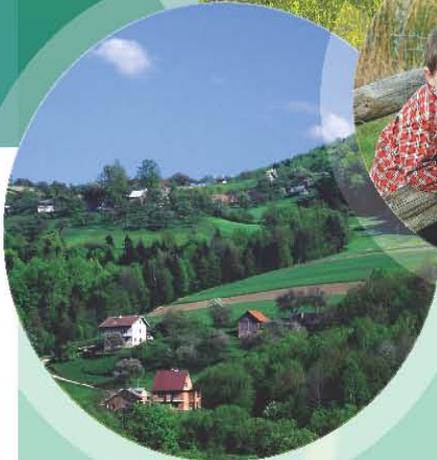




European Commission  
Agriculture and  
Rural Development



European Network for  
Rural Development



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**The ENRD Rural Entrepreneurship Thematic Initiative: Rural Finance**

Revisiting some trends in rural finance and the role of networks

RF seminar (Latvija, June, 2012)





## **This presentation**

- **Continuing trends**
- **The challenge - bringing supply and demand together**
- **Some good practice examples**
- **Experience of other funds**
- **Ways ahead - local, national, EU levels**





## A reminder - the context

### Difficult access to finance for Rural SMEs





## Continuing negative trends

### Negative trends

56% of SMEs use only ext. funding (27% in 2009)

loans from banks = dominant type of ext. funding

alternative fundings sources (9% of SMEs)

decreasing willingness of banks to provide a loan

deterioration of supply of bank loans continues

partially or non-successful loan applications by SMEs doubled

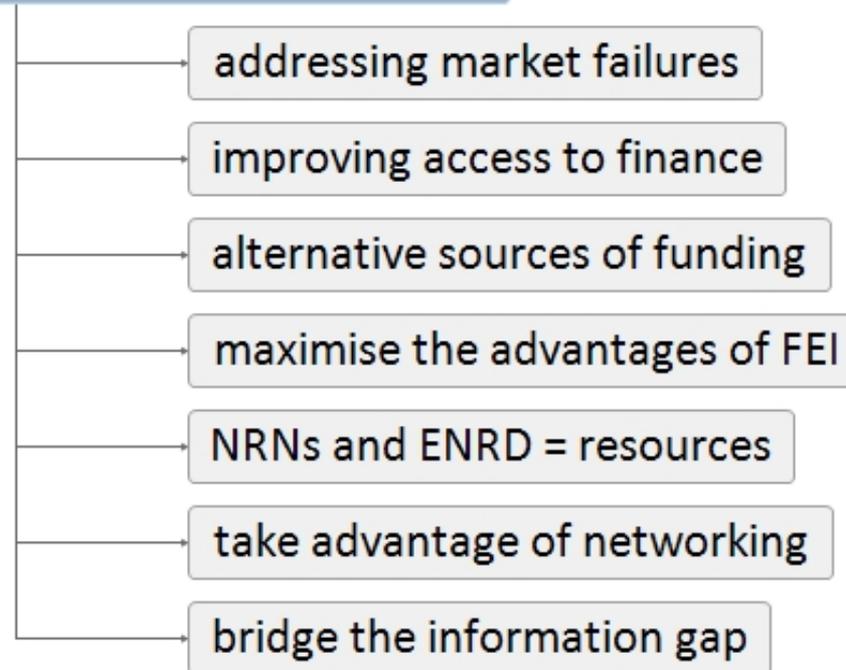
typical loan size for SMEs < 100,000 Euro





## The challenge

Bringing supply and demand together





# Addressing market failures with financial engineering instruments

## Financial engineering instruments - potential advantages

- leverage
- 'recycling'
- improved financial management
- criteria similar to commercial conditions
- more favourable than commercial funding
- improved investor readiness for beneficiaries
- possibility for 'upfront' payment





## Experience with EAFRD FEI

- EAFRD FEI/Total public expenditure in RDPs: < 0.3%
- 4 MS activated FEI
- FEI not introduced due to
  - the need for additional resources
  - complicated rules, uncertainty of control rules
  - funding cuts and sanctions applied, higher risk of financial corrections
  - availability of rural finance from the financial markets
- Credit Fund and Interest rate subsidy prevalent
- mostly used for measures 121,123, 312, 313
- low level of utilisation (0-10%)
- simpler rules, more flexibility, and better knowledge of rural finance market required





