Financial needs in the agriculture and agri-food sectors in Italy

June 2020

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Glossary and definitions

Expression	Explanation
AGIA	*Associazone giovani imprenditori agricoli* - Association of young farmers
Agri-food survey	Survey of the financial needs of EU agri-food processing enterprises carried out in mid- 2019 in the framework of study 'EU and Country level market analysis for Agriculture' and based on respondents' financial data from 2018.
CAP	Common Agricultural Policy
CDP	*Cassa Depositi e Prestiti*
COSME	Competitiveness of Enterprises and Small and Medium-sized Enterprises
EAA	Economic Accounts for Agriculture
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EIF	European Investment Fund
EU 24	The 24 EU Member States covered by the *fi-compass* 'EU and Country level market analysis for Agriculture': Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.
EU 28	All EU Member States: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, The United Kingdom.
EUR	Euro
FADN	Farm Accountancy Data Network
fi-compass survey[1]	Survey on financial needs and access to finance of 7600 EU agricultural enterprises carried out by *fi-compass* in the period April-June 2018 and based on respondents' financial data from 2017.
FVG	Friuli Venezia Giulia Region, Italy
GDP	Gross Domestic Product
GVA	Gross Value Added
ha	Hectare

1 *fi-compass*, 2019, 'Survey on financial needs and access to finance of EU agricultural enterprises', Study report, https://www.fi-compass.eu/publication/brochures/survey-financial-needs-and-access-finance-eu-agricultural-enterprises.

ISMEA	*Istituto di servizi per il mercato agro-alimentare* – Institute of Services for the Agricultural and Agri-food Market
ISTAT	*Istituto Nazionale di Statistica*
MIPAAFT	*Ministero delle politiche agricole alimentari, forestali e del turismo* – Italian Ministry of Agriculture, Forestry and Tourism
p.a.	*per annum*
PDO	Protected Designation of Origin
PGI	Protected Geographical Indication
PIF	*Progetto Integrato di Filiera* -
RDP	Rural Development Programme
RRN	*Rete Rurale Nazionale* – National Rural Network
SF	Subsistence Farm
SME	Small and medium-sized enterprise
SO	Standard Output
SSF	Semi-Subsistence Farm
SSM	Single Supervisory Mechanism
TSG	Traditional Specialities Guaranteed
UAA	Utilised Agricultural Area

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EXECUTIVE SUMMARY

This study gives an insight into agriculture and agri-food financing in Italy by providing an understanding of investment drivers, financing supply and financing difficulties, as well as the existing financing gap.

The analysis draws on the results from two comprehensive and representative EU-level surveys carried out in 2018 and 2019. These were the *fi-compass* survey on financial needs and access to finance of EU agricultural enterprises and a survey of the financial needs of EU agri-food processing enterprises. The report does not take into account the impact of the ongoing COVID-19 health crisis and/or the effect of any new support scheme being set-up by the Member State and/or changes in legal basis and/or policies at European level to mitigate the crisis, as surveys and data available covered a period prior to its outbreak. This would need to be subject to further analyses by interested stakeholders, administrations and/or researchers.

Financing gap for the agriculture sector in Italy

Although Italy is one of the largest agricultural producers among the EU 24 countries, with a total agricultural production of EUR 55.8 billion in 2018, the sector is still characterised by a number of structural and long-standing weaknesses that are crucial in understanding the overall demand for finance:

- **A high number of small-sized farms** with weak integration in the value chain, meaning that farmers face difficulties related to both the input costs and selling prices of their products.
- **A substantial presence of family-run enterprises** with little or no formal accountancy, which hinders farmers' capacity to access banking credit.
- **Low generational turnover and a relatively high average age of farm holders**, which translates into a limited propensity to invest in new technologies and products to improve competitiveness and productivity.

In 2017, total investments in the agriculture sector stood at EUR 8.6 billion, placing Italy among the top three EU countries in terms of the total value of investments (15% of the total investments in the EU 28), after France and Germany. However, when it comes to investments in physical assets as a share of Gross Value Added, Italy is below the EU 24 average and shows a decreasing trend. The highest demand for finance is noticed for the poultry and milk sub-sectors.

According to the *fi-compass* survey, demand for credit from farmers is mostly driven by medium and long-term investments. Even though most, if not all, of the major banking groups in Italy offer financial products and services to farmers and agricultural enterprises, only a few banks have dedicated departments and staff with agricultural expertise who understand the inherent risks associated with such an operation. As a result, financial needs are not well matched by the existing financial offers, which are not well adapted to the sector's specificities. These include seasonal production cycles, sensitivity to climate issues and other external risks. In addition, the sector is mainly financed through short-term loans (two-thirds of total outstanding agriculture loans), which suggests an insufficient supply of longer-term financing for investments.

Direct payments from the Common Agricultural Policy (CAP) often facilitate access to credit for farmers by acting as a guarantee for the bank. Furthermore, the demand for finance in agriculture is many times ancillary to investment support from the regional Rural Development Programmes (RDPs) meaning that agricultural enterprises tend to apply for bank credit once they have been granted investment support. CAP payments, therefore, play a crucial role in influencing farmers' demand for and access to finance. However, this may in some cases lead to imprudent levels of indebtedness.

The study shows that there is a significant financing gap in the Italian agricultural sector, which is estimated to be between EUR 110 million and EUR 1.3 billion.

The financing gap consists of the unmet financing demand from economically viable enterprises operating in the sector. The unmet demand includes lending applied for but not obtained, as well as lending not applied for due to the expectation that the application will be rejected by the financial institution.[2]

75% of the gap relates to small-sized farms (below 20 ha)[3], and its relatively significant size is mostly related to unmet demand for medium and long-term loans.[4] Non-satisfied financing of young farmers and new entrants also make up an important part of the gap.

The existence of a gap is explained by a lack of collateral, financial literacy and proper accountancy systems at the farm level, and by a lack of agricultural expertise in the banking sector. In fact, the insufficient specialisation of banks in agriculture - most of which do not have specialised departments or credit scoring models for agriculture - coupled with the sector's structural weaknesses, automatically put farmers in the highest risk category when applying for finance. As a result, long-term loans are usually heavily collateralised, many times requiring mortgages on personal property of more than 150% of the loan value. This particularly penalises young farmers and new entrants, unless they are supported by their families or if they can leverage prior experience in the sector in other ways.

EAFRD-funded and other financial instruments therefore have a key role in helping to reduce the risk associated with longer-term loans and to ease collateral requirements. Apart from mutual guarantee associations, the main existing financial instruments for the agriculture sector are guarantee products provided by ISMEA (a public body funded by the Ministry of Agriculture), four regional EAFRD financial instruments (two loan funds in Friuli Venezia Giulia and Lombardy, and two guarantee funds in Umbria and Puglia), and a recently launched EAFRD guarantee instrument managed by the European Investment Fund (EIF) where eight of the Italian regions joined forces and budgets (Calabria, Campania, Emilia-Romagna, Piemonte, Puglia, Toscana, Umbria and Veneto).

RECOMMENDATIONS

In order for EAFRD financial instruments to increase their role in facilitating access to finance for agricultural enterprises, particularly for those run by young farmers, the following recommendations could be considered:

- **A larger share of RDP funds in future programming periods could be allocated to financial instruments as opposed to grant-based investment support**. Feedback collected from the interviews with representatives of banks and guarantee funds indicates that grant-based investment support, combined with a lack of financial education of the farmers, encourages them to pursue large investments in order to access the grants. Many of these investments then remain unfinished and this may lead to over-indebtedness. Allocating a larger share of RDP funds to financial instruments would promote greater accountability and responsibility among farmers, encouraging the evolution of the sector from its traditional dependency on grant funding schemes towards a culture based more on entrepreneurship and bankability.
- **More assessments of needs at regional level are needed to support a greater outreach of any new centralised financial instrument supported by the EAFRD.** More schemes are needed within such financial instrument to cover the needs of young farmers and start-ups, or to reduce the risk by sharing funds through credit schemes. These can cover working capital finance, micro-credit and/or complementarity with grants. Better leverage for guarantee funds could be targeted through improvement of the design of the financial product and the participation of external financing providers.

2 The financing gap is calculated using data from the *fi-compass* survey and additional data and statistical indicators from Eurostat.

3 The *fi-compass* survey divided farms in three size categories: small (<20 hectares), medium-sized (20-100 hectares), large (>100 hectares).

4 The *fi-compass* survey defined short-term loans: <18 months, medium-term loans: 18 months – 5 years, long-term loans: >5 years maturity.

- **Procedures to access, manage and use financial instruments need to be streamlined and simplified**, reducing the administrative burden and allowing for faster implementation. The banks and regional managing authorities interviewed stressed how administrative and reporting requirements for existing financial instruments may discourage their use. Simplification may also reduce the existing fragmentation between the various stakeholders involved in managing financial instruments, namely between financial intermediaries, financial instrument management bodies and managing authorities.
- **Support from financial instruments could be coupled with technical support to enhance farmers' financial, managerial and technical skills, and to support generational renewal in agriculture**. Financial instruments or partnering banks could provide training or coaching services to farmers, particularly to young farmers and new entrants, to facilitate the transfer of know-how, experience and farm assets from older farmers to younger entrepreneurs. These services could focus on financial/business-related matters (e.g. enterprise financial management and accounting, education on banking products and financial instruments), as well as risk management issues (e.g. mitigation of adverse weather conditions and commodity price fluctuations). They could also provide farming traineeships and coaching on the acquisition of farm enterprises, the launching of new investments, and on promoting innovation in the sector.
- **Financial instruments could also support the offer of flexible financial products for agriculture** to allow, for example, the tailoring of repayment schedules to farmers' actual cash flows (seasonal cycles) and/or the temporary suspension of loan instalments in response to external events affecting the enterprise's ability to repay (besides the existing exemptions/moratoria already proposed by the Italian Banking Associations for unexpected events). While a few banks already offer such flexible products, they are currently insufficient.
- **Efforts could be made for exploring the possibilities for setting up specific and focused equity funds in agriculture,** based on well-founded ex-ante assessments and analyses.

Financing gap for the agri-food sector in Italy

With a total production value worth EUR 113.7 billion in 2018, the agri-food sector is the largest manufacturing sector in Italy. The sector is mainly defined by the following characteristics:

- A predominance of micro and small-sized enterprises (under 50 employees), which make up 98% of all enterprises.
- The importance of exports – EUR 34.6 billion in 2018 – as a driver for the stability and growth of the sector, especially during periods of economic recession.
- The 'Made in Italy' quality scheme as a key driver for Italian competitiveness worldwide, with a record in terms of registered products at EU level.

The Italian agri-food sector ranks third in the EU in terms of the total value of gross investments in tangible goods, after France and Germany. Even so, the sector's propensity to invest has decreased considerably in recent years, due in part to constrained access to credit. This is shown by the decreasing trend in the volume of banking credit to the agri-food sector. This decrease was especially large for Central and Southern Italy, which decreased by 18% and 9%, respectively, between 2014 and 2018.

Demand for finance in the agri-food sector is driven by the need for medium and long-term investments in the most productive and largest-exporting sub-sectors. These sectors are bakery and farinaceous products, fruits, vegetable and meat processing, dairy and wine. Investments are mostly directed towards the acquisition of machinery and equipment. As with the agriculture sector, most of the major banking groups in Italy offer financial products and services to the agri-food sector, but few banks have dedicated functions and staff with agri-food expertise.

The study shows that there is a substantial financing gap in the agri-food sector in Italy, which is estimated to be up to EUR 1.5 billion.

The financing gap calculated for the agri-food sector is independent of the financing gap calculated for the agriculture sector. Following the same methodology, the financing gap consists of the unmet financing demand

from economically viable enterprises operating in the sector. The unmet demand includes lending applied for but not obtained, as well as lending not applied for due to the expectation that the application will be rejected by the financial institution.

The gap mainly concerns small-sized agri-food enterprises (90% of the total gap) and is driven by the lack of access to long-term loans for viable enterprises. The gap is mostly due to agri-food firms who do not apply for finance due to a fear of rejection. The available data suggests that the drivers of the gap mostly relate to a lack of credit history, which particularly affects start-ups and those led by young entrepreneurs, and insufficient financial education and collateral, which mainly affects firms in Central and Southern Italy. While banks do not appear to have major challenges financing the sector, their lack of dedicated staff with agri-food specific expertise may create some difficulties in their relations with agri-food enterprises. In addition, banks are more reluctant to lend to enterprises in Southern Italy, due to higher risk and a generally less favourable macroeconomic environment. Agri-food enterprises would furthermore have a higher demand for loans if interest rates would be lower, repayment schedules would be better tailored and if public guarantees were available to lower collateral requirements.

As with the agriculture sector, CAP support positively impacts the agri-food sector's demand for and access to finance, and respectively, their investments. This is particularly the case of the investment support available through the regional Rural Development Programmes.

EAFRD-funded financial instruments also play a crucial role in helping to increase access to finance for agri-food firms, especially for young entrepreneurs and start-ups in Central and Southern Italy. At the time of writing, about ten regions are activating their financial instruments for the sector. Financial instruments can also play a key role in fostering greater integration in the agri-food value chain, linking primary producers to agri-food companies.

Based on the lessons learned, recommendations on how to improve the functioning of the instruments are provided in the report.

RECOMMENDATIONS

- **Make a broader use of financial instruments to promote greater integration in the agri-food value chain**, **especially in regions with weaker access to credit** (Central and Southern Italy). This will allow multiple players along the value chain to reap the benefits of the instrument. These instruments should aim to provide uncollateralised loans to a greater extent, to reduce the challenges faced by firms with insufficient collateral.
- **Pursue the use of guarantee instruments**, **specifically for agri-food enterprises led by young entrepreneurs and for start-ups,** which lack the credit history and collateral needed to access longer-term investment loans. This is provided that procedures to access, manage and use such instruments are streamlined and simplified.
- **Explore the possibilities for setting up specific and focused equity fund(s) in agri-food, preferably at centralised level to allow economies of scale and ensure better coverage and successful implementation,** based on current experience of business angles, equity investors, backed-up by well-founded ex-ante assessments and analyses.
- **Provide technical support and capacity building on financial instruments to all stakeholders involved** (banks, agri-food firms and national managing authorities) to increase the awareness, knowledge and competencies needed to set-up and use such instruments.

1. INTRODUCTION

Objective

This document belongs to a series of 24 country reports and presents an assessment of the potential financing gap for the agriculture and agri-food sectors in Italy. The assessment is based on the identification and evaluation of the supply of and demand for financing, on the one hand, and on the quantification of the currently unmet demand for financing for the two sectors, on the other hand. This report aims to contribute to a better understanding of the potential need for continuing currently operating financial instruments, or the creation of new or additional ones, supported by the European Agricultural Fund for Rural Development (EAFRD).

Approach

To conduct an analysis of the potential financing gap in the agriculture and agri-food sectors, the study, under which this report is prepared adopts the following three-step approach:

1. Assessment of the number of farms/firms participating in the credit market and analysis of the dynamics of their demand.
2. Mapping of the sources of finance and examination of the dynamics of supply of credit.
3. Assessment of the potential existence of a financing gap, whereby parts of the demand cannot be satisfied by the existing supply but could benefit from financial instruments.

Per definition, a financing gap (for a specific sector) arises from unmet financing demand from economically viable enterprises (operating in the same sector). This unmet demand includes two major elements:

(i) lending applied for (by the viable enterprises), but not obtained, as well as
(ii) lending not applied for (by the viable enterprises) due to expected (by the same enterprises) rejection of the application (by a financial institution).

The analysis draws on the results from two comprehensive and representative EU level surveys carried out in 2018 and 2019, namely the *fi-compass* survey on financial needs and access to finance of EU agricultural enterprises and a survey of the financial needs of EU agri-food processing enterprises. The latter survey was undertaken as part of this report. The analysis is further elaborated by desk research and enriched with secondary data from EU and national data sources.

The financing gaps for the two sectors are calculated using data from the above-mentioned surveys and additional data and statistical indicators from Eurostat. The calculated financing gaps for the two sectors are independent from each other. The report also outlines the drivers of unmet demand for finance as identified from desk research, and from interviews with key stakeholders from the agriculture and agri-food sectors, government representatives, and financial institutions, and as identified by two focus groups, one for each sector. Information on the supply side of finance was obtained from interviews with nationally or regionally operating financial institutions.

The report does not take into account the impact of the ongoing COVID-19 health crisis and/or the effect of any new support scheme being set-up by the Member State and/or changes in legal basis and/or policies at European level to mitigate the crisis, as surveys and data available covered a period prior to its outbreak. This would need to be subject to further analyses by interested stakeholders, administrations and/or researchers.

Report structure

This report is structured in two parts, each focused on one of the sectors of interest: Part I covers financing for the agriculture sector; and Part II discusses financing for the agri-food sector. Each part is structured in five sections: an overview of the market, an analysis of the demand for financing, an analysis of the supply of finance, an assessment of the financing gap, and conclusions and recommendations.

2. PART I: AGRICULTURE SECTOR

2.1 Market analysis

Key elements on the Italian agriculture sector
• Total agricultural production in Italy was worth EUR 55.8 billion in 2018, representing 2.1% of the national GVA. The sector also has a significant weight in EU trade. • Most agricultural enterprises produce vegetables and horticultural products (30.3% of total production), followed by milk (11%), wine (9.5%) and cereals (8.4%). • Half of the country's total agricultural output is produced in Northern Italy. • The sector is highly fragmented: 87% of farms are small (less than 20 ha) and 47% have a standard output below EUR 8 000.[5] • There is a high share of family-owned enterprises, where the family labour force accounts for two-thirds of the total labour force. • There is low generational renewal, with 41% of farmers aged over 65 and only 8% under 40.

