered the survey. The estimated demand is significantly higher for micro enterprises, while the estimated demand for small firms ranges between EUR 16.6 – 18.3m.

Table 45: Total estimated demand for micro-loans for the next 12 months

Firm Size	Lower level (in EUR m)	Upper level (in EUR m)
Medium & Large enterprises	N/A	N/A
Small enterprises	0.6	0.7
Micro enterprises	16.0	17.6
Total	16.6	18.3

Source: Survey results

ii. Short-term loans

The total expected demand for short-term loans ranges between EUR 670m and EUR 740m according to the survey. Microprocessors represent around 1/4 of the total demand for short-term loans, while medium/large enterprises concentrate more than 40% of the total demand volume for the specific financial instrument.

Table 46: Total estimated demand for short-term loans financing for the next 12 months

Firm Size	Lower level (in EUR m)	Upper level (in EUR m)
Medium & Large enterprises	289.9	320.4
Small enterprises	221.6	244.9
Micro enterprises	158.1	174.7
Total	669.6	740

Source: Survey results

iii. Medium & long-term loans

The total needs for medium and long-term loans for the next 12 months range between EUR 787m and EUR 870m. Medium & Large enterprises represent almost the half of these needs, while micro firms represent around 35% of the total demand for medium and long-term loans.

Table 47: Total estimated demand for medium & long-term loans financing for the next 12 months

Firm Size	Lower level (in EUR m)	Upper level (in EUR m)
Medium & Large enterprises	399.7	441.8
Small enterprises	114.5	126.5
Micro enterprises	273.2	301.9
Total	787.4	870.2

Source: Survey results

iv. Equity financing

The quantification of the demand for equity financing (i.e. private equity and venture capitals) shows that around EUR 340m will be sought through equity financing within the next 12 months.

Table 48: Total estimated demand for private equity financing for the next 12 months

Firm Size	Lower level (in EUR m)	Upper level (in EUR m)
Medium & Large enterprises	160.9	177.9
Small enterprises	45.4	50.2
Micro enterprises	117.3	129.6
Total	323.6	357.6

Source: Survey results

M 16 – Cooperation

Interviews with stakeholders as well as the focus group for this measure, indicated that there is a **low level of maturity for this measure from the demand side**. Needs primarily focus on the stage of the forming of these schemes and there are still conversations concerning the research methods and whether research in Greece responds to market needs. On the other hand, universities have the opinion that the agricultural sector is not ready yet to understand the benefits from the collaboration with universities and cooperate with them and that processors are driven by their profitability thus they are reluctant to use innovative methods or foster research.

The main conclusion for this measure is that financial needs are not realised yet by the relevant stakeholders, since the discussion mainly refers to grants and 100% funding. As stressed out from the Managing Authority of the RDP, application for financial Instruments cannot support the implementation of Measure 16, since the needs are very different and demand does not exist.

M19 - Non-agricultural activities in rural areas

The Leader initiative, in current RDP Measure 19, was the most successful and popular measure of RDP 2007-2013. One of the reasons is the bottom up approach and the proximity to rural residents (physical and cultural). The other reason was the guidance that the local offices provided to the residents, many representatives of Local Action Group mentioned that they were preventing "unprepared or of low maturity" beneficiaries/ investors from applying to the programme.

According to the representatives of Local Action Groups non completion of the projects is due to the lack of the private funding in addition with the difficulties faced by the beneficiaries regarding the access to the banking system. The needs of beneficiaries of this measure are more or less the same as those of farmers and small processors. Most projects are concerning small scale processing enterprises as well as tourism enterprises.

For the current programme Local Action Groups forecast interest in investments mostly in the processing sector. Most of the investors are individuals trying to be entrepreneurs so they lack of the support needed (services to facilitate their activities).

Furthermore, Local Action Groups welcome the application of Financial Instruments and they propose simplicity and less bureaucracy.

What emerged from the Focus Group, is that Local Action Groups proposed to be part of the mechanism of the dissemination of the Financial Instruments mechanism so as to mitigate the failure risk. Interviewees proposed Local Action Groups to take on the publicity actions of the Financial Instruments (complementary) to avoid previous experiences. What was really proposed was the exploitation of the popularity of the LEADER programme.

Financing needs for the next 12 months per financial product

Concerning the estimation of demand for Measure 19 of the Rural Development Programme 2014-2020, limitations arise from the NACE codes. In particular, the survey covered the estimation of the demand for potential beneficiaries under the following NACE codes[93] that were discussed and agreed between the Managing Authority, EIB and PwC.

The expected demand for public grants, micro-loans, short-term loans, medium and long term loans, private equity and venture capital financing, calculated for the total population of producers and processors in Greece based on the survey results, is as follows:

Table 49: Total estimated financing for the next 12 months

Type of loan	Producers (in EUR m)	Processors (in EUR m)
Public grants	956.3	28.3
Micro-loans	6.0	28.2
Short-term bank loans	1.5	29.6
Medium & long term bank loans	116.3	18.5
Loans guaranteed by a public or private company	142.4	0.2
Leasing	NA	2.1
Private Equity or buyout funds	NA	NA
Venture Capital funds	64.9	5.3
Business Angels	NA	5.8

Source: Survey results

The amounts presented above are referring to the targeted entities of M.19 that conducted further activities across the value chain, such as local traders, wholesalers, retailers that intend to request financing in the next 12 months in order to launch a new product/ service.

Those amounts constitute a lower level estimation, as the concept of M19 is related not only with producers but also other beneficiaries, such as local traders, processors, wholesalers and retailers.

The total demand for public grants is expected to reach approximately EUR 9845m, which means that there is appeared financial gap compared with the amount of EUR 219m that is about to be provided within the RDP 2014-2020.

With respect to processors' financing demand in the next 12 months, micro-loans and short-term loans are estimated to reach EUR 28.2m and EUR 29.6m respectively. Total demand for medium & long term bank

93 01 and all its subcodes other than 01.7 & all enterprises falling within the classes, categories, subcategories and national activities of the industry; 10.1, 10.3, 10.4, 10.5, 10.6 & all enterprises in the classes, categories, subcategories and national activities of these subcodes. 10.84.11 & all businesses included;

93 10.89.12 & all businesses included; 10.89.19 & all businesses included; 1091 & all businesses that fall into the classes, subcategories and national classroom activities; 11.01, 11.02, 11.03, 11.04, 11.05, 11.06 & all businesses in the categories, subcategories and national activities of these subcodes; 12.0 & all businesses that belong to the classes, categories, subcategories and national activities of the industry; 13.10 & all businesses included within the classes, subcategories and national activities of the subcode

loans are estimated to reach EUR 134.7 m, while loans guaranteed by a public or private company are estimated at EUR 142.5m in total - for both producers & processors.

Venture capital funds, also are estimated to be sought by producers and processors reaching the total amount of EUR 70.2m.

Main outcomes

Key messages from the interviews with key stakeholders and the online survey on the demand for financing in the agricultural sector:

Producers

- **Access to finance**

The agricultural sector in Greece is facing various difficulties in accessing finance:

- **Structural sector problems**
- **Insufficient guarantees**
- **Illiquidity of agricultural assets that could be used as collateral**
- **Low value of fixed assets for guarantees**
- **Increasing credit crunch due to more aggressive measures taken by the state to collect farmers' tax and social security liabilities**
- **Already mortgaged property from previous periods and mainly in the former Agricultural Bank**
- **Most producers, irrespective of their size benefit from a limited number of financing sources and especially from family/friends' loans and public grants**
- **All producers have extremely limited access to banking products, except for micro-loans, for which the penetration degree is still very low**

- **Financing type and amounts**
  - **Producers mainly rely on financing from public grants which on average do not exceed EUR 20,000**
  - **Large producers appeared to have easier access to higher amounts of financing**
- **Unmet needs**
  - **Unsatisfied demand reached in most of the cases up to EUR 25,000**
  - **Less than half of the producers managed to acquire the whole amount of financing that they asked for in the last 3 years**
- **Reasons for unsuccessful applications for financing**
  - **Almost half of the producers mentioned the lack of own equity as the most important reason for unsuccessful applications**
  - **High interest rates, had been a rejection reason for only 1 out of 3 producers (especially large producers)**
- **Relevance of financing products**
  - **Farmers state that the financial instruments must concern the provision of:**
    - **Loans to final beneficiaries**
    - **Loan or loan portfolio guarantees to financial intermediaries**
    - **Financial Instruments architecture and application should be characterised by simplicity**
    - **Export Credit Insurance (Export Credit Insurance Agency) acts positively for the development of**

export activity

- the majority of the producers prefer financing through public grants
- a need for micro-loans financing is demonstrated for producers of all size classes, while medium and long-term loans are the second most relevant bank products for producers
- short-term loans are relevant to approximately one out of five producers

- Future needs
    - The financial needs of farmers concern:

- Short-term needs for working capital, mainly for the purchase of agricultural inputs (up to one-year loans, typically from 10,000 to 25,000 euros)
- Medium-long term needs related to investments, mainly for equipment purchases (machinery) or fixed investments (plant extensions, land purchase, etc.)
- Investment funds for land purchase, livestock purchases and investments in facilities and machinery

- potential use of financing products, is expected to be covered in a significant degree by public grants and one out of three producers is expected to use micro-loans
- only 20% of the producers would be willing to provide equity for financing

Processors

- Access to finance
- Processing firms mainly benefit through capitals contributions of the shareholders, loans from family and friends and public grants.
- Processing firms make use of a wider variety of financing products (except for business angels and venture capital funds).
- Micro enterprises relied in the previous three years mostly on family/friends financing and capital contributions of the owners. Small enterprises mainly relied in three types of financing: short-term loans (81.8%), public grants (54.5%) and medium and long-term bank loans (45.5%). Medium and large companies, except for bank loans, also benefited from other sources such as leasing.
- Processors, compared to producers, have easier penetration to the banking system
- Financing type and amounts
- Within the last three years, 2 out of 3 producers received up to EUR 100,000
- Although demand for amounts of more than EUR 100,000 was higher in the previous 3 years, applications for financing for more than EUR 100,000 could not be satisfied, resulting in the acquaintance of lower amounts of financing (EUR 100,000)
- The main source of financing obtained in the last 3 years was through equity financing (all types)
- Unmet needs
- Only 58.2% of the total amount sought by processing companies from grants/subsidies was obtained by them
- In most of the cases processors can effectively address their financing needs
- Reasons for unsuccessful applications for financing
- Almost half of the processors mentioned high interest rates as the most important reason for unsuccessful applications along with lack of own equity
- Insufficient guarantee appears to be an important reason for unsuccessful financing (2 out of 3

processors)

- Relevance of financing products
  - Businesses prefer grants to loans since they have lower cost for them
  - Medium and large processors' need faster procedures and more favourable conditions, in order to become more competitive to foreign companies of the sector
  - The majority of the processors prefers financing through public grants
  - More than half of the processors regard medium and long-term loans relevant to their businesses
  - Micro and sort-term loans are also among the financing options which are quite relevant to processing firms, along with loans guaranteed by public or private entities
  - Processors also expressed their willingness to financing through bonds or shares in order to acquire the sources needed
- Future needs
  - For all categories of the processors working capital is needed and the demand size differentiates and highly depends on company's size.
  - Processors have also needs for financing in order to materialise their investment plans and for marketing and promoting their products abroad
  - Processors for the next 12 months, are expected to be covered in a significant degree by public grants, while almost one out of three processors is expected to use micro, short-term or medium/long –term loans
  - Only 40% of the processors would be willing to provide equity for financing.
  - Micro financing will not be relevant to processing firms over the next 12 months
  - Companies with exporting activity have particularly high needs in financing, since almost half of them have financing needs exceeding EUR 250,000

<u>M 16 – Cooperation</u>

- There is a low level of maturity for this measure from the demand side.
- Needs primarily focus on the stage of the forming of these schemes.
- The main conclusion for this measure is that application for financial Instruments cannot support the implementation of Measure 16, since the needs are very different and demand does not exist.

<u>M19 - Non-agricultural activities in rural areas</u>

- The Leader initiative, in current RDP Measure 19, was the most successful and popular measure of RDP 2007-2013. One of the reasons is the bottom up approach and the proximity to rural residents (physical and cultural)
- Non completion of the projects is due to the lack of the private funding in addition with the difficulties faced by the beneficiaries regarding their access in the banking system
- The needs of beneficiaries are the same with those of farmers and small processors
- Most projects are concerning small scale processing enterprises as well as tourism enterprises
- For the current programme Local Action Groups forecast investors mostly in processing sector. Most of the investors are individuals trying to be entrepreneurs so they lack of the support needed (services to facilitate their activities)
- Local Action Groups welcome the application of Financial Instruments and propose simplicity and less bureaucracy.

- **Local Action Groups proposed to take on the publicity actions of the Financial Instruments (complementary) so as to avoid previous experiences. What was really proposed was the exploitation of the popularity of the LEADER programme.**

7. Financing gaps, conclusions and recommendations

One of the main objectives of this ex-ante assessment is to estimate the financing needs. To do so, the existing gaps between the demand for financing and the existing supply are identified and analysed. This exercise allows to estimate the uncovered demand, shedding light on market failures and structural barriers to the supply of financing, such as credit rationing, information asymmetries or liquidity constraints of financial institutions.

The objective of this chapter is therefore to calculate these financing gaps across the agricultural sector, for both agricultural producers and food processors, by type of financial product. These calculations will be used to draw conclusions and present recommendations regarding the potential use of financial instruments in the Greek's agricultural sector.

In order to estimate the financing gaps, this chapter is structured as follows. The first section describes the methodology used to estimate the existing supply and the potential demand of targeted beneficiaries by type of financial product. Then, the gap will be estimated by comparing the results from the demand and supply analysis. Finally, the conclusions by type of financial product and the recommendations for the implementation of the investment strategy are presented.

Methodology for the estimation of the supply and demand for financing

Loan products are the most dominant financial product. In this section, the quantification of the loan supply is presented based on a tailored methodology that takes into account the specific characteristics of the Greek economy in order to effectively quantify the funding available.

Estimation of the supply for financing

The aim of the supply-side analysis is to estimate the funding available to finance activities in the agricultural sector. In order to do so, the total public and private resources currently available must be quantified by financial product. The market assessment presented above provides an inventory of the financial providers and products available in the market, their terms and conditions and the past volumes.

Several sources are available for the estimation of the supply: Statistical data obtained through the survey, information with regards to the volume of outstanding loans published by the National Central Bank, the FADN database, etc. According to the methodological handbook, the supply of funding should be quantified by using the FADN database. Nevertheless, FADN database present several limitations, which discouraged the use of this source. The main limitations are:

- The poor availability of data in the FADN database, since the latter is based on a sample of farms, which does not cover the smallest holdings,
- the difficulties to interpret the total and average amounts of farm liabilities that are provided in the FADN given their small size,
- the lack of data enabling the extrapolation of the data to the entire sector, and
- the fact that the data concerns outstanding liabilities and not new loans disbursed annually, so do not provide additional information comparable to the data from the Bank of Greece.

For instance, there is an issue of availability of the data since the latter is based on a sample of farms which does not cover the smallest loans. In addition, the total and average amounts of farm liabilities that are provided in the FADN are very small and difficult to interpret

The figures for the supply have been estimated based on market trends, publicly available data and literature, online survey data, as well as the perspective provided by key stakeholders during the interviews. The combination of these sources of data has strengthened the robustness of the estimated results.

Precisely, two different methodologies have been implemented for estimating the supply. The combination of these two methodologies has led to the calculation an interval limited by a lower and a higher bound.

Estimation of the supply based on the results of the survey

For estimating the supply of financing for both producers and processors based on the results of the survey, the total number of respondents by size (i.e. micro, small, medium and large agricultural holdings of food processors) who affirmed having accessed financing over the last three years were taken into account. In order to estimate the relevant population of potential beneficiaries benefitting from each type of financing, the total population of potential beneficiaries in each size class was multiplied by the percentage of entities in that size class having accessed each type of financing over the last three years. This estimated relevant population of beneficiaries was then multiplied by the estimated average amount of debt financing obtained. These calculations led to the total estimation of the supply of loan products (short term loans and medium and long term-loans) for both target groups. Since the estimated amounts of new loans based on the survey results concern total loans, the latter were then split between short-term and medium and long-term loans by applying the estimated share of short-term loans (77% for producers and 94% for processors) and medium and long-term loans (23% for producers and 6% for processors) in total new loans in the Greek agricultural sector.

In order to estimate the supply of microfinance, the percentage of entities having requested loans below EUR 25,000 over the past three years by size class was multiplied by the total number of entities in the micro size class, leading to an estimation of the total number of entities in that size class having benefited from this type of support. Then, the total estimated number of companies that received micro-loans was multiplied by the average micro-loan amount, leading to the estimation of the total amount of micro-loans in the sector.

In order to avoid double-counting, the total amount of micro-loans in the sector was then extracted from the total amount of short-term loans. The same operation is conducted for both producers and processors. Finally, a +/-5% interval was applied to the estimated results, leading to a range of total supply estimates by financial product.

With regards to equity financing, it should be noted that its provision is extremely limited in the agricultural sector, particularly for agricultural holdings, in which no supply was identified. With regards to equity financing for food processors, the amounts identified are slightly higher, despite being very low, with a range estimated between EUR 0 and EUR 36.8 m.

Estimation of the supply based on the outstanding loans

The use of a second methodology to estimate the supply of financing allows to corroborate the findings of the first estimation, while at the same time ensuring the robustness of the estimations conducted. This second approach consists in estimating the total supply of new loans based on the amounts of outstanding loans. The amount of new loans disbursed per year to producers is estimated by category of loans (short-term, medium- and long-term loans), taking into account the estimated reimbursements of existing loans and the annual variations in total outstanding loans, by category of loans. The reimbursements of existing loans are estimated by making an assumption on the average payback period of loans (for each category of loans) and adjusting for the estimated percentage of non-performing exposures in total outstanding loans. Furthermore, an adjustment is made to take into account the estimated impact of write-offs of bad loans on the reported variation in the amount of outstanding loans.

Combination of the approaches

In order to combine the approaches, the lowest estimated result by type of product was taken as the lower bound, whereas the highest estimated result was taken as higher bound. This allows to estimate a range for the supply by type of financial product. The combination of the results for producers and processors is presented in the tables below.

Table 50: Estimation of the supply for agricultural producers

	Lower bound (in EUR m)	Higher bound (in EUR m)
Microfinance	82.1	90.7
Short term loans	91.1	124.0
Medium and long term loans	52.5	58.9
Equity financing	N/A	N/A
Total	**225.7**	**273.6**

Table 51: Estimation of the supply for food processors

	Lower bound (in EUR m)	Higher bound (in EUR m)
Microfinance	5.3	5.9
Short term loans	469.9	1 164.1
Medium and long term loans	32.8	134
Equity financing	0	36.8
Total	**508**	**1 340.8**

The total estimated supply for agricultural producers is estimated between EUR 225.7 m and EUR 273.6 m, whereas the estimation of the supply for food processors is estimated between EUR 508 m and EUR1,340.8 m.

Estimation of the demand for financing

With regards to the total estimated demand, the results of the online survey constitute the major source of data. The latter provides insights on final beneficiaries' view on the relevance of specific types of financial instruments for their business as well as their future demand for financing.

Precisely, the total amounts that food producers and food processors (by size class) intend to ask for in the future was taken as the basis for the estimation of the total demand. For each size class, the estimation of the viable demand was estimated by type of financing product, based on the estimated number of relevant and viable beneficiaries within each size class. Then, the sum of the estimates of the demand of the various size classes for each type of financing allowed the estimation of the total demand of agricultural producers and food processors for each specific type of financial product.

Typically, the demand for micro-loans is estimated for micro-enterprises only (as this type of financing is deemed relevant for micro-enterprises only). However, in the case of the Greek agricultural sector, micro-loans appear to be relevant for (and used by) producers of all sizes except the largest (i.e. above 50 ha).

Hence, the estimation of the demand for micro-loans was estimated for all size classes of producers with the sole exception of large entities.

In contrast to the estimation of the demand for other types of financial products (where producers/processors without employees have been removed), the calculation of the demand for micro-loans takes into account all micro-producers and processors, including those with zero employees. On the contrary, in the case of short-term and medium and long-term loans for small/medium/large producers/processors, the calculated average amounts have been multiplied by the total number of producers/processors in each size class.

Table 52: Estimation of the demand of agricultural producers[94]:

	Lower bound (in EUR m)	Higher bound (in EUR m)
Microfinance	927.6	1,025.2
Short term loans	455.9	503.8
Medium and long term loans	1,051.8	1,162.5
Equity financing	N/A	N/A
Total	**2,435.3**	**2,691.5**

Table 53: Estimation of the demand of food processors:[95]

	Lower bound (in EUR m)	Higher bound (in EUR m)
Microfinance	16.6	18.3
Short term loans	669.6	740
Medium and long term loans	787.4	870.2
Equity financing	323.6	357.6
Total	**1,797.2**	**1,986.1**

Estimation of the financing gaps

This section presents the funding gaps for the different financial products based on the methodology described above. When considering the indicative financing gap in this section, it is important to take into consideration the following points:

94 Total demand for producers per FI, as depicted in Chapter 6.1, paragraph "Financing needs for the next 12 months per Financial product"

95 Total demand for food processors per FI, as depicted in Chapter 6.2, paragraph "Financing needs for the next 12 months per Financial product"

- **The supply of financing to producers is heavily concentrated in one financial institution (Piraeus Bank).** As mentioned in the market assessment, Piraeus Bank covers 90% of the market for agricultural producers, while other systemic banks are currently trying to enter in the market. Even though cooperative banks are closer to the agricultural value chain, their participation in the financing of agricultural activities remains limited.
- **Banks remain reluctant to provide financing to producers** given the high volatility of agricultural product prices, the structurally low profitability of the sector, and the risk profile of the potential beneficiaries, limiting their provision of financing to mature and solid requests, with limited risk. On the other hand, the difficulties to liquidate the collateral provided by farmers (typically fixed assets) reinforces the conservative attitude of banks.
- In addition to bank loans, grants are a major source of financing of activities in the agricultural sector. **The sector relies heavily on grants**, and the provision of a loan is generally conditioned to the receipt of a grant.
- The **financial and economic crisis** has had a significant impact on the agricultural sector, as it has led to a significant tightening of the conditions for accessing financing, which triggered a decline in investment in the sector.

