FARMINFIN CATALOGUE

ABOUT INNOVATIVE FINANCING PRODUCTS IN AGRICULTURE

FARMINFIN

Farming concepts and innovative funding/financing

FARMINFIN is an Erasmus+ project, that aims to train farmers with knowledge, skills and competences to implement innovative financing means tailored adequately for their own farm, entrepreneurial approach and personal circumstances.

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1. MAIN SUBSIDIES LINES

- **CAP (Common Agricultural Policy):** These are the main aids currently received by the agri-livestock sector, replacing the old production aids. These are EU subsidies for European agriculture and livestock farming which aim to supplement European farmers' income.
- **Set up for young farmer:** This line of aid encourages generational renewal and the rejuvenation of agriculture by targeting farmers between the ages of 18 and 40. This aid is intended also to encourage the technological modernisation of the agricultural sector. Subsidies of up to €70.000 are available for the purchase of all types of agricultural machinery and equipment, the installation or improvement of modern and localised facilities for crops irrigation, the purchase of farms, the purchase and/or construction of agricultural and livestock buildings, etc.
- **Machinery Renewal:** This aid supports the renewing of tractors fleets and agricultural machinery. The change of machines and replacement with new ones, equipped with modern technologies, can improve working conditions as well as foster energy efficiency and environmental sustainability.
- **Priority farms:** These regulations allow professional farmers (self-employed farmers) to be listed in the regional register of priority farms. This entitles to receive tax benefits, such as a minimum of 75% reduction in property transfer tax on the acquisition of any type of rural property.
- **Diesel oil:** This aid guarantees the reimbursement of a part of the taxes applied to agricultural diesel (€ cents per liter per year).
- **Modernisation:** This aid intends to encourage the technological modernisation of the agricultural sector. It subsidises up to 50% of the acquisition of all types of agricultural machinery and equipment, the implementation or improvement of modern facilities for localised irrigation of crops, the purchase and/or construction of agricultural vessels, livestock stables, etc.
- **Irrigation:** This aid fosters the creation of Irrigation Communities, that financially support expenses arising from works, advocate for the creation of reforms or take care of major repairs, including the machinery necessary for the consolidation or improvement of irrigation infrastructures. It also covers the costs of drafting projects and managing works as well as the costs of implementing an advisory service.
- **Conversion of crops:** This aid supports the change of agricultural crops with the aim of encouraging diversification and increasing the productivity of areas with natural limitations.
- **Reduction in irrigation taxes:** Irrigators can be exempted from paying part of the Special Electricity Tax and can benefit from a reduction in income taxes.
- **Agri-environmental aid:** This is a complementary EU aid to the CAP for different ways of responsible and sustainable farming. It sets environmental requirements added to the Conditionality.
- **Rural Development Fund (EAFRD Funds):** This aid is included in the second pillar of the CAP and managed through the Rural Development budget. These subsidies support training and information, the establishment of agri-food associations, the creation of producer groups and organisations, and foster industrial dynamism in the agri-food sector through cooperation.
- **Cooperatives:** Important subsidies fostering competitive competition are available. These funds are aimed at encouraging the participation of farmers in agricultural cooperative forms.
- **Efficiency in the use of resources:** These subsidies support investments that can reduce the consumption of certain resources for environmental purposes, such as water and diesel.
- **Disaster funds:** These funds are made available from public budgets to cover under exceptional circumstances damage in areas affected by climatic disasters.