Italy is the fourth largest agricultural producer in Europe, after France, Spain and Germany. In 2018, total agricultural production in Italy was EUR 55.8 billion, accounting for 2.1% of the national Gross Value Added (GVA). This was driven by the production of vegetables and horticultural products (30.3% of total production), followed by milk (11%), wine (9.5%) and cereals (8.4%).[6] The GVA has shown high volatility in recent years. Its value in 2018 was only slightly above its 2014 value. In 2016, the sector was composed of 1.1 million farms. These farms had a total utilised agricultural area (UAA) of 12.5 million ha and 9.4 million livestock units.[7]

The Italian agriculture sector is characterised by a high level of fragmentation and a predominance of small-sized farms. The average farm size in Italy is around 12 ha, which is 25% smaller than the European average of 16.6 ha.[8] In 2013, family labour force accounted for 76% of the total labour force.[9] The sector is going through a consolidation process with farms increasing in size. The structure of farms differs significantly between regions, with the consolidation process being stronger in Northern Italy. Since 2014, the number of cooperatives has also been increasing. In 2016, there were 7 816 cooperatives and these were mostly concentrated in the dairy and fruit and vegetable sub-sectors. Farmers affiliated with cooperatives mainly hold small-sized farms. The turnover of the cooperatives is generally below EUR 2 million and they operate with the objective of generating a competitive advantage for the farmers.[10]

Almost all family-run enterprises lack formal accountancy and records. For the large majority of farms (93.7%), sole proprietorships (*ditta individuale*) is the legal status.[11] This often translates into a lack of formal accountancy and no clear distinction between the household budget and business income. While this is a common feature in the EU agriculture sector, the share in Italy is substantially higher.[12]

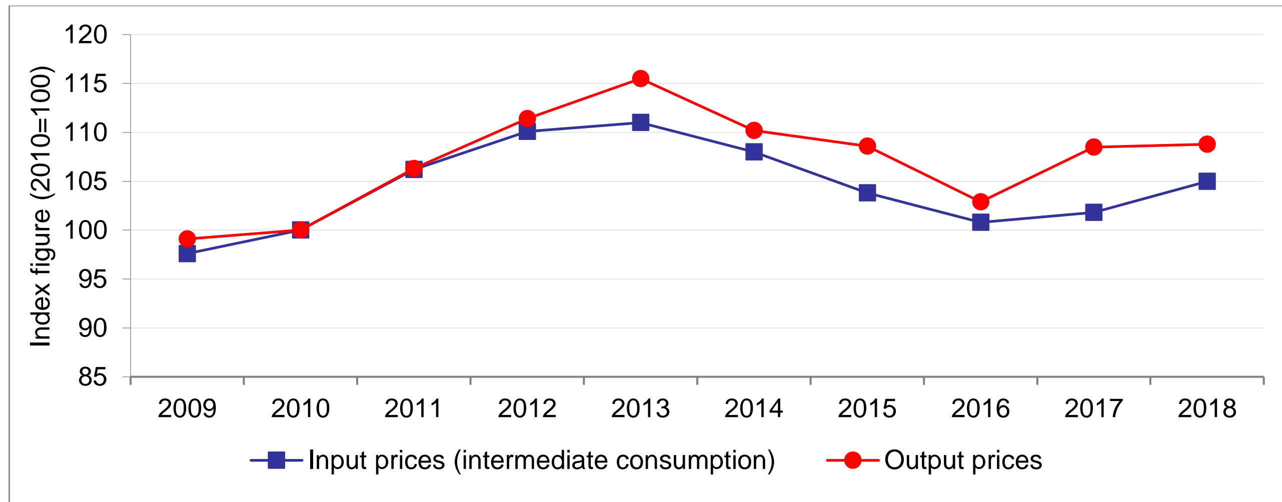
5 The standard output of an agricultural product (crop or livestock) is the average monetary value of the agricultural output at farm-gate price, in euro per hectare or per head of livestock (Statistical Factsheet Italy, European Commission, 2018).
6 ISTAT, 2018, Tabelle andamento economia.
7 Farm Accountancy Data Network (FADN).
8 Farm Accountancy Data Network (FADN).
9 European Commission, DG AGRI, June 2019, Statistical Factsheet for Italy.
10 Osservatorio della cooperazione agricola italiana, 2017.
11 Italian Ministry of Agriculture, Forestry and Tourism (MIPAAFT), Ex-ante Assessment for financial instruments, updated December 2018.
12 According to the Italian ex-ante assessment for financial instruments 2014-2020. Ibidem.

The sector is also characterised by low generational renewal and a relatively high average age of farm holders. In 2016, 41% of all farmers were aged over 64, while only 8% were under 40.[13] This tends to result in farmers making limited investments in new technologies, products and processes, as old-aged farmers are not very growth and innovation oriented, which in turn hampers improvements in productivity and competitiveness.

Agricultural production is concentrated in the North of the country. In line with regional economic disparities, half of the value of national agricultural production is concentrated in Northern Italy. This is followed by Southern Italy including the islands, which account for 35.5% of production, and by Central Italy, which has 14.7%. More specifically, Lombardy, Emilia Romagna and Veneto are the highest performing regions, followed by Puglia and Sicily. Considering that almost half of all farms are in Southern Italy, the value of production per farm is therefore significantly higher in the North. For example, in the livestock breeding sub-sector, while both Northern and Southern Italy account for more than 40% of total farms, the highest share of animal heads is among northern regions, which account for 78% of total livestock.[14] This is also the case among cooperatives. While Northern Italy has 45% of the total cooperatives, these account for 81% of the cooperative's total turnover.[15]

While agricultural and farm income in Italy is close to the European average, it is significantly lower than the highest performing countries, such as the Netherlands, Denmark, Belgium, Germany and France.[16] Since 2012, profit margins of the agriculture sector have contracted due to an increase in the gap between input and output prices as can be observed in Figure 1. For example, in 2018 alone, input prices increased by 3.9% while output prices increased by only 1.1%. The increase in input prices was mostly driven by higher costs for fertilisers, power and feed. Higher input costs have a particularly strong impact on small-sized farms, due to their limited bargaining power compared to the rest of the value chain. This results in a highly volatile income for these farms, which is in line with what is occurring in the rest of the EU.

Figure 1: Evolution of agricultural input and output prices in Italy, 2009 - 2018

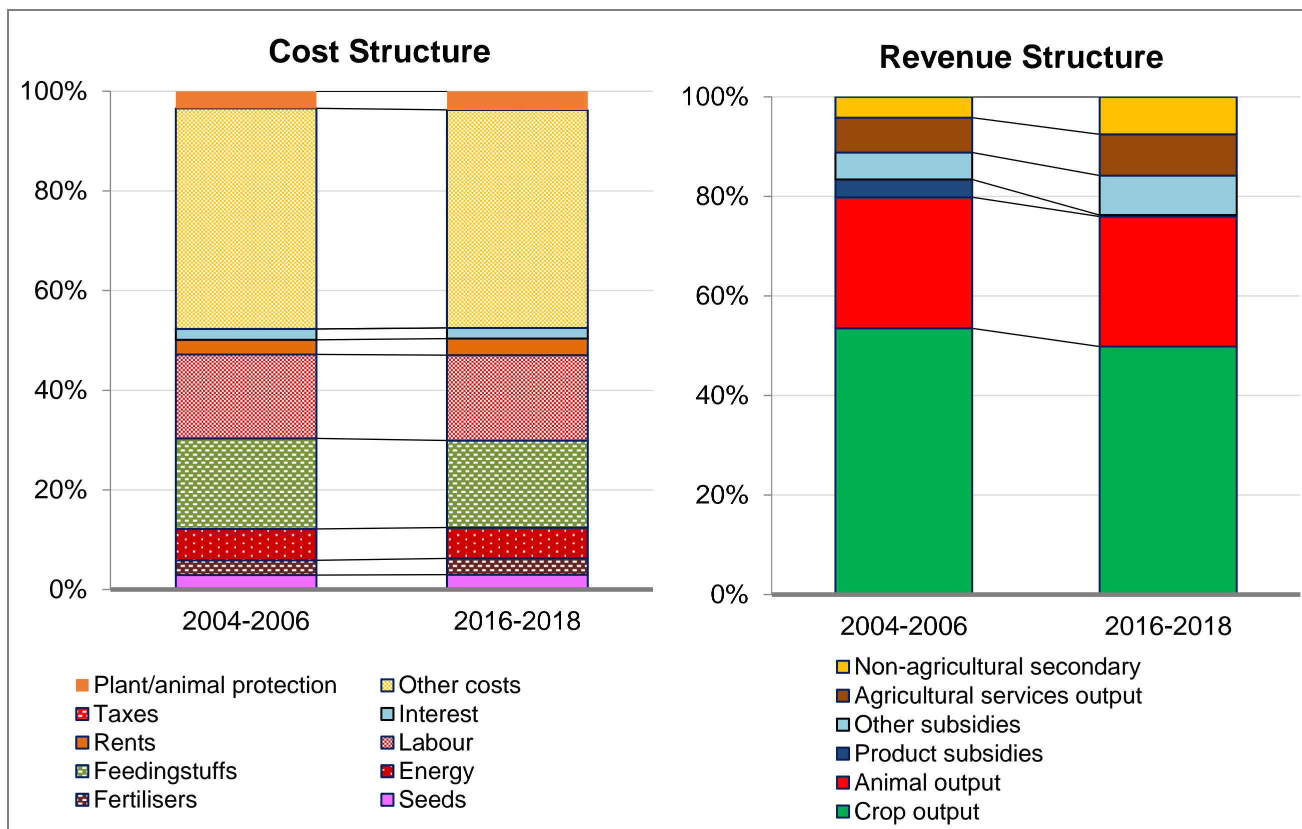


Source: European Commission, DG AGRI, June 2019, Statistical Factsheet for Italy.

Looking at structure of the agricultural income it can be said that despite the increasing input costs over the last seven years, when looking at the 15 years perspective, no significant changes in the cost structure can be noted. However, on the revenue side, both animal and crop output revenues have decreased significantly (Figure 2).

13 Eurostat, 2019.
14 ISTAT, Struttura delle aziende agricole 2016.
15 Osservatorio della cooperazione agricola italiana, 2017.
16 European Commission, 2018, Agricultural and farm income.

Figure 2: Agricultural income – cost and revenue structure in Italy, 2004-2018



Source: European Commission, DG AGRI, June 2019, Statistical Factsheet for Italy.

The Italian agriculture sector has significant weight in EU trade with the exports of vegetables and fruits leading the way. Despite being an important producer, the overall trade balance for commodities and other primary products is negative. For example, in 2017 Italy had a trade deficit of EUR 8.0 billion for commodities and EUR 5.3 billion for other primary products.[17]

Further data on the income of the Italian agriculture sector can be found under Data from the agriculture statistical factsheets

Statistical factsheet Italy, 2019
More data on agriculture indicators from Italy can be found in the **Statistical factsheet for Italy 2019** of the Directorate-General for Agriculture and Rural Development, Farm Economics Unit and in the Annex A.6.

17 European Commission, DG AGRI, June 2019, Statistical Factsheet for Italy.

2.2 Analysis on the demand side of finance to the agriculture sector

This section describes the drivers of demand for finance in the agriculture sector and analyses the met and unmet demand. It seeks to elaborate the main reasons for farm enterprises to request financing and identify the agricultural sub-sectors displaying the largest need for finance. The section also provides an analysis of the type of producers that face the greatest constraints to accessing credit. The examination of the demand for agricultural finance is based on the findings from the *fi-compass* survey of 351 Italian farms, as well as interviews with key stakeholders in the agriculture sector combined with information obtained from the Farm Accountancy Data Network (FADN).

Key elements on finance demand from the Italian agriculture sector

- Total investments in the agriculture sector stood at EUR 8.6 billion in 2017.
- Demand for finance is mostly driven by medium and long-term investments. This is particularly the case for new entrants who have higher investment needs than in other productive sectors.
- Farmers' demand is also influenced by support from the Common Agricultural Policy (CAP). Direct payments facilitate farmers' access to credit as it ensures a certain level of repayment capacity to the banks. Investment support from the Rural Development Programme (RDP) encourages farmers to pursue investments that they would not necessarily have undertaken with personal resources or with bank financing alone.
- Financial needs are not well matched by the existing financial offer, which is considered insufficiently adapted to the sector's specificities (seasonal production cycles, sensitivity to climate issues and other external risks).
- Total unmet demand was estimated to be EUR 4.0 billion in 2017. Around 20% of the unmet demand stems from young farmers.
- 13% of the loan applications for medium and long-term loans were rejected in 2017. According to interviewed stakeholders, the share of farmers being discouraged from applying for finance could be significant.
- The main bottlenecks in access to credit for small and family-owned farms, young farmers and new entrants are: (i) fragmentation of the sector, characterised by a high presence of micro and small-sized farms, low generational renewal, and low economic margins, which lead financial institutes to consider the sector as risky; (ii) difficulties in separating family budget from economic activity, as well as a lack of formal accounting; (iii) a lack of collateral, both movable and immovable; (iv) lack of credit history; (v) a low level of financial education; and (vi) the application for credit being seen as cumbersome.

2.2.1 Drivers of total demand for finance

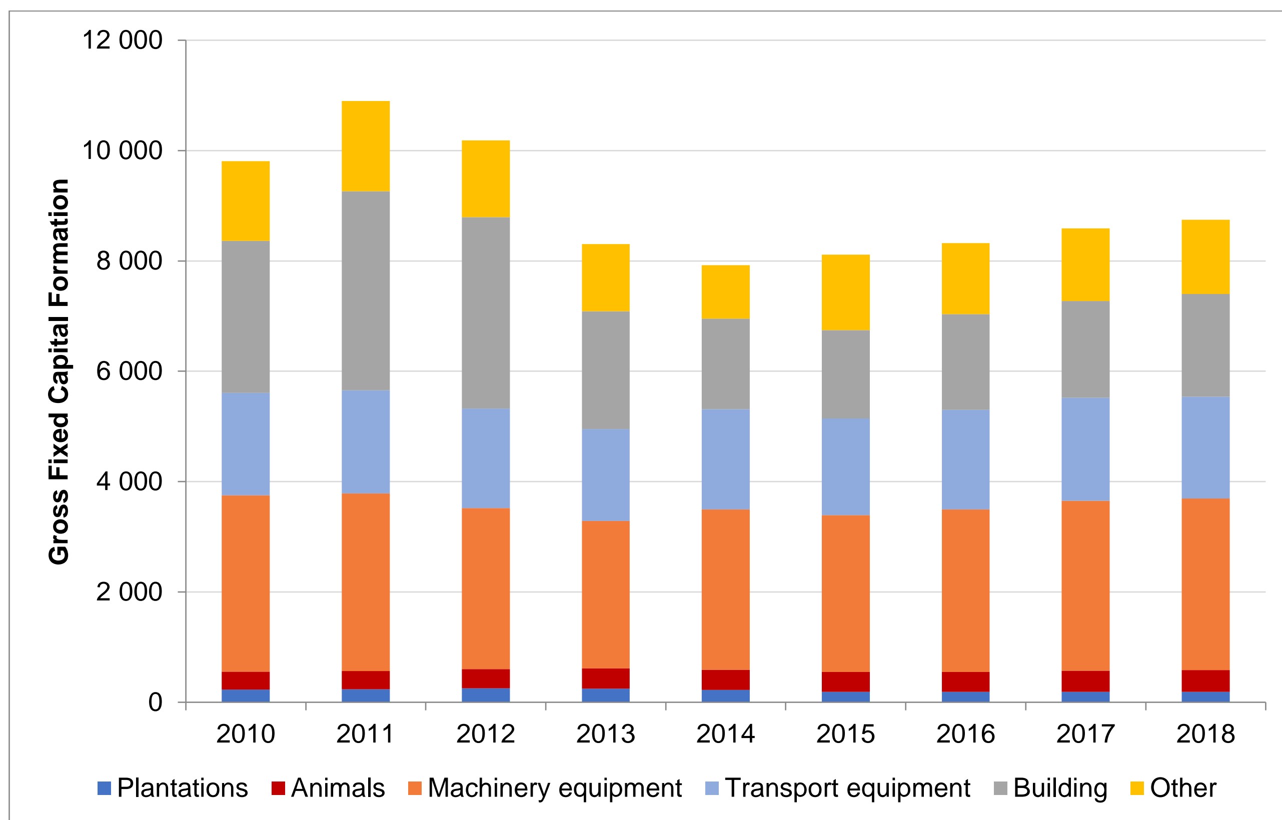
In 2017, total investments in the agriculture sector stood at EUR 8.6 billion (Figure 3). This accounted for 15% of the total investments in the EU, placing Italy among the top three EU countries, following France and Germany in absolute investment volumes. However, compared to the size of the national sector, the Gross Fixed Capital Formation (GFCF)[18] in agriculture was equal to only 26.6% of GVA. This is less than the EU 28 average and lower than the Italian GFCF in 2010, which was equal to 36% of GVA.[19] This indicator therefore

18 The GFCF measures the value of acquisitions of new or existing fixed assets by the business sector, minus disposals of fixed assets. GFCF is a component of the expenditure on gross domestic product (GDP), and thus indicates how much of the new value added in the economy is invested rather than consumed. Fluctuations in this indicator can provide pointers towards business activity, business confidence and the pattern of economic growth. In times of economic uncertainty or recession, typically business investment in fixed assets will be reduced, since it ties up additional capital for longer periods, with the risk that it will not pay itself off. Conversely, in times of robust economic growth, fixed investment will increase across the board, because the observed market expansion makes it more likely that such investment will be profitable in the future.

19 Eurostat, GFCF 2011-2017.

implies that business confidence in the Italian agriculture sector has decreased over the last decade and that it is lower than for the EU 28 as a whole.

Figure 3: Development of Gross Fixed Capital Formation in the Italian agriculture sector, 2010-2018, EUR million



Source: Eurostat, 2019, Economic Accounts for Agriculture.

The livestock sector shows the highest demand for finance. The demand for finance is highest for the livestock breeding sector, specifically the poultry and milk sub-sectors. This highly capital-intensive sector accounts for 65% of the total financial demand and almost one-third of the total production. Not surprisingly, poultry and dairy farms are by far the largest in terms of asset size. They also have the highest proportion of liabilities, as a share of total assets. In contrast, the field crop sector, which accounts for 30% of total production, attracts fewer investments as it is less capital-intensive. This sector accounts for only 10% of the total liabilities.[20] In general their liabilities to assets ratio is rather low-with the exception of wine. Production of wine is capital intensive mainly due to the long time before grapes can be harvested.