Given the above contextual elements, the indications provided by the online survey results may underestimate the future financing needs of the sector.

Identification of financing gaps for agricultural producers

For each financial product considered, two steps were followed: first, the maximum estimated supply is subtracted from the lowest demand estimate presented in the previous chapters. Secondly, the minimum estimated supply is subtracted from the highest amount of the estimated demand. For each subtraction, when a positive number is obtained, a financing gap is identified.

If the result of a subtraction is negative, it means that, under certain circumstances, the financing supply of the financial product may cover the potential demand for the same financial product estimated for 2018. The methodology is applied to all main types of financial product: micro-loans, short-term loans, medium and long-term loans and equity financing products.

The table below presents the estimation of the funding gap for microfinance, short-term loans, medium and long-term loans and equity financing for agricultural producers.

Table 54: Financing gaps identified for agricultural producers

	Estimated demand (EUR m)	Estimated supply (EUR m)	Financing gaps (EUR m)
Micro-loans	927.6 – 1,025.2	82.1 – 90.7	836.9 – 943.2
Short-term loans	455.9 – 503.8	91.1 – 124	331.9 – 412.7
Medium and long-term loans	1,051.8 – 1,162.5	52.5 – 58.9	992.9 – 1,100
Equity	N/A	N/A	N/A
Total	**2,435.3 – 2,691.5**	**225.7 – 273.6**	**2,161.7 – 2,455.9**

Overall, the estimated supply is highly limited compared to the estimated demand for each type of financing product. As a result, a financing gap has been identified across all financial products, particularly for medium and long-term loans, as well as for microfinance. With regards to equity financing, no supply nor demand has been estimated for the financing of agricultural holding's activities given the very limited number of respondents that have either used or intend to use external equity financing. In addition, micro-loans and short-term loans tend to be more available – approximately EUR 194 m – than medium and long-term loans – approximately EUR 55 m. This relates to a problem of risk rather than a problem of liquidity, particularly as most banks have been recapitalised over the past years, thus influencing their preference to provide short-term financing. Precisely this is explained by the risk aversion of financial institutions with regards to agricultural activities as well as the lack of visibility on the capacity of the beneficiaries to reimburse the loan over a long-term horizon.

In the following lines, the financing gaps identified for agricultural activities by type of product are detailed and explained.

Table 55: Financing gaps identified for microfinance products for agricultural producers

	Estimated demand (EUR m)	Estimated supply (EUR m)	Financing gaps (EUR m)
Micro-loans	927.6 – 1,025.2	82.1 – 90.7	836.9 – 943.2

The difficulty for producers to access microfinance products is a major issue, as it has a major impact on the financing of their working capital requirements. Indeed, the available products seem to be insufficient to cover existing needs. In addition, commercial banks – despite exhibiting an increased interest - appear to be risk-averse in the financing of this segment, notably because of the perception of a high risk of the beneficiaries. In addition, it is relatively expensive for banks to review business plans and conduct the relevant due diligence for loans below EUR 25,000.

This lack of funding at the same time limits business creation, the development of micro-projects and micro-enterprises that could later become bankable and enter in the banking system following the approval of the micro-loan, while at the same time reduces the capacity of small agricultural holdings to finance their working capital requirements. In addition, as demonstrated in the survey, this low access to external financing often leads these entities to finance their activities through family and friends

Further to this, a high number of micro-entities appear to have a very limited knowledge of existing microfinance products and support schemes. Similarly, some micro-enterprises tend to present immature business plans, which results in a high rejection rate.

In this regard, the creation of a microfinance instrument could potentially be envisaged so as to reduce the existing gap, improving the overall conditions of micro-credit for agricultural holdings and helping to finance small investments (particularly for micro holdings) and to cover working capital requirements.

Table 56: Financing gaps identified for short-term loans for agricultural producers

	Estimated demand (in EUR m)	Estimated supply (in EUR m)	Financing gaps (in EUR m)
Short-term loans	455.9 – 503.8	91.1 – 124	331.9 – 412.7

One of the main issues for agricultural holdings in terms of access to finance is the difficulty for banks to accurately measure and assess the risk they incur when providing a loan. As mentioned during the market assessment, agricultural holdings often have poor track-records or even no track records (e.g. young farmers), hence not meeting the same criteria as other entities operating in other sectors. In addition, agricultural holdings often show a lower capitalisation than other SMEs. Furthermore, beneficiaries' lack of equity capital, combined with a generally high level of indebtedness, raises questions regarding their solvency, and hinders their access to financing.

As a result, banks tend to limit their provision of funding to solid and mature projects, capable to provide a detailed business plan and meeting the collateral requirements of banks. Public support, most often in the form of a guarantees or subsidised interest rates, would facilitate access to finance for agricultural producers. On the one hand, the use of a guarantee instrument would reduce the risk-aversion of banks towards the agricultural sector, thus increasing their willingness to provide loans to bankable agricultural holdings. On the other hand, the provision of the guarantee would enable banks to pass on benefits to final beneficiaries in the form of reduced collateral requirements, lower interest rates, and/or longer repayment periods, etc.

Table 57: Financing gaps identified for medium and long-term loans for agricultural producers

	Estimated demand (in EUR m)	Estimated supply (in EUR m)	Financing gaps (in EUR m)
Medium and long-term loans	1,051.8 – 1,162.5	52.5 – 58.9	992.9 – 1,100

The supply of medium and long-term loans for agricultural producers is estimated to be much more limited than for the other financial products. Nevertheless, the estimated demand for medium- and long-term loans is higher than for shorter loans. As mentioned in the introduction of this section, despite the liquidity available following the recapitalisation of the banks, these prefer to engage in shorter-term deals with agricultural holdings, particularly given the difficulties to accurately assess long-term risks. As a result, the identified gap with regards to medium and long-term loans for agricultural producers is the largest among all products, ranging between EUR 992.9 m and EUR 1,100 m.

In this regard, a guarantee product could be envisaged for increasing banks' willingness to provide loans, while at the same time improving overall credit conditions for final beneficiaries. On the other hand, the provision of technical assistance could highly contribute to the improvement of access to finance. In fact, supporting agricultural holdings in the identification of relevant sources of finance or to identify the financial mix that would best suit their needs, as well as in dealing with banks and preparing solid business plans would improve the quality of the financing requests, thus increasing the willingness of banks to finance the agricultural sector.

Furthermore, the low return on investment as well as the large number of internal and external risks discourage private investors from investing in the sector. Indeed, private investors are often not attracted by the investment remuneration offered by agricultural holdings, which explains the existence of a very low funding offer for agricultural activities. In addition, the number of venture capital investors and business angels investing in agricultural holdings is quasi inexistent, which explains why it is not possible to accurately estimate the supply of equity financing.

Identification of financing gaps for food processors

Food processors also experience significant difficulties in terms of access to finance. Some of these difficulties are the same as for agricultural producers (e.g. microfinance) whereas others differ given the specific characteristics of the food processing sector, particularly for medium and large companies. The table below summarises the calculations of the supply and demand for financing, and provides an estimation of the funding gap by type of product, including equity.

Table 58: Financing gaps identified for food processors

	Estimated demand in (in EUR m)	Estimated supply (in EUR m)	Financing gaps (in EUR m)
Micro-loans	16.6 – 18.3	5.3 – 5.9	10.7 – 13
Short-term loans	669.6 – 740	469.9 – 1,164.1	0 – 270.1
Medium and long-term loans	787.4 – 870.2	32.8 – 134	653,7 – 837,4
Equity	323.6 – 357.6	0 – 36.8	286,8 – 357,6
Total	**1,797.2 – 1,986.1**	**508 – 1,340.8**	**951,2 – 1,478.1**

Overall, the supply of financing to processors is significantly higher than for agricultural producers, while the estimated demand stands between EUR 2.7bn and EUR 3bn, just slightly above the estimated demand for agricultural producers. In addition, medium and long-term loans are seen as the most attractive product by food processors, representing approximately half of the total estimated demand, while the estimated supply of medium and long-term loans is estimated to be very limited. Therefore, there is a very large estimated gap in terms of medium- and long-term loans for processors.

In the following lines, the financing gaps[96] identified for agricultural activities by type of product are detailed and explained.

Table 59: Financing gaps identified of microfinance products for food processors

	Estimated demand (in EUR m)	**Estimated supply (in EUR m)**	**Financing gaps (in EUR m)**
Micro-loans	16.6 – 18.3	5.3 – 5.9	10.7 – 13

Based on the estimations made, the estimated supply of micro-loans to the food processing sector is very limited. That being said, the estimated demand in the sector is also low compared to the demand estimated for producers. This difference could be explained by the type of activities conducted by each type of beneficiary. In fact, the type of activities conducted by agricultural processors typically require larger financing amounts, in excess of EUR 25.000 for both working capital and investments (except in the case of micro-processors and some small processors that express needs for micro-loans).

Nevertheless, a microfinance instrument mentioned when analysing the gap of microfinance products for agricultural producers could also partially cover the gap identified for food processors (mainly micro and small-sized processors).

[96] The financial gap for food processors – especially the micro-loans and the short term loans – may include the processors of M19.2 in addition to processors of M4.2.

Table 60: Financing gaps identified for short-term loans for food processors:

	Estimated demand (in EUR m)	Estimated supply (in EUR m)	Financing gaps (in EUR m)
Short-term loans	669.6 – 740	469.9 – 1,164.1	0 – 270.1

Short-term loans are in comparison more available than micro-loans. Again, the type of activities in which food processors tend to invest results in a higher demand for this type of product than for micro-loans. In other words, the conditions presented by this financial product (e.g. maximum ticket, payback-period, etc.) are generally more appropriate to cover the needs of food processors than a micro-loan instrument.

As mentioned in the introduction of this chapter, the estimation of the supply is based on two methodologies, one based on the survey results, and one based on the outstanding loans. The combination of both approaches led to a range of estimates for the supply of each type of product. Nevertheless, the estimated supply based on the outstanding loans is significantly higher than the estimations based on the survey results.

This can be explained, on the one hand by a possible under-estimation of the supply based on the survey results, and on the other hand a possible over-estimation of the supply based on the method using outstanding loans. Indeed, the supply may have been under-estimated based on the survey results as it was estimated on the basis of the amounts that beneficiaries declare to have actually received over the last three years, and beneficiaries may not have reported all the amounts actually received. Furthermore, given the limited number of large food processing companies in the sample of respondents, the potentially large amounts obtained by such large food processing companies may not be fully captured. On the other hand, the higher bound estimate provided by the estimation method based on outstanding loans may lead to some degree of over-estimation as it was based on the estimated share of the food, beverages and tobacco products manufacturing sector in the total gross value added of the total processing sector, as the latter was estimated to be at a historically high level in 2017.

Table 61: Financing gaps identified for medium and long-term loans for food processors:

	Estimated demand (in EUR m)	Estimated supply (in EUR m)	Financing gaps (in EUR m)
Medium and long-term loans	787.4 – 870.2	32.8 – 134	653,7 – 837,4

As for agricultural producers, access to medium and long-term loans is extremely limited for food processors, with a financing gap ranging between EUR 1.2bn and 1.4bn. While large food processing companies are able to access to finance as any other SME in other manufacturing sectors, small and medium-sized food processors suffer from an extremely limited supply of medium and long-term loans. Again, the main reasons for this is linked to the perception of risk of financial institutions, which experience difficulties to accurately assess long-term risks.

Given the large size of the financing gap for medium and long-term loans, the set-up of a guarantee appears to be the most convenient option to reduce the risk-aversion of the banking sector while at the same time improving the overall conditions of financing (e.g. lower collateral requirements, interest rates) for final beneficiaries. Precisely, a first loss portfolio guarantee could be envisaged given its higher leverage effect.

Table 62: Financing gaps identified for equity financing for food processors

	Estimated demand (in EUR m)	Estimated supply (in EUR m)	Financing gaps (in EUR m)
Equity	323.6 – 357.6	0 – 36.8	286,8 – 357,6

Private equity investments in Greece have decreased dramatically since 2008, and there is a lack of currently active private equity operators. As a result, equity financing is rather exceptional in the financing of the agri-food sector in Greece, despite the significant demand. As demonstrated by the survey, a significant number of food processors are willing to give out shares of their company in exchange for equity financing, and an appetite for this source of financing has been identified in the food processing sector. In addition, the lack of own equity is a barrier for accessing other sources of financing. For instance, the results of the survey show that 1/3 of processors see their lack of own equity as one of their major issues. In this case, the setting-up of a financial instrument that could provide equity may be provide a solution, in the case of food processing companies that have sufficiently attractive characteristics.

In this regard, the set-up of an equity instrument could be a solution to address the identified gap in this segment. This equity instrument could invest in the capital of high-potential but relatively risky companies, particularly in their growth/internationalisation phase. In addition to food processing, this product could be opened to food producers in order to potentially finance viable projects arising in the sector.

Conclusions and recommendations

The identification of gaps shed light on the needs for financing, allowing to gather conclusions with regards to the financial products that could potentially be envisaged to address these market failures. In other words, the identification of the needs and market failures enables the development of a tailored investment strategy designed to address– to the best extent possible – the identified gaps.

The following summary box provides a snapshot of the main needs identified during the market assessment, for both agricultural producers and food processors.

Table 63: Main needs identified following the estimation of the financing gaps

Main needs for agricultural producers

- Important need for micro-loans, particularly to finance working capital requirements, but also small-scale investment needs of micro, small and potentially even medium-sized producers
- Need for guarantees to support banks in taking credit risks and facilitate beneficiaries' access to financing.
- Need for technical assistance to develop business plans and improve financial planning and structuring

Main needs for food processors

- Relatively limited need for microfinance (except for micro-processors), but significant need for short-term loans.
- Need for guarantees to cover medium and long-term financing needs to reduce the risk-aversion of banks and facilitate access to finance.
- Need for support in equity financing.

Based on the abovementioned needs, three main products have been identified. These financing products are presented in the box below, and further detailed in the following chapter.

Table 64: Envisaged financial instruments to cover the gap

The following financial instruments could be envisaged to cover the identified market failures and suboptimal investment situations. Given the size of the gaps identified for each financing product for both agricultural producers and food processors, these instruments could

- A risk-sharing micro-loan instrument
- A first-loss portfolio guarantee instrument
- A co-investment facility (equity financing instrument)

These instruments are further detailed in the following chapter.

8. Proposed investment strategy

The objective of the investment strategy is to propose one or more financial instruments capable to provide an adequate answer to the financing needs identified during the assessment of the market. In addition, the investment strategy will also provide an outline of the upcoming steps required for the FI implementation. Based on the gaps identified in the previous chapter, three financial instruments have been identified as potential options to support the financing of agricultural activities.

These instruments are detailed in the sections below.

This investment strategy proposal intends to help the Managing Authority to take a well-informed decision in regards to the potential implementation of FIs in the framework of the RDP. This proposal is the result of the financing needs identified and may be reviewed by the Managing Authority when designing each financial instrument. In addition, an indicative size of the envelope for each FI is provided taking into account the amount available in the RDP for the funding of financial instruments and the identified needs. These estimations also take into account the fact that a sufficient scale is necessary in order for the instrument to be viable and sufficiently attractive for financial intermediaries to deploy the instrument. However, in case the indicated amount is not available, the MA will need to prioritise the implementation of the instruments and potentially look for additional resources from other sources. The MA will have to take into account the following additional aspects when considering the design and implementation of the selected financial instruments:

- Its rural development policy orientations for the funding of agricultural holdings and food processors;
- The viability of the financial instruments presented in this investment strategy, and in particular with regards to the appropriate amounts for each financial instrument proposed;
- The interest of financial intermediaries who can implement financial instruments and must therefore demonstrate commitment, sufficient expertise and experience in the implementation of each instrument; and finally; and
- The concentration of EARDF funds on a limited number of financial instruments, taking into account the amounts stated in the RDP for the programming period 2014-2020.

The technical characteristics of the financial instruments referred to above must also be consistent with State aid rules, and may be based, when possible, on "off-the-shelf" instruments developed by the European Commission.

Based on the identified market gaps, the following financial instruments are proposed:

- A first loss portfolio guarantee instrument (capped guarantee)
- An equity co-investment facility
- A risk-sharing micro-loan instrument

Additional to these three financial instruments, the possibility of combining FIs with grants is considered in this proposed investment strategy. Recommendation regarding combination of sources is going to be presented after the FIs.

1. First loss portfolio guarantee instrument (FLPG)

One of the major bottlenecks identified during the market assessment is the extremely limited access of agricultural producers and food processors to bank financing, particularly given the high number of intrinsic and external risks associated to farming activities.

Systemic banks have sufficient liquidity to offer new loans, but for reasons of risk exposure they remain reluctant to provide loans in the sector, considering the sector as being highly risky, hence adopting a very selective approach to financing. In addition, despite cooperative banks' investments in developing ecosystems and networks to support farmers' capabilities, maintaining a profile that is closer to the local community, their provision of financing is very limited. This is particularly the case for agricultural holdings presenting a poor track record in the financial system, or a lack of evidence of credit history (e.g. young farmers).

In addition, banks generally request a 20% equity participation of beneficiaries in the total financing of their investment projects, in order to ensure alignment of interests and investment discipline. However, farmers and small processors are often unable to cover this requirement without external financial support. With regards to medium-sized and large food processors, their access to bank financing does not differ significantly from other manufacturing sectors, as there is no differentiation in the banks' approach between food processors and SMEs in other manufacturing sectors.

According to the majority of producers and processors, the willingness of banks to provide financing has decreased over the last three years. Furthermore, the majority of producers and processors consider that the cost of financing as well as the fees linked to the processing of loan requests have increased. This results in a high number of producers at all development stages being unsuccessful in obtaining bank loans. Reasons for being unsuccessful – for both processors and producers – are mainly the lack of own equity capital, high interest rates and the lack of guarantees.

Given the abovementioned circumstances, the establishment of a guarantee instrument could be a solution to support the financing of agricultural producers and food processors. By providing credit risk coverage on financial intermediaries' portfolios of loans supporting agricultural activities, a guarantee instrument would increase the risk-taking capacity of financial intermediaries and therefore the loan amounts disbursed to beneficiaries. By reducing their risk, this guarantee instrument would enable financial intermediaries to build up a portfolio of new loans, thus increasing their ability and willingness to extend loans to agricultural producers and processors. In addition, this guarantee instrument would allow agricultural holdings to benefit from more advantageous terms for their loans, in particular by reducing collateral requirements, which constitute a major barrier in terms of access to finance, particularly for small producers.

Such a guarantee instrument could help to address the identified financing gaps for short, medium and long-term lending to agricultural producers and food processors of all sizes.

Overall, this instrument would allow these enterprises to benefit from bank financing on more favourable conditions, particularly in terms of the specific potential advantages passed on to final recipients, depending on the final design of the FLPG instrument:

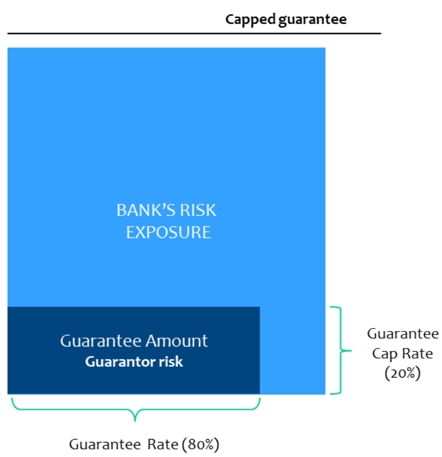
- Reduced collateral requirements;
- Reduced loan interest rates as a consequence of a lower risk profile and possible increase in the maturity of loans;
- Lower guarantee cost; and
- Potentially longer grace period / deferred repayment.

This instrument would issue a guarantee to one or more selected financial intermediaries through a call for expressions of interest. Hence, the precise conditions may vary depending on the conditions set by the MA, respectively by the FoF, when selecting the financial intermediary, the offers proposed by the candidate banks and the negotiations between the MA, respectively by the FoF, and those candidates. This guarantee will cover the losses due to the non-repayment of borrowed capital or interest related to defaulted loans incurred by the financial intermediary up to a pre-determined ceiling.

Two possible types of guarantee instruments can be implemented under a FLPG – capped guarantees and uncapped guarantees.

Capped guarantee instruments offer the advantage of a higher leverage but imply higher capital requirements from the financial intermediaries compared to uncapped guarantees. Also the total amount of advantage passed on to final recipients by the financial intermediary maybe lower in capped guarantees. In the market testing with financial intermediaries only capped guarantees have been discussed. For the FLPG a capped instrument is considered, nevertheless an uncapped instrument should not be excluded if in negotiations with financial intermediaries this becomes the more appropriate instrument.

Figure 24: First loss portfolio guarantee instrument:



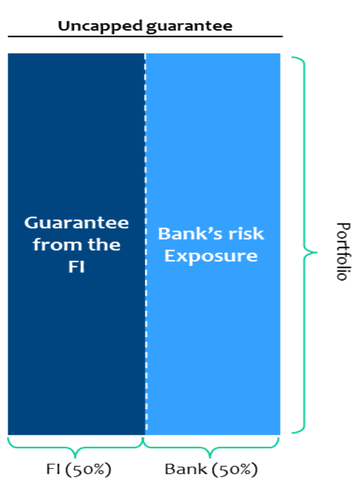
The proposed guarantee instrument provides 80% coverage on a loan by loan basis for the creation of a portfolio of loans, with a maximum loss amount of up to the cap rate of 20%.