2. MAIN PRODUCTS OF GENERAL FINANCING

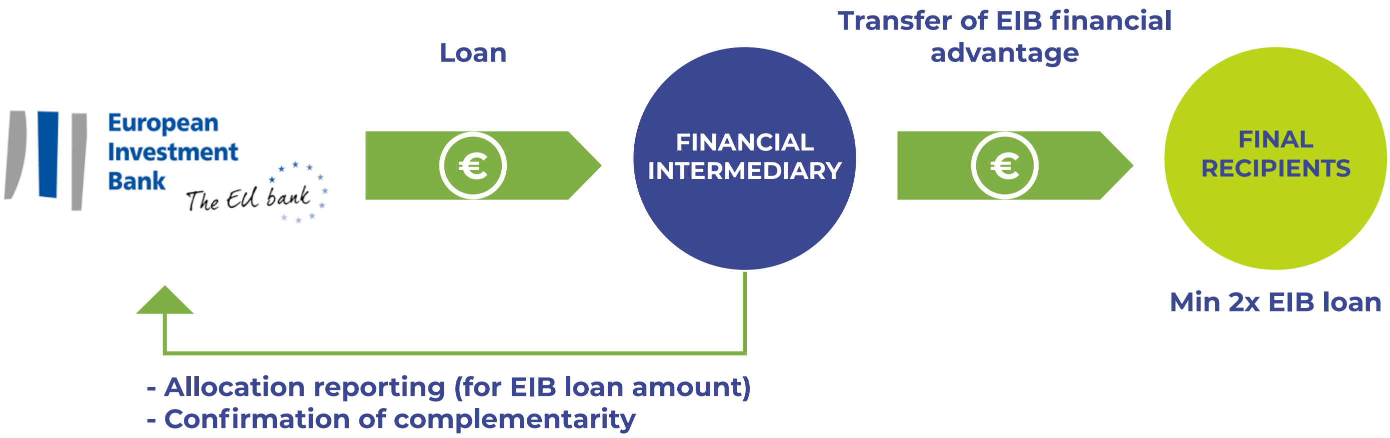
2.1. Public Sector

2.1.1. EUROPEAN UNION LEVEL

- **European Investment Bank (EIB):**

EU funding is available for all types of companies of any size and sector including entrepreneurs, start-ups, micro companies, small and medium-sized enterprises, and larger businesses. A wide range of financing is available: business loans, microfinance, guarantees and venture capital. Every year the EU supports more than 200.000 businesses. The decision to provide EU financing will be made by the local financial institutions such as banks, venture capitalists or angel investors.

Thanks to the EU support, local financial institutions can provide additional financing to businesses. The exact financing conditions – the amount, duration, interest rates and fees – are determined by these financial institutions.



2.1.2. NATIONAL LEVEL

- **Public banking** refers to resources that are dependent on the public sector and which ownership and control is under state control. Therefore, public banking resources are entities that belong to the State.

  With the economic and financial crisis of the last decade, role of public banking has been revitalised as a public tool to sustain the sector, granting financing to the agents of the most vulnerable economies. States also establish credit agencies or institutions (for example, ICO in Spain), which operate different lines of preferential financing.

- **National promotional banks and institutions (NPBIs)** are legal entities carrying out financial, development and promotional activities on a professional basis. They are given a mandate by an EU Member State at central, regional or local level.

National promotional banks act as financial intermediaries for EIB group investments directed to small-scale projects. They channel loans to businesses and local authorities in their home countries and collaborate with the European Investment Fund (EIF) in the implementation of their guarantee or equity mandates.

- There are also **Guarantee Institutions** also known as **Mutual Guarantee Societies (MGSs),** which offer guarantees to SMEs and give access to preferential financing with economic benefits (interest rates) and tax benefits (low tax rates for setting-up financing).

  This guarantee, provided by a guarantee society on behalf of the SME to the bank, enables the bank to grant the loan. In a nutshell, the guarantee is a financial commitment by the guarantee society to repay up to a certain percentage of the loan to the financial institution, in case the SME customer is not able to honour his payments. The guarantee usually does not cover more than 80% of the bank loan, leaving 20% of the risk to the lender. The SME remains liable for the loan. The SME customer usually pays a once-off processing fee and an annual guarantee fee which vary from one guarantee institution to another.

2.2. Private Sector - Short term

- **Trade credit from suppliers:** The deadline granted by suppliers to pay for purchases is the result of negotiations and the trust they have in their clients. The buying company receives the opportunity to obtain financing at no cost.
- **Commercial discount:** It finances working capital through advance payments from clients.
- **Credit bank account:** Bank account that allows the company to have funds to finance the expenses derived from its activity, up to a fixed maximum.
- **Confirming:** Product that facilitates the management of payments to suppliers. The company assigns to the bank the management of payment to suppliers.
- **Factoring:** Through this service, agricultural companies assign the trade credits of customers (invoices) to the financial entity in exchange for liquidity, which takes the risk of non-payment.
- **Advanced CAP payments:** specific agricultural loans intended to advance CAP direct payments.
- **Advanced Yield payments:** For crops harvested but not sold, the financial entities offer liquidity, financing lines on account of the future sale of the crop.
- **Campaign loans:** Specific to the agricultural sector, they are intended to cover financial expenses for the annual productive period.
- **Agrarian Insurance Loans:** They finance the cost of agrarian insurances.
- **Agricultural Credit Cards:** They facilitate the payment of farm inputs through different modalities (end of month, deferred, due, etc.).
- **Products for export:** They guarantee payments in operations related to foreign trade and reduce the risk of volatility in the exchange rate of other currencies.