20 Eurostat, FADN 2017 Long, medium and short-term loans.

Table 1: Assets and liabilities by type of farming in Italy, per farm, 2017

Type of farming	Total assets, EUR	Total liabilities, EUR	Short-term liabilities, EUR	Medium and long-term liabilities, EUR	Liabilities to assets ratio, %	Short-term to total liabilities ratio, %	Number of farms
Field crops	527 185	2 361	179	2 182	0.4%	7.6%	173 660
Horticulture	448 495	2 884	16	2 868	0.6%	0.6%	18 840
Wine	426 430	5 274	718	4 556	1.2%	13.6%	96 710
Other permanent crops	338 846	3 530	3	3 527	1.0%	0.1%	122 950
Milk and dairy products	1 303 706	11 265	48	11 217	0.9%	0.4%	25 910
Other grazing livestock	495 999	5 583	2 005	3 578	1.1%	35.9%	62 640
Granivores (e.g poultry)	1 549 943	29 303	46	29 257	1.9%	0.2%	7 330
Mixed	483 544	2 326	141	2 184	0.5%	6.1%	24 570
All farms	508 803	4 360	3 924	435	0.9%	10.0%	532 630

Source: FADN, 2017, author's calculation.

Investments undertaken, and therefore demand for finance, is strongly influenced by farm structure. The fact that many farms are small-sized, mostly family-owned and have a low degree of modernisation influence the possibility to and the need for undertaking investments. Differences between financial needs among small, medium and large-sized farms are significant. For example, while the fruit and vegetable sector in general is characterised by easy access to credit and a good balance between different financing sources, small-sized fruit and vegetable farms, which account for 83% of the sector, have seen a reduction in their access to credit and income compared to larger farms.[21]

In the ex-ante assessments for financial instruments under the EAFRD carried out, for example for Friuli Venezia Giulia (FVG) and Lombardy, this was extensively discussed.[22] According to these studies, one of the main drivers of investment and finance demand is related to the need to increase farms' competitiveness and market share. The studies state that this could be done by promoting modernisation, intergenerational exchange and product diversification, as well as by providing training to farmers. FVG recognised that access to credit is more problematic and costly for small-sized farms, due to limited available guarantees and assets. Lombardy clearly underlined a mismatch between the financial needs of farms and their effective access to credit. This mismatch is due to irregular cash flows, owing to the seasonality of productive cycles; price dynamics; and the difficulties bank's face in evaluating the credit risk of farmers.

21 Loan stock – Source: Unaproa – Nomisma, 2016, AIDA – Bureau Van Dijk data, Rapporto sulla competitività del settore ortofrutticolo nazionale.

22 Servizio di valutazione ex ante del Programma di Sviluppo Rurale 2014-2020 Friuli Venezia Giulia (2014) and Valutazione ex-ante FEASR – PROGRAMMA DI SVILUPPO RURALE 2014-2020 (2014) Lombardia.

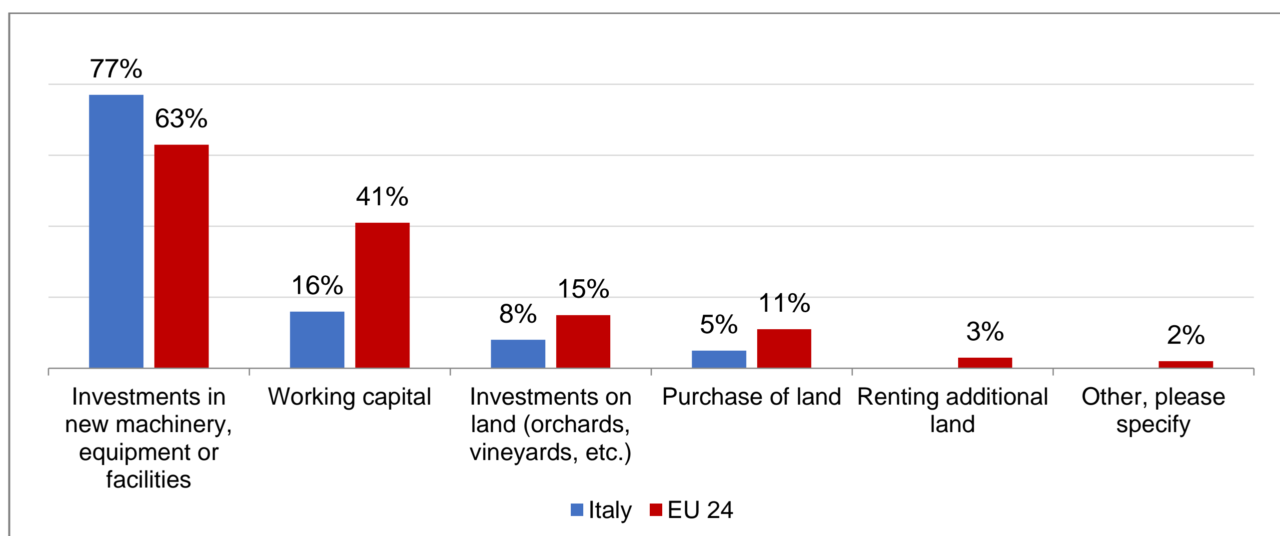
Main findings of the ex-ante assessments for the use of financial instruments in Italy for the agriculture sector[23]

• One of the main drivers of investment and finance demand is related to the need to increase farms' competitiveness and market share.
• This could be achieved by: promoting modernisation, intergenerational exchange, product diversification and providing training.
• Access to credit is more problematic and costly for smaller-sized farms, due to the limitation of available guarantees and assets.
• There is a mismatch between the financial needs of farms and their effective access to credit due to:
  o Irregular cash flows, owing to the seasonality of productive cycles;
  o Price dynamics; and
  o The difficulties bank's face in evaluating the credit risk of farmers.

Source: Ex-ante Friuli Venezia Giulia, 2014 and Lombardia, 2014.

According to the *fi-compass* survey, Italian farmers' demand for credit is mostly driven by the need for medium and long-term investments. More specifically, 77% of *fi-compass* survey respondents stated they had requested a loan for investments in new machinery, equipment or facilities, while only 16% requested a loan for working capital purposes (Figure 4). Medium and long-term investments are particularly important for new entrants, considering that many agricultural enterprises require a high level of mechanisation. Furthermore, in the case of the fruit and vegetable sector, it was observed that there is a need for a conversion of loans from short-term to medium or long-term to make the sector more solid.[24] However, the current demand appears to be largely satisfied by short-term loans/working capital financing, rather than medium and long-term loans. This, in turn, may create problems for the financial management of farms (section 2.3.2 contains further analysis on this).

Figure 4: Italian farms applying for finance in 2017, by financing product



Source: fi-compass survey.

23 MIPAAF: Servizio di valutazione ex ante del Programmi di sviluppo rurale regionali approvati 2014-2020 Friuli Venezia Giulia (2014) and Valutazione ex-ante FEASR – PROGRAMMA DI SVILUPPO RURALE 2014-2020 (2014) Lombardia.

24 Unaproa – Nomisma, 2016, Rapporto sulla competitività del settore ortofrutticolo nazionale.

Access to land is another driver of financial demand. According to interviews with stakeholders, and as a general fact, many farmers have a need to acquire more land to expand their business, which triggers the need for obtaining additional financial resources. While the *fi-compass* survey reports that only 3% of respondents considered access to land as a problem, half of the total cultivable land (approximately 5.7 million ha in 2016)[25] is under leasing contracts, with significant differences at a regional level.[26] Further, access to land is particularly problematic for young farmers[27], encouraged by high fiscal incentives for renting. Over the last two decades, the portion of rented land steadily increased: the share of rented land is 18% higher than in 2010 and 88% higher than in 2000. Most of this increase has taken place in the Southern and North-Eastern regions (+21%). In general, lands dedicated to pasture are those where renting is more frequent.[28] Rental prices are almost constant, except for valuable land crops and vineyards, for which prices are more dynamic and on an upward trend.

At the same time, farmers who rent a large part of their agricultural land cannot use it as collateral to access credit. The high share of leased land is therefore considered a bottleneck in terms of access to banks' finance (when banks want land as collateral), although it helps in securing the viability of the business (section 2.2.2 has further analysis on this).

The Italian farming sector receives a significant volume of CAP payments, due to the large size of the sector compared to other Member States. However, the effects of the support on the value-added are relatively moderate, taking into account the total value-added of the Italian agricultural sector, when compared to other countries. The sector benefits from CAP financial support through Pillar I, which is financed entirely from the EU budget and primarily consists of direct payments and market support; and Pillar II, which is co-financed with national resources and consists of numerous measures aimed at increasing the competitiveness of the sector. The sector is also supported by several financial instruments, such as the guarantee funds from Istituto di servizi per il mercato agro-alimentare[29] (ISMEA) (section 2.3.1 contains details on this).

In 2017, total CAP support to the Italian agriculture sector amounted to EUR 5.9 billion. Of this, direct payments were the most important injections of CAP funds, totalling EUR 3.8 billion and representing 63.9% of total subsidies. EUR 0.6 billion was allocated to market measures, representing 10.9% of total subsidies, and EUR 1.5 billion (25.2%) to Rural Development Programmes (RDP).[30]

25 Indagine sulle strutture agricole 2016, Istituto Nazionale di Statistica, https://www.istat.it/en/.

26 In 2016, 55% of the lands in North of Italy are under lease contract; 45% in Centre and 40% in the South and in the Islands.

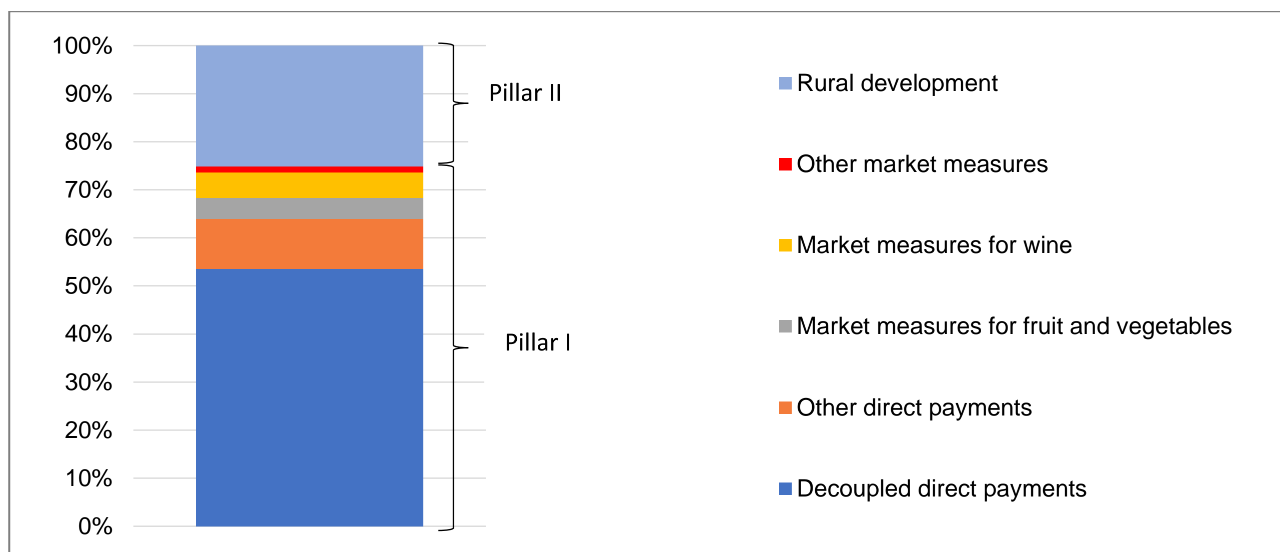
27 CREA, 2018, Indagine sul mercato degli affitti in Italia Rapporto regionale 2017.

28 CREA, 2015, Indagine sul mercato degli affitti in Italia Rapporto regionale 2014.

29 Which can be translated as Institute of Services for the Agricultural and Agri-food Market.

30 European Commission, DG AGRI, June 2019, Statistical Factsheet for Italy.

Figure 5: CAP expenditure in 2017



Source: European Commission, DG AGRI, 2019.

On average, a farm in Italy received EUR 8 760 of financial support (total subsidies, including other state aid measures and excluding investments). When compared with other EU countries, the effect of CAP direct payments (measured by the subsidies received for production) on value added is not so high. For Italian farms, it is equal to 15.3%,[31] while for German farms it is 40.7%, for Polish farms it is 34.8% and for French farms it is 24.3%. The level of support is usually not enough to compensate for the negative market effects. This became evident, for example, during the most recent dairy crisis in 2016-2017 when production prices in Sardinia region fell dramatically due to external events. This severe drop could not be compensated for by the existing payments and measures.[32]

Direct payments and market-measure support often facilitate access to credit. Certain financial institutions provide a short-term loan as a pre-financing of the direct payment (section 2.3), helping farmers overcome shorter periods of cash flow problems. In times of crisis, the cushion provided by the direct payments, in the form of a fixed and secured payment, may help farmers through the crisis and facilitate access to short-term bank loans. This is thanks to that it ensures a certain level of repayment capacity on behalf of the farmer, in addition to any sale of products, and in some cases, it serves as a guarantee to the banks, provided it is not taken out through the rental payments by landowners outside agriculture.[33] In some cases, such as the sub-sector of cereals, half of the farm incomes came from CAP interventions with direct payments, which shows the importance of the EU policy for maintaining these businesses.[34]

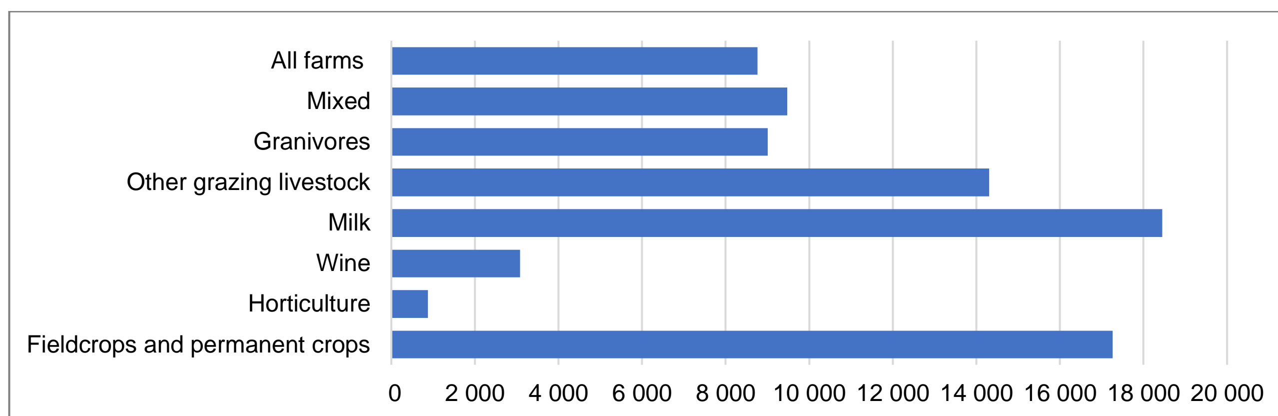
31 ISTAT, 2018, Tabelle andamento economia.

32 ISMEA, 2018, Costi di produzione del latte ovino: i risultati dell'annata 2016/17.

33 It has to be noted that through land renting farmers lose immediately significant amount of the direct payment, if not the whole amount, as landowners try to charge prices at least close to the CAP payment level per unit of land.

34 CREA, Rete di Informazione Contabile Agricola (RICA).

Figure 6: Total subsidies, excluding investments per sub-sector in 2017, EUR average per farm



Source: FADN, 2019.

Some difficulties with the implementation of the RDPs have led to moderate levels of uptake for the investment measure and the support for young farmers. For Pillar II, Italy has a planned budget of EUR 10.4 billion for its RDPs of EAFRD resources and EUR 20.9 billion including the national co-financing, to be allocated over the 2014-2020 programming period. Programming in Italy is decentralised, meaning that each region implements its own programme. A national framework programme ensures some national-wide complementary actions. At the end of 2018, about half of all resources were committed (54%) and 28% spent.[35]

Measure 4, aimed at supporting investments, has a budget allocation of EUR 5.1 billion for the full programming period. This accounts for 23% of the total resources programmed[36] and 28% of the budget from all Italian regions. Within measure 4, sub-measure 4.1, which aims to support tangible and intangible investments to improve the performance, competitiveness and sustainability of farms, is of particular relevance when analysing farms demand for investment financing. This measure is included in the RDPs of all Italian regions. It is implemented through grants and financial instruments (loans, guarantees), with various aid intensity degrees, and different eligibility conditions for every region, in order to fit into the regional priorities and agriculture sector specificities. For example, while almost all regions[37] targeted individual farmers and their associations, Puglia instead targeted organisations of producers and networks to promote the aggregation of the sector. For a few cases, among which is Toscana, a specific focus on young farmers was added (‘*pacchetto giovani*’, linked to sub-measure 6.1).

As of 2017, Italian regions have launched 77 calls for proposal for grant support and the total commitment under Measure 4 stood at EUR 2.9 billion at October 2019 (with total planned budget amounting to EUR 5.1 billion).[38]

Another important measure in relation to farmers’ investments is sub-measure 6.1. This sub-measure is aimed at promoting generational renewal to increase the profitability and competitiveness of the sector through a payment of maximum of EUR 70 000 (can be lower depending on the decision of the managing authority) given to young farmers setting-up their agricultural holdings for the first time. By mid-2018, about 9.8% of the available budget has been spent, keeping in mind that there are at least two payments to be made – the final one of which when the business plan of the young farmer is completed. Although this level is below the EU average spending levels, there are more than 5 years for the full utilisation of the resources. Even so, for the once obtaining support, investment support has enabled the undertaking of investments that would not otherwise have been possible.

35 Rete Rurale Nazionale, 2018, Report di avanzamento della Spesa Pubblica nei PSR 2014-2020 quarto trimestre.

36 Rete Rurale Nazionale, 2018, Avanzamento della Spesa dei Programmi di Sviluppo Rurale a livello comunitario: confronto fra Stati Membri.