According to art. 21 (13) of Reg. No 651/2014 (RGEC), the guarantee rate should be limited to 80%. The guarantee will cover, in part (according to art. 21(13) of Reg. No 651/2014) up to 80% of the credit risk associated with each new loan granted to the targeted public. These new loans will then be included into the guaranteed portfolio in which the public contribution shall assume losses up to 20% of the total loan portfolio.

Hence, the capped guarantee would provide credit risk coverage on a loan by loan basis, for the creation of a portfolio of new loans to final recipients, up to the maximum agreed loan amount. In order to reach an attractive multiplier effect while at the same time attracting financial intermediaries, an 80% Guarantee Rate and 20% Guarantee Cape Rate is proposed.

In other countries such instruments reached leverage effect up to 6.25 times. In other words, this means that every EUR invested in the guarantee would generated EUR 6.25 of loans disbursed to final beneficiaries. Considering the specific economic situation in Greece a lower leverage rate can be expected, therefore a range leverage of 4 to 6.25 is used in the description below.

Figure 25: Uncapped guarantee instrument:



In the case of a uncapped guarantee, the financial instrument may be structured as a first loss portfolio guarantee or on a loan-by-loan basis. It is covering defaults at the guarantee rate (i.e. 50%).

Recoveries of the loan by loan instrument will be shared pari passu between the financial intermediary (ies) and the funds allocated to this Financial Instrument in the same proportion of the default cover (i.e. 50%). In other words, the credit risk retained by the Financial Intermediary (ies) will be the same as the credit risk covered by RDP resources funds. An advantage of this instrument compared to the capped guarantee is that it reduces the requirements of financial intermediaries to set aside capital for these loans which may be especially relevant for the Greek market. Therefore, the leverage effect over the RDP resources will be of 2 (the leverage of the EAFRD depends on the co-financing rate).

The FIs shall pass on the benefit of the guarantee to the underlying agricultural producers by reducing the standard credit risk premium charged or through reduced collateral requirements. The exact form and amount of benefit passed on to final recipients depends on the final design of the instrument and on the outcome of the negotiations with financial intermediaries and may differ between different financial intermediaries.

The steps regarding the granting, analysis, documentation and allocation of the loans to agricultural producers and food processors should be carried out by the financial intermediary (s) according to its usual procedures. Thus, as the guarantee rate is proposed to be fixed at 80%, the financial intermediary (s) would maintain a direct credit relationship with each producer/processor, covering part of the loan portfolio with their own funds. Financing operations (according to predefined eligibility criteria for each loan and at the portfolio level) would be covered automatically through a quarterly report until the end of the inclusion period. The exact duration of the inclusion period will be defined at a later stage, taking into account the objectives of the Managing Authority and the eligibility period.

Is also advisable that this guarantee is provided free of charge, meaning that no guarantee premium is paid by the financial intermediaries. In return, the selected financial intermediary(ies) shall have the obligation to pass this advantage to the final beneficiaries through reduced collateral requirements and/or better conditions for the granting of the loans, giving the latter a real gain in terms of competitiveness with regards to other financial products, hence ensuring the attractiveness of the loans and the absorption of the instrument.

In terms of targeted public, and given how risk is perceived in the sector, it is proposed that the guarantee covers a relatively flexible range of loan sizes, hence matching the needs of all producers independently of their size, with a minimum size of the loan of EUR 25,000. In addition, the instrument should also enable a sufficient degree of flexibility in terms of the allocation of the portfolio of loans to be constructed, also financing working capital requirement. After the Omnibus Regulation comes into force the limitation to working capital financing are either EUR 200,000 or 30% of the total investment, whichever is higher. The investment needs to be in line with the requirements of the measure, therefore providing guarantees covering 100% working capital will be unlikely. Finally, it will be important to assess the territorial coverage of the financial intermediary to be selected, in order to ensure a broad geographical coverage in the deployment of the instrument.

The precise characteristics of this financial instrument are detailed in the table below. It is recommended that the size of the FI is further reviewed following the completion of the soft market testing exercise with potential financial intermediaries and further feedback from the Steering Group.

Table 65: Summary of the financial instrument 1: First Loss Portfolio Guarantee for agricultural producers and food processors:

Nature / Type of product	Guarantee instrument (capped or uncapped first loss portfolio guarantee)
ESI Funds allocations	The minimum size of the loan covered by this guarantee is EUR 25,000. For each FI, two amounts will be proposed: • The minimum proposed amount for the adequate functioning of the instrument. • The recommended amount for covering the identified gap. Proposed minimum amount of public contribution from the RDP resources is EUR 40m The recommended amount of public contribution from the RDP resources is EUR 70m
Expected multiplier effect	The precise multiplier effect will only emerge after a competitive procedure to select financial intermediaries. However, based on a portfolio guarantee cap rate at 20% and a guarantee rate of 80%, the multiplier effect is expected to be

	4 to 6.25x
Amounts of financing for the targeted recipients	Based on the above funds allocation and the potential multiplier effect, the overall amount of financing for the target recipients is expected to reach EUR 280 to 437.5 m in case of a capped guarantee or EUR 80 to 140 m in case of a uncapped guarantee. No specific thresholds or limits are established for the distribution of the allocation between agricultural producers, food processors and entities under M 19.2 The allocation by type of final recipient will be market driven.
Scope of the FI and target recipients	Scope of the FI: • Broad and flexible area of intervention, since the market gap identified a vast unserved demand presented in the previous Chapter. • Covering all activities falling in the scope of Measure 4.1 and 4.2 4.1. Investment aimed at improving the performance and sustainability of farms; and 4.2 Investment in the processing, marketing and/or development of agricultural products 19.2 Support for the implementation of actions under Community-led local development strategies • Can be put in place by one or several financial intermediaries, it is recommended that at least three banks will receive guarantee products, so as to ensure that the product is as mainstreamed as possible on the retail market and that a competitive environment is created • Should cover the entire national territory, aiming a comprehensive regional distribution Target final recipients: Greek agricultural producers (4.1), food processors (4.2) and entities falling into the scope of M19.2 of all sizes.
Objectives	Guarantees should be used to back loans for supporting the agricultural producers sector, processors and entities under 19.2 thus improving their conditions, in terms of: interest rates, collateral requirements, payback periods and payback grace periods.
Expected advantages	Limits the constraints linked to the access to finance in the sector and improves the overall credit conditions. Details: • This instrument provides credit risk protection for the financial intermediary (and potentially several financial intermediaries) in the form of a guarantee limited to the initial losses of a portfolio to be defined and constructed; • This guarantee can cover a significant part of the risk (element to be defined during the call for expressions of interest or the invitation to tender) for loans included in a portfolio defined by the selected financial intermediary(ies); • This guarantee may cover losses related to the non-payment of the principal and interest of the loan that the financial intermediary(ies) may

	incur; - This guarantee provides multiple advantages to the selected financial intermediary(ies), as not only (i) the guarantee may be free of charge, (ii) the risk is covered on a loan by loan basis up to a ceiling rate (Also Triple A if the EIB is the manager of the fund); - Under European regulations, this guarantee may cover the Working Capital Requirement and the financing of investments (tangible and intangible assets); - The steps for receipt, analysis, documentation, file processing, loan granting and follow-up shall be carried out by the financial intermediary(ies). This financial intermediary(ies) will therefore have a direct credit relationship with the agricultural producer/food processor and will assume a part of the risk; and - Possibility of paying particular attention (within the framework of the "best possible effort") on small producers and young farmers (potentially with a target to allocate a percentage of the portfolio to this category of producers). This "best possible effort" is the result of the negotiation between the Managing Authority and the financial intermediary(ies).
Market gaps analysis **(Article 37 (2) a))**	The proposed amount is expected to partially address the market gaps identified in the market analysis part of the ex-ante assessment.
Expected socioeconomic results / Added-Value of the instrument **(Article 37 (2) b))**	- Leverage effect - Promotion of entrepreneurship - Job creation - Reduction of unemployment - Support to the development of agricultural activities - Reuse of funds - Risk sharing with the private sector (financial intermediaries) - Leverage of the competences of the financial intermediaries for project selection
Consistency with other interventions targeting the same market **(Article 37 (2) b))**	No other first loss portfolio guarantee is being provided currently for producers in Greece. For processors and non-agricultural entities under 19.2 there are potential overlaps with the COSME LFG and TEPIX Entrepreneurship Fund II (see Chapter 5). The exact form of coordination between the different instruments needs to be done during the negotiations with financial intermediaries, which are probably the same for all instruments. Considering the demand in the market there should be sufficient scope for an EAFRD guarantee instrument. In addition, this financial instrument is complementary with grants from the RDP within the limits of State Aid requirements.

State aid and grants: planned interventions and measures to reduce the market distortions **(Article 37 (2) b))**	If structured as an off-the-shelf instrument, as proposed, this instrument will de facto comply with the applicable regulation concerning State Aid.
Consistency with the Common Strategic Framework and the RDP 2014-2020	The FI is consistent with the measures 4.1 and 4.2.
State aid and grants: planned interventions and measures to reduce the market distortions **(Article 37 (2) b))**	To minimise market distortions, it is recommended that this instrument is put in place in line with applicable State Aid regulations. EAFRD Regulation stipulates that for activities supported under the EAFRD by Annex I of the TFEU the amounts and support rates as defined in Annex II of the Regulation should be respected. As this instrument is also supporting activities that are not covered by Annex I it is advised to use *de minimis* (up to 200,000 over 3 years) [97] for all type of investments. This goes beyond the requirements for Annex I activities, where RDP resources are considered free of aid, but this simplifies the implementation for the financial intermediaries. The fund manager should ensure that the aid to final beneficiaries is compatible with the requirements of the *de minimis* rules. The final design of the operation will need to reflect the State aid rules. To minimise market distortions, it is recommended that this instrument is put in place under the *de minimis* rule (detailed explanation of de minimis and its calculation on page 132). Alternatively, the individual guarantee fees can be calculated according to the safe harbour premium. In that case the guarantee does not constitute State Aid (see page 130). A combination of this FI with grants is not foreseen on the level of the FI. If a final recipient, nevertheless, receives also a grant for the same investment, the grant amount must be reduced by the GGE of the guarantee provided by the FI.
Estimation of Public and Private resources **(Article 37 (2) c))**	Based on a leverage effect of 4 to 6.25x, the potential private resources from financial intermediaries could be estimated at EUR 280 to 437.5 m in case of a capped guarantee and EUR 80 to 140m for an uncapped guarantee.
Use of reflows of the instrument (Article 43 (2), Article 44 (1))	The revolving effect of a guarantee is seen in the cycle of commitment and decommitment of eligible expenditures covered by the guarantee. This means that as loans under the guarantee fund are repaid, the corresponding programme resources allocated to cover losses from these loans will be released. Indeed, according to Article 44 of Regulation 1303/2013, these funds have to be recommitted to the same FI, creating a revolving character for the fund. The extent of the revolving effect of the guarantee also depends on the risk taken by the guarantee fund.

[97] Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid

	The use of reflows of funds should be included in the call for tenders for the selection of the financial intermediaries and be defined in the funding agreements between the MA and the FoF, as well as between the FoF and the financial intermediaries. A quantification of the reflow will only emerge following the negotiations between the fund manager and the financial intermediaries.
Evaluation of the optimal remuneration levels allowing to maximise the leverage of counterpart funds from private investors **(Article 37 (2) c))**	Not applicable for this Financial Instrument.
Evaluation of the past lessons learnt **(Article 37 (2) d))**	Please refer to the previous chapters of this ex-ante assessment
Proposed investment strategy with financial products, final recipients targeted and combination with grants **(Article 37 (2) e))**	The proposed investment strategy is presented in Building Block 2 of the present study. Investments supported by this FI may also receive grants under the conditions that they comply with the rules on combination of support aid intensity and State aid.
Expected results and corresponding key indicators **(Art. 37 (2) f))**	**Expected results** The expected results of the Financial Instrument correspond to the needs of following focus areas: • 2A – objectives satisfied by M4.1, • 3A– objectives satisfied by M4.2, • 6B – objectives satisfied by M 19.2. Key indicators are presented in Annex 15. Regarding the monitoring indicators, except for the indicators mentioned in Annex 15, which are also relevant to the satisfaction of certain RDP targets, here is an additional non-exhaustive list: • Number of entities supported; • Number of entrepreneurs supported; • Sector of entities supported (producers or processors); • Stage of development of the entities supported; • Credit rating of entities supported (where applicable); • Number of employees in the entity supported at the time the loan was granted; • Number of jobs created through the implementation of the instrument; • Turnover of entities supported; • Total amount awarded to entities supported; • Average amount granted to entities supported; and • Leverage effect For the output indicators O1, O3, O4 and O20 see indicative amounts in Table

	66 It should be highlighted that a quantification of other expected results is not possible at this stage.
Trigger for the review and update of the ex-ante assessment **(Art. 37 (2) g)**	The investment strategy proposed in this study is intended to inform the MA when drawing up its investment strategy for Greece. It does not take into account the interest of financial intermediaries with regard to certain characteristics of the financial instruments proposed, and in particular: Rules for the selection of financial intermediaries; Instrument-specific mechanisms (e.g. counterparty or portfolio risk management); • The rules relating to the use of the ESI Funds; and • The obligations of the selected financial intermediaries, including monitoring, reporting, monitoring of State aid, auditing, and communication and visibility measures of the financial instrument. The decision to review, and if necessary update the ex-ante assessment during implementation of the investment strategy is at the discretion of the MA. The study should be updated when the ex-ante evaluation can no longer accurately represent the market conditions prevailing at the time when the financial instrument was launched, either because : - These market conditions have evolved in the meantime, such as: 1. Certified expenditure for different forms of finance, such as non-repayable grants or FIs, indicating the need to shift resources 2. Share of direct payment income by farm type 3. Farm income (2014: EUR 19.063 based on FADN) Other financial instruments became available that are more appropriate for addressing the financing gap since the finalisation of this study.

Taking into account the information provided above and outcome of the survey Table 66: Estimations for selected key output indicators for FLPG by focus area:presents the key output indicators of the FLPG per focus group[98]. The assumed leverage is 4 and the numbers are presented for a lower and a higher RDP contribution. The calculations below assume a larger contribution to producers and a smaller average guaranteed loan size compared to processors. It is assumed that only a few LEADER actions will receive funding from this instrument. It is assumed that each final recipient will receive only one loan, as the instrument is implemented rather late in the programming period, thus the values for number of guaranteed loans (O4) and final recipients (O5).

Table 66: Estimations for selected key output indicators for FLPG by focus area:

Output Indicator	Focus Area 2A Producers	Focus Area 3A Processors	Focus Area 6B LEADER	Sum over all Focus Areas
O1 **total public expenditure**	EUR 19-33m	EUR 17 – 29m	EUR 4 – 8.0m	EUR 40-70 m

[98] For further indicators Annex 15 and Annex 16 for the methodology used.

O3 **No. of actions/ operations supported**[99]	If O1 = EUR 40m If O1 = EUR 70m	341 – 533 602 - - 949	200 – 324 352 - 558	20 28	561 – 877 982 – 1535
O4 **No. of holdings/ beneficiaries supported**	If O1 = EUR 40m If O1 = EUR 70m	341 – 533 602 - - 949	200 – 324 352 - 558	20 28	561 – 877 982 – 1535
O20 **No. of LEADER projects supported**	If O1 = EUR 40m If O1 = EUR 70m	0 0	0 0	20 28	20 24

De minimis and calculation of the Gross Grant Equivalent

Under the de *minimis* Regulation (Commission Regulation (EU) No 1407/2013 of 18 December 2013) for non-Annex I activities, aid up to a total of EUR 200,000 to one company or organisation over a three year fiscal period is exempt from notification on the grounds that it does not distort competition or trade to an appreciable extent. Loan guarantees are also covered to the extent that the guaranteed part of the loan is not greater than EUR 1.5m. The value of aid will be based on the difference between the market rate of return on an investment or loan and the rate of return or interest rate being charged by the Investee to the recipient of aid. The amount of EUR 200,000 includes also other aid, such as grants, received by the recipients over the period of three years. The recipient must be informed that the funding it is receiving is aid that has been assessed to benefit from the *de minimis* exemption.

When calculating the amount of aid provided under a FI it is essential that the value of the support provided can be correctly identified. To do so, the "gross grant equivalent" (or GGE) must be calculated. The GGE is the present value of the aid at the time the grant is provided. To estimate the GGE, the amount of interest that would have been paid under the applicable reference rate must be calculated. Then, this amount must be compared to the amount of interest actually paid. The difference between the two sums is the GGE of the interest rate discount. Therefore, the "reference interest rate" at the time of the borrowing shall be the basis for estimating the GGE, and only for the part of the loan financed by the Financial Instrument.

The total amount of *de minimis* aid granted per Member State to a single undertaking shall not exceed EUR 200,000 over any period of three fiscal years. According to a Commission notice[100], aid comprised in

[99] Please note that the names for output indicators are not adapted for the use of financial instruments. The FLPG itself forms one operation in the sense of the CPR and the O4 should be understood as the number of final recipients because the body implementing the FI (Fund of Fund or financial intermediary) is the beneficiary. This should be taken into account in the reporting under art. 46 of the CPR.

[100] Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees (OJ C 155, 20.6.2008, p. 10)

guarantees, should be considered as transparent if the fee for an individual guarantee has been calculated on the basis of safe-harbour premiums laid down in a Commission notice for the type of undertaking concerned.

According to regulation 1407/2013[101], the guarantee can be considered as having a GGE not exceeding the *de minimis* ceiling when: the guarantee does not exceed 80% of the loan, the amount guaranteed does not exceed EUR 1.5m and the duration of the guarantee does not exceed 5 years. The same applies where the guarantee does not exceed 80 % of the loan, the amount guaranteed does not exceed EUR 750,000 and the duration of the guarantee does not exceed 10 years. Article 4 of this Regulation further details the calculation of GGE[102].Equity, in contrast to loans or guarantees, is not considered transparent aid, because it is not possible to calculate precisely the GGE *ex-ante.* Therefore under *de minimis* the maximum amount of equity investment is EUR 200,000 over three years. Alternatively, an equity instrument can be set up using the risk finance rules under GBER (Article 21(18) - risk finance)).

2. Equity co-investment facility

Based on the results of the survey, approximately 20% of producers and 40% of processors are willing to give out shares of their own company in exchange for equity financing. The lack of equity capital is a serious issue for more than 50% of the producers and 34% of processors, overall in their creation and reorganisation phase. Nevertheless, the survey shows that large producers[103] and processors are more eager to give share in exchange of equity than small and medium SMEs. This strong interest is confirmed by the high number of applicants to the EquiFund instrument from the food-processing sector.

Hence, this instrument would finance the development phases of the targeted beneficiaries with an increased risk profile. To ensure that the MA has the maximum possible alignment between the public and the private contribution, this instrument needs to have a co-investment obligation with private investors. In order to do so, the investment of the financial instrument into the capital of beneficiaries should be done in combination with the investment of the financial intermediary and other private investors.

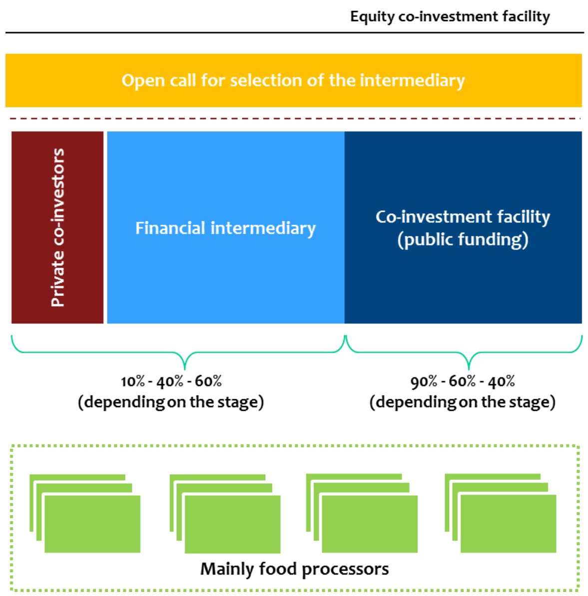
The following figure below presents the structure of the proposed equity co-investment facility.

[101] Commission Regulation (EU) No 1407/2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1407&from=en

[102] Ibidem

[103] More than 20 ha of Utilised Agricultural Area

Figure 26: Financial instrument 2 – Equity investment instrument:



Within this framework, the objectives of the co-investment instrument could be the following:

- Reinforce equity capital financing of Greece-based food processors and agricultural holdings.
- Co-invest with the available market players (business angels, venture capital and private equity funds) already active in Greece and attract other external private equity operators; and
- Set up operations following a commercial logic, in order to achieve profits in the medium term.

This fund will co-invest in the capital of the targeted companies using public and private contributions. The proportions will have to be defined during negotiations between the MA and the fund manager, as well as depending on the precise contribution of the private co-investment partners. In addition, the co-investment fund manager will be an independent entity that will make all investment and divestment decisions with the diligence of a professional manager. The financial intermediary selected will have to be economically and legally independent from the MA. Finally, the governance of the co-investment fund should include mechanisms to avoid potential conflicts of interest within the co-investment fund manager.

In this context, the use of an off-the-shelf instrument could be advantageous to ensure a fast launch and a streamlined implementation of the financial instrument.

The co-investment facility aims to co-invest in the equity of food processors and relevant agricultural holdings through financial intermediaries and other private investors. In comparison to a Venture Capital fund, the co-investment mechanism is more suitable for less developed equity markets and more compatible for Business Angel investors. It nevertheless requires an active fund management team, preferably with a solid track record in the country, identifying potential companies to invest in and to mobilise private co-investors. According to the market information on final recipients under measure 19.2 (page 149) the micro-loan instrument does not seem relevant for that target group.

