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FINANCIAL INSTRUMENTS FOR PROVIDING INTEGRATED RURAL DEVELOPMENT: EUROPEAN EXPERIENCE

EU rural development funding provides significant benefits for EU citizens and even more benefits are possible by using Financial Instruments (FIs) to recycle funding and thereby make the money go further.

Rural Development Programmes (RDPs) can use a combination of grants and FIs to support projects and schemes. Grants distribute funds that do not need to be repaid by beneficiaries. FIs provide RDP funding for investments that are repaid by beneficiaries through loans and micro–finance, guarantees, equity, interest rate subsidies, or other riskbearing instruments.

These RDP funding tools are useful for improving beneficiaries' access to rural development finance. A farmer for example can use a combination of grant, loan, and bank guarantee from their RDP. Together, this package of RDP support would cover a much larger proportion of the costs involved in realising development projects.

RDP FIs can now also cover working capital and this further increases their potential usefulness.

Key Observations By The European Court Of Auditors Concerning Successful Use Of Financial Instruments In Rdps Include [1]:

Use ex–ante assessments and technical expertise to avoid risks of over–capitalisation. Establish leverage and revolving effects as key performance indicators.

Implement the new legal provisions in such a way as to ensure the greatest level of flexibility, for instance by establishing a single FI that is capable of addressing the development needs of the target sector(s).

Pay particular attention to potential risks of deadweight or displacement effects when assessing applications for funding by applying appropriate indicators. Where such risks apply, RDP support from a FI could become the preferred option.

Examine how grants and FIs can be combined to provide the best value for money, by optimising leverage/ revolving effects.

Set aside a certain share of the available EAFRD budget for FIs and make these instruments more attractive than grants in clearly defined circumstances.

Fortunately, a great deal of new assistance is available to support RDP stakeholders with their plans to establish successful FIs.

Advantages of financial instruments for RDP authorities include:

– greater access to a wider spectrum of financial tools for policy delivery.

– improved private sector involvement, expertise and financing for policy delivery.

– leveraging resources, leading to increased impact of RDPs.

– efficiency and effectiveness due to revolving characteristics of funds, which stay in the programme area for future use for similar objectives.

– better beneficiary commitment to project quality because investments must be repaid.

– simplified administration requirements for funding beneficiaries, reducing error risks.

– improved RDP targeting because ex–ante evaluations confirm needs from specific target groups for loans, guarantees, equity, etc.

Essential ex–ante requirements for RDP FIs involve [2]:

1. Analysis of market failures, suboptimal investment situations, and investment needs for policy areas and thematic objectives or investment priorities..

2. Assessment of the FI's added value compared with other forms of public intervention addressing the same market, as well as possible State Aid implications, the proportionality of the planned intervention, and measures to minimise market distortion.

3. Estimates of expected leverage effect [3].

4. Consideration of lessons learnt from similar instruments and ex–ante assessments carried out by the Member State or other countries in the past, and how such lessons will be applied in the future.

5. Details for the proposed investment strategy, including an examination of options for implementation arrangements, financial products to be offered, final recipients targeted and any options for combinations with grant support as appropriate.

6. Specification of the expected results and how the FI will contribute to the relevant priority's objectives and indicator targets.

7. Provisions for the ex–ante assessment to be reviewed and updated as required if the Managing Authority considers that the ex–ante assessment may no longer accurately represent the market conditions existing at the time of implementation.

Conclusions. Project developers benefit from these conditions which mean funding decisions can be made quicker and this makes FIs an attractive source of RDP support for commercial ventures, such as those in the agri–food, forestry, rural tourism, high–tech and other business sectors.

However, gaps in experience, capacity and confidence among some RDP authorities may still inhibit the uptake of opportunities offered by FIs.

References:

1. Are financial instruments a successful and promising tool in the rural development area? – Access mode: http://www.eca.europa.eu/Lists/ECADocuments/SR15_05/ SR15_05_EN.pdf

2. Adapted from fi–compass guidance on ex–ante preparations. – http://www.fi–compass.eu/sites/all/themes/ficompass/files/fi–compass_Ex_ante_quick_reference _guide_2015_final.pdf

3. Diagrams explaining how to calculate leverage examples of different FI types (Loans, Equity, Guarantee) are in Annex II of the ECA Special Report No 2/2012 — Financial instruments for SMEs co–financed by the European Regional Development Fund.– http://www.eca.europa.eu/Lists/ECADocuments/SR12_02/SR12_02_EN.PDF