37 All except for Abruzzo, Emilia Romagna, Puglia, Toscana and Veneto Regions.

38 ISMEA, 2018, L’attuazione delle Misure dei PSR per la Competitività nella programmazione 2014-2020.

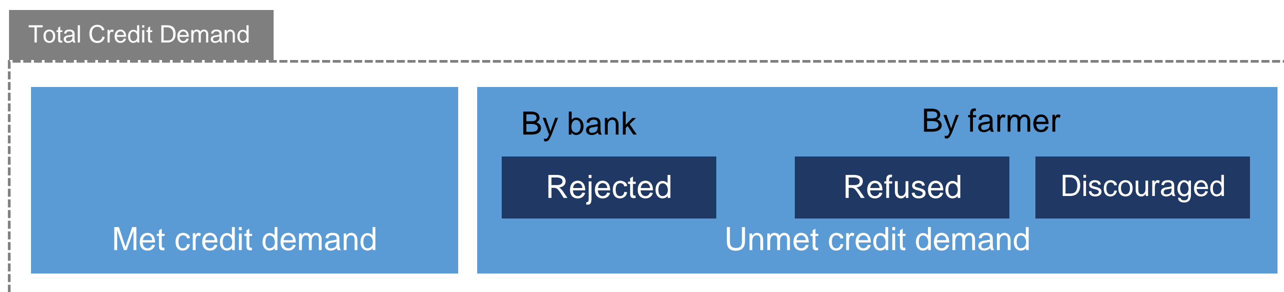
Several EU funded financial instruments are operating in Italy. In addition to the two regional revolving loan funds programmed in the RDPs of Friuli Venezia Giulia (FVG) and Lombardia and the two regional guarantee funds programmed in the RDPs of Umbria and Puglia, a multi-regional guarantee fund managed by the European Investment Fund has been introduced in 8 Italian RDPs (Calabria, Campania, Emilia-Romagna, Piemonte, Puglia, Toscana, Umbria and Veneto (see section 2.3.1.2 for more details). The AGRI Italy platform provides uncapped guarantees to selected financial institutions to cover portfolios of newly originating loans supporting investments in agriculture and agri-food sectors[39]. In Friuli Venezia Giulia, interest free loans for investments in primary production (as well as for the transformation and commercialisation of agriculture products) are supported through the financial instrument. Lombardy provides a combination of grants and low interest rate loans to support agri-food companies to increase value added along the entire food production chain.

Higher use of financial instruments may potentially improve project planning and financial discipline among final recipients. According to the interviewed stakeholders, financial demand for investments is often dependent on investment support from the CAP, meaning that agricultural enterprises tend to apply for bank credit once they have already been granted investment support. In other words, the investment support is enabling farmers to obtain credit from financial institutions, on the basis that the RDP grant subsidy could offer a guarantee to the banks, ensuring the economic viability of the farm and the investment project, and allow the farmer to benefit from a financial cushion for future repayments.

2.2.2 Analysis of the demand for finance

The potential total demand for finance combines both met and unmet demand. The met demand consists of the value of all applications for finance which were accepted by the financial institutions in the relevant year. The unmet demand consists of the assumed value of applications rejected by a financial institution, offers of credit refused by farmers, alongside cases where farmers are discouraged from applying for credit due to an expectation of rejection or refusal (Figure 7).

Figure 7: Schematic overview of the demand side of agriculture



Source: Ecorys, 2019.

Based on the results of the *fi-compass* survey, the unmet demand for the agriculture sector in Italy is estimated at EUR 4.0 billion.

Agricultural enterprises are less likely to have an outstanding loan compared to other productive sectors of the economy. According to the *fi-compass* survey results, only 6.2% of farms applied for bank finance in 2017 and this is the second lowest application rate noted for the EU 24 (after Romania), and also lower than the EU 24 average of approximate 14%.[40] Data from Bankitalia and the Italian Register of Companies show that 14% of enterprises in the agricultural, forestry and fishery sectors had at least one

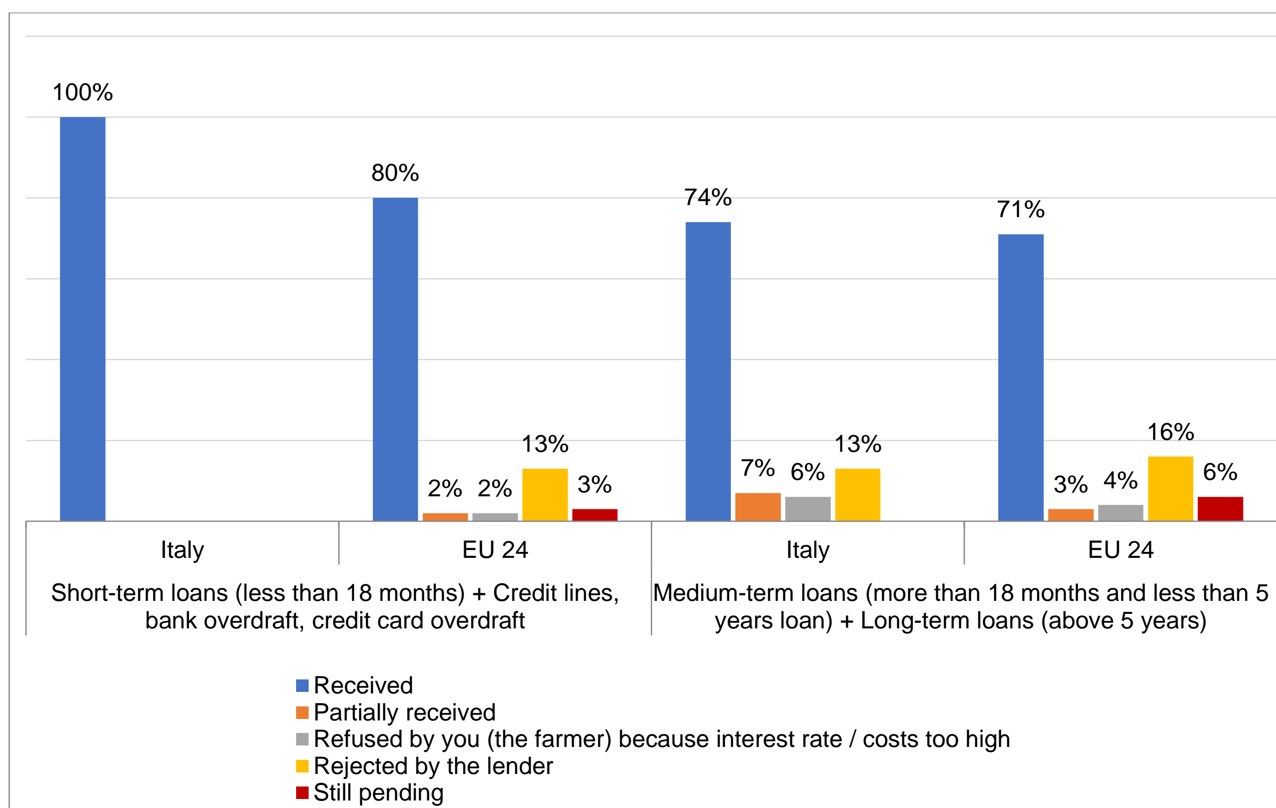
39 Participating regions: Calabria, Campania, Emilia-Romagna, Piemonte, Puglia, Toscana, Veneto, Umbria.

40 A national survey of 900 farms on access to agricultural credit conducted by ISMEA, based on a different sampling methodology, found that 21.8% of farms requested a loan in 2017 (Report ISMEA sul credito delle imprese agricole nel 2016, April 2017, and data used in the Italian Ex-Ante Assessment).

outstanding loan in 2017. This percentage has remained almost constant since 2009.[41] For other productive sectors in Italy, 20% of the enterprises have an outstanding loan. Hence, the Italian agriculture sector uses bank finance but to a lower extent than both that of their European peers, and that of other economic sectors in Italy.

Farmers and agricultural enterprises face particular difficulties in accessing medium and long-term loans. While the chances of successfully obtaining a short-term loan in Italy are very high, with all applications being approved according to the *fi-compass* survey, the approval rate for medium and long-term loans is considerably lower as only 74% of loan applications were fully approved and 7% were partially approved (the borrower obtained a lower amount than the one applied for; Figure 8).

Figure 8: Result from applications for finance in the agriculture sector in 2017



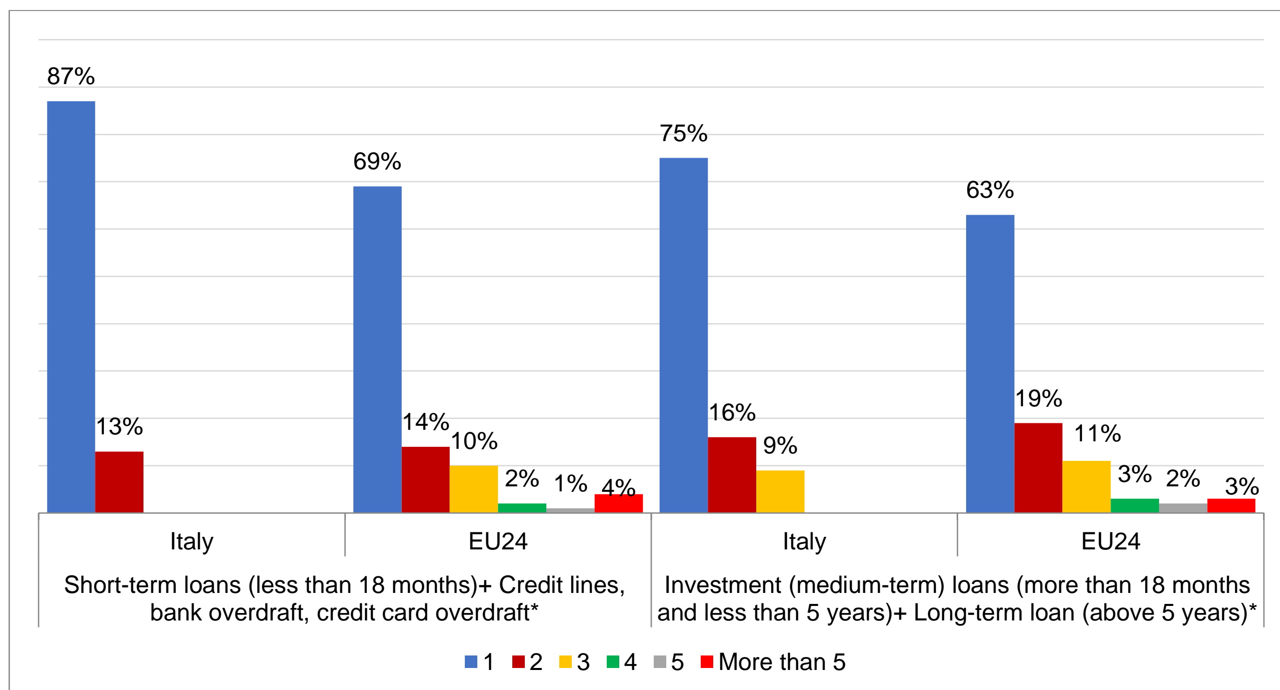
Source: fi-compass survey.

Although the demand is higher for medium and long-term loans, currently it seems that banks try to satisfy farmers' demand by offering them short-term loans/working capital financing. According to data on the actual met demand for credit, combined with data on the outstanding loans reported by BankItalia, roughly only one-third of the current total banking credit to the agriculture sector is composed of medium and long-term loans. Interviews with stakeholders' confirmed that this suggests that farmers' financial demand is not always satisfied with the requested/needed loan product (e.g. medium or long-term loans) but with a different one (e.g. a short-term loan or credit line) leaving them with no choice as they have weak bargaining power against the banks. This further outlines the need to set up relevant financial instruments.

41 This figure is calculated by dividing the number of enterprises with at least one outstanding loan (*in bonis*) by the number of enterprises registered at the national registry of enterprises. It has to be considered that the national registry includes only agricultural holdings pertaining to professional enterprises (around 750 000 in 2017) and do not represent the entire population of Italian holdings which accounted for around 1.1 million in 2016.

Farmers have a rather conservative approach towards banking. According to the *fi-compass* survey, 87% of respondents applied only to one bank for short-term loans, and 75% applied only to one bank for medium and long-term loans. These rates are higher than for the EU 24 and seem to indicate that Italian farmers prefer long-term relationships with their bank, rather than consulting several banks in order to obtain more favourable conditions. This is despite the fact that there are several banking groups operating in the sector (see section 2.3.1.1).

Figure 9: Number of banks approached by farmers seeking finance in 2017



Source: fi-compass survey.

Stakeholders interviewed for the purpose of this study argued that the financial needs of agricultural enterprises are not satisfied by the existing financial offer in Italy, and banks could improve the conditions of their products in relation to the specificities of the agricultural sector. In the agriculture value chain, small-sized farms are the most disadvantaged because of the intrinsic characteristics of fragmentation and of their limited bargaining power. As presented in section 2.1, this is not only related to their ability to influence input and output prices, but also to their capacity to attract interest from the banks.

Agriculture revenues follow seasonal production cycles and are very sensitive to climatic issues and other external risks. Financial institutions could take this into consideration by offering such things as a longer grace periods for long-term investments or start-up projects, or the option to skip or reschedule repayments if an adverse event occurs. By doing this, they could better adapt to farmers' cash flows and prevent the over-indebtedness that can be caused by using inappropriate products. As already mentioned above, stakeholders have pointed out that in some cases short-term loans are used for long-term investments or agricultural financial needs are covered by non-agricultural loans, such as generic business loans or personal loans that require less collateral and are more accessible. The risk of this model is that it generates an undesirable situation where a less appropriate financial product is used because of difficulties in accessing a product that is better adapted to the applicant's needs. Considering that the level of indebtedness in the sector grew more in 2017 than for other productive sectors (+3% against 1.7%[42]), stakeholders also highlighted the need for a financial tool that allows for debt restructuring to overcome the existing problem of over-indebtedness.

42 Rapporto Cerved PMI, 2018.

That said, according to the *fi-compass* survey results, **access to finance falls behind the biggest concern for Italian farmers, which is the decline in their profit margins.** About 3% of the *fi-compass* survey respondents consider access to finance for investments as a major problem, while 2% view access to finance for working capital as problematic. This is compared to 12% and 10%, respectively, for the EU 24. The main difficulties reported by farmers are the cost of production (64%) and the purchase prices of inputs for production (42%). This decrease in profits directly affects the demand for finance by a large part of the farming sector. It also suggests that a section of the farming community meets its financial needs through means other than bank credits or that an important part of the farming community does not consider investments as a priority when their financial stability is at stake.

In this context, informal loans from friends and family members play a role in the Italian farming economy. According to the *fi-compass* survey, the number of farms requesting financial resources from other private individuals is negligible (0.3%). The value of these loans is estimated in the order of EUR 30 million to EUR 61 million.[43] At the same time, numerous stakeholders interviewed emphasised that the practice of informal lending[44] may still be a relatively common practice, particularly in the south of the country, whereby the value of the loans obtained from friends and family may be underestimated.

Willingness to carry out expensive investments, where a positive rate of return is only realised in the longer run, may be hampered by the age structure of the sector. As evidenced in section 2.1, the current age structure of the sector, with almost 40% of farm holders aged over 65, is likely to limit the sector's willingness to invest in new technologies, innovations or expansions, and therefore their willingness to request funding for these investments.

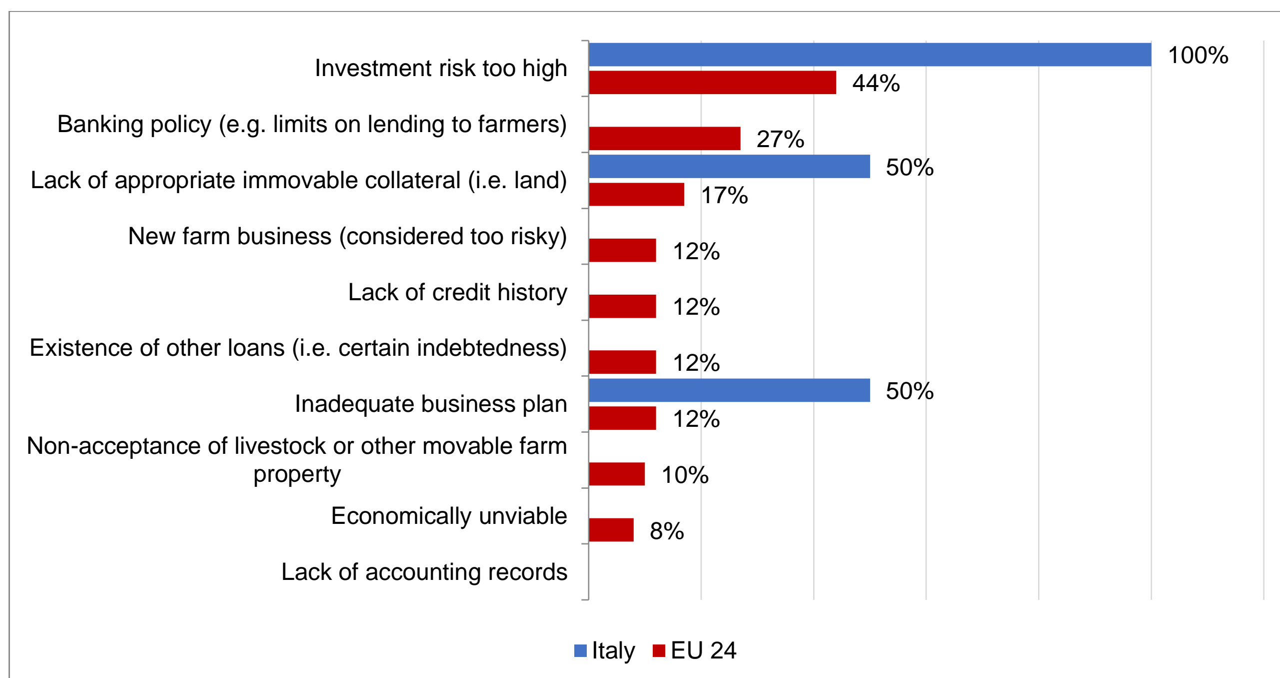
The survey finds a relatively high rejection rate of farmers' loan applications. Among all loan maturities, and in total, 8.7% of the respondents had their loan applications rejected. As it can be seen from Figure 8: , the rejection levels for medium and long-term loans is particularly worrying, where approximately 13% of the applications were rejected by the financial institutions. This rate could potentially be even higher if prior informal talks between clients and banks (before filing an application), were not taking place. Due to these informal talks, many farmers are discouraged from submitting a loan application, whereby the registered rejection rate is lower than what would have been the case, had all farmers presented applications that were actually demanding a loan. In addition, 7% of the farmers refused a loan offer for medium and long-term loans probably because of the loan conditions offered by the banks. **This puts Italy among the EU 24 countries with the highest refusal levels**. It points to unsatisfactory loan conditions offered to Italian farmers, potentially reflecting the banks' low understanding of the agriculture sector and its specificities, as well as risk-averse banks' policies.

Banks mostly reject finance applications from farms due to risk considerations (all those having been rejected reported this as one of the reasons for the rejection)**, the lack of adequate business plans and farmers' lack of collateral** (each indicator was mentioned by 50% of respondents; Figure 10).