The MA should be aware that a decision to implement the equity co-investment facility has to be taken timely in order to take advantage of the special rules for equity instruments for SMEs regarding follow on investments after the eligibility period. The CPR in Art. 42.3 allows for equity bases instruments for which the funding agreement was signed before 31 December 2018[104] , which by the end of the eligibility period, meaning 2023, have invested at least 55% of the programme resources committed in the relevant funding agreement, to pay into an escrow account the amounts for follow on investments for the period of up to four years. Investments can only be made in final recipients who already received equity investments until 2023.

If a funding agreement is not signed by 31 December 2018 it is not deemed to be feasible to set-up and implement an equity co-investment facility for the current programming period. Among others it will be extremely difficult to find fund manager for an instrument that cannot provide follow on investments for the period 2023-2027,

The table below summarises the main elements of the co-investment facility.

Table 67: Summary of the financial instrument 2: Equity co-investment facility

Financial instrument n°2 - Co-investment facility	
Nature / Type of product	Equity co-investment instrument
ESI Funds allocations	For each FI proposed in this investment strategy, two amounts will be proposed: • The minimum proposed amount for the adequate functioning of the instrument. • The recommended amount for covering the identified gap. Proposed minimum amount of public contribution from the EARDF funds is EUR 30m. The recommended amount of public contribution from the EARDF funds is EUR 50m. The size should be sufficient to attract professional fund managers. The following indicative allocations to the different windows of the facility are proposed. The final allocations are subject to market testing and the outcome of the call for expression of interest: - Innovation window: 25% - Early stage window: 25% - Growth window: 50%[105]
Expected leverage effect	Between 1.1x and 2.5x, depending on the investment stage and the required minimum private investor participation in the total investment.
Amounts of financing for the targeted beneficiaries	Based on the above minimum funds allocation and the potential leverage effect, the total amounts of financing for the targeted beneficiaries ranges from EUR 66m to EUR 150m.
Scope of the FI and target beneficiaries	Scope of the FI: Co-investment facility providing equity to final recipients in measures 4.1. Investment aimed at improving the performance and sustainability of farms; and 4.2 Investment in the processing, marketing and/or development of agricultural

[104] In the current version of the CPR this date is 31 December 2017, but this will be extended to end of 2018 with the adoption of the Omnibus regulation expected to come into force early 2018.

[105] These numbers are based on other instruments that have been implemented by the EIF.

Financial instrument n°2 - Co-investment facility	
	products 19.2 Support for the implementation of actions under Community-led local development strategies • Can be put in place by one or several equity fund managers, it is recommended that more that more than one financial intermediary will invest along the co-investment facility. • Should cover the entire national territory, aiming a comprehensive regional distribution Target final recipients: Greek agricultural producers (4.1), food processors (4.2) and entities falling into the scope of M19.2 of all sizes.
Geographical coverage	Greece
Objectives	• Reinforce equity capital financing of Greece-based food processors and farmers; • Strengthen the capitalisation of high-potential food processors and farmers; • Promote the structuring and strengthening of the existing financing offer for food processors and farmers, with a focus on food processors; Complete existing supply of equity, co-invest with market participants (business angels, venture capital funds, later stage investments and others) and attract external investors
Expected advantages	Investment by the financial intermediary and other private investors into the capital of the beneficiaries
Market gaps analysis **(Article 37 (2) a))**	Please refer to the Building Block 1 of this ex-ante assessment
Expected socioeconomic results / Added-Value of the instrument **(Article 37 (2) b))**	• Leverage effect • Promotion of entrepreneurship and enterprise creation • Job creation • Reduction of unemployment • Support to the development of food processors and farmers. • Reuse of ESI funds • Risk sharing with the private sector (financial intermediaries) • Leverage of the competences of the financial intermediaries for project selection
Consistency with other interventions targeting the same market **(Article 37 (2) b))**	This FI could complement the current limited supply of equity, which cannot satisfy the total demand for risk capital. An increase in the number of instruments and operators allows for a better diversification of the risk taking for each operation and for a stimulating competition between the operators active at the current stage, which may be beneficial to the agricultural sectors and the entities falling in the scope of the NACE codes identified. There is a potential for synergy with other equity instruments in the same market (see Chapter 5). Considering the limited supply of equity in the market there may be the case that different equity investors supported by different equity financial instruments

Financial instrument n°2 - Co-investment facility	
	invest in the same company. Therefore, the proposed financial instrument appears to be consistent with all other forms of support targeting entities within these NACE codes, particularly given the size of the market gap.
State aid and grants: planned interventions and measures to reduce the market distortions **(Article 37 (2) b))**	To minimise market distortions, it is recommended that this instrument is put in place in line with applicable State Aid regulations. EAFRD Regulation stipulates that activities supported under the EAFRD be covered by Annex I of the TFEU. The amounts and support rates as defined in Annex II of the Regulation should be respected. The State Aid analysis should also include the level of financial intermediary. Hereby the GBER (Art. 21) on Risk finance aid and the Guidelines on State aid to promote risk finance investments[106] should be considered.
Estimation of Public and Private resources **(Article 37 (2) c))**	Based on a leverage of x2 and on financing from ESI Funds of EUR 30 to 50m, the potential public and private resources could be estimated in total at EUR 60 - 100 m. The public contribution include the amounts for management cost and fees as well as amounts for follow up investment after the end of the programming period in accordance of CPR (Art. 42.3).
Use of reflows of the instrument (Article 44 (1))	As indicated in the CPR (Art. 44(1)), *resources paid back to the financial instrument from the release of resources committed for guarantee contracts, and any other income generated shall be re-used* for: • *further investments, through the same or other FIs;* • *preferential remuneration of private or public investors;* • *reimbursement of management costs and payment of management fees of the financial instrument*. The use of reflows of funds should be included in the call for tenders for the selection of the financial intermediaries and be defined in the funding agreements between the MA and the FoF, as well as between the FoF and the financial intermediaries. Therefore, the precise repayment period will only emerge following the negotiations between the fund manager and the financial intermediary. Nevertheless, it is assumed that the reflow of funds will be extremely limited until the end of the programming period.
Evaluation of the optimal remuneration levels allowing to maximise the leverage of counterpart funds from private investors **(Article 37 (2) c))**	The establishment of remuneration levels for investors and fund manager(s) is at the discretion of the MA, and should be determined through discussions between the MA, the FoF Manager, and the Financial Intermediary (ies) as appropriate or through call for tenders. When deciding on the optimal remuneration levels, the MA should consider that "*the preferential remuneration shall not exceed what is necessary to create the incentives for attracting private counterpart resources and shall not over-compensate private investors, or public investors operating under the market economy principle. The alignment of*

[106] Commission Communication on the Guidelines on State aid to promote risk finance investments, C(2014) 34/2

Financial instrument n°2 - Co-investment facility	
	interest shall be ensured through an appropriate sharing of risk and profit and shall be carried out on a normal commercial basis and be compatible with the EU State aid rules", cf. Art.44 (1) of the CPR. The precise quantification of the preferential remuneration will only emerge following the call for expressions of interest. Considering the state of the Greek equity market and the specificities of the food processing sector it is to be expected that it will be difficult to attract private co-investors. Therefore, it is advised to consider preferential remuneration for co-investors either in the form of higher return for co-investors than for the EAFRD contribution or through lower risk exposure. In addition, the market testing conducted demonstrates a relatively limited willingness of external stakeholders to co-finance this financial instrument. Therefore, the preferential remuneration to private investors appears to be essential to mitigate the risk-perception, for instance, through the implementation of a differentiated treatment of investors. Should an off-the-shelf co-investment facility be implemented, the aggregate private participation rate should reach at least the thresholds set in the Annex V of the Reg.(EU) 1157/2017, which range from 10% to 60%, depending upon the final beneficiary's past investment experience.
Evaluation of the past lessons learnt **(Article 37 (2) d))**	Please refer to the Building Block 1 of this ex-ante assessment
Expected results and corresponding key indicators **(Art. 37 (2) f))**	The expected results of the Financial Instrument correspond to the needs of following focus areas: ▪ 2A – objectives satisfied by M4.1, ▪ 3A– objectives satisfied by M4.2, ▪ 6B – objectives satisfied by M 19.2. Key indicators are presented in Annex 15. It should be highlighted that a quantification of the expected results is not possible at this stage.
Proposed investment strategy with financial products, final recipients targeted and combination with grants **(Article 37 (2) e))**	The proposed investment strategy is presented in Building Block 2 of the present study. Grants could be associated with this FI in order to provide technical support to the recipients in form of an accelerator as described in 8.4.1. Investments supported by this FI may also receive grants under the conditions that they comply with the rules on combination of support (state aid, double financing).
Trigger for the review and update of the ex-ante assessment **(Art. 37 (2) g)**	The investment strategy proposed in this study is intended to inform the MA when drawing up its investment strategy for Greece. It does not take into account the interest of financial intermediaries with regard to certain characteristics of the financial instruments proposed, and in particular: • Rules for the selection of financial intermediaries; • Instrument-specific mechanisms (e.g. counterparty or portfolio risk management); • The rules relating to the use of the ESI Funds; and • The obligations of the selected financial intermediaries, including monitoring, reporting, monitoring of State aid, auditing, and communication and visibility

Financial instrument n°2 - Co-investment facility	
	measures of the financial instrument. The decision to review, and if necessary update the ex-ante assessment during implementation of the investment strategy is at the discretion of the MA. The study should be updated when the ex-ante evaluation can no longer accurately represent the market conditions prevailing at the time when the financial instrument was launched, either because : - These market conditions have evolved in the meantime, such as: 1. Certified expenditure for different forms of finance, such as non-repayable grants or FIs, indicating the need to shift resources 2. Share of direct payment income by farm type 3. Farm income (2014: EUR 19.063 based on FADN) Other financial instruments became available that are more appropriate for addressing the financing gap since the finalisation of this study.

Taking into account the information above the following key output indicators for the co-investment facility are estimated. The numbers are presented below in Table 68. The assumption is that the majority (80%) of equity investments will take place in the processing sector, whereas a minority in the producer sector. The assumed leverage of the calculation is 2.5, assuming that majority of support goes into the "growth" window. The average size for both types of sectors are estimated to be equal. The number of final recipients (O4) is estimated to be lower than the number of investments (O3) as there may be follow up investments in the same enterprises. It is expected that more follow up investments will take place after the end of the programming period in 2023.

Table 68: Estimations for selected key output indicators for the co-investment facility by focus area:

Output Indicator		Focus Area 2A Producers	Focus Area 3A Processors	Focus Area 6B LEADER[107]	Sum over all Focus Areas
O1 **total public expenditure**		EUR 6-10m	EUR 20 – 40m	0	EUR 30-50 m
O3 **No. of actions/ operations supported**[108]	If O1 = EUR 30m If O1 = EUR 50m	10 23 17 - 38	40 – 90 66 - 150	0	50 – 113 83 - 188
O4 **No. of holdings/ beneficiaries**	If O1 = EUR 30m If O1 = EUR 50m	8 18 14 – 30	32 – 75 58 - 138	0	40 – 93 72 - 168

[107] The instrument should be eligible for support through the co-investment facility, nevertheless the survey and focus groups did not identify any potential final recipient in this focus group

[108] Please note that the names for output indicators are not adapted for the use of financial instruments. The FLPG itself forms one operation in the sense of the CPR and the O4 should be understood as the number of final recipients because the body implementing the FI (Fund of Fund or financial intermediary) is the beneficiary. This should be taken into account in the reporting under art. 46 of the CPR.

supported					

3. Risk-sharing micro-loan instrument to agricultural producers

The market failure identified for microfinance products targeting the agricultural sector (i.e. micro-loans up to EUR 25,000) demonstrates the need to implement an instrument capable of complementing the existing supply. According to the survey, 1/3 of producers and more than 20% of processors intend to ask for microloans over the next 12 months

The proposed instrument aims to promote access to micro and small agricultural producers to microfinance by broadening and deepening the supply of microfinance support. This instrument will finance agricultural holdings and food processors (with a focus in newly created firms) through small amounts of financial support. Similarly, this instrument would facilitate access to finance to entities that are currently excluded from bank financing, helping them to cover their financing needs. The main objectives of this instrument are the following:

- Support the access to microfinance for small and micro agricultural holdings and food processors and increase awareness of the totality of their offer;
- To supplement the existing work of private banks by bringing in new resources from the EARDF;
- Strengthen and facilitate access to financing for the target audiences of this study in need of micro-loans; and
- Support professional integration, strengthen business creation, facilitate the financing of rural development projects and facilitate access to bank credit thereafter

After the Omnibus Regulation comes into force the limitation to working capital financing are either EUR 200,000 or 30% of the total investment, whichever is higher. The investment needs to be in line with the requirements of the measure, therefore providing microloans covering 100% working capital will most likely not meet the specific eligibility rules.

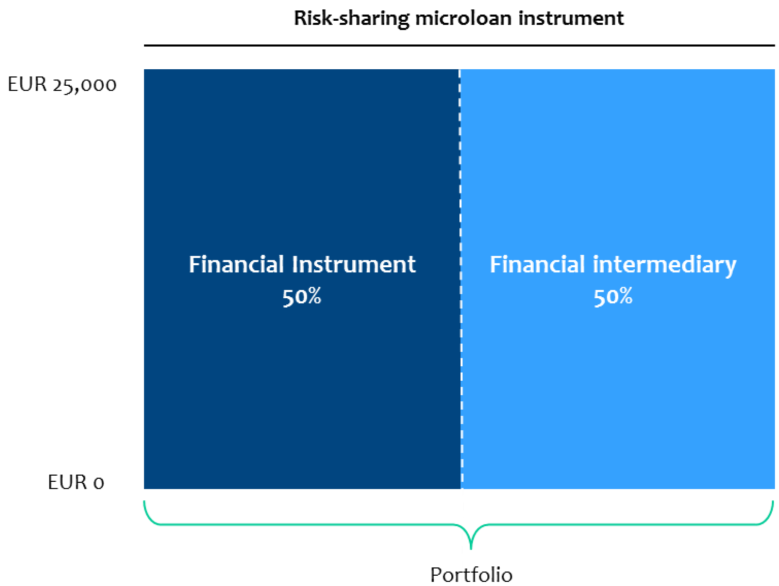
The financial instrument would take the form of a contingent loan providing additional financial resources to the financial intermediary (ies) selected for the development of its activities. A funded instrument for the sector was chosen as this reduces the risk for financial intermediaries and it allows that also other institutions than systemic banks to provide these products, such as cooperative banks which may not have sufficient capital for providing guarantee instrument. In order to ensure maximum alignment between the public contribution (from EARDF) and the private contribution (from the financial intermediary (ies), this financial instrument would incorporate a co-investment obligation of the financial intermediary alongside public resources in a "pari-passu" framework, thereby enabling the Managing Authority to benefit from leverage between x1.6 and x2.5.

The choice of financial intermediary (ies) would depend on their ability to propose:

- Adequate arrangements for the implementation of the financial instrument; and
- A co-investment percentage of interest to the Managing Authority, with a minimum co-investment equal to the public contribution.

The structure of the proposed risk-sharing micro-loan instrument is presented in the figure below.

Figure 27: Proposed risk-sharing micro-loan instrument:



Thus, the financial instrument would be managed by one or more selected financial intermediaries according to these selection criteria. Once this financial intermediary (ies) is selected, public resources budgeted for the FI will be transferred to the financial intermediary (ies), who will have the responsibility to manage these funds and monitoring their expenditure. In addition, the public contribution to the financial instrument will have to be supplemented by a private contribution from each financial intermediary selected for at least 50% of the total fund. In addition, this combination could be altered to a range of 40%-60% for the public resources and a range of 60%-40% for private resources, respectively, in line with Art. 21 (18(c)) of the GBER[109]. The instrument manager shall identify, analyse and execute the loans in accordance with the objectives of the financial instrument, set by Managing Authority, but using their own standards and procedures.

The Managing Authority should not be able to influence the financing decisions taken by the financial intermediary (ies). Similarly, the Managing Authority will have no role in the monitoring of this financing, this monitoring being delegated to the financial intermediary (ies) exclusively. The financial intermediary (ies) will thus have the responsibility to identify, evaluate and select applications for funding, as well as to monitor these funding and to prepare the activity reports required by the regulations. According to the market information on final recipients under measure 19.2 (page 149) the micro-loan instrument does not seem relevant for that target group.

[109] *"for risk finance measures providing equity, quasi-equity or loan investments to eligible undertakings, the measure shall leverage additional financing from independent private investors at the level of the financial intermediaries or the SMEs, so as to achieve an aggregate private participation rate reaching at least 60 % of the risk finance provided to the SMEs"* – Art. 21(18(c)) of the GBER.

Table 69: Summary of the financial instrument 3 – Risk-sharing micro-loan instrument:

Financial instrument n°3 – Risk-sharing micro-loan instrument	
Nature / Type of product	Risk-sharing micro-loan instrument
Funds allocations	The maximum size of the loan covered by this financial instrument is EUR 25,000. For each FI, two amounts will be proposed: • The minimum proposed amount for the adequate functioning of the instrument. • The recommended amount for covering the identified gap. Proposed minimum amount of public contribution from the EARDF funds is EUR 25m The recommended amount of public contribution from the EARDF funds is EUR 40m
Expected leverage effect	1.6x – 2.5x
Amounts of financing for the targeted recipients	Based on the above funds allocation and the potential leverage effect, the amount of financing to final recipients is estimated between EUR 66m and EUR 100m.
Scope of the FI and target recipients	Scope of the FI: The maximum amount - per loan - should be up to EUR 25,000 to meet the European definition of microfinance. This threshold should not be exceeded in order to avoid overlap with the FLPG instrument. This financial instrument has a specific field of intervention and a specific target population: • Enables the financial intermediary (ies) to have sufficient funds to develop microfinance products; • Can be implemented by one or more financial intermediaries and thus reach as many final beneficiaries among the target groups of the study as possible, notably: • Micro/Small agricultural producers, with a particular focus on young farmers • Micro/Small food processors Target final recipients: • Greek agricultural producers (4.1) and food processors (4.2) • Responds to identified market failures (as presented the first part of this study) • Allows the financing of the investments and the working capital requirements of the final beneficiaries within the limits of the European regulations
Objectives	• Reinforce access to financing for entrepreneurs from the selected targeted publics • Promote the structuring and strengthening of the microfinance finance market for micro-enterprises in the agricultural sector in Greece • Complete the existing financing offer for microfinance products, by providing

Financial instrument n°3 – Risk-sharing micro-loan instrument	
	additional public resources
Details	• This instrument would provide additional financial resources to the financial intermediary (ies) to provide micro-loans to target audiences; • In principle. the maximum size of loan cannot exceed EUR 25,000 • The financial intermediary (ies) in charge of managing the financial instrument will be an independent entity (ies) that will take all financing decisions as a professional manager, remaining economically and legally independent from the Managing Authority; • The instrument would include a "pari-passu" agreement between the Managing Authority and each selected financial intermediary. Indeed, each financial intermediary will be selected on the basis of its capacity to propose: • Adequate arrangements for the implementation of the financial instrument; and • A co-investment percentage of interest to the Managing Authority, with a minimum co-investment equal to the public contribution. • The steps involved in receiving, analysing, documenting, processing, lending and monitoring should be carried out by the selected financial intermediary (ies) according to the usual market procedures. These selected financial intermediaries will therefore have a direct credit relationship with the funding applicants and the financial intermediary will hold part of the risk; • The governance of the financial instrument should include mechanisms to avoid potential conflicts of interest; • The choice of one or more financial intermediaries will be made through a call for tender or a call for expressions of interest; • The co-investment principle within the financial instrument implies the need for joint financing of the selected financial intermediary with the public resources injected into the financial instrument. The desired percentage of intervention of the financial intermediary would be at least 50%, allowing leverage effect of at least x2. Indeed, as mentioned above, this combination could be altered to a range of 40%-60% for the public resources and a range of 60%-40% for private resources, in line with Art. 21 (18(c)) of the GBER.
Expected advantages	Significant increase in the existing supply of microfinance products, thus enabling target audiences to benefit from more favourable access conditions to this type of financial products
Market gaps analysis **(Article 37 (2) a))**	Please refer to the Building Block 1 of this ex-ante assessment
Expected socioeconomic results / Added-Value of the instrument **(Article 37 (2) b))**	• Increased supply of microfinance products; • Leverage effect; • Promotion of entrepreneurship and business creation; • Improvement of agricultural projects; • Job creation; • Business creation;

Financial instrument n°3 – Risk-sharing micro-loan instrument	
	• Reduction of unemployment; • Support for the development of agricultural activities; • Benefiting from revolving effect of the financial instrument; • Emphasis on specific end-beneficiary categories (e.g. young farmers); • Sharing of risk with the private sector on the basis of the "pari-passu" principle; and • Use of the financial intermediary's skills for the selection of projects.
Consistency with other interventions targeting the same market **(Article 37 (2) b))**	This instrument would increase the existing supply of microfinance products provided by commercial banks for the development of the agricultural sector in Greece. This intervention does not run counter to the other forms of public intervention already existing, as the supply is currently insufficient for the target audiences analysed in this study. Indeed, despite the existence of other forms of intervention targeting the same market and NACE codes (see Chapter 5), the proposed financial instrument appears to be compatible with these forms of support, particularly given the size of the market gap. This increase in the existing supply of better microfinance products would allow diversification of the risk taking for each transaction as well as a stimulating competition between these operators; always for the benefit of the target audiences.
State aid and grants: planned interventions and measures to reduce the market distortions **(Article 37 (2) b))**	To minimise market distortions, it is recommended that this instrument is put in place in line with applicable State Aid regulations. EAFRD Regulation stipulates that activities supported under the EAFRD, are covered by Annex I of the TFEU. The amounts and support rates as defined in Annex II of the Regulation should be respected. As this instrument is supporting microfinance activities it is advised to use *de minimis* in order to simplify the implementation for the financial intermediaries.
Estimation of Public and Private resources **(Article 37 (2) c))**	Based on a leverage effect ranging from x1.6 and x2.5, the potential private resources from financial intermediaries could be estimated between EUR 26m and 60m.
Use of reflows of the instrument (Article 43 (2), Article 44 (1))	As indicated in the CPR (Art. 44(1)), resources paid back to the financial instrument from the release of resources committed for guarantee contracts, and any other income generated shall be re-used for: • further investments, through the same or other FIs; • preferential remuneration of private or public investors; • reimbursement of management costs and payment of management fees of the financial instrument. The use of reflows of funds should be included in the call for tenders for the selection of the financial intermediaries and be defined in the funding agreements between the MA and the FoF, as well as between the FoF and the financial intermediaries. Therefore, the precise repayment period will only emerge following the negotiations between the fund manager and the financial intermediary.