2.3. Private Sector - Long Term

Investment loans offered by financial institutions are medium- and long-term loans aimed at improving, expanding and modernising structures and means of production, with the aim of improving production efficiency. The food industry can use this type of loan to make fixed capital investments. In addition to this, financial institutions offer specific products for financing of investments in the agricultural sector, with adapted conditions. The most important are presented below:

- **Loans for the purchase of rustic properties:** these are long-term loans that allow financing for up to 15 years and include some interest-only loans.
- **Farm Improvement Loans:** they are long-term loans for the modernization and incorporation of technology on farms. They usually have a funding term of up to 15 years and a two-year grace period.
- **Loans for** installation of drip **irrigation systems.**
- **Loans for the purchase of agricultural machinery.** Both new and second-hand.
- **Loans for** the purchase of **greenhouse plastics.**
- **Loans for new plantations:** They finance up to 8 years of investment to install new plantations and have a grace period to facilitate its payment until the new plantations begin to produce.
- **Livestock purchase loans:** their term varies depending on the type of livestock involved.
- As an alternative option for financing fixed capital, financial institutions make **leasing and renting** products available to the agricultural sector. These instruments allow the replacement of the purchase of a good with the periodic payment of a rent (the contract includes an option to purchase the good at the end of the leasing or renting contract). The lessor is responsible for the maintenance and updating of the product.

3. MAIN FINANCING PRODUCTS ADAPTED TO AGRICULTURE

- Many of these specific products for the agricultural market are traditional financing products in which some elements have been adapted to the agricultural cycles. The elements adapted are the capital amortisation period, the grace periods, and the interest rates.
- It is important to emphasise the importance of insurances as a mechanism to guarantee income and liquidity for potential contingencies. It must be considered not only as a form of guarantee for the farmer but also for his/her family, customers, suppliers, and public entities.
- Among the products for risk management there are a large number of alternatives adapted to the agricultural world, such as life insurance, accident insurance, health insurance, civil liability insurance, farm insurance (machinery, equipment, housing, theft, fire, etc.) or agricultural insurance, the latter being a specific and exclusive product of the agricultural sector.
- **Agricultural Insurances**

  – Agricultural Sector

  a) **Multi-risk or Combined Risk Insurance -** These insurances offer specific guarantees against specific risks that affect the insured production. In case of a claim, with this type of insurance the damage and the corresponding compensation are determined at plot level.

  b) **Yield Insurance -** Yield insurance covers all adverse weather conditions and other natural risks affecting a crop. Through these insurances, the farmer is guaranteed a percentage of insurable yields on his farm.

  – Livestock Sector

  a) **Accident and illness insurance -** This type of insurance covers multiple animal risks (injuries, drowning, flooding, cliffs, etc.) In the basic accident coverage, compensation is established per animal.

  b) **Insurance for the removal of dead animals on the farm -** Withdrawal insurance is a form of “service provision insurance”, offering the farmer the possibility of guaranteeing all costs.

  c) **Indexed drought insurance for livestock -** This insurance provides compensation for the increased costs of animal feeds due to lack of vegetation.

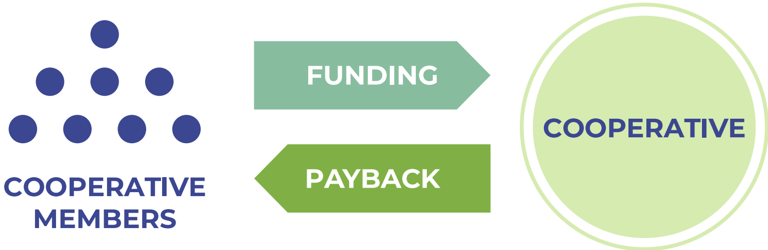
- **Forestry Sector:** The existing insurance for forestry production is multi-risk, with basic coverage for the risk of fire in reforested agricultural land and in cork oak groves.