43 Ecorys calculation based on survey results, 2019. The volume of private financing is based on the percentage of *fi-compass* survey respondents saying that they utilise private financing (disaggregated by farm size) multiplied by the assumed volume of private financing (EUR 5 000 and EUR 10 000).

44 Informal loans: financing provided by family or friends.

Figure 10: Reasons for applications' rejection in the agriculture sector in 2017



Source: fi-compass survey.

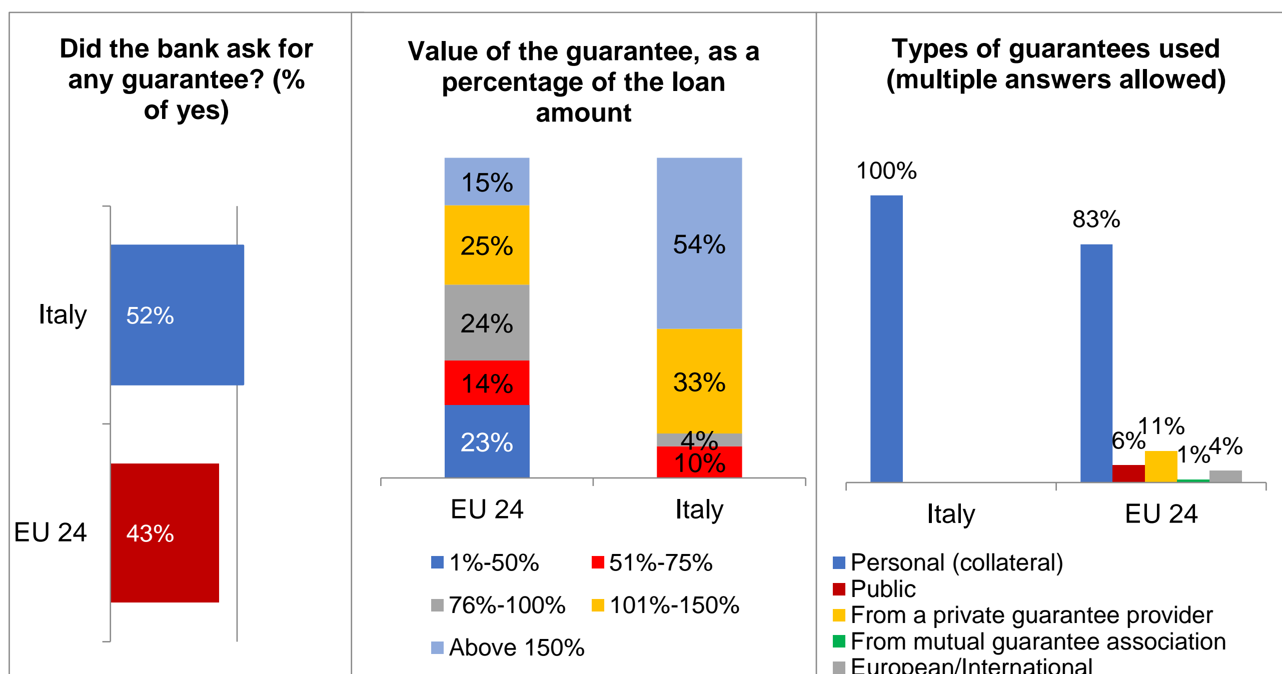
These reasons were further elaborated on by the bank stakeholders interviewed. According to them, **access to credit is additionally hampered due to several factors:**

- **Lack of formal accounting.** Small-sized/family-owned farms often have serious problems in separating household accounts from business accounts and they often do not practice formal accounting[45] (see section 2.1). The absence of financial statements amplifies the asymmetry of information, resulting in banks considering this group too risky to finance. This mostly affects farms whose level of turnover is harder to discern, therefore increasing their credit risk.
- **The low level of financial literacy among segments of the farming community, in particular the small-sized farms.** This group of farms have difficulties in producing business plans up to the standards of the banks, which, in combination with the absence of accounting records (even though not recognised in the survey as an important factor) creates difficulties for banks to assess the creditworthiness of the farms, whereby their applications are rejected.
- **Lack of credit history.** Banks interviewed have pointed out that they are more reluctant to lend when the potential clients lack a track record of obtaining credit. Young farmers and new entrants, who frequently lack sufficient credit history, face more problems when trying to access finance.
- **Lack of collateral (movable and immovable assets)** hinders access to finance, especially access to long-term loans for which collateral is always requested by banks. Despite the fact that the majority of the loans being provided in Italy are short-term loans (which usually do not require the provision of a guarantee, or at least a lower value of the guarantee), more Italian borrowers (52%) are requested to provide a guarantee compared to their EU 24 peers (43%). In addition, according to the *fi-compass* survey, all respondents in Italy who was requested guarantees used personal collateral. This compares to only 83% of respondents in the EU 24. For 87% of the Italian respondents, the value of the guarantee was equal to more than 100% of the loan amount, compared to only 40% for the EU 24. Furthermore and importantly, **for 54% of the farmers, the value of the guarantee they were asked to provide was even above 150% of the loan amount** (Figure 11).

45 Also confirmed by the figures in the *fi-compass* survey.

- **Lack of collateral is a particular problem for small-sized farms, young farmers and new entrants.** The latter group, who cannot count on support from family members or relatives with prior experience in the sector (contrary to those young farmers who inherit the business from their family), face significant problems as they have no access to collateral. This is further aggravated by the fact that the required initial investments in agriculture are often higher than for other productive sectors. Furthermore, as discussed in section 2.2.1, the high share of land being leased for agricultural production is considered a bottleneck that creates a vicious circle in terms of access to finance, since land is the most important form of collateral used by banks before allowing support for investment loans.

Figure 11: Information related to guarantees requested by Italian agriculture producers in 2017



Source: fi-compass survey.

In general, the Italian **farmers do not have a strong negotiating position with banks, potentially resulting in more farmers being discouraged from applying for loans.** In 2017, around 40% of farmers were unable to negotiate the features of financial products and only 2% managed to negotiate successfully on the type and amount of collateral.[46] The features commonly negotiated over are the interest rate and/or repayment frequency.

The share of farmers being discouraged from applying for loans is likely to be significant. Although the financial sector in Italy can be considered relatively liquid, the increasing credit demand is not fully matched by the supply side, which still applies highly selective criteria for loan approval to the agriculture sector. This is despite expansive monetary measures from the European Central Bank (ECB). This was confirmed by stakeholders interviewed, who emphasised the high share of farmers with an unmet demand for finance. According to these stakeholders, although the rate of rejected credit applications may be low, the percentage of farmers who do not even apply for a loan because they are discouraged is significant. According to the *fi - compass* survey, 1.8% of farmers did not apply for short-term loans in 2017 because they thought the application would be rejected. Percentages are higher for long-term loans (3.1%), credit lines/overdrafts (2.2%), and medium-term loans (2.2%). The unfavourable loan conditions for medium and long-term loans (as captured by the high share of farmers refusing loan offers according to the *fi-compass* survey) may be one of the factors discouraging farmers from applying. The lack of financial education which means that applying for

46 *fi-compass* survey.

loans become a cumbersome exercise, and may cause farmers to lack trust in the banking system, is likely another explanation.

The share of farmers with unmet demand is higher in Southern Italy than in Northern Italy. Although data on the regional breakdown is not available, stakeholders interviewed confirmed that unmet demand is more important in Southern and Insular Italy, where the agriculture sector is characterised by a lower level of development/productivity, a higher fragmentation of enterprises, and a lower level of financial education.

The share of young farmers being discouraged from applying for finance is significant. Difficulties for young farmers in accessing credit were confirmed by a mini-survey carried out within the framework of this report with the Italian Association of Young Farmers (AGIA), on a sample of young farmers who took part voluntarily (see Figure 12). Although the sample is not statistically representative, it reveals that 22% of total respondents declared they did not apply for finance despite having a need. The main reasons reported for this behaviour were the following:

- **The belief that the process to access credit is cumbersome** (a lot of documentation is required) **and that the farm's application would not satisfy banks' requirements** (financial statements, collateral or business idea). This discourages demand and/or leads to informal rejection by banks during the pre-screening of clients because they would not satisfy the banks' requirements.
- **The low level of financial literacy among farmers and a lack of trust in the banking system**, where bank debt is often perceived as having negative connotations and is seen as a stringent obligation towards a third party, rather than as a resource to invest and expand. This also explains why farmers frequently prefer informal loans from family and/or friends.

Overall, 20% of the unmet financial demand belongs to young farmers. Considering that they represent a limited share of total farmers (8%), this implies that their unmet financial need per farm is substantially higher than that of more established farmers. It also confirms that access to credit is more problematic for young farmers; something that needs an appropriate policy response.

Main finding from the mini-survey on the financial demand by members of the AGIA.

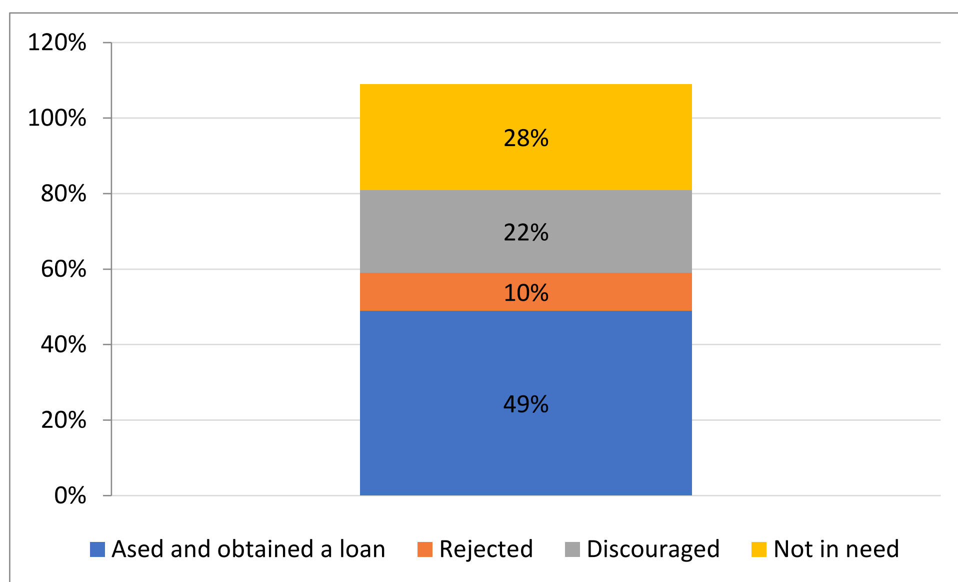
The financial needs of young farmers are different from those of the rest of the sector. As mentioned above, only 8% of agricultural farm holders are aged under 40. Barriers to accessing credit might be one component that limits the entry of young farmers and/or new entrants in the sector.

Therefore, with the support of AGIA, the country expert team involved in the preparation of this report developed and launched a mini-survey on the financial demand among its members (all of whom are young farmers).Around 90-100 members of AGIA received a link to the survey, which was designed in a mobile-friendly way to encourage participation and which was on a voluntary basis. In total, 51 responses were collected. While the results are not statistically significant, they give a picture of the financial demand among young farmers.

Firstly, despite the audience being entirely composed of young farmers, only a few respondents had launched an agriculture enterprise within the last two years (6%). This implies that a large portion are likely to have inherited the business from their families. All respondents can be defined as small-sized farms in terms of turnover (below EUR 2 million). In terms of farm size, 41% can be defined as medium-sized (20-100 ha) and 10% as large-sized (> 100 ha). Most respondents were from the south of Italy (45%), followed by the north (35%) and centre (20%). The majority (90%) are family-managed businesses.

In terms of financial demand, the results of the mini-survey suggest that young farmers have less access to credit than older farmers. Despite their loan application rate being higher (49% of total respondents had asked for a loan in the last two years from financial institutions, while 12% had asked friends or family), their unmet demand is also more substantial. Indeed, 10% of respondents' loan applications were rejected due to a lack of guarantees. 22% of respondents did not apply despite having a need ('discouraged' applications), while 28% were not in need (See Figure 12). Further, one respondent explicitly stated he was waiting for a new call for public support projects before applying.

Figure 12: Financial demand of young farmers



Source: AGIA, Associazione Giovani Imprenditori Agricoli, 2019.

Despite their need for finance, the main reasons for not applying are mostly linked to the idea of not being aligned with banks' requirements (including financial statements), bureaucracy issues (declared by 85% of the 'discouraged' farmers), and high levels of indebtedness (15%).

84% of respondents reported that they wanted to apply for future loans to invest in new business ventures (e.g. new crops, e-commerce, agri-tourism), 58% to expand existing activities through innovation, 17% to buy new and more efficient machinery, 21% to buy land or construct/renovate rural buildings. Very few wanted to restructure their existing debt.

The provision of technical support could be considered crucial for promoting knowledge sharing and improving the managerial and technical skills among farmers, as well as increasing the level of financial literacy. For example, training and advisory on financial matters could generate significant benefits for the sector, and could be easily embedded in the EAFRD grant measure on advisory support. This training could include modules on business development services, basic accounting, and orientation on financial products, instruments and other public measures (what the existing opportunities are, how they work, etc.), as well as specific and innovative topics for agriculture activities.

2.3 Analysis on the supply side of finance to the agriculture sector

This section provides an overview of the financial environment in which the agriculture sector in Italy operates. It describes the main financial products offered, including any currently operating financial instrument targeting agriculture, with national and/or EAFRD resources. The section draws its information from interviews with financial institutions as well as from national statistics and the FADN database.

An attempt is made to give a description of the general conditions for accessing finance, such as interest rates and requirements for collateral, and the availability of funding for agricultural producers. Potential differences in the availability of financial products across different types of agricultural producers are reviewed and analysed.

Key elements on the supply of finance to the Italian agriculture sector

- Typically, banks offer four main types of financial products to agriculture: short-term loans for working capital, medium and long-term loans for investments, credit lines/overdrafts, and loans to pre-finance public and CAP funds.
- Most banks do not have a specialised department for agriculture, nor do they have specific credit scoring models for agri-deals. The terms and conditions of financial products for agriculture are very similar to those of the products offered to other sectors, though with a few exceptions.
- The total outstanding loan volume to the sector was EUR 41.9 billion as of 30 June 2018. Livestock breeding, as a highly capital-intensive sector, attracted the highest share of financing.
- For Q2 2018, credit to the primary sector was equal to 5.3% of total banking credit to all sectors. Lending to the sector has been consistently decreasing across the country since 2015, although the decrease has been lower than the decrease of credit to the overall economy.
- Lending to the agriculture sector is highly concentrated in Northern Italy. Default rates are also lower in Northern Italy compared to Central and Southern Italy.
- Farmers are largely financed by short-term loans (two-thirds of total outstanding agriculture loans), suggesting an insufficient supply of longer-term financing for investments.
- The insufficient specialisation of banks in agriculture, coupled with the structural weaknesses of farms described in previous sections, automatically place farmers in the highest risk category. As a result, long-term loans are usually heavily collateralised, often requiring mortgages on personal property of more than 150% of the loan value.
- Apart from mutual guarantee associations, the main existing financial instruments for the agriculture sector are guarantee funds from ISMEA (a public body financed by the Ministry of Agriculture), two regional loan funds, two regional guarantee funds and the newly launched EAFRD guarantee instrument managed by EIF under the join co-operation of eight regions (AGRI Italy Regional Platform). The main benefit of the AGRI Italy Regional Platform is that it offers an efficient, streamlined deployment process across multiple regions and with standard eligibility criteria and reporting requirements.

2.3.1 Description of finance environment and funding availability

2.3.1.1 Finance providers

In Italy 11 banks are classified as 'significant'. At the end of 2018, the Italian banking system comprised of 505 active banks, of which 100 were part of banking groups, 327 were not affiliated to any group, and 78 were subsidiaries of foreign banks.[47] Of these, 11 credit institutions were classified as significant institutions according to the Single Supervisory Mechanism (SSM), accounting for 74% of the total assets of the banking sector. Table 2 provides a ranking of the ten leading credit institutions in terms of total assets in 2017.[48]

47 Bank of Italy, 2018, Annual report.

48 Ufficio Studi Mediobanca, 2018, Le principali banche italiane.

Table 2: Largest banks in Italy by total assets in 2017, EUR billion

Bank	Total assets (EUR billion)
UniCredit	833
Intesa Sanpaolo	789
Banco BPM	159
Monte dei Paschi di Siena – MPS	138
UBI Banca	125
Banca Nazionale del Lavoro – BNL (BNP Paribas)	78
BPER Banca	70
Mediobanca	69
Credit Agricole Italia	64
Banca Mediolanum	42

Source: Medio Banca, 2019.

In Q1 2019, the completion of the cooperative banks' reform process further consolidated the structure of the Italian banking system, reducing the number of banking groups from 58 to 52 and bringing the number of individual banks down from 327 to 104.

Over the past ten years, financial institutions in Italy have been streamlining their distribution networks by reducing the number of branches and employees. Between 2008 and 2018, the total number of branches was reduced by a quarter, down to 25 400, and the total number of employees by almost one-fifth, down to 280 000. This rationalisation process has primarily concerned the five largest banking groups, which account for 90% of the reduction in the number of employees. As a result, the average population per branch has increased by 30% to close to 2 200 inhabitants per branch. Productivity and efficiency gains have also been enabled by the increased use of digital channels, particularly internet and home-banking services. Between 2012 and 2018, the percentage of clients accessing banking services through digital channels grew from 48% to 74%.

While nearly all of the major banking groups offer financial products and services for farmers and agricultural enterprises, few banks have dedicated departments or staff with agricultural expertise. The banks reported to be most active in terms of their outstanding loan portfolio to the agriculture sector are Intesa Sanpaolo, UniCredit, Gruppo Bancario Cooperativo Iccrea, Banco BPM and Credit Agricole Italia.[49] However, most banks do not have a formal department in charge of agriculture, but rather just a coordination unit or focal person (*Responsible agri-agro*). This person is usually based in the marketing department and supports/advises the bank's agricultural lending activities. They are assisted by agricultural specialists at the branch/territorial level without a client portfolio.[50] As a result, agricultural loans are treated as standard business loans, falling into the retail or corporate loan departments based on their size.