Financial instrument n°3 – Risk-sharing micro-loan instrument	
Evaluation of the optimal remuneration levels allowing to maximise the leverage of counterpart funds from private investors **(Article 37 (2) c))**	This is at the discretion of the Managing Authority. For example, it may be decided by the Ministry not to take this possibility into account. It must be discussed internally by the Managing Authority. Thereafter, a discussion with the latter and the financial intermediary. This element must be set out in the specifications for the selection of the financial intermediary
Evaluation of the past lessons learnt **(Article 37 (2) d))**	Please refer to the Building Block 1 of this ex-ante assessment
Expected results and corresponding key indicators **(Art. 37 (2) f))**	The expected results of the Financial Instrument correspond to the needs of following focus areas: ▪ 2A – objectives satisfied by M4.1, ▪ 3A– objectives satisfied by M4.2, ▪ 4B– objectives satisfied by M4.1, ▪ 4C– objectives satisfied by M4.1, ▪ 5A– objectives satisfied by M4.1, ▪ 5B– objectives satisfied by M4.2, ▪ 5C– objectives satisfied by M4.1, 4.2, ▪ 5D– objectives satisfied by M4.1. Key indicators are presented in Annex 15. Regarding the monitoring indicators, except for the indicators mentioned in Annex 15, which are also relevant to the satisfaction of certain RDP targets, here is an additional non-exhaustive list: • Number of entities supported; • Number of entrepreneurs supported; • Sector of entities supported (producers or processors); • Stage of development of the entities supported; • Credit rating of entities supported (where applicable); • Number of employees in the entity supported at the time the loan was granted; • Number of jobs created through the implementation of the instrument; • Turnover of entities supported; • Total amount awarded to entities supported; • Average amount granted to entities supported; and

Financial instrument n°3 – Risk-sharing micro-loan instrument	
	• Leverage effect It should be highlighted that a quantification of the expected results is not possible at this stage. Expected financing per beneficiary and expected number of beneficiaries[110]
Proposed investment strategy with financial products, final recipients targeted and combination with grants **(Article 37 (2) e))**	The proposed investment strategy is presented in Building Block 2 of the present study. Grants could be associated with this FI in order to provide technical support to the recipients as described in 8.4.1. Investments supported by this FI may also receive grants under the conditions that they comply with the rules on combination of support (state aid, double financing).
Trigger for the review and update of the ex-ante assessment **(Art. 37 (2) g))**	The investment strategy proposed in this study is intended to inform the MA when drawing up its investment strategy for Greece. It does not take into account the interest of financial intermediaries with regard to certain characteristics of the financial instruments proposed, and in particular: 1. Rules for the selection of financial intermediaries; 2. Instrument-specific mechanisms (e.g. counterparty or portfolio risk management); 3. The rules relating to the use of the ESI Funds; and 4. The obligations of the selected financial intermediaries, including monitoring, reporting, monitoring of State aid, auditing, and communication and visibility measures of the financial instrument. The decision to review, and if necessary update the ex-ante assessment during implementation of the investment strategy is at the discretion of the MA. The study should be updated when the ex-ante evaluation can no longer accurately represent the market conditions prevailing at the time when the financial instrument was launched, either because : - These market conditions have evolved in the meantime, such as: 1. Certified expenditure for different forms of finance, such as non-repayable grants or FIs, indicating the need to shift resources 2. Share of direct payment income by farm type 3. Farm income (2014: EUR 19.063 based on FADN) - Other financial instruments became available that are more appropriate for addressing the financing gap since the finalisation of this study.

Taking into account the information above the following key output indicators for the micro-loan instrument are estimated as presented in Table 70. The assumption is that the majority (60%) of micro-loans will be provided in the producing sector, whereas a minority in the processing sector. The average size of loan for both types of sectors are estimated to be equal. The number of final recipients (O4) is

[110] Methodology for the estimation of potential amounts and beneficiaries under the FI, is provided in Annex 16

estimated to be the same than number of investments (O3) assuming each enterprise receives the micro-loan only once until 2023.

Table 70: Estimations for selected key output indicators for the micro-loan instrument by focus area:

Output Indicator		Focus Area 2A Producers	Focus Area 3A Processors	Focus Area 6B LEADER[111]	Sum over all Focus Areas
O1 **total public expenditure**		EUR 15-24m	EUR 10 – 16m	N.A.	EUR 25-40 m
O3 **No. of actions/ operations supported**[112]	If O1 = EUR 25m If O1 = EUR 40m	1,521 – 2,205	1,014 -1,471	N.A.	2,535 – 3,676
O4 **No. of holdings/ beneficiaries supported**	If O1 = EUR 25m If O1 = EUR 40m	1,521 – 2,205	1,014 -1,471	N.A.	2,535 – 3,676

Analysis of financing needs of beneficiaries for investments in non-agricultural activities in rural areas (Measure 19.2)

With regards to measure 19.2, the financing needs and gaps with respect to investments in non-agricultural activities in rural areas could not be quantified for other beneficiaries besides agricultural producers and agri-food processors, since as agreed between the MA, EIB and PwC, the questionnaires for the online survey were designed to understand the specific needs of farmers and food processors.

An approximation of the financing needs of farmers and agri-food processors that carry out other activities and intend to launch new products or activities is provided in Section 6.4. As highlighted in that section, however, that estimate does not include the demand of other categories of beneficiaries besides producers and processors.

With regards to beneficiaries outside the agri-food sector, financing needs and gaps were therefore evaluated from a qualitative perspective, based on the discussions in the context of the interviews and focus group with relevant stakeholders with regards to Measure 19.

[111] The instrument should be eligible for support through the co-investment facility, nevertheless the survey and focus groups did not identify any potential final recipient in this focus group

[112] Please note that the names for output indicators are not adapted for the use of financial instruments. The FLPG itself forms one operation in the sense of the CPR and the O4 should be understood as the number of final recipients because the body implementing the FI (Fund of Fund or financial intermediary) is the beneficiary. This should be taken into account in the reporting under art. 46 of the CPR.

According to the representatives of the Local Action Groups, the non-completion of investment projects concerning non-agricultural activities in rural areas is due to the difficulties faced by beneficiaries in terms of access to financing from the banking system, as well as the lack of private funding available.

The most important issues that emerged from the focus group with the representatives of the Local Action Groups appear to be the lack of guarantees that beneficiaries can provide, the fact that a significant number of beneficiaries cannot obtain loans due to outstanding debts to the tax authorities and/or the social security, and in some cases their lack of historical records in the financial system.

The LEADER programme was generally considered as successful. It mainly focused on financing projects in the sectors of processing and tourism. However, the representatives of the Local Action Groups were unanimous in their perception that beneficiaries were excluded from the traditional financial system. The most important problems were the lack of own equity participation of beneficiaries, the lack of guarantees, as well as the lack of liquidity in general for the implementation of their investment plans.

Indicatively, one of the LAGs mentioned that 53 out of 163 investment plans failed, while another indicated that 30-40% of the plans failed, due to a large extent to beneficiaries' inability to cover their own participation. Opinion expressed in the relevant focus group is that success of the LEADER program would have been higher if requirements with regards to beneficiaries' own equity participation had been revised.

Another key issue highlighted by the majority of the Local Action Groups' representatives, besides the lack of access to the traditional financial system, concerns the lack of technical support and guidance to beneficiaries.

The needs of beneficiaries under the scope of Measure 19.2 are more or less the same as those of farmers and small processors. Indeed, the interviews with key stakeholders and the focus group with representatives of the Local Action Groups highlighted the beneficiaries' need for support in accessing financing. With regards to the purpose of the financing, representatives of the Local Action Groups indicated that beneficiaries of Measure 19.2 need financing, not only for the financing of investments, but also to address working capital requirements.

They suggested the need for guarantee instruments as well as allowing for a reduction in the required beneficiaries' own equity participation in the total financing, to facilitate beneficiaries' access to financing by the banking system.

It was also mentioned during the relevant focus group that micro-financing was likely to be a suitable solution to address financing needs of the beneficiaries in the context of Measure 19.2.

Suggestions with regards to the Investment Strategy

Eligible final beneficiaries under sub-measure 19.2 could include both entities in the agri-food sector and other relevant beneficiaries under the specific sub-measure, besides producers and agri-food processors. Therefore, the suggestions below with regards to the investment strategy for projects and beneficiaries that fall within the scope of sub-measure 19.2 are considered for both categories of beneficiaries.

With regards to producers and processors that diversify their activities and plan to launch new products or services:

Considering the estimated financing needs of producers and processors who want to develop new products or services, based on the results of the online survey, it appears that there is a strong expressed demand for grants (which exceeds the amount earmarked for that measure in the RDP) and a very large demand for medium and long-term loans as well as for guaranteed loans. It appears that the demand from those producers and processors actually exceeds the estimated supply. Hence, from a quantitative perspective based on the results of the online survey, it appears relevant to consider the possibility to include diversification investments, mainly of producers (and to a lesser extent, processors) under the scope of the proposed First Loss Portfolio Guarantee instrument (or, alternatively, the Uncapped Guarantee Instrument, if the latter is deemed preferable by the MA, e.g. based on follow-up consultations with financial intermediaries that may have an interest in implementing the instrument), to encourage banks to provide more medium and long-term loans for such types of investments.

With regards to the micro-finance instrument, based on the analysis of online survey data, there seems to be no significant demand from producers carrying out diversification activities and that intend to finance the launch of new products or services, while the estimated amount demanded by processors intending to launch new products or services appears to be relatively small as well. The micro-loan instrument could be used as a complementary instrument, both for small-scale investments, and to cover short-term working capital needs of beneficiaries.

With regards to beneficiaries of sub-measure 19.2 besides producers and food processors (including, but not limited to, eligible Local Action Groups)

A possible option that could be envisaged by the MA with regards to the investment strategy, in order to address the needs of all eligible beneficiaries of Measure 19.2[113] (including any eligible beneficiaries outside of the agri-food sector), would be to include the latter within the scope and eligible beneficiaries of the proposed First Loss Portfolio Guarantee Instrument (or, alternatively, the Uncapped Guarantee Instrument, if the latter is deemed preferable by the MA, e.g. based on follow-up consultations with financial intermediaries that may have an interest in implementing the instrument).

A second possible option, that could be considered either on a standalone basis or in complement to the First Loss Portfolio Guarantee instrument, would be to extend the scope of the proposed Risk-Sharing Micro-loan instrument, to include also eligible beneficiaries under Measure 19.2 (including eligible beneficiaries outside of the agri-food sector).

In **conclusion**, with regards to all beneficiaries and projects under the scope of sub-measure 19. 2 including actions that do not concern the agri-food sector, the First Loss Portfolio Guarantee Instrument (or, alternatively, an Uncapped Guarantee Instrument) appears to be suitable in order to address the issue of beneficiaries' access to financing from the traditional financial system, as it would encourage banks to take risks and disburse more loans to eligible beneficiaries.

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[113] According to the RDP, the beneficiaries of Measure 19.2 are the regional and local authorities, private entities which their statutory purpose is the implementation of corresponding projects, as well as natural persons or legal entities whose eligibility will be specified in the relevant national institutional framework. Beneficiaries of this action may also be Local Action Groups.

The risk-sharing micro-loan instrument could be considered as a relevant complementary instrument, particularly but not exclusively to address beneficiaries' short-term needs for working capital. Besides, a key message highlighted by stakeholders in the context of interviews and the relevant focus group concerns the need to technical assistance and guidance of the beneficiaries in order to help the latter access financing and be more successful in the overall implementation of their investment plans.

Finally, the financing needs for actions under M 19.2 that do not concern the agri-food sector could be re-examined specifically in the context of a future update of the ex-ante, if applicable.

Taking into account the significant needs expressed by Local Action Groups for local or regional diversification, e.g. through the development of the tourism activities, the needs concerning actions outside the agri-food sector could be addressed in more detail or with more specific focus through a future update of the ex-ante or a separate, complementary study.

Combining FIs and grants

The analysis of the financing issues in the agricultural sector highlighted that food producers (all sizes) and micro and small processors face significant difficulties in terms of access to finance. In recent years, the combination of loans and grant support has become a common solution to facilitate access to finance. As mentioned during the analysis of the supply of financing, loans are generally used as a complement to grants. The combination of grant support with loans has become *condition sine qua non* for supporting Greek agriculture. Banks generally consider that the typical financing mix of farmers and processors' investment projects will be composed of 50% grants, 20% own equity participation (by the final beneficiary) and 30% bank loan. Despite this low percentage of participation in the funding, banks remain reluctant to provide financing to the agricultural sector given the limited liquidity and value of the available collateral and the high level of risk associated with the sector.

The CPR offers two options of combination of financial instruments and grants:

- Combination in one operation, where the grant becomes a part of the financial instrument. For example interest rate subsidies, guarantee fee subsidies or technical support. This can be easily implemented through financial institutions it is not considered applicable in this case as the interest rate will be already quite low and the guarantee will be provided for free.
- Combination in two operations, where grant and FIs are provided in a complementary manner. This means the decision to award a grant and the FI product are not linked to each other, each type of support follows its specific rules and they are commonly given by separate bodies. Also the payment of the two forms of support are not linked so commonly loans are provided before the investment is taken but the grants are provided after.

When using combination a number of principles must be complied with. These are among others that the grant cannot be used to reimburse the FI, the FI cannot be used to pre-finance the grant, separate records must be kept and the combined amount of support cannot exceed the amount of eligible expenditure. Furthermore State aid rules regarding cumulation of aid have to be complied with.

In addition, regarding combination with grants, mainly for the FLPG but also for the microfinance instrument, the support rates, where the grant must be reduced by GGE, are as follows:

- The agricultural activities (M 4.1 - producers) and partially the processing of agricultural products (M4.2.1, part of M4.2.3 and relevant actions of M 19.2) fall under Article 42 TFEU and support rates applicable are indicated in Annex II of Regulation 1305/2013.

- Regarding processing of agricultural products may not fall under the Annex II (See: M4.2.2 'processing, marketing and/or development of agricultural product into non-agricultural product', part of M4.2.3 'processing for farmers' and relevant actions of M 19/Leader) and de minimis and ABER support rated are implemented.

That the grant and the FI are provided to their specific merits also offers opportunities. For example the FI can be used for investments that are not eligible for the specific grant call, but generally eligible under the respective measures. This supports especially more complex investments undertaken by the producers and processors.

In the analysis undertaken a specific "combined loan or guarantee" instrument was contemplated that would only offer the combined support. Nevertheless, this was considered as not practical due to the administrative complexity of coordinating the provision of grants and FI. Also it was considered not useful to set up an additional FI as this would lead to a plethora of eventual competing instruments and that this would reduce the economy scales considering the limited amount of RDP resources available for FI.

In order to facilitate the combination of the proposed guarantee and micro-loan instruments with grants several aspects should be considered:

- The eligibility of investments and final recipients for the financial instrument should be as wide as possible and not be restricted the same eligibility rules regarding investments and beneficiaries of the grant calls. Hereby the additional eligibility of FI introduced in the Omnibus regulation (Art. 45.7), e.g. the purchase of lifestock or annual plants should be used.
- The CPR offers the possibility to have VAT as eligible expenditure for FI, also in the case that the final recipient can recover the VAT. This should be used in order to maximise the support through FI that can be provided.
- The reduction of the grant amount through the GGE from the guarantee or loan should be clearly communicated to the final recipient from the onset in order to prevent unpleasant surprises at a later stage.
- Future grant calls could from the onset offer lower support rate than the maximum set in the RDP, by e.g. 5 or 10 percent points. This would make the combination with financial instruments more attractive as there would be no reduction of grants in case of combination.
- The proposed financial instrument should have strong elements of support that are not expressed in GGE, for example reduced collateral requirements and grace periods. This should also be clearly communicated to the final recipients.

Technical support

While the potential for agricultural related investments is very important in Greece, the type of projects requesting for financing also need to be improved to become eligible for bank financing. As mentioned in the gap analysis, banks believe the projects for which these loans are requested are not sufficiently mature, representing a risk preventing them from financing these activities. Hence, the provision of specialised technical support could help to improve the quality of project plans, thus mitigating potential risks perceived by banks. This technical support can provide the necessary know-how and expertise to improve the quality of these business plans, making them eligible for loan support. Therefore, we suggest a standardised application procedure, which would require submitting a detailed business/project plan together with the relevant financial documentation. Since the lack of project plans is a major barrier, we recommend putting in place a subsidy scheme for the promotion of project plan assistance through the provision of technical support. We therefore consider that subsidised project preparation is essential for the successful implementation of the funded loan instrument.

The necessary technical support programme should be set up as a separate grant operation (Art. 37.8) and not be a part of the FI. The reason for this being the possibility to provide support through different intermediaries than the selected financial intermediaries, furthermore beneficiaries of these grants do not necessary receive support through the FI. In case a beneficiary of the technical support grant is not deciding to invest, is accessing different form of financing or is rejected by the financial intermediary the expenditure of the grant would not be eligible and the beneficiary would need to repay the grant support. This is not supportive to the objective to improve the bankability of projects in a broader context than just this specific FI. The technical support scheme should be launched in parallel to the micro-loan instrument.

Greek agricultural sector has not traditionally had a strong entrepreneurial culture. As a result, there is a lack of native know-how and institutional structures in place to support small agricultural holdings, and especially newly created holdings (e.g. young farmers). In particular, the development of business/projects plans, financial strategies and commercialisation support strategy is needed to improve the access to finance of these holdings. This type of support could be offered through an accelerator. Accelerators provide assistance in improving the business development strategy (i.e. reviewing the business plan) and in the definition of the optimal financing structure. They can provide coaching to enhance the entrepreneur's skills in pitching for financing and give access to a network of equity providers for fundraising. The accelerator allows enterprises to rethink and significantly improve the financial and commercial strategy of the organisations, and to improve the competences of the team.

In view of providing acceleration services to potential beneficiaries of financial instruments, the MA could follow one of the following options in terms of implementation:

- **Option 1**: the MA could draft and launch a call for expressions of interest in view of selecting a private operator to set up and operate an Agricultural Accelerator programme. Potential private operators could be existing entities already providing support and/or advisory services to agricultural producers (e.g. Gaia Epixeirein) or new teams formed by experienced agriculture and business acceleration experts for the purpose;
- **Option 2**: the MA could consider using GEOTEE (Geotechnical Chamber of Greece) to provide technical assistance to target final beneficiaries, subject to a review of GEOTEE's organisation and existing capabilities to provide different types of technical assistance to beneficiaries (operational due diligence) and assessment of potential gaps in terms of resources and expertise;
- **Option 3**: alternatively, the MA could establish such an Agricultural Accelerator directly. The latter would be staffed by relevant experts hired by the MA and would operate in autonomy under the strategic direction and supervision of the MA. In this scenario, it would be advisable for the MA to define the strategy and operating model of the Accelerator in line with international standards and best practices.

With regards to Option 1, it should be mentioned that Piraeus Bank participates in GAIA Epixeirein indirectly through Exelixis (100% subsidiary of Piraeus Bank), which owns 26% of GAIA (according to 2015 financial statements). In that context, it should be advisable to examine potential conflicts of interest and/or distortion to competition issues.

With regards to Option 2, the MA could consider the opportunity to provide assistance to beneficiaries through GEOTEE, which is a public sector legal entity supervised by the Ministry of Rural Development and Food. According to its stated scope of operation, GEOTEE can provide its assistance and services to organizations, businesses, individuals and members to resolve issues of its subject matter and promote its purpose through studies, consultations and advisory activities. Moreover, it has branches in 10 territories. In that context, GEOTEE could have the capacity to provide technical assistance to final beneficiaries. Prior to a possible decision to use GEOTEE to provide technical assistance, it may be worth examining the available resources, network, and range of expertise of GEOTEE to identify what they are currently able to provide and identify potential gaps, and how to fill them.

Financial and internationalisation readiness

Getting financed is a key step in the growth process of SMEs. Nevertheless, most of them often lack of the skills required to tackle this long and challenging process. In that sense, support in improving SMEs' financial readiness is a value added service. Firstly, it seems necessary to provide support to agricultural holdings and food processors in building their business and financial plans, allowing the company to determine its financing needs. For example, identifying the key drivers of the company's business model (i.e. revenue streams, pricing strategy and cost structure) allow the formulation of recommendations based on the industry best practices.

The second step would consist in defining the appropriate funding mix (e.g. equity vs. loans vs. grants) depending on several criteria such as the ability of the company to generate cash and its willingness and capacity to attract new shareholders. Indeed, identify the optimal funding mix will allow the SME to build on stronger foundations. Once the type of funding is identified, it would be necessary to identity the most appropriate financing actors. For instance, if equity financing is identified as the most attractive financing source for the entity, it would be then necessary to select the most relevant Venture Capital or Private Equity funds depending on the investment preferences of the funds (e.g. geography, ticket size, industries and maturity).

Then, the holding/processor should receive guidance on how to apply for each source of finance that could be relevant. In the case of grants and loans, the company might need assistance in filling in and building the financing application file. On the contrary, if the company is raising equity, it would probably need assistance in writing the investment documentation (e.g. teaser and executive summary) and it might also need to be introduced to investors.

Finally, the company would need appropriate support in negotiating the financing terms. If a given entrepreneur is trying to obtain debt financing, it would probably need assistance to negotiate with the bank, while support would be necessary to negotiate the term sheets in the case of equity.