4. MAIN PRODUCTS OF ALTERNATIVE OR INNOVATIVE FINANCING

- Cooperative
- Investment Partnership
- Associative purchases
- Lease of land
- Silent participation
- Crowdfunding
- Crowdlending
- Venture Capital
- Business Angel
- Investment Funds
- Debt issuance
- Green financing
- Solidarity based agriculture
- Farms under non-profit sponsorship
- Payable accounts
- Funding Guarantees

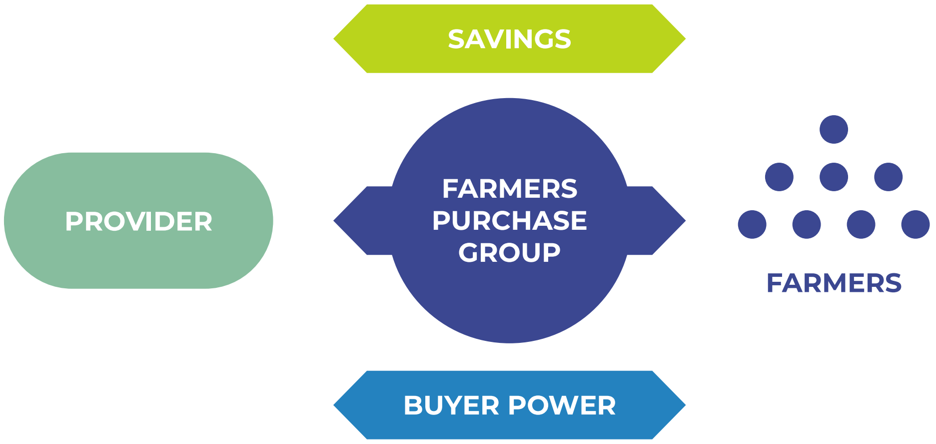
1. The most common forms of financing tend to be **associative forms of financing (or investment partnership),** in which several farmers join to make a certain investment that cannot be done individually. Through this investment, they can access services for themselves or offer services to third parties.

2. **A cooperative** is an association of people who are jointly engaged in economic, social, or cultural activities. Members of a cooperative can provide capital for a specific purpose in the form of shares. A special feature of this legal form is the basic democratic principle. This means that each member generally has one vote, regardless of the number of shares.
   Members provide the cooperative with equity capital and are thus co-owners. Depending on the individual design and structure of the cooperative, the member will receive a dividend, a compensation or reimbursement, a discount, or no consideration at all.

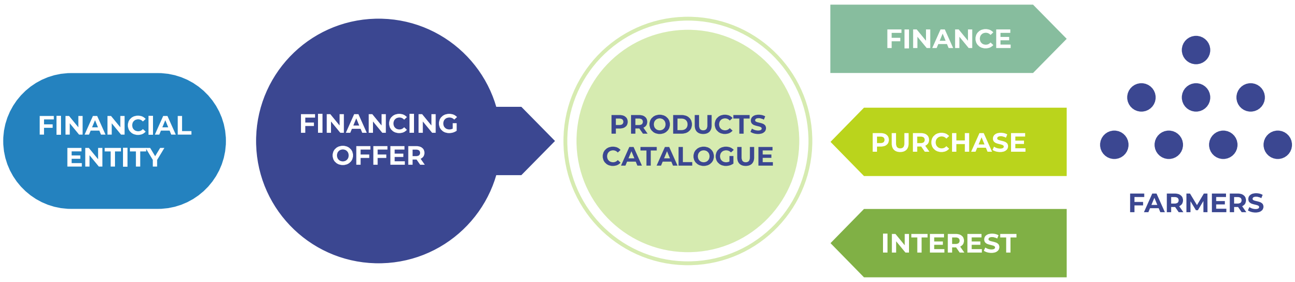


3. In recent years there has been an increase of **credit sections** inside producers' cooperatives, whereby the cooperatives grant credit to the members who request it. Members apply for credits and obtain financing at below-market cost. The rest of the cooperative members receive a payment based on their contribution to the cooperative's equity capital.

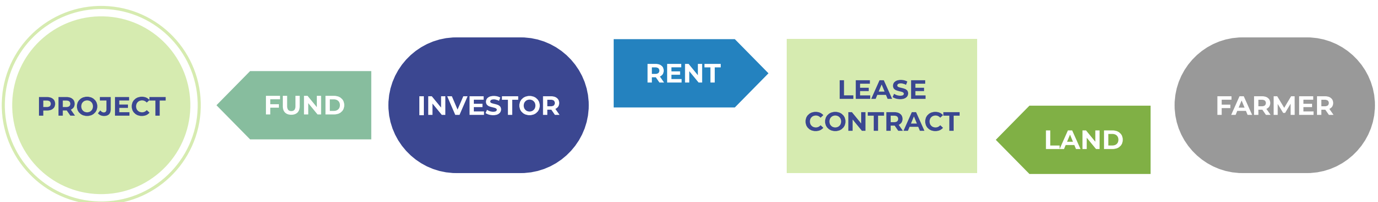
4. **Associative purchases of goods and supplies,** allowing greater buyer power and savings on purchase prices. Here each farmer has the economic capacity to acquire goods but partnering to make joint purchases generates significant savings by increasing the volume of purchases.