Indeed, while agriculture credit was favoured by banking legislation until the early 1990s through special sections or subsidiaries within banks, the 1993 reform of Italian banking law and the adoption of the 'Universal Bank' model has contributed to the 'de-specialisation' of the sector, which basically equates agriculture credit to ordinary credit.[51] Coupled with a generational renewal of staff previously specialised in agriculture credit, and with the adoption of inter-banking prudential regulations (Basel agreements) that have increasingly linked

49 Stakeholder interviews.

50 One of the exceptions is Credit Agricole Italia, which claims to have dedicated managers at the branch level (*Gestori agri*) with a portfolio comprising agricultural clients only.

51 The banking law adopted in 1993 (*Testo Unico Bancario – TUB*) abolished the previous legislation on agricultural credit (Law 1760 of 1928), although it maintains a specific reference to agricultural credit with regards to its definition and functioning (articles 43 and 44).

risk measurement rating models to enterprises' financial statements, banks have reportedly become less able to assess the specific financing needs of farmers, most of whom still do not have financial statements. This is confirmed by the fact that most banks interviewed did not have specific rating models for agriculture, although some claimed to be working on developing one.[52]

2.3.1.2 Financial products

Table 3 provides an overview of the main types of financing solutions offered by banks to the agriculture sector in Italy.

Table 3: Main types of financing solutions offered by banks

Main features	Short-term loans	Medium-term loans	Long-term loans	Credit lines/ overdrafts	Pre-financing for other public support measures
Objective	Working capital needs, e.g. purchase of agri-inputs, remuneration of workers, utility payments, etc.	Small investments, e.g. purchase of livestock, agricultural machinery & equipment, irrigation plants, etc.	Large investments, e.g. purchase of land, construction/ renovation of farm buildings, sheds, warehouses	Short-term cash flow needs to cover temporary imbalances between revenues & costs of the farmer/ company	Pre-financing of public/CAP subsidies to be received by farmer/ company
Duration	Max 12-18 months	Max 5-7 years	Max 15-20 years	• Closed-end • Open-end	Closed or open-end (based on payment frequency)
Nominal interest rate	1.5-3%	2.5-4.5%	1.5-3.5%	2-4%	1-2%
Grace period	None	Max 24-36 months	Max 36-48 months	N/A	N/A
Repayment frequency	• Monthly, quarterly or biannually • Bullet (one-time payment at loan maturity)	Monthly, quarterly or biannually	Monthly, quarterly or biannually	Annual payment of interest	Bullet (one-time payment at loan maturity)
Collateral	• Unsecured • Pledge on farm output • Credit guarantee	• Unsecured • Pledge on farm output • Credit guarantee	• Mortgage on property • Credit guarantee	• Unsecured • Pledge on farm output • Credit guarantee	Unsecured

Source: Bank information sheets and stakeholder interviews, 2019.

52 Those banks which do have some kind of rating model simply use an Excel-based spreadsheet. One bank (Credit Agricole Italia) claims to have developed a dedicated digital app for agriculture lending.

The financial products for agriculture can be classified into four types, based on their objective and duration:

- **Short-term loans for working capital purposes**, with a maximum duration of 12-18 months. These are mostly unsecured or can be guaranteed by a pledge on farm output. These can be on crops, livestock and machinery (*privilegio legale*) or a credit guarantee from a public or mutual guarantee association (*Confidi*). Interest rates are normally in the range of 1.5 to 3% per annum (p.a.).
- **Medium and long-term loans for investment purposes**. Medium-term loans have a maximum duration of 5-7 years and can be unsecured (*mutuo chirografario*) or collateralised by pledges on farm output and/or credit guarantee schemes. Long-term loans have a maximum duration of 15-20 years and are guaranteed by a mortgage on property (*mutuo ipotecario*). Interest rates vary from 1.5-3.5% p.a. for long-term loans and 2.5-4.5% p.a. for medium-term loans.
- **Credit lines or overdrafts for cash-flow needs** (referred to as *fido di cassa*), which may be with or without a pre-determined duration (closed or open-ended). These can be unsecured, guaranteed by a pledge on farm output or credit guarantee schemes, and interest rates are in the range of 2 to 4% p.a. (paid only when the facility is used).
- **Loans to pre-finance public and CAP funds**, given that such funds are usually paid ex-post on an annual basis. These can pre-finance up to 80% and even 100% of the approved subsidies and investment support to be received by the farmer in the framework of agriculture-support programmes. These are mostly unsecured as the receivable public funding acts as a guarantee for the bank. Interest rates are in the range of 1-2% p.a.

Apart from the fiscal incentives for agricultural credit foreseen by the Italian Banking Law, the terms and conditions of most financial products for agriculture are very similar, if not identical, to those of products offered by banks to other sectors. A noteworthy exception is the pre-financing loan for public and CAP funds (including RDP investment support), which most banks offer as a stand-alone product.

In sum, even if most banks do not offer financial products for agriculture with ad-hoc terms and conditions, a few of them have nonetheless developed a specific product with flexible conditions.[53] Such a product allows farmers not only to suspend loan instalment repayments several times but also to reschedule the repayment period at their request.

In terms of financial instruments currently in place to support lending to the agriculture sector, first and foremost **credit guarantees from mutual guarantee associations** (*consorzi di garanzia collettiva dei fidi – Confidi*) **play an important role in facilitating access to finance for Italian SMEs**, including agricultural enterprises. The *Confidi*, which are regulated by the Italian Banking Law,[54] work with banks to offer both direct and subsidiary guarantees to SMEs requesting loans.

Apart from these, **financial instruments for agriculture managed by ISMEA are commonly used**, which are entirely funded by the Italian Ministry of Agriculture, Forestry and Tourism (MIPAAFT). Among the instruments currently managed by the agency are the following:

- **Direct guarantee** instruments, which include loan-by-loan guarantees, co-guarantees, counter-guarantees and portfolio guarantees. These financial instruments guarantee up to 70% of the amount of the loan disbursed by a bank up to a maximum amount of EUR 1 million for small-sized enterprises and EUR 2 million for medium-sized enterprises. The guarantee can be increased up to 80% for young farmers.
- **Subsidiary guarantee** instruments, which can only be used to complement other guarantees already applied to a given loan (e.g. from the *Confidi*). These financial instruments guarantee up to 55% of bank loans with a duration of less than 18 months, provided they benefit from some sort of public support, and up to 75% of bank loans with a duration above 18 months.

53 For example, Credit Agricole Italia offers a flexible product called ‘Finanziamento Scelgo Io Agricoltura’ and Banco BPM one called ‘Mutuo agrario flessibile’. More info on flexible loans for agriculture can be found in: *fi-compass,* 2018, ‘Flexible financial instruments for the agricultural sector in the EU’, Study report, https://www.fi-compass.eu/publication/factsheets/flexible-financial-products-agricultural-sector-eu.

54 Testo Unico Bancario (TUB), 1993.

- **A credit fund**, which provides loan financing for agricultural investments at subsidised interest rates (up to 0%), provided it is complemented by a bank loan of at least the same amount disbursed at market rates.
- **The fund for self-entrepreneurship and generational renewal in agriculture**, which supports young farmers (18-40 years) in the takeover or enlargement of agricultural enterprises with interest-free loans covering up to 75% of eligible expenses for a maximum of EUR 1.5 million and 15 years.
- **The fund for first entry of young farmers in agriculture**, which operates through annual calls for proposals (*Bando per l'insediamento dei giovani in agricoltura*) and provides interest subsidies for medium and long-term loans disbursed by banks targeting land-related transactions (e.g. the purchase, construction or improvement of land and rural buildings).

With regards to financial instruments under the European Agricultural Fund for Rural Development (EAFRD), these were also managed by ISMEA in the previous EU rural development programming period (2007-2013) on behalf of the regional managing authorities, which implemented them. In total, eight regions implemented financial instruments in the period, all of which were guarantee funds.[55]

Under the current programming period (2014-2020), also under the EAFRD, four regional EAFRD managing authorities have set up respectively regional loan funds (Friuli Venezia Giulia and Lombardy) and two regional guarantee funds (Umbria and Puglia). Another eight regions decided to appoint the European Investment Fund (EIF) as Fund manager and to contribute from their regional RDP budget for financial instruments under the same framework, creating in this way the so-called 'AGRI Italy Regional Platform' (Table 4). The products offered by ISMEA and the EIF are fundamentally different, as the latter are implemented via a delegated model through financial intermediaries, whereas ISMEA offers a loan-by-loan guarantee.

55 These regions were Calabria, Basilicata, Campania, Molise, Puglia, Sicily, Lazio and Umbria. Source: European Court of Auditors, 2015, Are financial instruments a successful and promising tool in the rural development area? Special Report.

Table 4*:* Active financial instruments for agriculture in Italy funded by the EAFRD

Financial instrument	Objective	Fund manager	Contributing regions	Other funding sources	Partner banks
AGRI Italy Platform	Provide uncapped guarantees to selected financial institutions to cover portfolios of newly originating loans supporting investments in agriculture and agri-industrial sectors	EIF	Calabria, Campania, Emilia-Romagna, Piemonte, Puglia, Toscana, Veneto, Umbria	EIF, EIB, Cassa Depositi e Prestiti (CDP)	Iccrea Banca, MPS, Credem, Banca di Cambiano, Creval, Banca popolare Puglia e Basilicata, Banca popolare pugliese, Banca Monte dei Paschi di Siena
Regional Revolving Fund for Agriculture	Provide interest-free loans for investments in primary production, transformation and commercialisation of agriculture products	Regional Managing Authority	Friuli Venezia Giulia	N/A	Federazione BCC Friuli Venezia Giulia, Banca di Cividale, Friuladria (Credit Agricole), Intesa Sanpaolo
Credit Fund	Provide a combination of grants and low interest loans to support agri-food companies to increase value added along the entire food production chain.	Finlombarda Spa (Milan)	Lombardy	N/A	Banca Popolare di Sondrio, UBI Banca, BCC Agrobresciano, Banco BPM,
Guarantee fund	Facilitate access to finance in the agricultural and processing sector, with an unlimited portfolio guarantee ('uncapped guarantee') in support of investment projects provided for and under sub-measures 4.1 Support for investments in agricultural holdings and 4.2 Support for investments in the processing, marketing and development of agricultural products.	EIF	Puglia	EIF, EIB, Cassa Depositi e Prestiti S.p.A.	N/A

Source: Desk review and stakeholder interviews, 2019.

The Regional Revolving Fund for agriculture in the Friuli Venezia Giulia Region provides (with the financial contribution of the RDP as well as with its own revolving resources and additional private contribution from the financial intermediaries) subsidised loans relating to investments for the transformation, marketing and development of agricultural products and for improving the performance and overall competitiveness of agricultural enterprises.

The Fund has a total initial amount of EUR 64.1 million of which EUR 16.1 million from the RDP which is delivered to final recipients through four local financial intermediaries. The loans supplied, up to EUR 3 million, can cover the 100% of the eligible investments and have a zero-interest rate for the RDP contribution. Each financial intermediary can add up to 50% on a loan basis at an interest market rate and must ensure the resources are paid back to the Fund also in case of default.

From 2018 to the beginning of 2020 a total of 328 final recipients received the support from the Fund for a total of nearly EUR 70 million. The resources provided by the RDP, EUR 16.1 million, were completely absorbed during 2018, where 126 final recipients received support for an amount of EUR 27.3 million of which EUR 16.3 million from the EAFRD, using therefore also the revolved resources.

For 2018, for which more detailed information is available[56], 104 final recipients received support under sub-measure 4.1.4 for a total of nearly EUR 16.2 million, of which EUR 9 million from the EAFRD, and 22 finial recipients under sub-measure 4.2.3, for a total of EUR 11.12 million, of which EUR 7.2 million from the EAFRD. The average duration of the loans was 10 years and the repaid resources, available for the re-use, amounted to EUR 543 500. The total amount of aid transferred to final recipients was equal to nearly EUR 3 million. The average rate of contribution from the financial beneficiaries was 25%.

The launch of the financial instrument has therefore significantly highlighted the effectiveness of the model based on the efficient relationship between enterprises, institutions and financial intermediaries.

The 2014-2020 RDP of Umbria foresees two financial instruments - guarantee funds: one regional and one multi-regional. The implementation of the multi-regional guarantee fund is under the framework of the AGRI Italy Regional Platform mentioned above and in Table 4. The Region is evaluating the possibility of not activating the regional fund because the multi-regional fund seems sufficient to respond to the needs identified in the RDP. The decision of the Region to conduct this evaluation before launching the regional fund is related to the positive impact of the multi-regional fund AGRI Italy Platform on the agriculture and agri-food sectors in the region.

Lastly, as far as **financial instruments offered by the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) programme** are concerned, as of February 2020, eight financial intermediaries, including three large banking groups (UniCredit, UBI Banca and Cassa Depositi e Prestiti / SACE), use the guarantee or counter-guarantee products offered by the programme (Loan Guarantee Facility). These are mainly used to support lending activities in Southern and insular Italy (Abruzzo, Molise, Campania, Puglia, Calabria, Sicilia, Sardegna).[57] COSME funds, however, target SMEs from all sectors and are not specific to agriculture. There has been little participation from the Italian agriculture sector in COSME (as of the end of 2018, and for the current period, COSME had provided access to finance for 3 932 SMEs in the agriculture, forestry and fishing sector for a total of EUR 287.3 m (3.8 % of the total Italian portfolio)).[58]

Italian young farmers and agricultural companies can also benefit from the EIB loan programme[59] for agriculture and the bioeconomy with specific targets to support younger farmers, alongside new *fi-compass* advisory products, launched in April 2019 as part of the joint EIB-DG AGRI 'Young Farmers' initiative[60]. The financing, channelled through intermediary banks, includes a window with favourable lending conditions for young farmers financing and aims to address many of the current shortcomings that farmers face (providing

56 Fondo di rotazione in agricoltura con il contributo del FEASR, Relazione di attuazione annuale per l'esercizio 2018.

57 Access to Finance Portal, February 2020, https://europa.eu/youreurope/business/finance-funding/getting-funding/access-finance/index_en.htm.

58 Information on the COSME programme implementation as of 2018, provided from EIF.

59 In April 2019, the EIB and the European Commission announced nearly EUR 1 billion of financing for the agriculture and bioeconomy sectors across Europe. The sum will be matched by the implementing financial institutions, thereby mobilising close to EUR 2 billion of long-term financing for SMEs in the sector. The loans will be managed by local banks and leasing companies active across the EU and will include a minimum 10% window for farmers under 40. https://www.fi-compass.eu/news/2019/05/eur-1-billion-europes-next-generation-farmers.

60 For further information about the Initiative please see *fi-compass*, 2019, Joint initiative for improving access to funding for European Union Young Farmers, Brochure, https://www.fi-compass.eu/publication/brochures/joint-initiative-improving-access-funding-european-union-young-farmers.

e.g. better terms for the loans to the farmers; lower interest rates; longer grace periods (up to 5 years) and longer maturity (up to 15 years); added flexibility, depending on the conditions, to respond to price volatility in the agricultural sector). At the end of 2019, EUR 350 million of financing from the programme was signed with four banks in Italy (Crédit Agricole Italia, Unicredit, Mediocredito Italiano, Banco BPM)[61] allowing with these loans fill an important financing gap related to young farmers access to finance. This initiative aims to scale-up investment for the agricultural sector, long underserved by the banking system due to its higher perceived risk.

61 EU Agriculture Programme Loan for SMEs & MidCaps: http://www.eib.org/en/projects/pipelines/all/20190107.

2.3.2 Analysis of the supply of finance

The analysis of the supply of finance is based on data from the Italian Central Bank (BankItalia). This data presents information on the outstanding loan portfolio to the agricultural, forestry and fishery sector for the years 2014 to 2018 by macro-area (NUTS-1) and region (NUTS-2). In Q2 2018, **total outstanding loans to the Italian primary sector (excluding mining) stood at EUR 41.9 billion, equal to 5.3% of total bank loans to all sectors** (Table 5).

Table 5: Volume of outstanding of banking loans to agricultural, forestry & fishing sector, 2014-2018, EUR million[62]

Region	2014	2015	2016	2017	2018 (Q2)	% total loans 2018-2017	% total loans 2018-2014	% of total loans
North-West	**12 385**	**12 414**	**12 202**	**11 962**	**11 787**	**-1.5%**	**-4.8%**	**28%**
Piemonte	3 220	3 245	3 266	3 310	3 263	-1.4%	1.3%	8%
Valle d'Aosta	47	50	46	47	47	-1.3%	0.1%	0%
Liguria	375	372	350	333	312	-6.2%	-16.8%	1%
Lombardia	8 741	8 746	8 538	8 271	8 165	-1.3%	-6.6%	19%
North-East	**15 012**	**14 889**	**14 955**	**14 935**	**14 789**	**-1.0%**	**-1.5%**	**35%**
Veneto	5 705	5 705	5 745	5,683	5 613	-1.2%	-1.6%	13%
Friuli Venezia Giulia	1 402	1 405	1 346	1 313	1 310	-0.2%	-6.5%	3%
Emilia Romagna	5 703	5 571	5 570	5 538	5 483	-1.0%	-3.9%	13%
Trentino Alto Adige	2 200	2 207	2 292	2 400	2 382	-0.8%	8.2%	6%
Centre	**8 618**	**8 577**	**8 229**	**8 179**	**7 800**	**-4.6%**	**-9.5%**	**19%**
Toscana	4 393	4 404	4 269	4 312	4 139	-4.0%	-5.8%	10%
Umbria	1 037	1 007	966	958	882	-7.9%	-14.9%	2%
Marche	1 298	1 274	1 162	1 081	1 064	-1.6%	-18.0%	3%
Lazio	1 889	1 891	1 830	1 826	1 714	-6.2%	-9.2%	4%
South	**5 156**	**5 258**	**5 028**	**4 989**	**4 919**	**-1.4%**	**-4.6%**	**12%**
Abruzzo	691	707	622	634	607	-4.3%	-12.2%	1%
Molise	160	165	160	154	140	-9.2%	-12.7%	0%
Campania	1 132	1 185	1 173	1 207	1 208	0.2%	6.7%	3%
Puglia	2 128	2 158	2 072	1 999	1 996	-0.1%	-6.2%	5%
Basilicata	385	396	376	380	369	-3.0%	-4.2%	1%
Calabria	657	645	623	613	597	-2.7%	-9.2%	1%
Islands	**3 247**	**3 207**	**3 027**	**2 852**	**2 700**	**-5.3%**	**-16.8%**	**6%**
Sicilia	2 282	2 237	2 122	1 951	1 813	-7.0%	-20.5%	4%
Sardegna	965	969	904	901	887	-1.6%	-8.1%	2%
ITALY	**44 420**	**44 347**	**43 444**	**42 920**	**41 997**	**-2.1%**	**-5.5%**	**100%**

Source: BankItalia, 2019.