Entering new markets is a major step in any SME growth strategy, allowing it to get access to a new customer base. Nevertheless, going international has its pitfalls, particularly in the agricultural sector. The first step of a structured internationalisation process is to assess the company's readiness to go global. This assessment if often performed around 6 key dimensions namely the market, the product, the financial vigorousness, the internal competencies and skills, the organisation and the business culture. For instance, in terms of internal competencies, the company should review its organisational chart to identify the key positions that need to be fulfilled to ensure sustainable growth. This readiness assessment allows companies to identify potential gaps and to set up a detailed action plan before starting its international expansion.

Then, it is necessary to build an international growth plan to identify the most attractive markets and define a clear go-to-market strategy. Indeed, the first action would be to prioritise geographical markets depending on their attractiveness and risks, by capturing and analysing the macroeconomic and industrial dimensions (e.g. market size, competition and barriers to entry). Once the priority markets to be addressed have been identified, it is important to perform an in-depth analysis of the targeted markets to define a clear go-to-market strategy. This plan should address key questions such as: which cultural aspects of the country should I take into consideration? What are the most attractive segments to address in the country? Should I export, set up a subsidiary or find a partner?

Companies often need assistance throughout this process as they do not have sufficient time and resources to tackle this challenge. Therefore, the provision of technical assistance to increase the financial and internationalisation readiness of agricultural producers and food processors in Greece would contribute to the commercial and financial development of the agricultural sector, thus improving their conditions to access new sources of financing.

Combination of EAFRD with EFSI

The combination of EAFRD resources with EFSI contribution offers the possibility to increase to total amount of financing available to final recipients with given EAFRD resources. Under the current rules of the CPR it is not possible to combine these two sources of EU budget support in a FLPG. The equity co-financing instrument and the risk-sharing micro-loan instrument could be considered as too small for an effective combination of the two resources.

New rules amending the Common Provision Regulation, but also the EAFRD Regulation (Omnibus Regulation) are expected to enter in force in 2018. A draft of the Omnibus Regulation is available and it contains relevant new provisions regarding the combination of ESIF and EFSI resources in guarantee instruments.

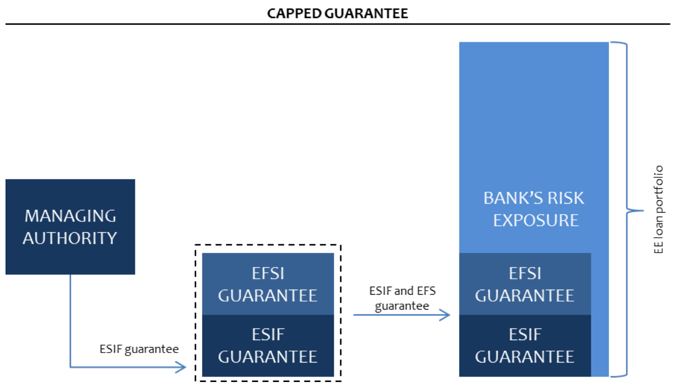
The most relevant for our purposes is Art. 39a Combination of ESI Funds to financial instruments allowing for the combination of such contribution with EIB financial products under EFSI:[114]

> *EFSI can contribute to Financial Instruments, not exceeding 25% of total support provided to final recipients in more developed regions. In the less developed regions the financial contribution may exceed 25% where duly justified by the ex-ante assessment, but shall not exceed 50%;*
>
> *In the case of […] guarantee instruments, ESI Funds may contribute to junior and/or mezzanine tranches of portfolios of loans covered also under the EFSI's Union Guarantee;*
>
> *For […] the ERDF, a separate operation with a co-financing rate of up to 100% may be established within a programme to support operations implemented through financial instruments referred to in point (c) of Article 38.*

Here the two possible guarantee structures (capped and uncapped) are graphically reported. In case of a capped guarantee the combination of EAFRD and EFSI would have the following structure:

[114] These provisions of the Omnibus Regulation are based on the original Commission proposal of 2016. The final version of the Regulation may contain different provisions.

Figure 28: Combined EFSI-ESIF capped guarantee instrument:



By means of example, assuming a portfolio of EUR 100m loans, if the portfolio guarantee cap rate was 20% and the loan by loan coverage rate was 80% then the guarantee amount would reach EUR 16m.

When combining EAFRD and EFSI several aspects should be considered. It implicates some level of complexity in the FI set-up, there is a need to involve EIB/EIF in the guarantee structuring. As the EFSI to the guarantee is priced it is necessary to charge to financial intermediaries a guarantee fee which finally is priced towards final recipients. This may make the instrument less attractive for financial intermediaries and final recipients. Nevertheless, the financial advantage of the guarantee instrument will exceed the guarantee fee.

Key messages from the market testing

In order to validate the proposed investment strategy, a soft market testing of the proposed financial instruments was carried out through interviews conducted with the four major commercial banks (Piraeus Bank, NBG, Alpha and Eurobank).

All four commercial banks consider that the proposed investment strategy, including the recommendations regarding financial instruments, is generally in the right direction in terms of addressing market needs.

All of them showed a clear interest to take part in future discussions in view of the potential implementation of financial instruments and participating in future calls for expressions of interest in view of the selection of financial intermediaries for the implementation of the FLPG and microfinance risk-sharing instruments.

They clearly indicated a strong appetite for both the first-loss portfolio guarantee (FLPG) instrument and the risk-sharing micro-loan instrument.

With regards to the major issues driving the need for financial instruments in the Greek agricultural sector, the major banks generally agree that there are no significant liquidity constraints hindering their capacity to provide loans. It is more a problem of risk for the banks, considering various dimensions:

- The sector's structural issues (limited size of agricultural holdings, low added value, structurally low profitability, ageing of the farmers, etc.)
- Specific non-controllable risks facing producers (price volatility, risks related to weather conditions, diseases, etc.)

- Lack of collateral
- Low value and illiquidity of collateral
- Beneficiaries' inability to contribute own equity to the financing of their investment plans
- Lack of track record in the banking system (in the case of young farmers)
- Difficulty to evaluate economic size and viability of beneficiaries (one factor is that many producers are deemed to declare low revenues and profits in order to limit their taxable base)

Besides the above factors affecting the perception and assessment of risk by financial intermediaries, another element is the regulation impacting banks' capital requirements in regards to the risk of their assets.

Given all the above, the banks generally consider that any financial instrument that allows them to reduce their risk is useful to help them take more risks and disburse more loans to potential beneficiaries.

The proposed instruments seem to be relevant and appropriate to address identified market needs and help banks to disburse more loans to producers and/or food processing companies:

- The first-loss portfolio guarantee would allow banks to finance final recipients with a relatively high perceived level of risk and/or with relatively limited collateral (whom they may not be able to finance without the guarantee provided by the instrument)
- The risk-sharing micro-loan instrument appears to be well suited to address the strong market demand for small financing amounts (indeed, banks confirm that micro-loans up to EUR 25 m are sufficient cover the annual production-related working capital needs of the majority of producers, and can also finance small-sized investment needs of the majority of producers and micro-processors.

In addition, major financing actors see a good complementarity between the proposed financial instruments:

- The first-loss portfolio guarantee instrument would cover the needs of medium-sized and large producers and food processing companies who cannot provide sufficient collateral to obtain the requested financing
- The microfinance risk-sharing instrument appear to cover the majority of needs of micro- to medium-sized producers and micro /small processors
- The equity co-investment facility would cater primarily to already established food processing companies who have attractive characteristics for equity investors, i.e. innovative, export-oriented, strong growth potential (sometimes a change of scale, e.g. when entering into distribution agreements with a large retailer).

Another aspect that was mentioned by the banks is that the potential FIs could be combined with the grants provided to support the financing of investments in the context of the RDP, rather than being mutually exclusive. The combination of FIs with the grants would support the financing of investment plans by banks. Indeed, assuming that 50% of the total amount of the investment plan is financed through grants, the banks typically require the beneficiary to contribute 20-25% own equity and finance through loans the remaining 25%-30% of the total investment amount. It appears that the proposed financial instruments would support banks in taking risks and providing the requested financing of investment plans. They could also enable banks to reduce their requirements with regards to the equity participation of the beneficiaries, which is appears to be a major issue in many cases.

Finally, based on interviews with major actors, it should be noted that flexibility in the implementation of the instruments is considered as important for the successful deployment of the financial instruments:

- Define a total envelope of funds for the FLPG and the microfinance risk-sharing instrument (e.g. EUR 200 m), with a possibility to reallocate amounts between the two instruments based on the demand and absorption capacity. Indeed, the major Greek commercial banks expressed their interest to implement both the first loss portfolio guarantee and the risk-sharing micro-loan instrument in order to broadly cover the needs of the different categories of beneficiaries (with the possibility to reallocate funds between the two instruments, depending on market demand). This would only be possible if the fund of funds manager is the same for both financial instruments.
- It would be appropriate to have flexibility to be able to finance both the small needs of a large population (small and medium-sized producers) and the large needs of a small population (large producers and small to large processors)
- With regards to each financial instrument, banks would like to have maximum possible flexibility to with regards to scope of the financing (i.e. use of funds), in order to be able to respond to evolving market needs.
- Flexibility with regards to the geographic allocation of funds (e.g. not having target allocations per region, or not having the obligation to achieve a minimum percentage of the portfolio of new loans in certain regions where financial intermediaries see low fund absorption potential e.g. in the Ionian islands or the Aegean, or at least having the possibility to reallocate funds according to the observed demand)

With regards to the flexibility to proceed to potential reallocations of funds between both instruments and between different categories of beneficiaries, it is noted that the latter is justified in particular by the uncertainty about the size of the viable investment demand, i.e. how many of the small producers with an investment plan will be able to go to the end of the process for the financing and implement their plan.

There are two dimensions to take into consideration with regards to finding the right balance between different target final recipients and needs: the political dimension with regards to the targeting of categories of beneficiaries, and the technocratic dimension related to the possibility to adjust the targeting of the instrument in regards to the actual demand and capacity of financial intermediaries to disburse funds to specific categories of beneficiaries / for specific needs.

Feedback and insights from banks about the proposed financial instruments

First loss portfolio guarantee instrument

All four systemic commercial banks indicated that a guarantee instrument would be beneficial to boost financing support for the sector as it would help banks to take risks and enhance their capacity to provide loans to beneficiaries. This instrument could aim primarily at supporting the financing of producers, but could also be used to guarantee loans to agri-food processors.

If a microfinance instrument is also put in place, the FLPG instrument could focus on guaranteeing loans for the financing of relatively large investment needs, e.g. the acquisition of machinery or land purchases. This instrument would enable banks to lower their collateral requirements to provide loans to beneficiaries, particularly to those who are in the *grey zone*.

Banks appear to have a strong appetite for a guarantee instrument, regardless of the specific type of guarantee (capped or uncapped).

The guarantee instrument that was discussed during the market testing is the first loss portfolio guarantee instrument. All four systemic banks indicated their interest for that instrument; only one revealed a preference for an uncapped guarantee.

With regards to specific parameters for the design of the instrument:

Guarantee rate (at individual loan level)

- Banks consider that a minimum guarantee rate of at least 50% on an individual loan level would be needed. However, given the high perceived risks, banks generally consider that a higher guarantee rate (some actors mentioned up to 70-80%) would be appropriate.
- One player mentioned that existing loan guarantee instruments which however are not specific for agriculture (e.g. COSME) could be considered as an indicative benchmark with regards to the possible level of the guarantee rate. The latter is set at 50% in the case of COSME guarantees, which is considered as satisfactory for loans to companies in non-agricultural sectors. In the case of the agricultural sector, however, given the high specific risks and weak collateral values, a higher percentage e.g. around 70% or 80% is considered as being more appropriate.

Guarantee cap rate (at portfolio level)

- Banks signalled that a 10% guarantee cap rate would not be sufficient; based on their experience with a similar product with a 10% cap, they highlighted that it is clearly too low to encourage risk-taking by banks
- It was mentioned by a major actor that specific risks in agriculture, e.g. volatility in agricultural commodity prices, production-related risks, weather-related risks, crop or animal diseases, etc. justify a higher guarantee cap rate, that could be set in a range between 10-25%.
- The opinion of individual banks differs with regards to the level of the guarantee cap rate that they consider as appropriate to encourage them to take risks; indeed, another bank considers that the appropriate level of the cap would be 30-40%, at least if the objective is to encourage banks to lend without guarantees (or with significantly reduced collateral requirements). One actor even mentioned 50% as a satisfactory level for the guarantee cap rate at the portfolio level, with a 50% guarantee rate on an individual loan basis.
- The comments by banks indicate that alternatively an uncapped guarantee instrument could be implemented. This decision should be taken during the implementation of the instrument.

Design Flexibility

- The financial intermediary should have the option not to ask immediately for the payment of defaulted loan amounts in certain situations, e.g. if the final beneficiary has been impacted by exceptional factors such as extreme weather phenomena and is expected to receive compensation from the national organisation providing agricultural insurance, which should allow the beneficiary to pay back the loan with a foreseeable delay.
- With regards to the sizing of the FLPG instrument, two of the four major commercial banks indicated significant expected loan generation capacity, with indicative target loan portfolio amounts in excess of EUR 100m and EUR 150m, respectively.
- In exchange for the provision of the guarantee instrument, banks could be asked to reduce the percentage of own equity participation that they require from beneficiaries to provide loan financing in the context of the financing of investment plans (e.g. the required equity participation could be lowered from 20-25% to 10-15%).

Risk-sharing micro-loan instrument

This instrument is considered as attractive by financial intermediaries. Microfinancing is considered indeed as being well suited to address the needs of the majority of small producers, mainly production-related working capital needs. It was highlighted by banks that EaSI, a similar type of instrument which is not aimed specifically at the agriculture sector, is successful. The micro-loans disbursed to final beneficiaries could be co-financed pari-passu e.g. 50/50 by the financial instrument and the financial intermediary. For the majority of Greek producers, an amount up to EUR 25,000 is generally sufficient to cover the entire annual working capital needs for the production (e.g. seeds, fertilizers, etc.).

The instrument could also be used in combination with grants, for the financing of small-sized investment plans. In that case, banks could be asked to reduce the percentage of own equity participation that they require from the beneficiaries to provide the financing (e.g. from 20-25% to 10-15%).

With regards to the financing of small investment needs, it was noted that this instrument could be attractive in the context of the expected focus of the RDP on the financing of producers with a turnover ranging from EUR 8,000 and EUR 25,000. For that category of beneficiaries, an indicative average micro-loan amount of EUR 12,500 would represent 50% or more of the beneficiary's turnover, which is high. Hence, such a microfinance instrument would contribute to address the needs of those beneficiaries targeted by the RDP.

The investment subsidies in the context of the RDP are expected to target in priority investment plans amounting to maximum 4x the beneficiary's turnover. For the targeted category of beneficiaries with turnover between EUR 8,000 – 25,000, the total amounts of the investment plans would lie between EUR 30,000 and EUR 100,000. Assuming a 50% grant, the amount to be financed by the beneficiary's own equity participation and bank loans would be within a range between EUR 15,000 – EUR 50,000. In that context, the proposed instrument could be interesting as it could potentially address the investment needs of a large number of small producers.

With the support of the risk-sharing instrument (e.g. 50% co-funding from the financial instrument), banks generally consider that they could provide micro-loans to beneficiaries without collateral in the form of tangible assets. Some banks may envisage the possibility to provide their portion of the total funding of the micro-loans (i.e. up to 50% of EUR 25,000 = EUR 12,500) without any collateral or guarantee (subject to banks' risk management constraints and policies).

A suggestion that was put forward by an actor is to target in particular certain categories of potential beneficiaries, e.g. new farmers and/or those who are changing the modes of cultivation or adopting new agricultural practices.

It was suggested that it is important to provide mentoring to the final beneficiaries alongside the financing. The latter could be coordinated centrally by banks (cooperating with each other for that purpose e.g. through the association of Greek banks), and provided through a decentralised network of certified agronomists and agricultural business planning advisors with expertise in matters related to agricultural production, with the support of relevant institutions such as the Geotechnical Chamber of Greece.

With regards to specific parameters for the design of the instrument:

Co-financing percentages

- It was stressed by interviewees that if the percentage of co-funding by the financial instrument is too low, its impact would be limited.
- A co-financing percentage contribution of 50% by the financial instruments (i.e. 50% of the loan amount funded through the financial instrument) is viewed as a minimum in order to have a meaningful impact on the disbursement of micro-loans.
- One of the actors suggested an indicative percentage contribution of the financial instrument of 60%

Design flexibility

Based on the discussions with banks, it appears that it would be relevant to consider the possibility to finance both working capital and investments in the scope of the financial instrument. However, it was noted that with regards to working capital needs, the microfinance instrument could be seen as competing with the Farmer's Card, as banks generally see the latter as a tool for the financing of producers' working capital needs. Furthermore, producers' demand for financing through the Farmer's Card has been relatively subdued so far, despite the fact that banks provide that financing without guarantees and with particularly low interest rates. The credit granted to producers through the Farmer's Card is up to 80% of the basic direct payment amount, which is approximately equal to 50% of the overall Pillar I subsidy that the producer is entitled to for the year. It is considered that this amount should generally be sufficient to cover a significant part of the production-related expenses of producers. Therefore, further reflections at the implementation stage should be aimed at better understanding the demand and the complementarity of the financial instrument with respect to existing tools including the Farmer's Card and also banks' existing contract farming programmes

An additional point in that context is that, from an operational perspective, it may be cumbersome and difficult for banks to monitor and manage different working capital products aimed at small producers and/or agri-food processing companies. This reinforces the consideration that it may be interesting to envisage the possibility for the bank(s) to have the flexibility to embed their existing working capital loans to producers under the scope and mechanism of the financial instrument, within the limits established in the Omnibus Regulation.

Equity co-investment facility

It should be noted that this instrument was also discussed with the interviewed executives of the commercial banks, even though their specific area of responsibility and expertise concerns primarily lending activities in the agricultural, rather than equity investing. The inputs from these actors with regards to this specific instrument should therefore be taken into consideration in the light of that observation.

Banks generally appear to be relatively reserved about the opportunity to put in place an equity co-investment facility, as the latter would only address the needs of a limited number of beneficiaries that are attractive enough for equity investors.

The interviewees indicated that this instrument would likely benefit either innovative start-ups with fast growth prospects, or (primarily) relatively large or mature firms in the agri-food sector, with attractive characteristics for equity investors (healthy financial situation, transparency towards investors, sound corporate governance, innovation/differentiation, international expansion, fast expected growth). It was also mentioned that this instrument will, by nature, finance only companies that are willing to give out a percentage of their share capital to investors in exchange for equity financing, which also limits the scope of potential beneficiaries.

Hence, banks' perception is that this instrument will concern a limited number of relevant beneficiaries, mainly agri-food processing companies with attractive characteristics for equity investors. Nevertheless, interviewees generally acknowledge that the scope of the instrument could potentially include producers as well. Indeed, there are a few potentially relevant cases of cooperatives or groups of producers that have a good level of organisation and management, differentiated high-quality branded products, and solid business plans.

Another potential category of beneficiaries could be companies that are emerging from a bankruptcy or restructuring process, to the extent that the entity is not an enterprise in difficulty in the meaning of the State aid regulation. e.g. in cases where the banks have capitalised their loans and new capital had been contributed by investors. Such entities could be considered as potential candidates to be included in the scope of the instrument, provided that they have regained a sufficiently sound financial situation and have a clear strategy and solid business plan. Banks do not indicate a significant appetite for this instrument. Banks generally appear to be currently focused on managing risks in the current context; therefore, they do not seem to have a particular interest in developing private equity or venture capital activities. On the contrary, Greek banks generally tended to downsize their private equity activities over the last few years, so they generally do not have a strong appetite for such instruments. Hence, even though a potential interest from private equity or venture capital subsidiaries of banks cannot be excluded at this point, it seems more likely that non-bank-related private equity firms could have a potential interest for deploying such an equity co-investment instrument.

Finally, one of the actors suggested that this equity co-investment instrument could be managed by the EIF directly.

9. Proposed governance structure of the Financial Instruments

This section illustrates the governance options applicable for the implementation of the FI. First, the potential implementation options presented in the ESIF Regulation will be detailed. In addition, the possibility of involving a national financial institution (e.g. ETEAN) in the management of the financial instruments will be discussed. Finally, the proposed governance structure is illustrated.

Options for the implementation presented in Art 38 of the CPR

Following article 37(2) of the CPR, the investment strategy proposed above includes an analysis of the implementation options as presented in Article 38 of the CPR. In the 2014-2020 Programming Period, financial Instruments can be implemented following two options (Art.38 (1) of the CPR):

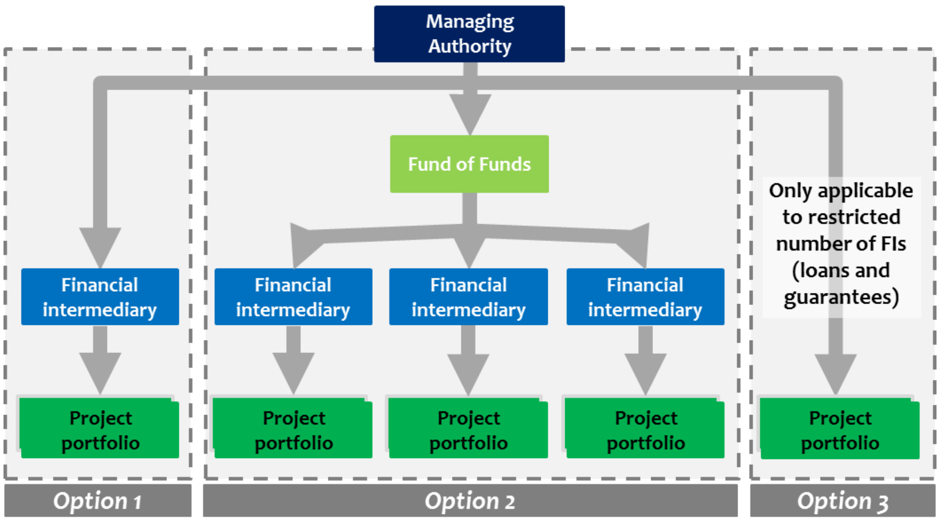
1. Intervene as part of the financial instruments created at EU level and managed directly or indirectly by the EC; and / or
2. Intervene through instruments created and managed by the Managing Authority (or under their responsibility). Article 38 provides three options for managing financial instruments

Following the discussions held with the MA, the development of financial instrument created at EU level and managed directly or indirectly by the EC is not an envisaged option for the MA, hence only the second point appears to be the best alternative. When implementing financial instruments referred to in point 2, the managing authority may:

- Invest in the capital of existing or newly created legal entities, including those financed from other ESI Funds, dedicated to implementing financial instruments consistent with the objectives of the respective ESI Funds, which will undertake implementation tasks; the support to such entities shall be limited to the amounts necessary to implement new investments in accordance with Article 37 and in a manner that is consistent with the objectives of the CPR.
- Assign execution tasks to mandated entities, entrusting its implementation to (a) the EIB, and (b) international financial institutions in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority; and (c) a body governed by public or private law.
- The MA undertakes the implementation of the tasks directly, in the case of financial instruments consisting solely of loans or guarantees.

