EUROPEAN COURT OF AUDITORS

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Press Release
Luxembourg, 28 April 2015

Financial Instruments in rural development: past failures and future challenges

A report published today by the European Court of Auditors (ECA) finds that financial instruments (loan and guarantee funds) have so far been unsuccessful in the field of rural development. This is mainly because they were overcapitalised and did not fulfil their potential in terms of the desired leverage and revolving effects. The framework for 2014-2020 has the potential to improve these instruments, but obstacles to their more extensive use remain.

"At a time of fiscal constraint on public budgets, achieving more investments with less money is of key importance. Financial instruments have a potential to improve the use of scarce public resources by providing funding for more investments with the same budget, but our audit results suggest that it will be a considerable challenge to achieve the desired impact," **commented Kersti Kaljulaid, the ECA member responsible for the report.**

In the area of rural development, Member States established 11 guarantee funds and three loan funds between 2009 and 2014 and the EU and the Member States had invested around €700 million in them by the end of 2013. For the new period (2014-2020), the European Commission wants Member States to commit themselves to at least a two-fold increase in their use in key investment areas.

The ECA finds that no clear case was made for setting up financial instruments in the 2007-2013 programming period. Furthermore, there was no reliable quantifiable information to justify the types of financial instrument established, determine demand for financial instruments in the field of agriculture and show that the amount of capital earmarked for the fund was appropriate. This resulted in guarantee funds being overcapitalised by €370 million at the end of 2013.

Financial instruments are meant both to attract additional public and/or private capital (leverage effect) and allow the initial allocations of funds to be recycled (revolving factor). The ECA concludes that they did not work as expected in this regard. Furthermore, neither the Commission nor the Member States introduced appropriate monitoring systems to provide reliable data to show whether the instruments had achieved their objectives effectively.

For the 2014-2020 period, it was found that persistent overcapitalisation and the risk of a continued dependence on grants were amongst the possible remaining obstacles to a more extensive use of these instruments.

The ECA's main recommendations to the Commission and the Member States are that:

- better incentives should be given for Member States to set up financial instruments for rural development and stimulate demand from farmers or other beneficiaries (for instance by setting a certain share of the available budget for rural development aside for financial instruments and making them more attractive than grants), and
- the effectiveness of financial instruments should be improved for the 2014-2020 programming period, for instance by setting appropriate standards and targets for leverage and revolving effects.

Notes to editors

ECA special reports are published throughout the year, presenting the findings of selected audits of specific budgetary areas or management topics.

This special report (Nr 5/2015), entitled **“Are financial instruments a successful and promising tool in the rural development area?”** focuses on whether financial instruments were well designed and managed in the 2007-2013 programming period and to what extent the changes introduced for 2014-2020 were likely to have a significant impact on the key shortcomings identified. Our auditors mainly examined whether financial instruments were set up and capitalised properly, performed well and whether adequate exit conditions were in place in the 2007-2013 period.

Some definitions

Guarantee funds: Guarantee funds provide financial guarantees for credit for rural businesses and organisations, thus making it easier for them to obtain funding from banks. These funds are said to ‘revolve’ because, as individual projects pay back their loans, the guarantees are released and new guarantees can be issued.

Loan funds: Funds that provide money for loans for small business development projects. They are said to ‘revolve’ because money becomes available for new loans as individual projects pay back the previous ones.

Leverage: Calculated here in terms of how many euros in (public and/or private) funding have been guaranteed or paid out for rural activities for each euro of public (EU and Member State) funding.

Overcapitalisation: This situation occurs when the amount paid into the capital of a financial instrument is too large in relation to the amount provided to final recipients in the form of loans or guarantees issued.

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