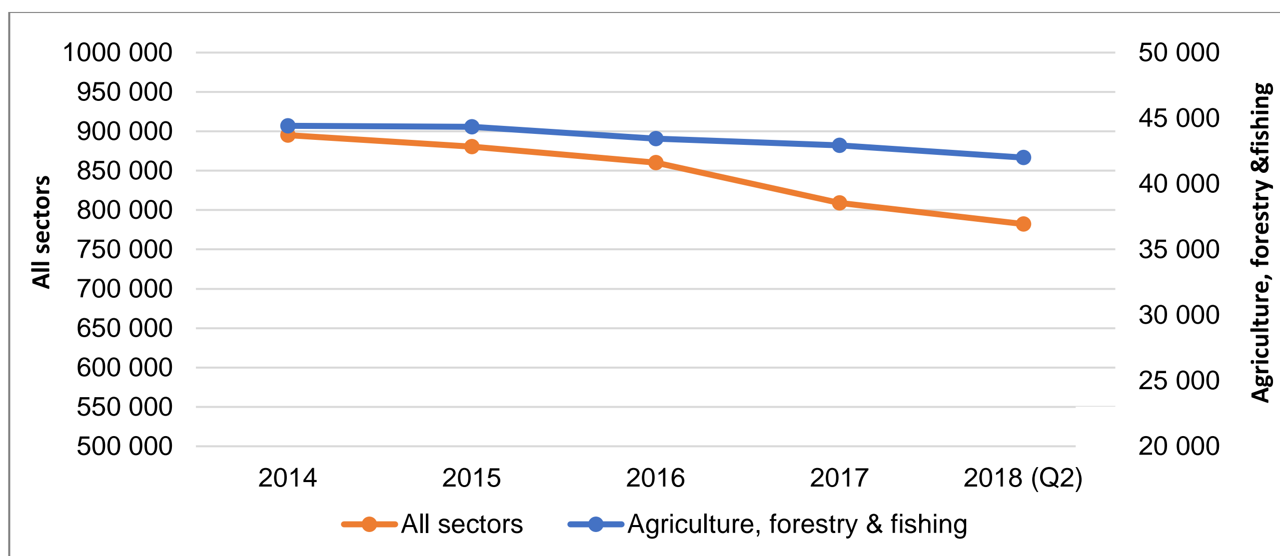
Northern Italy accounts for the highest share of loans to the agriculture sector. As mentioned in the section 2.1, Northern Italy produces half of the national production in terms of value. This fact is also reflected in the higher concentration of credit in this macro area, with regions in the North-East and North-West receiving

62 Available statistics from BankItalia only provide figures for the primary sector (excluding mining activities) as a whole, i.e. agriculture, forestry and fishing, although the latter are minor compared to agriculture.

63% of total loans to the sector in Q2 2018. Among these, three regions take the lion's share of agricultural credit. These are Lombardy (19% of total loans), Veneto and Emilia-Romagna (13% of total loans). Northern Italy is followed by Central Italy, which receives 19% of total agricultural loans and has only one region with an important share of these (Tuscany with 10%), and Southern and insular Italy, which receive 18% of total loans and have no region absorbing more than 5% of loans.

Lending to the agriculture sector has been decreasing since 2015, but at a much slower pace than the decrease of lending to the overall economy. There has been a more significant decrease in lending in Southern Italy**.** This divide between NUTS-1 regions is also evident when looking at the recent trends in the supply of credit to the agriculture sector. While credit to the sector has been consistently decreasing across the country since 2015 (-2.1% in Q2 2018 compared to 2017 and -5.5% compared to 2014), such decreases are more substantial in Central Italy (-4.6% compared to 2017 and -9.5% compared to 2014) and Southern and insular Italy (-2.8% compared to 2017 and -9.3% compared to 2014). However, the decreasing trend of lending to the agriculture sector is less marked than the decrease of lending to the overall economy (-3.3% in Q2 2018 compared to 2017 and -13% compared to 2014), as shown in the graph below.

Figure 13: Volume of outstanding bank loans to primary sector vs all sectors, Italy, 2014 -2018, EUR million



Source: Elaborations based on data from BankItalia, 2019.

Default rates for the agriculture sector remain lower than for the overall economy. Default rates[63] in the agriculture sector have generally decreased at the national level, dropping from 3% in 2015 to 1.7% in Q2 2018. At the regional level, they remain higher in Central (2.1% as of Q2 2018) and Southern and insular Italy (2.4% and 2.6%, respectively), compared to Northern Italy (1.2%).[64]

In terms of maturities, the statistics available from BankItalia only provide a breakdown between medium and long-term loans (over 12 months) and all other short-term loans (less than 12 months) to the primary sector (Figure **14**).

63 The default rate is calculated as the annual flow of new loans in default divided by loans not in default.
64 BankItalia.

Figure 14: Volume of outstanding bank loans to agricultural, forestry & fishing sector in Italy, by maturity, EUR million[65]

Source: Elaborations based on data from ISMEA and Bankitalia, 2019.

The figures show that roughly one-third of total bank lending to the agriculture sector is composed of medium and long-term loans, which **means that farmers are largely covering their financial need with loans that have a duration of less than 12 months**. This may imply, as indicated in section 2.2.2, that there is an insufficient supply of long-term financing for investments in the agriculture sector. The level of outstanding medium and long-term loans has decreased significantly since 2014 (-11.6%). This decrease is particularly evident in regions in the northwest (-17.8%) and the centre (-16.7%).

Long-term financing products are typically heavily collateralised, requiring mortgages on the personal property of the farmer or the enterprise. Interviews with banks and other stakeholders seem to confirm the challenges in providing long-term loans to agricultural enterprises. In general, banks do offer a range of medium and long-term loans, although some of them confirm they are unable to provide loans with maturities over 15-20 years and with grace periods above 36-48 months. These would be crucial for large investments, such as setting up new perennial crops (e.g. fruit and/or wine farms). These long-term financing products are usually heavily collateralised, requiring mortgages on the personal property of the farmer or enterprise (see section 2.2.2.). The reasons for the high collateralisation of medium and long-term loans are related to the

65 Available statistics for total outstanding banking loans to the primary sector include non-performing loans (NPLs), whereas statistics for credit over 12 months only include performing loans.

aforementioned structural weaknesses of Italian agricultural enterprises (i.e. small size and lack of proper financial accounting), coupled with the absence of specific rating models for agriculture within banks which automatically place farmers in the highest risk category due to asymmetric information. In this context, young farmers and new entrants are particularly penalised by heavy collateral requirements if they are not supported by their families. This is especially the case for new entrants as they cannot leverage prior experience in the sector.

While financial instruments can alleviate the problem of high collateral requirements, public guarantees are considered complex and lengthy in their procedures by banks. Further, the outcome of such guarantees is often uncertain which discourages stakeholder use**.** Indeed, most Italian banks have adhered to one or more credit guarantee schemes, particularly those managed by ISMEA. However, the actual use of such guarantee funds by banks remains quite limited. Of the EUR 50 million financial envelope of ISMEA's guarantee funds, only half are currently committed. According to interviewed stakeholders, the main reason for this is that public guarantee funds, which generally require a case-by-case approval of each agricultural loan application, are considered very complex and lengthy in terms of procedure and often uncertain in their outcome. The result is that loan disbursement is either heavily delayed or the bank proceeds to disburse the loan without waiting for the fund's response. Among other issues, banks have reported technical challenges in accessing and completing the loan guarantee on ISMEA's online portal, as well as delays from ISMEA in performing its own loan assessment using its proprietary rating model. The costs of these financial instruments are also considered excessive by stakeholders interviewed and higher than the costs of guarantee funds targeting other productive sectors. For example, annual fees on ISMEA's direct guarantees are equal to approximately 0.45% of the guaranteed outstanding loan principal and can be paid upfront or in instalments.[66]

With regards to EAFRD financial instruments, the guarantee funds implemented in Italy in the 2007-2013 programming period performed rather poorly for a variety of reasons. This includes their overcapitalisation (due to a weak assessment of demand) and their late set-up, which hindered implementation. Out of close to EUR 80 million paid into the guarantee funds' set-up, only EUR 22 million was used as guarantees to final recipients. This represents a revolving effect of merely 0.27, which is very weak for a guarantee fund, given the objective of a guarantee fund is to provide more guarantees than the capital available, hence creating a significant revolving/multiplier effect.[67] ISMEA, which managed most of the resources, opted for a loan-to-loan approach, which brought almost no leverage to the instrument. The resources that were not used were transferred back to the regional programmes and used for other measures in line with the objectives of the RDPs.

To overcome such difficulties, DG AGRI (European Commission) established a specific technical support activity 'Targeted coaching on financial instruments under the EAFRD' in 2015. The major aim was to train staff of the EAFRD Managing Authorities on this rather complex topic. The activity was successful as more than 30 Managing Authorities from half of the EU asked for it. Among these were 8 Italian regional Managing Authorities[68]. This helped them to better understand the nature of financial instruments, how they can better use their programming resources and how to negotiate with banks and/or fund managers. As an outcome, 5 different financial instruments are now set up covering more than half of the Italian regions, and with much better performance and underlining conditions.

Among the financial instruments set-up in the 2014-2020 programming period, **a new EAFRD guarantee multi-regional platform has recently been implemented by eight regions in Italy** (AGRI Italy, Table 4), which is managed by the EIF. The EIF signed Operational Agreements with seven financial institutions (Credem, BPP, Iccrea, Creval, BPPB, Banca Cambiano, Banca MPS, Annex A.7) between December 2018 and May 2019. Disbursements have started as of Q2 2019. The financial instrument is expected to create a portfolio of new loans of up to EUR 400m supporting more than 4 000 final recipients in the agricultural sector. This instrument is based on an uncapped portfolio guarantee approach and is expected to offer important

66 Interview with ISMEA.

67 European Court of Auditors, 2015, Are financial instruments a successful and promising tool in the rural development area?, Special Report.

68 The Managing authorities of Veneto, Emilia-Romagna, Puglia, Marche, Sicily, Calabria, Friuli Venezia Giulia Regions.

advantages in terms of simplification in comparison to the management of loan-by-loan guarantee contracts offered by other players (e.g. ISMEA). This is because operations are only subject to banks' own appraisal procedures. Some concerns have emerged during interviews on the administrative burden it might imply for banks. For example, some of the interviewed banks that decided not to apply to the platform explained that they were reluctant to take responsibility for the three-tiered eligibility assessment that the instrument requires following the EU rules. These include the eligibility of the applicant, transaction and costs.

Despite the benefits of the streamlined approach, some interviewed managing authorities also expressed some doubts concerning the level of flexibility of such multi-regional platforms to the specific needs of each region. This was particularly the case for those managing authorities having set-up their own regional financial instruments. Nevertheless, the instrument was recently launched at the end of 2019 and it is far too early to draw any conclusion on its performance.

Regionally operating financial instruments, such as **the EAFRD Revolving fund of the Friuli Venezia Giulia Region**, have proven to be successful in facilitating access to finance at low interest rates. It provided interest-free loans to almost 300 companies in the agriculture and agri-food sectors. However, given the limited capacity of the region in performing a proper credit assessment, the region transfers the entire credit assessment process of its interest-free loans to the partner banks. As a result, the partner banks then request a collateral on the entire loan amount, and not only for the 20-25% of the loan amount, which is provided by the bank in question. This leads to farmers having to provide collateral for the entire loan amount, including the interest free portion provided by the credit fund (which uses free EAFRD resources). Therefore, fund applicants do not benefit from lighter collateral requirements, which may limit their access to the instrument or make it unattractive for them.

In conclusion, all stakeholders agreed on the important role that financial instruments can play in both facilitating access to finance for farmers who face collateral constraints and in promoting greater responsibility and accountability of enterprises, compared to grant-based measures. However, they also believe that the existing financial instruments could be improved in order to better pursue these goals.

2.4 Financing gap in the agriculture sector

This section presents an assessment of the financing gap in the Italian agriculture sector, broken down by farm-size and financial product.

Key elements of the financing gap in the Italian agriculture sector

- The total financing gap in the Italian agriculture sector is estimated to be between EUR 110 million and EUR 1.3 billion.
- Small-sized farms (below 20 hectares) have the most difficulties in accessing loans.
- The largest gap is identified for medium and long-term loans, which is further confirmed by the data collected from interviews with stakeholders.
- The key driver of the gap is linked to the structural weaknesses of the Italian agriculture sector, in which small-sized farms, mainly family-run businesses, often lack the required collateral and formal accounting practices, whereby banks are challenged to assess their creditworthiness. Low level of financial education, in particular among the small-sized farms, may also be part of the explanation for the gap.
- The financing gap may also be linked to the insufficient specialisation of banks in agriculture, which places farms in the highest risk category and obliges them to pledge substantial personal collateral to access loans, particularly medium and long-term loans.
- Young farmers and new entrants constitute a large part of the gap, due in particular to their lack of sufficient collateral and credit history.
- Given the existence of a financing gap, EAFRD financial instruments clearly have a role to play in facilitating access to finance in the agriculture sector. This is provided that they are adapted to the needs of farmers and are acceptable for, or successfully negotiated with, financial institutions.

This section presents an estimate of the total value of unmet financing needs of financially viable agricultural enterprises, defined as financing gap, for 2017. The estimate is calculated by multiplying the total number of farms in the financing market by the proportion of financially viable farms reporting unmet demand for finance multiplied, in turn, by the average obtained loan value to farms.

Financing gap = Number of farms X percentage of firms that are both financially viable and have unmet demand X average loan volume

All the calculations are based on the results of the *fi-compass* survey for Italian farms and statistics from Eurostat (see Annex A.4 for more information). The methodology used for calculating the gap is described in Annex A.3.

The financing gap arises from unmet financing demand from economically viable farms[69]. The unmet demand for finance includes:

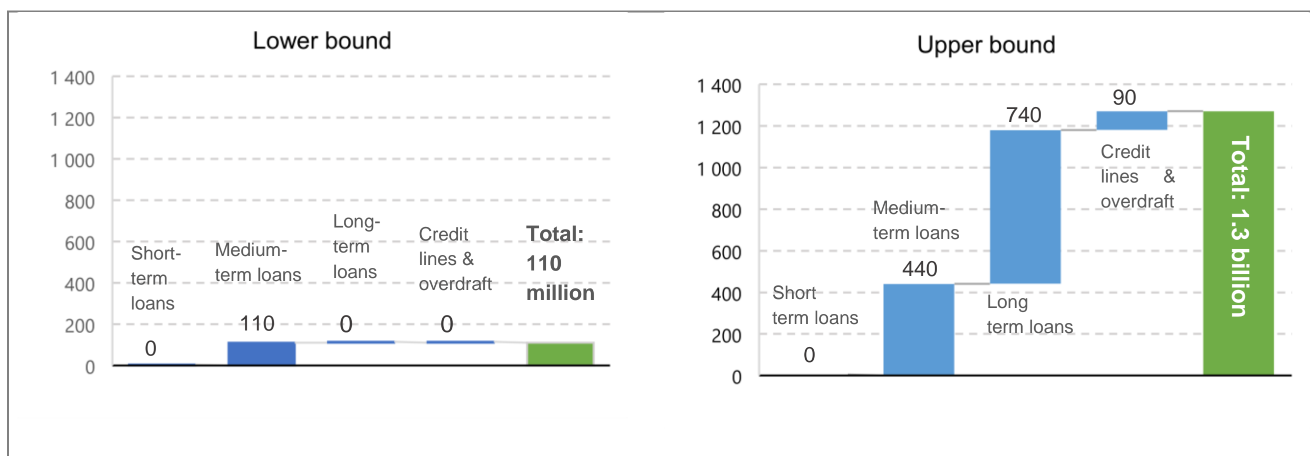
(i) lending applied for but not obtained, or
(ii) a lending offer refused by the potential borrower, as well as
(iii) lending not applied for due to expected rejection.

69 The financing gap presented in this section is different from the total unmet demand presented in Section 2.2.2. In the quantification of the total unmet demand, all the enterprises in the population applying for finance are considered independent from their economic viability.

For the purpose of this study, 'turnover growth' is used as a proxy of farm viability. In particular, two different criteria for viability are used, which lead to the calculation of a range for the financing gap between an upper and a lower bound:

- The lower bound gap is calculated under the hypothesis that only enterprises which reported a stable (non-negative) turnover growth and no cost increase in the previous year can be considering as viable;
- The upper bound gap is calculated under the hypothesis that all enterprises which reported a stable (non-negative) turnover growth can be considered as viable.

Figure 15: Financing gap by product in the agriculture sector, 2017, EUR million



Source: Calculation based on results from the fi-compass survey.

The total financing gap for the agriculture sector in Italy is estimated to be between EUR 110 million and EUR 1.3 billion (Table 6 and Figure 15). **A large portion of the gap relates to small-sized farms** (around 75% of the total gap). While there is significant variation between the lower and upper boundary estimates, the interviews with stakeholders support a gap closer to the higher estimate.

Table 6: Financing gap by farm size in the agriculture sector in 2017, EUR million

		Total	Short-term Loan	Medium-term Loans	Long-term Loans	Credit lines/bank overdraft
Upper bound	Small-sized farms	**1 004.6**	-	352.4	586.6	65.6
	Medium-sized farms	**201.3**	-	64.5	122.7	14.1
	Large-sized farms	**64.8**	-	23.1	31.1	10.5
	Total	**1 270.6**	**-**	**440.1**	**740.4**	**90.1**
Lower bound	Small-sized farms	**88.1**	-	88.1	-	-
	Medium-sized farms	**16.1**	-	16.1	-	-
	Large-sized farms	**5.8**	-	5.8	-	-
	Total	**110.0**	**-**	**110.0**	**-**	**-**

Source: Calculation based on results from the fi-compass survey.

The gap is mainly concentrated in medium and long-term loans of more than five years. BankItalia statistics show a decreasing trend in the supply of medium and long-term banking credit to the agriculture sector in recent years, further supporting the idea that farms have difficulties in accessing loans with longer maturities. Notably, while the gap calculations show no financing gap for short-term loans (less than 18 months), a gap of EUR 90 million was found for the supply of credit lines and overdrafts, despite the average loan amounts for these products being quite similar. For example, small-sized farms borrow, EUR 17 537 for short-term loans versus EUR 15 833 for credit lines.