The following figure presents the three options provided in Article 38 for managing financial instruments.

Figure 29: Options for implementing Financial Instruments managed by the Managing Authority under Article 38:



A detailed analysis of each of these possibilities will contribute to shed the light on the advantages and disadvantages of each structure, helping the Managing Authority to take a well-informed decision for the implementation of the governance structure. The relative advantages and drawbacks of these three options are outlined below.

Table 71: Comparison of the governance options

	Option	Pros	Cons
1	Invest in the capital of existing or newly created legal entities	Provides a good control of the implementation conditions to the MA	Risk of conflict of interest, risk of political influence and limitation of deployment options The creation of a legal entity implies heavy implementation procedures and delays in implementation Possible dispersion of FIs according to the specialisations of legal entities created: limited strategic visibility on all instruments, little flexibility between instruments, separated reporting for each instrument Uncertainty on the actual availability of qualified fund managers in Greece Cost of carrying out a call for tenders to select the Fund Manager
2	Assign execution tasks to mandated entities (Fund-of-funds)	The FoF could be operational within a relatively short period of time Reduced risk of political influence and increased deployment options through the selection of financial intermediaries Possible financial contribution of the managing entity at the Fund-of-Funds level Enables synergies between financial instruments Lower risk of conflict of interest between the FoF manager and the selected financial intermediaries The appointed FoF Manager has the expertise & experience in managing FIs The FIs could be grouped under a single FoF, allowing: A strategic vision of all instruments, guaranteeing a consolidation of the monitoring and reporting of all FIs specified under the same priority axis Direct intervention by the MA in the implementation of FIs (within the framework of setting up a Steering Committee) With regards to the proposed FIs, a very high visibility of the	MA has no direct control in the implementation of the FIs (a disadvantage which may also be an advantage in the event of a lack of competent resources within the MA). However, it is recommended to set up a Steering Committee for the follow-up of the MA Terms of the FoF mandate management or the mandate management of a single FI to be negotiated (with each of the future managers: The Fund-of-funds and / or each FIs) Visibility of the MA is smaller than in direct management, requiring specific and dedicated communication / coordination arrangements between the MA and the Fund Manager Cost of carrying out a call for tender to select future FoF manager in case this is not an international financial institution or a national promotional bank.

	Option	Pros	Cons
		MA and the use of EARDF resources Possible synergies between FIs Assurance that the financial benefits is passed on to the final recipients Ensuring transparent selection and that the Terms of Agreements (Financing Agreement and Operational Agreement) are in line with Annex IV of the CPR	
3	Direct implementation by MA (or by an intermediate body)	Does not require a funding agreement, but requires the development of a "strategy paper" to be submitted to the Monitoring Committee (the essential elements of which are set out in Annex IV of the CPR) EC payment system similar to that of subsidies i.e. "ex-post" reimbursement of loans disbursed or guarantees incurred If the MA has sufficient technical know-how and the instruments have proved necessary in the ex-ante assessment, relatively rapid implementation and development of potentially existing activities Avoids additional monitoring and reporting procedures More direct control of implementation conditions Cost of can be covered by the OP's Technical Assistance budget	Requires legal / regulatory, technical and human skills to set up such instruments within the MA Additional resources may be envisaged for the monitoring and reporting of past operations Subject to national legislation which must explicitly authorise the MA to grant loans or issue guarantees Impossible to finance equity or quasi-equity Limited synergies between FIs Advance payments or ex-post reimbursement not possible Management cost and fees not eligible Risk of conflict of interest, risk of political influence and limitation of deployment options Higher audit risks and risks of ineligibility of expenses

In view of the discussions held with the Ministry, the MA does not plan to manage or implement directly the FI (Option 3). Given the number of financial instrument proposed as well as heir large scope of action, it would be convenient to set up a Fund-of-funds (FoF) which would group together the various financial instruments in Greece.

The MA can decide to entrust a FoF with the management of the FIs according to the criteria provided for in Art. 7 of the Regulation (EU) No 480/2014, if the EIB Group or a national development financial institution is chosen. The FoF is an umbrella fund set up to invest via financial instruments, allowing flexibility and diversification of the investment, and thereby reducing the associated risks. In case e of multiple funds, the establishment of a FoF can also generate significant economies of scale.

The FoF structure offers several advantages:

- **Rationalisation and optimisation for all FIs**, including the possibility of obtaining a critical size of financing, allowing for synergies between instruments. This also offers the possibility to carry out calls for expressions of interest to attract financial intermediaries and ensuring a competition between them and the harmonisation of monitoring and reporting methods, optimising treasury management;
- **An overview of the use of ESI Funds** in the form of financial instruments and, more generally, of the MA's undertaking for the final recipients;
- **Co-investments from public and / or private players** will be possible at the different levels (Fund of Funds, each sub-fund, including each financial instrument or financial intermediary, and for each project).

If the MA decides not to use the Fund-of-Funds approach, each instrument will be therefore managed separately, which should have been selected through a competitive tender in line with the procurement directive. In this case, the MA directly needs to manage the contractual relations, e.g. payments, reporting, verification with each fund manager. This would require the setup of a sizable team in the MA that has the expertise to manage the FIs.

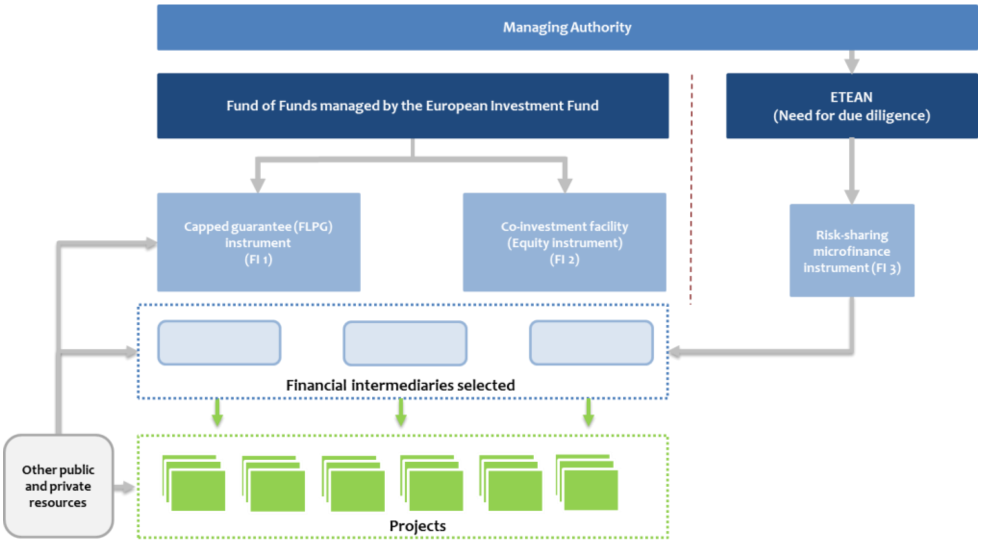
In addition, when selecting a financial intermediary in charge of implementing the financial instrument, the managing authority shall take due account of the nature of the financial instrument to be implemented, the body's experience with the implementation of similar financial instruments, the expertise and experience of proposed team members, and the body's operational and financial capacity. The selection of the final intermediary shall be transparent and justified on objective grounds and shall not give rise to a conflict of interest.

Proposed governance structure

With regards to the governance structure of the proposed financial instruments, it would be interesting to envisage a dual approach, in which the first loss portfolio guarantee and the equity co-investment facility would fall under a FoF structure, implemented by an entrusted mandated entity (e.g. the EIF), while the risk-sharing micro-loan instrument could potentially be set up by a mandated entity in a separate FoF scheme, subject to the possibility to identify an experienced fund manager within the Greek market– ETEAN –. Nevertheless, this third instrument could also be included within the FoF, depending on the final decision of the MA with regards to the capacity of the mandated entity to implement the FI. Hence, this possibility is an option subject to the final decision of the MA.

The structure of such governance is presented in the figure below.

Figure 30: Proposed governance structure:



Indeed, the MA could mandate the EIF to act as the manager of the FoF. This option would enable the MA to benefit from the experience and expertise of the EIB Group to ensure an efficient and rapid establishment of the financial instruments within the Fund-of-Funds. The EIF would then be responsible for the discussions with potential financial intermediaries to determine their appetite to participate in calls for expressions of interest prior to a transparent selection of the financial intermediaries. Past experiences suggest that the set-up and launch of a fund managed by the EIB Group is typically the fastest option for the implementation of the FoF.

Rationale behind the implementation of the FoF by a mandated entity

This option implies that the FoF would be managed by a mandated entity, such as for instance the EIF. This management method would make it possible to develop new investment opportunities by using the experience of the EIF as well as their expertise in the matter to facilitate the management of the FoF. In addition, choosing the EIF as manager of the FoF will ensure an expedite implementation of the FoF and the financial instruments within it, thus reducing the time needed for the establishment and functioning of the financial instruments. Furthermore, using the experience of the EIF will be also convenient when designing the Funding Agreement and the underlying Operating Agreements.

A funding agreement between the EIF and the Managing Authority should be drafted in accordance to Article 38 and Annex IV of the CPR, establishing the roles and responsibilities of each counterpart (MA and EIF). Typically, EIF will pursue the investment strategy through the selection of financial intermediaries, performing the required due diligence, negotiating the operational agreements and monitoring the implementation of the financial instruments. According to Article 46 of the CPR, EIF should report on a monthly basis and will provide an Annual Report summarising the activities conducted.

Following the market testing with key actors in the Greek financial market, a real appetite has been detected from key financial institutions to implement these financial instruments. The EIF will need to establish transparent procedure to select the financial intermediaries. In order to ensure a sufficient absorption of the funds and awareness with regards to the products offered, it is advisable to select at least three financial intermediaries to translate the funds at the level of beneficiaries, also ensuring a competition between the financial intermediaries.

The precise terms and conditions for the implementation of each financial instrument should be discussed and agreed with the selected intermediaries. According to the regulation and in order to assure an efficient use of public money, the selection of the financial intermediaries should be initiated through a Call for Expression of Interest. The EIF would be in charge of preparing and publishing of the call documentation and then carrying out the selection process. At this stage, it is advisable that the Call for Expressions of Interest should be open for approximately two months, giving potential financial intermediaries enough time to prepare competitive proposals. During this time, it would we important to raise the awareness with regards to this Call for Expression of Interest so as to ensure a large number of participants. Following the deadline of the Call for Expression, the EIF will be in charge of analysing the application received based on the following criteria:

- A formal assessment of the application
- A qualitative assessment of the application
- A financial robustness of the applicant and portfolio assessment

Following this preliminary screening of the potential financial intermediaries, the EIF should undertake a detailed analysis of the each preselected candidate. These include:

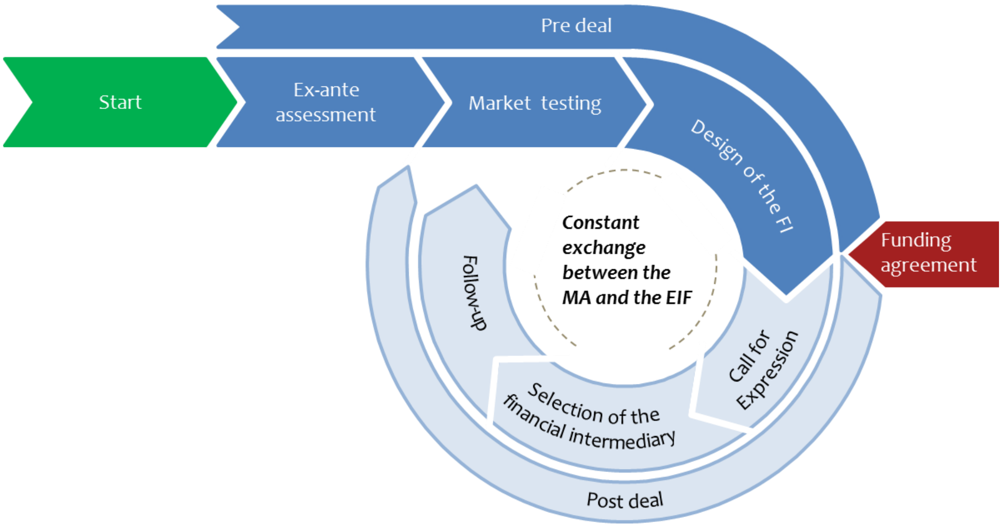
- legal capacity to carry out the implementation tasks of the financial instrument under national and EU law;
- economic and financial capacity;
- organisational capacity: organisational structure, governance framework, internal controls, accounting system;
- experience with implementation of similar financial instruments.

Finally, applications meeting the formal requirements should be reviewed against the following award criteria, including:

- track record of the financial intermediary;
- implementation strategy: origination, marketing/visibility, duration, type of beneficiaries targeted, maturity, etc.;
- advantages to be passed on to final recipients, in particular in case of FLPG;
- ability to raise resources for investments in final recipients;
- management costs and fees;
- other specific requirements (e.g. reporting requirements, audit).

In addition, an investment board can be set-up by the Managing Authority. This investment board will represent the position of the region, fully involved the implementation of the investment strategy, while the would EIF act as the Secretariat. This cooperation between the EIF and the MA would be structured as follows:

Figure 31: Cooperation process between the EIF and the managing authority:



Rationale behind the selection of ETEAN as fund manager

The managing authority may entrust tasks of implementation of financial instruments to a 100% publicly owned entity (for instance a national development bank) over which it exercises a control which is similar to that which it exercises over its own departments provided this entity carries out the essential part of its activities for the controlling contracting authority or authorities. Selection of financial intermediaries by in-house entities must respect public procurement rules and principles provided that the in-house entities are themselves contracting authorities. Therefore, the Managing Authority could entrust the implementation of the risk-sharing micro-loan instrument to a financial institution established in Greece under the control of a public authority, such as a National Promotional Bank, under its supervision. Following the market assessment, ETEAN (The Hellenic Fund for Entrepreneurship & Development) has been identified as a potential institution to manage this financial instrument. Nevertheless, this financial instrument could also be integrated in the FoF managed by the EIB Group, depending on the assessment made by the MA with regards to the capacity of ETEAN to implement the FI.

An important element in that respect is that the market testing has indicated that the major Greek commercial banks would be interested to implement both the first loss portfolio guarantee and the risk-sharing micro-loan instrument in order to broadly cover the needs of the different categories of beneficiaries (with the possibility to reallocate funds between the two instruments, depending on market demand). This would only be possible if the fund manager is the same for both financial instruments.

ETEAN supports small and medium sized enterprises to ensure their corporate governance and facilitating mutual cooperation with the banking system and its co-investors, building synergies to create added value for SMEs. To fulfil its institutional role, ETEAN monitors closely the developments in the SME market and promotes the upgrade of the services provided, the re-allocation and leveraging of funds and the design of new attractive revolving financial products, with an emphasis on expanding the range of recipients.

In addition, ETEAN is the only 100% state backed financial intermediary in Greece, at the supervision of the Bank of Greece. Its main objective is to harmonise EU regulation and local banking practices for the benefit of the national SMEs, particularly through the provision of advantageous financing solutions for business entities having limited access to traditional bank financing. As such, ETEAN acts as the unique fully fledged Greek provider and manager of guarantees and repayable credit enhancement facilities for Greek SMEs. In addition, it holds solid working relations with the banking sector, monitoring the real needs of the Greek MSME market and accommodating them efficiently. In that context, the Fund has currently a product platform offering financial solutions to SMEs, including SMEs in the agricultural sector.

Therefore, the agency proves a solid track-record and experience in monitoring guarantees and other financial engineering instruments targeting the agricultural sector. In addition, it disposes of a broad knowledge of the Greek market and its financing needs, being recognised by agricultural holdings and food processors as a key actor to support their access to finance. For these reasons, ETEAN could potentially fulfil the role of fund manager of the risk-sharing micro-loan instrument. Nevertheless, one of the main factors for a successful microfinance scheme is the simplicity of the scheme. In fact, microfinance schemes presenting a complex organisational set-up tend to discourage potential beneficiaries, thus having an impact on the absorption of the funds and the final objective of supporting the targeted groups. In this regard, limiting burdensome and complexity of the application process (e.g. through the development of a standardised application procedure) would enable to speed up the loan disbursement process.

Should the Managing Authority decided to implement the risk-sharing micro-loan instrument through ETEAN (or any other existing entity), the managing authority would benefit from a simpler setting up, as there is no formal establishment of a fund-of-funds. Nevertheless, the Managing Authority should conduct a due diligence in order to ensure that ETEAN has the capacity to establish the FI and to negotiate the operating agreements with the selected financial intermediaries. This will enable the Managing Authority to ensure that ETEAN has the capacity to effectively implement and co-finance the financial instrument and to determine the risks associated to the management of the financial instrument.

10.Next steps

In order to ensure an effective implementation of the financial instruments proposed in this study, several steps should be followed. These steps are primarily recommendations for implementation, do not refer to the related European regulations and are not a requirement of the ex-ante evaluation. The steps indicated below are intended to facilitate and to ensure a rapid and successful implementation of the financial instruments.

The following table presents the action plan and all steps needed for the implementation of the investment strategy, from the validation of the ex-ante assessment and the strategic choice of the financial instruments, until the monitoring and evaluation of the results obtained.

Table 72: Action plan for the implementation of the investment strategy:

Phase	Steps
Modification of the RDP	Notification to the European Commission
	Amendment of the RDP
Take ownership of the results of the ex-ante assessment	Validation of the results and confirm the strategic orientations based on the ex-ante results
	Communication of the results (i.e. the IF to be modified and/or created the governance structure), including the overall approach (publication of executive summary within 3 months)
	Political decision
Communication and change management	Elaboration of a communication plan: Publish the executive summary, communicate the investment strategy to the relevant stakeholders, and how the latter will be implemented
	Change management in the administration in view of the implementation of the financial instruments
Organisational set-up	Governance body for the monitoring of the activities
	Identification and selection of the fund (of funds) manager
	Negotiation and signature of the funding agreement
Selection of the financial intermediaries	Identification of potential financial intermediaries
	Definition of the procedure to select the financial intermediaries
	Negotiation of the operational agreements with the financial intermediaries
Monitoring and evaluation	Definition of performance indicators for each financial instrument
	Monitoring and review of the results
	Annual reports

The following sections detail each of these steps. Following the description of each step, an indicative timeline for the implementation of this action plan is presented.

Modification of the RDP

Prior the implementation of the proposed investment strategy, the Managing Authority should notify the European Commission about its willingness to modify the RDP to include the possibility of using financial instruments. In order to be able to implement financial instruments, the Managing Authority must, first, notify its intentions to the European Commission and, secondly, amend the RDP.

Notification to the European Commission

A recent amendment of the Implementing act allows managing authorities to submit unlimited modifications related to an FI (the rest are limited to one per year). Since the proposed investment strategy will form part of the basis for negotiating the funding agreement, the MA should consider two different approaches to the proposed investment strategy in the ex-ante assessment, taking two extremes[115]:

- **A very detailed approach, specifying product terms and conditions**. The managing authorities should be prepared to consider updating the ex-ante assessment, especially if funding agreement negotiations highlight different parameters. This can occur as either a market situation evolves after the market assessment and before funding agreement negotiations are completed, or market sensitive information only emerges during funding agreement negotiation;
- **A framework approach, offering higher level detail**. The managing authorities may find that this approach gives flexibility during funding agreement negotiations. Such higher-level detail will widen possibilities – although possibly not all positive – during negotiation of the funding agreement and will require a different negotiation strategy from the managing authority to ensure adequate focus is maintained.

Amendment of the RDP

The Managing Authority should notify the European Commission (DG AGRI) through the dedicated online portal, in which the updated version of the RDP shall be uploaded for EC's revision. A supporting document to guide the MA in the modification of the RDP is attached to this study, shedding light on the information required in order to undertake its modification, as required by the regulation. Precise conditions are available at the SFC (System for Fund Management in the European Union) of the Rural Development Programme[116].

Given the willingness of the Managing Authority to implement the financial instruments in a short period, it is suggested that the modification of the RDP would be conducted in parallel with the approval of the ex-ante assessment and the negotiation of the funding agreement with the selected

[115] European Commission, European Investment Bank, Methodological handbook for implementing an ex-ante assessment of agriculture financial instruments under the EAFRD https://www.fi-compass.eu/sites/default/files/publications/209775_EAFRD_EXANTE_ASSESSMENT_HANDBOOK_0.pdf

[116] SFC Support Portal European Commission https://ec.europa.eu/sfc/en/2014/support-ms/PRGEAFRDP/quickguide

bodies in charge of implementing the financial instruments. This would faster the implementation process, thus reducing the time needed to setup the proposed investment strategy.