5. There are financial entities oriented to agriculture that **offer packages** of machinery and goods with financing **at fixed prices and with pre-designed conditions.** This speeds up the entire process of application and assessment of the operation. The financial institution obtains margins between their purchase and the sale prices.



6. There are farmers who in their **diversification strategy** decide to **rent parts of their land to long-term investors.** These strategies can be found for example in the energy sector for the implementation of solar panels, wind energy, etc. The farmer ensures, with long term contracts (20-40 years) a long-term source of income that guarantees their financial liquidity.

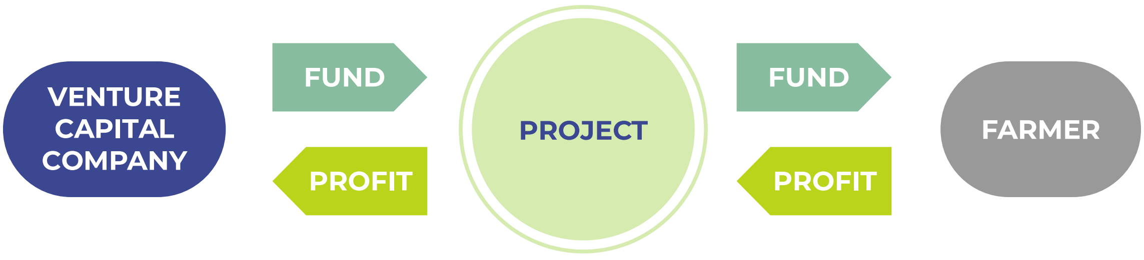


7. **Crowdfunding** is a technique for financing projects usually by bringing together small amounts of capital from many people, in many cases through internet-based fundraising platforms. Crowdfunding can be structured in different ways generating returns in the form of profit, equity, interest, or no profit for social projects.

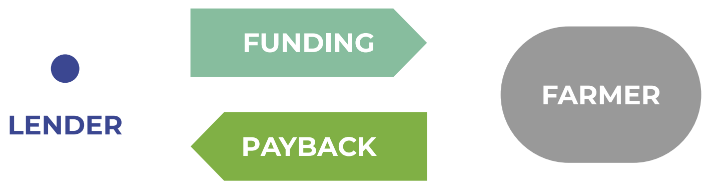
Yield crowdfunding: the crowd-investors provide capital over a certain period and receive a financial consideration in return. Depending on the structure, this is a profit-share in the farming company, which is referred to as **crowd investing.** Often, yield crowdfunding works on an all-or-nothing principle, i.e. your project or campaign is only considered successful and the money is paid out when a certain amount of financing is reached within a specified period. If you do not reach the targeted financing amount before the fixed deadline, the money goes back to the investors. In crowd investing, investors provide you with equity or mezzanine capital (a mixture of equity and debt capital) and thus participate financially in the success of your company. This often takes the form of so-called **subordinated loans.**

8. **Crowdlending** is provided by several people who pool the capital requested, through which they formalise a loan that must be repaid on time and with the agreed interest.

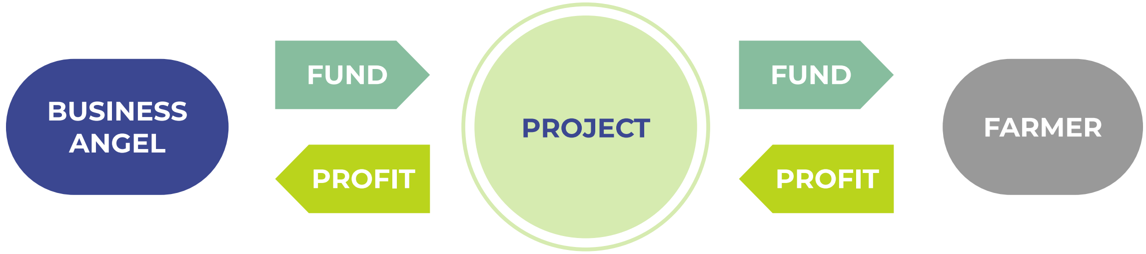
9. **Venture Capital Companies (SCR)** are public limited companies whose main corporate purpose is to take temporary share capital of non-financial companies. Venture capital mainly targets SMEs (start-ups), is normally of a temporary nature and does not entail any control over the financed company. It generally supports start-ups at the time of their set-up or in an expansion operation.