## Experience of other funds

### ERDF Financial Engineering Instruments

(based on monitoring data on 75% of total contributions of funds for enterprises)

- ↳ number of specific funds: 297
- ↳ loan funds 43%, equity funds 36%, guarantee funds 21%
- ↳ total size of funds: EUR 7 391.4 million
- ↳ 20 858 investments in enterprises supported by end of 2010
- ↳ funds invested EUR 3150.2 million (resources mobilised EUR 4 327.1 m)
- ↳ jobs created/safeguarded: 90 852
- ↳ 17 MS (FEI with holding funds), 8 MS (FEI without holding funds)

(based on Financial Engineering Instruments by Member States with ERDF Contributions. Programming period 2007-2013. Synthesis report, December 2010)





## Leverage effect in ERDF

### Leverage effect

equity funds: EUR 1 to 1-3(4.7)

guarantee funds: EUR 1 to 1.7-7.2(7.8)

loan funds: EUR 1 to 1-2

lower than in benchmark funds





## Improvements required

- ↳ **the ECA report on non-grant financial instruments in ERDF**
- ↳ **need to perform a detailed SME financing gap assessment in order to**
  - **improve the leverage of funds**
  - **to help define the appropriate size of the fund**
  - **to help define the provisions on the roles and obligations of managing authorities, fund managers, and final recipients of the funds**





## Other alternatives - good practice examples

- ✎ adopting international equity and venture capital valuation guidelines (Finland)
- ✎ municipalities 'team up' with a commercial bank for micro-credit in an underdeveloped area (Latvia)
- ✎ pooling local resources for a cooperative credit union (Latvia)
- ✎ advice and help with networking among supported beneficiaries (Germany)
- ✎ decoupling from financial markets declared as a goal of the Fund (Germany)
- ✎ guarantees amounting to 80% of the credit borrowed to support people living in underprivileged areas (France)
- ✎ involving banks as financial intermediaries in a micro-credit scheme (Portugal)
- ✎ providing advanced, web-based support tools to potential beneficiaries to help creditworthiness assessment (Italy)
- ✎ targeting a niche market (rural women entrepreneurs) (Latvia)
- ✎ setting up local investment companies for the development of local economies (Sweden)





## A reminder - conclusions and potential next steps from final RF report

### Main findings:

- an **information gap** exists relating to rural specific access to finance surveys - rural SME specific data at EU-27 level a necessity
- **business support services**, self-assessment tools, networking and training are important for improving access to finance and building trust
- a **great diversity of RF schemes** , mutual learning and cooperation among NRNs to share experiences





## Scope for action

banks - no specific criteria for rural SMEs

rural SME risk seen equal or only slightly higher by banks

EAFRD co-financing - positive effect on banks' SME assessment

'rurality' not the dominant factor for banks' assessing rural SMEs

scope to improve the demand side's investor readiness

information and tools available - need to be shared

networks are available - need to be utilised

demand exists - needs to be met

improved, more flexible framework (CSF)

time available

Things to 'build on'





## ENRD and NRN actions

- *Final report on RF theme (February 2012)*
- *14th NRN meeting (Greece, February 2012): presenting the findings*
- *13th EU Rural Review: further analysis, raising awareness, building common understanding*
- *Seminar in Latvia: raising awareness, sharing experiences (June 2012)*
- *Coordination Committee meeting: RF workshop (October 2012)*
- *Rural Entrepreneurship Gateway - Rural Finance*
- *Possibility for Guidelines on FEI for MAs and PAs*





## **NRNs and MAs need to „start“ now**

- **collect information about various market failures**
- **exchange experiences on the utilisation of various financial engineering instruments**
- **develop methodological guidelines on the assessment of the rural financing gap**
- **prepare for the introduction of financial engineering instruments under the CSF**
- **provide information on alternative means of improving access to finance for rural SMEs**
- **support initiatives originating from their members**
- **involve Managing Authorities in the above activities**





**THANK YOU FOR YOUR ATTENTION !**

**Peter Toth**  
**ENRD NPE**