The MA may draw from experience of other MAs that already have adapted their RDPs to the use of financial instruments, for example the French Region Languedoc-Roussillon[117] Regarding technical questions on the amendment for financial instruments the MA can ask DG AGRI for support. Alternatively, in case the MA decides for an implementation by the EIB Group, the EIF can support the MA which already has helped in the case of Languedoc-Roussillion and other MAs in France and Italy.

Take ownership of the results of the ex-ante assessment

Validate the results and confirm the strategic orientations based on the ex-ante results

The first step following the submission of the final report is the validation of the ex-ante assessment by the Managing Authority. Prior to the validation, the MA can amend the proposed recommendations indicated in this study and decide the precise financial contribution for each financial instrument. Further to this, the MA will be required to analyse and – if so – validate the implementation options, particularly with regards to the proposed governance structure.

The validation of the ex-ante assessment implies that the MA agrees on the data and methodology utilised, the identified gaps and the proposed solutions presented in the investment strategy. In addition, the precise group of final beneficiaries should be defined for each financial instrument. Furthermore, the MA should set the total budget available for the implementation of the financial instruments. The amounts allocated should be consistent with the financing gaps identified in the market assessment and the potential leverage effect that could be achieved through additional private and public sector contributions. The MA should also decide on the implementation strategy of the financial instruments, particularly with regards to the proposed governance structure, in line with the alternatives presented in this report and based on the applicable EU regulations.

Nevertheless, the responsibility of the final decision remains with the MA, therefore the abovementioned investment strategy and governance structure are propositions enabling the MA to take a well-informed decision when implementing the financial instruments. Once the MA has validated the ex-ante assessment and decided the implementation strategy, it will be highly recommended to develop a detailed implementation plan, communicating this decision to the relevant stakeholders involved. These steps are summarised in the following sub-sections.

Communication of the results

Following the validation of the final report, the MA is encouraged to publish a summary of the ex-ante assessment, ideally within three months of its finalisation. The idea is to use the results of the ex-ante assessment to raise the awareness of potential financial intermediaries that could be interested in playing a role in the implementation of the financial instruments, but also to increase the awareness of the potential beneficiaries and targeted publics with regards to these new sources of financing.

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[117] RDP of the French Region LCR. http://www.europe-en-france.gouv.fr/content/download/33525/335446/version/

In addition, the MA should share a synthesis report of this study with key relevant stakeholders that participated in the interviews conducted in the context of this study.

Political decision

The final choice of the instruments and the governance structure will rely on the decision made by the Ministry. The final decision might be influenced by many different factors. Some of the main decision criteria are listed below:

- Specific objectives outlined at political level;
- Amount of available national public funds (national contribution);
- Amount of available ESI funds (EAFRD);
- Potential use of EFSI resources;
- Time constraints related to the consumption of ESI funding against expected implementation duration and market absorption capacity, especially considering the limitations for the set-up of equity instruments where the funding agreement should be signed by end of 2018;
- Availability and competences of the people in charge of the implementation.

In order to facilitate this decision making process, that could be sensitive or challenging, the following aspects could be taken into account:

- Elaborating and assessing different scenarios could facilitate the decision making process against the selection criteria;
- If there is not a strong emerging scenario, the decision criteria could be weighted by importance (high, medium, minor).

Finally, the approval of the political decision shall follow the relevant administrative and political procedures of the MA. This could impact the overall deadlines of the project.

Communication and change management

Elaboration of the communication plan

It is advisable that the MA would initiate discussions with relevant stakeholders to communicate its envisaged investment strategy to support the financing of the agricultural and agri-food sector in Greece, and how the latter will be implemented. Such communication would contribute to generate awareness for the MA's strategy to support the financing of the agricultural and agri-food processing sector through the use of dedicated financial instruments. It would be advisable to target both demand-side stakeholders in view of educating the market with regards to the advantages of financial instruments and creating appetite for the envisaged financial instruments, and supply-side stakeholders (financial intermediaries) to tease the appetite of financial intermediaries for the deployment of the contemplated instruments.

Prior to the launch of the call(s) for expressions of interest in view of the selection of financial intermediaries to deploy and manage the financial instrument, it would be advisable to organise an information and consultation session with financial intermediaries, in order to communicate the MA's investment strategy as well as the process and guidelines for the selection of the financial intermediaries.

Such sessions may also be valuable to increase financial intermediaries' appetite for the financial instruments, and collect additional feedback from financial intermediaries with regards to the contemplated financial instruments.

Change management in the administration in view of the implementation of the financial instruments

After the completion and acceptance of the ex-ante assessment, and the political decision to use financial instruments to support the financing of the agricultural sector, it could be valuable for the MA to reflect on change management needs in relation with the implementation of financial instruments.

For instance, it may be worth considering the opportunity to organise specific workshops with the MA and public services that may be involved or concerned, directly or indirectly, by the implementation of the financial instruments: awareness/information workshops or training sessions. In particular, a key aspect that could be addressed is the role of the MA (and public services in general) in the implementation and governance of the financial instruments and the consequences of this role in terms of organisation and/or competences.

Should the MA decide to follow the proposed governance structure presented in the previous chapter, it would be advisable for the MA to engage with the EIB Group in view of discussing the operational aspects of the implementation and governance of the selected financial instruments. Indeed, this would allow the MA to benefit from the experience of the EIB Group in designing, testing and implementing the financial instruments, while allowing a faster implementation of the governance and organisational set-up of the financial instruments.

Organisational set-up

This step involves the precise establishment of the investment strategy, from the definition of the governance body in charge of coordinating and monitoring the activities, until the signature of the funding agreement with the selected fund manager(s). At this stage, the MA should have already a clear view on what financial instruments to implement, the envelopes for each financial instrument and the proposed governance structure for the management of each financial instrument.

Hence, following the design of the investment strategy presented in this ex-ante assessment, the MA will be required to organise the set-up of the financial instruments prior its implementation. The following sub-sections detailed the key steps required to set-up each financial instrument.

Governance body for the monitoring of the activities

As detailed in the previous section, different governance arrangements are possible. Typically, the governance body functions as a legal entity whose main responsibility is to give the strategic orientations of the activities of the fund manager. The governance body will also be in charge of identifying needs in terms of budgetary resources and the resources necessary for the set-up and implementation phases.

In case the MA does not have the capacity to undertake these tasks internally, it will have the possibility to externalise the activities related to the implementation of the investment strategy, including the selection of the fund manager or the financial intermediaries to an external service provider under its supervision.

Selection of the fund manager

As mentioned in the proposition of the governance structure, the MA may either undertake implementation tasks directly, invest in the capital of a newly created or existing legal entity or entrust implementation tasks to other bodies. In the latter case, Article 38(4)(b) of the CPR proposes different possibilities for entrusting financial instruments implementation tasks. In case the financial instruments are implemented through a structure including a fund of funds, typically two levels of bodies will be selected: the body implementing the fund-of-funds (fund manager) and bodies implementing the specific financial instruments (financial intermediaries).

In principle, services performed by bodies implementing financial instruments set up under the ESIF regulatory framework fall within the scope of public procurement rules and principles. Therefore, the selection of such entities (whether bodies implementing funds of funds or financial intermediaries) must comply with applicable regulations. Different rules and principles apply for the implementation of a FoF via the EIF or via ETEAN (100 government owned entity).

The EIF is identified in the Art. 38 of the CPR among the bodies to whom tasks of implementation of financial instruments may be entrusted by managing authorities. Therefore, mandates with regards to the management of financial instruments between managing authorities and the EIF may be concluded directly (i.e. without public procurement procedure). If the contract is directly awarded by the MA to the EIF for the implementation of a fund of funds, the EIF will select financial intermediaries to implement financial instruments on the basis of its internal rules and procedures.

With regards to ETEAN, it should be noted that the sole fact that both parties to an agreement are public authorities does not rule out the application of public procurement rules. Nevertheless, the application of public procurement rules must not interfere with the freedom of public authorities to perform the public service tasks conferred on them by using their own resources, as it would be the case if the MA decided to choose ETEAN as the fund manager of one or several FIs. The conditions under which such a direct award is possible have subsequently been defined and enlarged by Directive 2014/24/EU. The fulfilment of these conditions should be carefully assessed by the MA prior to the selection of the entity as fund manager. In addition, the criteria defined in Article 7(1)(a) to (f) and Article 7(2) first paragraph of the CDR establish the legal, financial, economic and organisational capacity of the body to be entrusted with implementation tasks of the financial instrument. Therefore, the MA should ensure this minimum set of selection criteria are met, thus conducting a due diligence on ETEAN.

Summary box 1: Considerations with regards to the potential selection of a national fund manager for the administration of financial instruments:

The Managing Authority may envisage the possibility to select a national fund manager, such as ETEAN, to act as the fund manager for the administration of (some or all of) the contemplated financial instruments.

In that context, it would be advisable for the MA to evaluate the relative strengths and/or weaknesses of potential fund managers against a number of criteria, for the purpose of deciding whether to select a particular manager to implement financial instruments:

1. Organisation, human resources and competences with regards to the implementation of the contemplated financial instrument(s)
2. Back-office functions and systems for the processing, recording, and reporting of transactions in the context of the administration of the financial instrument(s)
3. Relevant previous experience with the management of similar instruments
4. Successful track record with the implementation of similar instruments, e.g. in terms of amounts disbursed to final beneficiaries (relative to the total amount available for disbursements to such beneficiaries)
5. Experience and capacity to manage the process for the calls for expressions of interest in view of the selection of financial intermediaries who will disburse funds to final beneficiaries with the support of the financial instrument(s), and the entire process for the actual selection of the beneficiaries
6. Financial strength and creditworthiness
7. Corporate governance of the organisation (appointment, composition, and functioning of governing bodies)

8. Reputation and credibility of the fund manager (based on perceptions of the MA and key supply-side stakeholders)

Such operational, financial, and market due diligence of the candidate fund manager would provide the MA with the necessary evidence and comfort with regards to the capacity of the fund manager to properly and efficiently administer the financial instrument(s).

With regards specifically to the financial strength of the manager, it may be appropriate to examine in particular any needed state intervention to support the financing of the institution, taking into account potential public finance constraints.

Elaboration of the funding agreement

The funding agreement certifies the cooperation between the fund manager and the MA, establishing the precise conditions between both parties and covering the modalities for the remuneration of the fund manager. In short, the funding agreement is the legal commitment between the MA and the fund manager in which the specific conditions are established. The funding agreement must include, inter alia:

- The investment strategy, including all implementation arrangements, the financial products offered, target beneficiaries and any specific conditions; and
- Business plan, including the expected leverage effect and/or the multiplier ratio.

Selection of the financial intermediaries

Identification of potential financial intermediaries

As mentioned above, the communication strategy following the validation of the ex-ante assessment is a key element for attracting potential financial intermediaries and for raising the awareness of both potential intermediaries and beneficiaries with regards to the proposed financial instruments. The market testing undertaken during this ex-ante assessment has provided indications of the interest of financial institutions to participate in an eventual call for tenders for managing the proposed financial instruments, whereas the survey of potential beneficiaries conducted in support of the ex-ante assessment has indicated strong demand for financing support.

In addition, the organisation of a consultation session with potential financial intermediaries having expressed their interest in the financial instruments would allow the MA to present the precise conditions under which it wishes to set up the financial instruments. In addition, this consultation session would allow the potential financial intermediaries to develop a deeper understanding of the expectations of the MA, thus ensuring that the potential financial intermediaries have a comprehensive understanding of the requirements prior the submission of their offers. This consultation session should comply and not interfere with the required procurement steps.

The following description can vary depending on the selected public procurement procedure.

Definition of the procedure to select the financial intermediaries

When the MA awards ETEAN directly as FoF manager with the implementation of the risk-sharing micro-loan instrument, ETEAN still has to select the financial intermediaries implementing the financial instrument according the rules of the procurement directive.

On the contrary, the EIF, as manager of the FoF, will select financial intermediaries for its instrument via an expression of interest procedure.

The selection of the financial intermediaries would be structured in two main steps:

- **Call for expression of interest**: The EIF will invite the potential financial intermediaries to submit an expression of interest (EoI) to participate in the selection procedure. The Expression of Interest shall include the applicant's presentation, the supporting documents, the declaration of absence of conflict of interest and statements regarding situations of exclusion. This EoI will first be assessed against the exclusion and eligibility criteria . Then the eligible EoIs will be assessed against the selection criteria, which should be defined in the terms of reference. In addition, all financial Intermediaries shall acknowledge the Anti-Fraud Policy of the EIF.
- **Selection process**: All EoIs will be examined by the EIF on a comparative basis, taking into account the selection criteria. The further selection based on the quality assessment criteria, and the due diligence process if any, will follow the standard procedures and guidelines applied by the EIF. The evaluation of proposals at this phase will be conducted under competitive terms, and the most economically advantageous applicant(s) will be selected (according to the award criteria). The number of selected applicants may not be limited to one. As mentioned in the governance structure, and provided there are enough funds available to allocate to the financial instruments, it is advisable to select at least three financial intermediaries in order to increase the awareness and absorption of the funds available within the financial instrument.

  When selecting a body to implement a financial instrument, the MA shall satisfy itself that this body fulfils the following minimum requirements as per Article 38:

  - entitlement to carry out relevant implementation tasks under Union and national law;
  - adequate economic and financial viability;
  - adequate capacity to implement the financial instrument, including organisational structure and governance framework providing the necessary assurance to the MA;
  - existence of an effective and efficient internal control system;
  - use of an accounting system providing accurate, complete and reliable information in a timely manner;
  - agreement to be audited by Member State audit bodies, the Commission and the European Court of Auditors.
  - In addition, the nature of the financial instrument to be implemented, the body's experience with the implementation of similar financial instruments, the expertise and experience of proposed team members, and the body's operational and financial capacity should be taken into account. Precisely, the following minimum requirements should be met:
  - robustness and credibility of the methodology for identifying and appraising final recipients;
  - the level of management costs and fees for the implementation of the financial instrument and the methodology proposed for their calculation;
  - terms and conditions applied in relation to support provided to final recipients, including pricing;
  - the ability to raise resources for investments in final recipients additional to programme contributions;
  - the ability to demonstrate additional activity in comparison to present activity; and
  - proposed measures to align interests and to mitigate possible conflicts of interest.

Negotiation of the operational agreements with the financial intermediaries

Following the publication of the call for expressions of interest and the selection of the financial intermediaries, the selected applicant(s) shall be invited to negotiate and define the final terms and conditions of the Operational Agreement with the EIF prior to the final signature of the agreement.

Monitoring and evaluation

Definition of performance indicators for each financial instrument and auditing

The proposed investment strategy outlines the main performance indicators to be measured for each financial instrument. These performance indicators should be monitored closely in order to make sure that:

- The implementation of each financial instrument meets the objectives for which they have been established (e.g. results aligned with the targeted priorities);
- The available budget is not used in an inefficient way.

The performance indicators must enable the identification of the strengths, as well as the possible weaknesses or domains of improvement, allowing the MA to undertake the necessary corrective/preventive actions.

In addition, the MA should carry out management verifications throughout the programming period and during the set-up and implementation phases of the financial instruments in accordance with Art. 125(4) of the CPR. The Audit Authority could carry out an audit covering the MA, the FoF and the financial instruments.

Finally, it is advisable to define the performance indicators at the financial instrument level in line with the reporting requirements of the MA.

Monitoring and review of the results

The MA should take into account the fact that market conditions and investment trends may vary before and in the course of the implementation of the investment strategy. Hence, Article 37 (2) (g) of the CPR requires the ex-ante assessment to comprise provisions for its revision and update, in case the MA considers that the findings of the ex-ante assessment no longer match the market conditions. The main drivers of change which may require an update are the following:

- Poor accuracy of the proposed targets compared to results;
- Inadequate volume of the support scheme compared to observed demand;
- Miscalculation of the risk taken by the FI;
- Changes in the political settings;
- Improvement of the economic conditions;
- Market failures are fully addressed and there is no longer a need for intervention.

The causes of the deviations from the findings may be due to a problem in the execution of the original objective, being necessary to re-estimate the findings of the ex-ante assessment. This review will be needed if any if the following occurs:

- **Changes in the context**: Miscalculations may arise in the review of the results of the market failure initially estimated. In this case, a correction should be made and the estimated financing needs should be adjusted. When the analysis of the market failure is correct but the initial situation has changed, a new analysis should be carried out to obtain a new estimate of the financing gaps;

- **Inability to absorb funds**: Another possible cause of deviations from the initial targets could be linked to the potential for absorbing funds (underestimation, in the case of accelerated consumption of funds, or overestimation, if delays occur). In this case, it should be assessed if this is the result of an insufficient capillarity of the selected managers to the recipients or if it is necessary to rethink the characteristics of the financial products and the conditions under which they are offered, due to changes in the demand. In such case, the main elements that should be updated would be the FI's consistency with the overall objectives and the added value of the FI. If the absorption of the funds is lower than expected, a re-calibration of the size of the instrument may be envisaged, with a potential reallocation of excess funds to other financial instruments.
- **Risks of default**: If the risk of default exceeds the limits foreseen by the financial intermediary, the capacity to reuse the amounts committed by the FI will be reduced. In such cases, the minimum credit quality required of the final recipients to whom the FI is directed should be reconsidered and, if necessary, the expected results presented in the ex-ante assessment should be revised.

It is difficult to estimate the level of detail required to update the evaluation. A drastic change in the economic environment would require a complete update of the ex-ante evaluation. However, a gradual change may only require a partial update and therefore it may be sufficient to review only a section of the ex-ante assessment. A full update of the ex-ante assessment should contemplate, at least:

- A re-estimation of market deficiencies, suboptimal investment situations, and investment needs in current FI areas.
- A revision of the added value of the FI, the coherence with respect to other forms of public intervention for the same market, as well as the possible implications in terms of State aid.
- An assessment of the additional public and private resources from which the financial instrument could benefit, or if those that had been previously assessed remain. Furthermore, the preferential remuneration should be reviewed in line with the new estimations.
- Update the lessons learned with new lessons from similar instruments since the last ex ante evaluation.
- Review the proposed investment strategy, including the execution measures that have been proposed in accordance with the provisions of Art. 38.
- Recalculate the expected results, updating them on the basis of those already achieved, and according to the way in which the IF is expected to continue contributing to each specific objective.

Annual reports

As per article 50 of the CPR, each Member State shall submit to the Commission an annual report on the implementation of the programme in the previous financial year. Each Member State shall submit to the Commission an annual implementation report for the EAFRD by the deadline established in the Fund-specific rules.

Annual implementation reports shall set out key information on the implementation of the programme and its priorities by reference to the financial data, common and programme-specific indicators and quantified target values, including changes in the value of result indicators where appropriate, and the milestones defined in the performance framework. The data transmitted shall relate to values for indicators for fully implemented operations and also, where possible, having regard to the stage of implementation, for selected operations. They shall also set out a synthesis of the findings of all evaluations of the programme that have become available during the previous financial year, any issues which affect the performance of the programme, and the measures taken.

Additionally Member States have to report on an annual basis on financial instruments according to article 46 of the CPR information regarding the set-up of the instrument, including the ex-ante assessment, the description of financial instruments as well as the financial and non-financial performance. It is important that these reporting requirements are translated into the funding agreement and further passed on to financial intermediaries. Practical advice for managing authorities about financial instrument reporting requirements have been provided through an online learning seminar on *fi-compass*[118].

Indicative calendar for the implementation plan

The following table outlines the key steps that the MA should take in the coming months in order to implement the financial instrument(s). This calendar is indicative and based on the action plan presented in the previous sub-sections, and aims to provide the MA with effective guidance for the implementation of the financial instruments proposed. This calendar should therefore be seen as a roadmap to help the MA to understand the steps and timing for an effective implementation.

It is important to note that some of the activities outlined in the table below can be run in parallel, and therefore this calendar should not be seen as a linear process but as a relatively flexible action plan, depending on the capacity of the MA to coordinate these activities.

Nevertheless, should the MA decide to modify investment strategy or the governance structure, the present implementation calendar should be modified accordingly, as this implementation calendar is based on the current proposed investment strategy and governance.

Table 73: Indicative calendar for the implementation plan

Action	Indicative duration[119]
1. Modification of the RDP	90 days
Notification to the European Commission	30 days
Amendment of the RDP	60 days
2. Validate the results and confirm the strategic orientations	30 days
Confirm the orientations and available budget based on the ex-ante results	30 days
Confirm the IF to be modified and/or created	30 days
Confirm the governance structure (e.g. funds-of-funds, outsourcing)	30 days
Confirm the implementation phase approach and overall timeline	30 days
3. Communication and change management	45 days

[118] *fi-compass* online seminar for reporting on FIs https://www.fi-compass.eu/event/2943/fi-compass-online-learning-format-managing-authorities-reporting-template-esif-financial

[119] The indicative duration does not correspond to the workload required for the different actions.

Communicate the executive summary to the interviewees	15 days
Communicate the ex-ante results to the internal stakeholders	15 days
Communicate the results of the ex-ante to the Commission (DG Agri)	15 days
Elaborate a communication plan related to the decisions taken (political orientations, selected Ifs, overall implementation plan)	15 days
Elaborate and implement a change management plan (i.e. identification of needs for communication and training)	30 days
4. Set-up the FI implementation plan	120 days
Identify and confirm internal resources (human and financial resources) for the implementation	15 days
Approval of intermediate deadlines and key success factors	15 days
Set-up the governance structure	30 days
Identify/select the fund-of-funds manager	30 days
Set-up the fund-of-fund	30 days
Elaborate the funding agreement	30 days
5. Selection of the financial intermediaries	130 days
Elaboration and implementation of procedures to select the intermediaries	10 days
Identify/select the fund manager (financial intermediary)	90 days
Elaborate the funding agreement for the financial intermediary	30 days
6. Monitoring and evaluation	10 days
Definition of performance indicators per financial instrument	10 days