10. **Direct loans** are loans from individuals who lend money directly to the farmer for an agreed period and interest rate. The lenders are usually people from the immediate environment of companies. It is usually possible to set up direct loans without any security. If a small number of limits are exceeded, direct loans can be considered as bank transactions and then will require a license. The expenditure for organisation, administration and communication is generally low. In the event of repayment difficulties, communication with the lender may become difficult.



11. An individual private investor or **business angel** can invest in a project (new planting, processing, marketing, etc.) and require one or multiple shares of the profits, with the possibility of intervening or not in the decisions.



12. There is the European Microfinance Network, a member-based not-for-profit organisation, which promotes **microcredit** as a tool to tackle social and financial exclusion in Europe, through self-employment and creation of microenterprises (for more info please consult the website (www.european-microfinance.org).

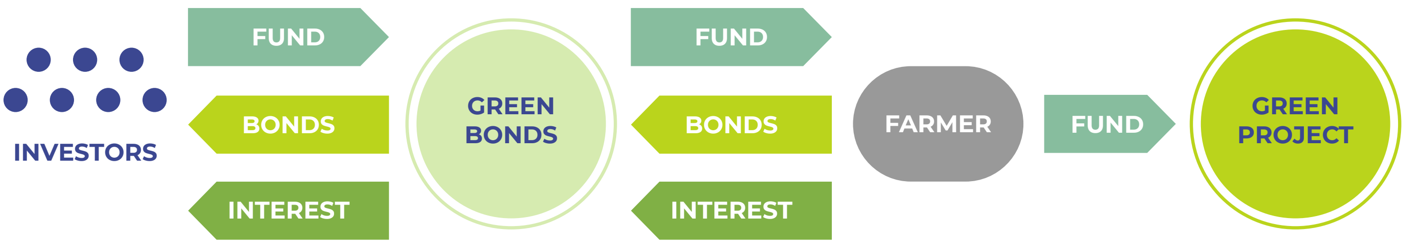
    This network together with other European programmes has contributed to the launch different European initiatives in relation to responses to the COVID-19 pandemic crisis.

    Individuals or small companies often do not have the capacity to give own guarantees. These institutes then provide guarantees for them to the financial bodies, normally up to 80% of the total requested credit, with a flat amount around €25.000 and interest lower than rated on the normal market.

13. **The investment funds** are legal entities created by investors. Investors give funds to set up these legal entities, whose shares can be quoted on secondary markets. Investment funds usually participate through other intermediary companies in projects and operational decisions, being very invasive and demanding high investment returns in the short term.

14. Just as States do, companies can also **issue debt to obtain financing** that allows them to grow, make payments, expand their business into a new market, etc. Investors can access these debt securities through the institution in charge of marketing these securities. **Debt issuance** consists of the issuance of **financial securities that promise future payment in exchange for a price.** It involves borrowing money in exchange for securities in the form of debt. These securities also carry a return.

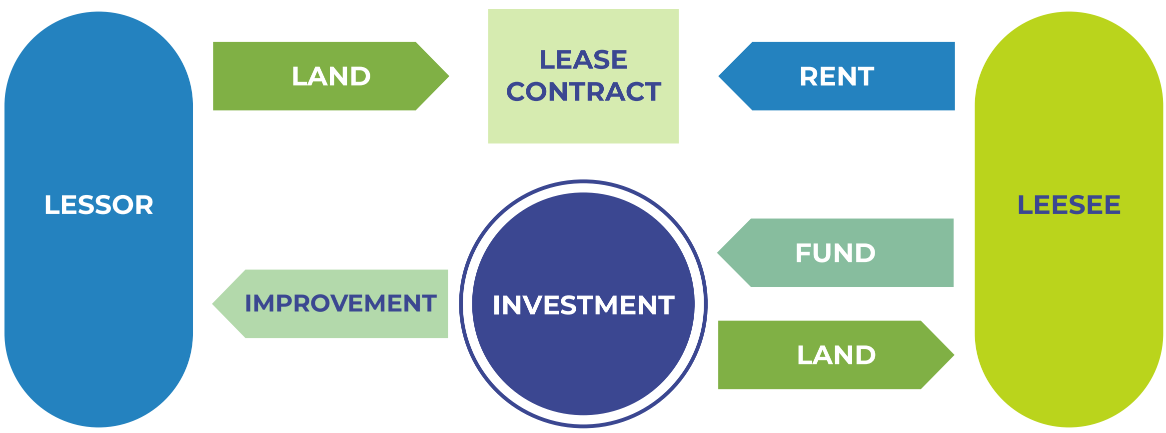
15. **Sustainable or green financing** is about investing money in projects that benefit the environment, combat climate change and are socially responsible. Green financing projects include for example initiatives for energy efficiency, sustainable agriculture, or pollution prevention. In Spain, the issue of green bonds is associated with companies and administrations. Investors are attracted by the profitability of deposits and the destination of the money. Even those who are not finance experts may decide to finance sustainable projects. Investing in **green bonds** consists of buying the debt issued by a company or institution to promote an initiative that is responsible for the environment and society. Most Spanish financial institutions have sustainable investment funds that are available to clients.



16. **Consumer baskets or consumer purchase groups** are forms of short distribution channels that ensure a direct exchange between producers and consumers. By eliminating intermediaries, benefits arise for both parties: the consumer receives high quality fresh food at lower prices and the producer guarantees higher prices than those obtained through traditional channels.

17. Within **animal leasing,** customers buy a young animal from the farmer and pay a monthly instalment to cover the costs of raising and keeping "their" animal. In return, they receive the entire animal after slaughter in the form of meat and sausage products. There are multiple variants of animal leasing. This system can be used for other products, such as dairy, eggs, etc.

18. Another form of emerging financing mechanism is **agricultural land leasing contracts.** Farmers with investment capacity are **leasing land to make crop conversions** (change from arable to permanent crops, set up irrigation, etc. These contracts are long-term and include a rent payment. **At the end of the contract,** the lessor and lessee **agree to share the ownership** of the land in exchange for the investments made.

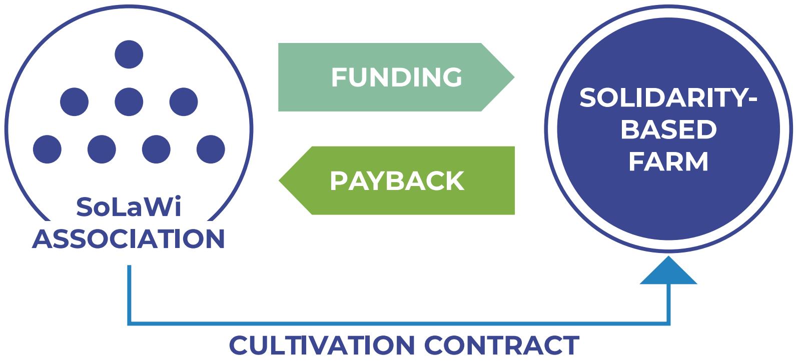


19. The concept of **Solidarity-based Agriculture (SoLaWi)** provides that members finance the running of an agricultural enterprise and receive in return a share of the harvest. The payment can be made on a monthly, quarterly, half-yearly or annual basis. In the ideal case, the total costs of a farm are covered by the sum of the membership fees.

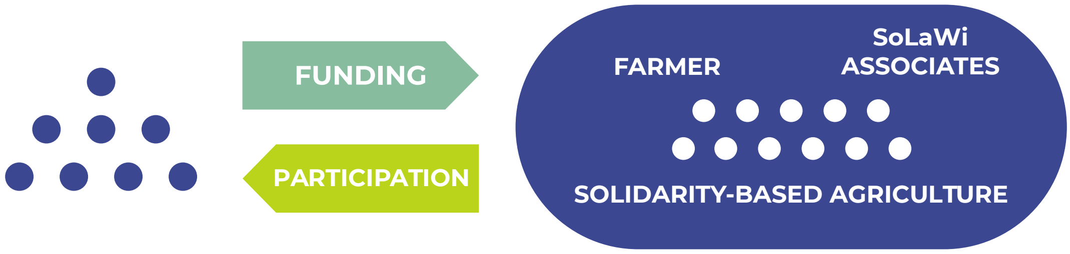
There are different ways to organise a farm as a solidarity-based farming. In total, three types can be distinguished: bilateral contracts (type 1), forms of cooperation (type 2) or co-entrepreneurships (type 3).

Two-sided contracts (type 1): Depending on the form of the contract, either a cultivation contract or a contract for the purchase of goods by instalments is concluded. In the case of a cultivation contract, the consumer bears the harvest risk.

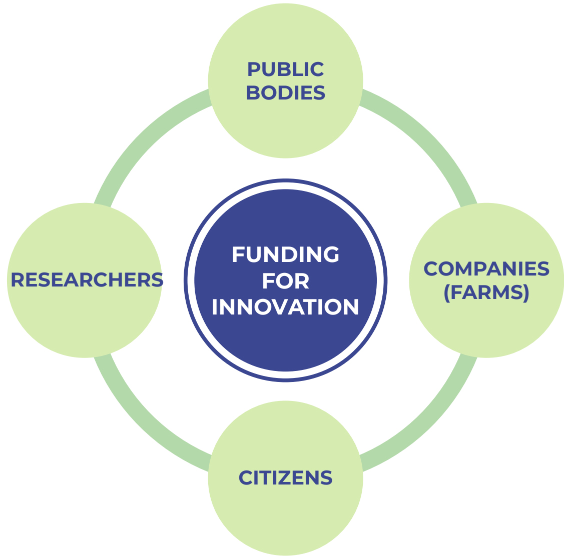
Forms of cooperation (type 2): Here the farming business is confronted with a consumer association. This community can, for example, be organised as a registered cooperative or registered association. A cultivation contract is often concluded between the company and the consumer association with the cooperation of the consumers. The consumer association bears the harvest risk.



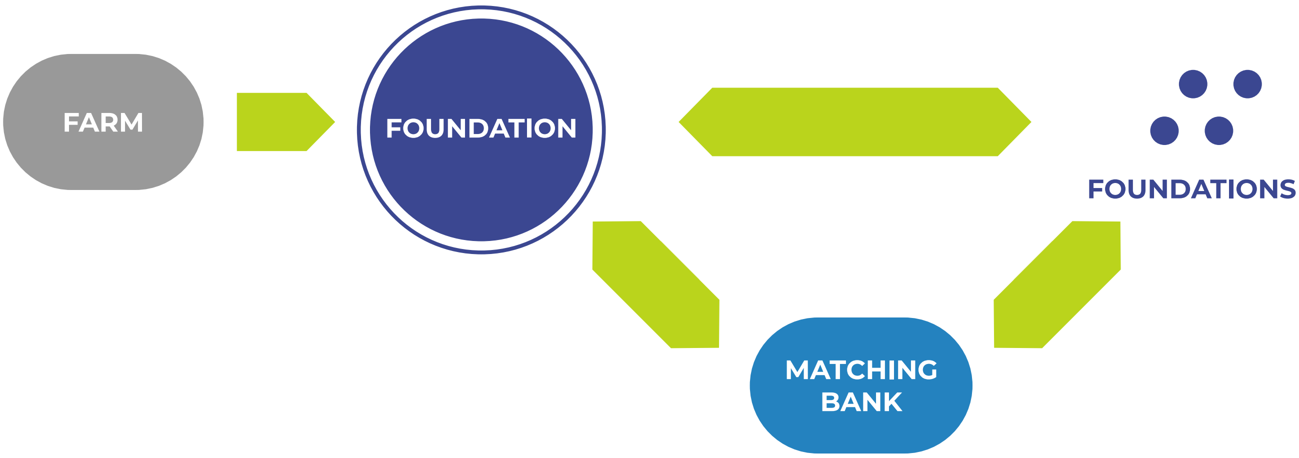
Co-entrepreneurship (type 3): Here the SoLaWi members are also members or partners of an agricultural enterprise. This can either be arranged in such a way that the SoLaWi members are co-entrepreneurs within a silent partnership. Another possibility is that SoLaWi members are associates or that the consumer association is organised as a company that is itself the owner of the farm (this is often done through a legal form with limited liability). In this case, Solidarity-based Agriculture bears the entrepreneurial risk.



20. There is no standard definition of the concept of living lab. It has been defined as a methodology and/or a systemic innovation approach. In general, living labs integrate concurrent research and innovation processes within a citizen-public-private partnership (C3P), also characterized as Public-Private-People Partnerships (PPPP) for user-driven open innovation, involving quadruple helix stakeholders (companies, researchers, public organisations and users).



21. **Foundation:** Some farmers create a foundation through which they search for investments for their new activities and projects. There are matching banks that link foundations willing to give money with those that seek for money to invest in sustainable projects. After creating the foundation, farmers receive funds from other foundations, that must be used within a limited period of time.



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The Association of Private Farming of Czech Republic (APF CR), Czech Republic
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Union de agricultores y ganaderos - jovenes agricultores de Jaén (COAG-Jaén), Spain
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