The drivers of the gap are largely due to the structural challenges faced by farmers which hinder the banks from assessing the farms' creditworthiness, and thus their ability to finance them. These drivers include:

- **A lack of collateral** due to the small-sized and fragmentation of Italian farm enterprises, with frequently weak levels of capitalisation. This is a problem for all farms, but particularly for new entrants and young farmers who lack prior experience and who lack family relationships in the sector to draw support from.
- **A lack of proper financial accounting and/or credit history** coupled with weak business plans and investment projects presented to banks. A lack of credit history impacts new entrants in particular.
- **A lack of financial education,** causing farms to be discouraged from applying for loans, and gives them less leverage on the financing conditions applied once a loan is approved.
- **A lack of agricultural expertise within the banking sector.** The absence of specific rating models and most banks' generally low competencies in agriculture financing also drive the gap. The lack agricultural expertise by the banks means that farmers are automatically placed in the highest risk category and requested to pledge substantial personal collateral to secure loans, particularly for medium and long-term loans. As a result, access to finance is made more complicated, even for economically viable farms.

Rejection rates and the share of discouraged farmers may be higher than what the findings of the *fi-compass* survey suggest, according to stakeholders. Official bank data for rejected applications include only those loan applications that reach the appraisal and validation phase, not all informal discussions. These informal discussions are normally conducted at the branch level and are not formalised as a loan application if a farmer is unable to meet the initial application requirements (e.g. on collateral). This means that the share of farmers unable to access finance is likely to be considerably higher than what is reflected in the *fi-compass* survey.

Young farmers appear to be greatly discouraged from applying for finance. Additionally, the share of unmet demand among young farmers also seems to be higher than what the results of the *fi-compass* survey suggest. This was emphasised by the agricultural stakeholders interviewed, particularly those representing young farmers (section 2.2.2 has further analysis on this), who mentioned constraints due to banks' heavy collateral requirements. The share of farmers discouraged from applying for finance is also likely to be higher than the results from the survey, according to feedback from interviewees.

The financing gap may increase in the coming years. According to the *fi-compass* survey, 16% of the Italian farms surveyed expect their financing needs to increase for the coming 2-3 years, compared to only 6% who expect their needs to decrease (54% expect their needs to be stable).

2.5 Conclusions

Although Italy is one of the largest agricultural producers among the EU 24 countries, with total agricultural production of EUR 55.8 billion in 2018, the sector is still characterised by several structural and long-standing weaknesses, which affect the overall demand for finance:

- A high number of small-sized farms with weak integration in the value chain, meaning that farmers face difficulties related to both the input costs and selling prices of their products.
- A substantial presence of family-run enterprises with no or limited formal accountancy, which hinders farmers' capacity to access banking credit.
- Low generational renewal and a relatively high average age of farm holders, which translates into a limited propensity to invest in new technologies and in the products required to improve competitiveness and productivity.

These characteristics are crucial in understanding the overall demand for, and access to, finance by the agriculture sector in Italy.

The agriculture sector in Italy shows a decreasing investment trend and the sector is mainly financed through short-term loans. Statistics on the supply of banking credit show that farmers are mainly financed by short-term loans (two-thirds of total outstanding agriculture loans), suggesting an insufficient supply of longer-term financing for investments. Interviewed stakeholders have pointed out cases of short-term loans being used for long-term investments and agricultural financial needs being satisfied by non-agricultural loans, such as business or personal loans.

In line with these findings, the study shows that there is a consistent financing gap in agriculture in Italy, estimated to be between EUR 110 million and EUR 1.3 billion. Most of the gap (75%) is related to small-sized farms (below 20 ha) and a large share of the gap is due to the unmet demand for medium and long-term loans. Young farmers and new entrants also make up a significant part of the gap.

The existence of the gap can be explained by the lack of collateral held by farming enterprises and the lack of appropriate accountancy, together with a lack of agricultural expertise in the banking sector. In fact, the insufficient specialisation of banks in agriculture – most of which do not have specialised departments or credit scoring models for agriculture – coupled with the sector's structural weaknesses, automatically place farmers in the highest risk category. As a result, long-term loans are usually heavily collateralised, in almost every second case agricultural producers are required to mortgage personal property of more than 150% of the loan value. This particularly penalises young farmers and new entrants, unless they are supported by their families or can leverage prior experience in the sector in other ways.

EAFRD-funded financial instruments, therefore, play a key role in helping to reduce the risk associated with longer-term loans and to ease collateral requirements. Apart from mutual guarantee associations, the main existing financial instruments for the agriculture sector are guarantee funds from ISMEA (a public body financed by the Ministry of Agriculture), such as the Credit Funds of the Friuli Venezia Giulia Region and Lombardy region, as well as two regional guarantee funds in Umbria and Puglia, and a recently launched EAFRD portfolio guarantee instrument managed by EIF and launched by eight Italian regions.

For EAFRD financial instruments to continue to increase their role in facilitating access to finance for agricultural enterprises, in particular for young farmers, the following recommendations should be considered:

- **A larger share of RDP funds in future programming periods could be allocated to financial instruments as opposed to grant-based investment support**. Feedback collected from the interviews with representatives of banks and guarantee funds indicates that grant-based investment support, combined with a lack of financial education of the farmers, encourages them to pursue large investments in order to access the grants. Many of these investments then remain unfinished and this may lead to over-indebtedness. Allocating a larger share of RDP funds to financial instruments would promote greater accountability and responsibility among farmers, encouraging the evolution of the sector from its traditional dependency on grant funding schemes towards a culture based more on entrepreneurship and bankability.

- **More needs assessments at regional level are needed to support a greater outreach of any new centralised financial instrument supported by the EAFRD.** More schemes are needed within such financial instrument to cover the needs of young farmers and start-ups, or to reduce the risk by sharing funds through credit schemes. These can cover working capital finance, micro-credit and/or complementarity with grants. Better leverage for guarantee funds could be targeted through improvement of the design of the financial product and the participation of external financing providers.
- **Procedures to access, manage and use financial instruments need to be streamlined and simplified**, reducing the administrative burden and allowing for faster implementation. The banks and regional managing authorities interviewed stressed how administrative and reporting requirements for existing financial instruments may discourage their use. Simplification may also reduce the existing fragmentation between the various stakeholders involved in managing financial instruments, namely between financial intermediaries, financial instrument management bodies and managing authorities.
- **Support from financial instruments could be coupled with technical support to enhance farmers' financial, managerial and technical skills, and to support generational renewal in agriculture**. Financial instruments or partnering banks could provide training or coaching services to farmers, particularly to young farmers and new entrants, to facilitate the transfer of know-how, experience and farm assets from older farmers to younger entrepreneurs. These services could focus on financial/business-related matters (e.g. enterprise financial management and accounting, education on banking products and financial instruments), as well as risk management issues (e.g. mitigation of adverse weather conditions and commodity price fluctuations). They could also provide farming traineeships and coaching on the acquisition of farm enterprises, the launching of new investments, and on promoting innovation in the sector.
- **Financial instruments could also support the offer of flexible financial products for agriculture** to allow, for example, the tailoring of repayment schedules to farmers' actual cash flows (seasonal cycles) and/or the temporary suspension of loan instalments in response to external events affecting the enterprise's ability to repay (besides the existing exemptions/moratoria already proposed by the Italian Banking Associations for unexpected events). While a few banks already offer such flexible products, they are currently insufficient.
- **Efforts could be made for exploring the possibilities for setting up specific and focused equity funds in agriculture,** based on well-founded ex-ante assessments and analyses.

3. PART II: AGRI-FOOD SECTOR

3.1 Market analysis

Key elements on the Italian agri-food sector
• The agri-food sector is the largest manufacturing sector in Italy. The GVA of food and beverage manufacture has slightly grown over the last decade reaching EUR 26.2 billion in 2017. • In 2018, the value of its production was EUR 113.7 billion, and the value added in the agri-food sector has increased by 1.8%. The processing of agricultural products resulted in a turnover for the agri-food industry of EUR 141 billion. • In 2017, the sector consisted of almost 56 000 enterprises, with almost 450 000 employees. 98% of agri-food firms are small (less than 50 employees) and they are mainly located in Southern Italy and the islands. • The main sub-sectors are bakery and farinaceous products (19% of the total production), meat processing and conserves (16%), dairy products (14%) and wine (8%). • Exports play an important role in the stability of the sector; wine represents the main exported product (almost 20% of total exports in terms of value), followed by dairy products (10%), processed vegetables (7%) and oil and fat (6%). • The 'Made in Italy' label and its high value-added quality is a key driver of Italian competitiveness worldwide. • The sector is subject to the high volatility of agricultural commodities and this has affected profit margins in recent years.

The agri-food sector is the largest manufacturing sector in Italy. In 2018, the value of its production was EUR 113.7 billion, and the value added in the agri-food sector has increased by 1.8%.[70]

The GVA of food and beverage manufacture has slightly grown over the last decade reaching EUR 26.2 billion in 2017.[71] (Table 7) In 2017[72], the sector consisted of 55 598 enterprises and almost 450 000 employees, which corresponds to 12% of the total labour force in the manufacturing sector.[73] 8% of the registered firms in the food industry (excluding beverages) are owned by young individuals (under 35, according to the food industry definition).[74] At the European level, Italy ranks second for the number of enterprises, after France, and third for turnover, after France and Germany. The turnover of manufacturers of food and beverage has also steadily grown and was it its peak in 2018 – with a turnover of more than EUR 141 billion.

Table 7: Value added and turnover of manufacturer of food and beverage in Italy, EUR billion[75]

	2013	2014	2015	2016	2017	2018
Value added manufacture of food and beverage	22.51	23.18	24.22	25.54	26.28	n.a.
Turnover manufacture of food and beverage	128.34	129.12	131.65	133.38	138.83	141.30

Source: Eurostat, 2019, Structural Business Statistics.

70 Istat, 2019.
71 Eurostat, 2019, The 2018 figures have not been published yet.
72 Later data was publicly not available.
73 Istat, 2019.
74 ISMEA, 2018, AgrOsserva – La congiuntura agroalimentare IV trimestre 2017. Based on data available from SI Camera-Infocamere.
75 No figures on the value added for 2018 available.

Almost the entire agri-food sector (98%) is composed of micro and small businesses (with less than 50 employees). The sector is going through a consolidation process which has seen the economic size of enterprises increasing in recent years. Despite the dominance of micro and small firms, large firms produce more than one-third of total production, while medium-sized firms contribute most to value-added and exports. Among small and medium-sized enterprises, the average annual turnover was about EUR 1.6 million in 2016.[76]

In 2016, production was mostly driven by the bakery and farinaceous products sub-sectors (19% of total value), followed by meat processing and preserving (16%), the dairy industry (14%) and wine (8%). After consistent growth in 2017 (+12%), attributable to the positive performance of all sub-sectors, production contracted in 2018 (-6%), mostly due to adverse climate conditions that negatively affected the two important value chains of olive oil and wine.[77]

The inter-regional differences in the agri-food sector are similar to those of the agriculture sector. In the Northern-Central regions of the country, the sector is composed of larger firms (averaging 11 employees) with higher labour productivity. Because these larger firms have higher levels of fixed assets (where intangible fixed assets predominate), they are financially more solid than those in Southern Italy (which mainly have technical fixed assets). Almost 40% of the turnover is generated in the two Northern regions of Lombardy and Emilia-Romagna. Almost half of the firms (46% of the total) are located in Southern Italy and the islands, with a predominance of medium-sized firms that employ five employees on average.[78] Over the last three years, enterprises from the south of Italy have demonstrated more dynamism and more consistent growth than firms in the north.[79]

In the agri-food sector, the role of cooperatives is significant. In 2016, there were 1 731 cooperatives, mostly aggregations of farmers who contribute their own raw materials, which had a total value of production of EUR 16 billion. Cooperatives are mostly concentrated in the meat, dairy, vegetable preserves and wine sub-sectors. Smaller cooperatives with lower turnover are concentrated in Southern Italy, while the larger cooperatives are in Northern Italy. In 2016, cooperatives along the entire agri-food value chain had an average turnover of EUR 7.4 million and an average of 19 employees.[80]

The Italian agri-food trade balance is positive, with the value of exports reaching EUR 34.6 billion in 2018. This is on the back of an increasing trend since 2009. During the economic crisis in the period 2007-2008, exports played an important role in the stability of the sector. Wine is the main exported product, accounting for almost 20% of total exports, followed by dairy (10%), processed fruit and vegetables (10%), and meat processing and conserves (9%). With respect to imports, Italy mostly imports processed meat (20% of the total value of imported goods), fish (15%), oil and fat (15%), and dairy products (13%).[81]

Quality schemes are an important economic driver for the Italian agri-food sector, and thus also for investments. The 'Made in Italy' label and its high value-added quality represent a key factor of Italian competitiveness worldwide. In 2018, Italy claimed a world-record figure of 822 Protected Designation of Origin (PDO), Protected Geographical Indication (PGI), and Traditional Specialities Guaranteed (TSG) products registered at the European level.[82] These products make up 13.4% of the value of total agri-food production and more than 25% of the total export value.[83]

The processing sector is subject to the high volatility of agricultural commodities, which impacts profit margins due to increases in input costs and decreases in selling prices. This has led to more limited bargaining power, compared to the retail sector.

76 Consultants' calculation on different sources, data for later years not available.
77 ISTAT (data include the tobacco industry), 2019.
78 ISTAT, 2019, Imprese e addetti: Forma giuridica, settori economici (Ateco 5 cifre) - Italia.
79 ISMEA, 2019, Federalimentari.
80 Later data not available at the time of the study. Osservatorio della cooperazione agricola italiana, 2017.
81 ISTAT, 2019.
82 ISMEA-Qualivita, 2018, XV Rapporto.
83 ICE – Esportazioni del settore Agro-alimentare 2016–2018.

3.2 Analysis on the demand side of finance to the agri-food sector

This section describes the drivers of demand for finance in the agri-food sector and analyses and quantifies the met and unmet demand. It seeks to identify the main reasons for agri-food enterprises to request financing and the agri-food sub-sectors showing the largest need for finance. The section also provides an analysis of the type of enterprises which face more constraints in accessing credit. The examination of the demand for agri-food finance is based on the findings from the Agri-food survey results of 200 Italian firms, as well as interviews with key stakeholders in the agri-food sector, combined with national statistics.

Key elements on finance demand from the Italian agri-food sector

- Italy had the third highest level of investments in tangible assets among EU 28 countries in 2016. Investments amounted to EUR 4.3 billion.
- Investments are mostly directed towards acquiring machinery and equipment (74% of the total value of investments).
- In 2018, 43% of the respondents to the Agri-food survey requested financing (slightly lower than the EU 24 level). The demand for financing is mostly driven by the need to finance medium and long-term investments (92% of the total requests).
- Higher demand for finance is reported among the most productive sectors and those that are export-oriented. In 2016, 18% of the total value of investments came from bakery and farinaceous products, 12% from wine, 11% from fruit and vegetable processing, 11% from meat processing and 10% from the dairy industry.
- In 2018, the total unmet demand for finance was estimated to be EUR 1.5 billion.
- Access to credit has several bottlenecks. This is most challenging for young entrepreneurs and start-ups, due to their limited credit history, and for enterprises operating in Southern Italy, which are usually less solid economically.
- Within the RDPs, regions mostly use grants to promote investments in the agri-food sector. Innovative financial instruments are used in a few cases (such as providing support to the entire value chain rather than focusing on a single firm). Some ad-hoc initiatives have been set up to support sub-sectors in crisis, such as the olive oil value chain.
- Recently, about ten Italian regions have activated EAFRD financial instruments to support their regional agri-food enterprises. The EAFRD financial instruments can finance investments and working capital, under favourable conditions for the final recipients (i.e. the agri-food companies eligible for support).
- According to the Agri-food survey, one-third of respondents expect their future financial needs to increase in the near future, while almost half did not expect significant changes.

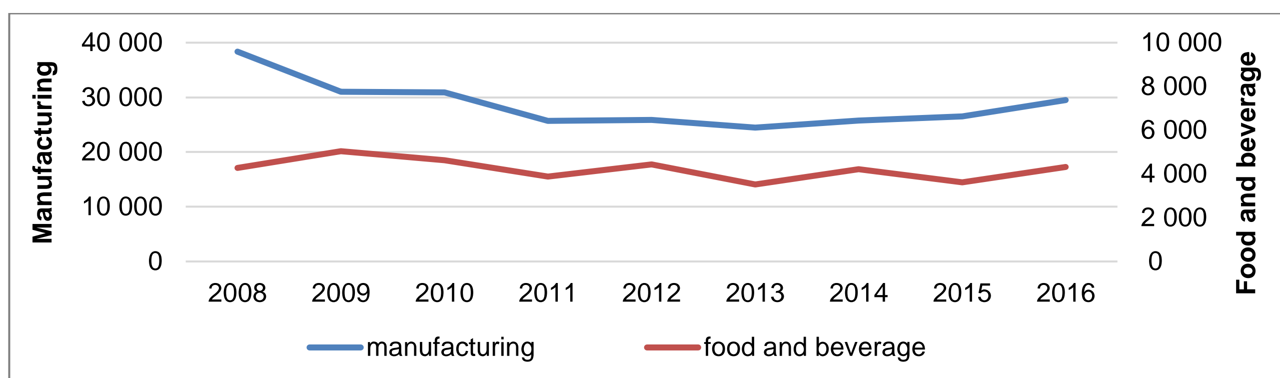
3.2.1 Drivers of total demand for finance

In 2018,[84] the Italian agri-food sector invested EUR 5.0 billion, ranking third in Europe in terms of the total value of gross investments in tangible assets, after France and Germany. This was equivalent to 20% of GVA. Although the total investment has remained almost constant over the years, the propensity to invest (measured as the incidence of annual investments in the added value of the sector) decreased considerably between 2007 and 2018, from 31% to 19% for the Southern regions and from 36% to 29% for the rest of Italy.[85] Despite this, the agri-food sector has demonstrated a higher degree of resilience than the manufacturing sector (Figure **16**).

84 Data from 2016 are the most up-to-date available on Eurostat.

85 ISMEA, 2019, La competitività dell’agroalimentare del mezzogiorno.

Figure 16: Gross investment in tangible assets, 2008-2016, EUR million



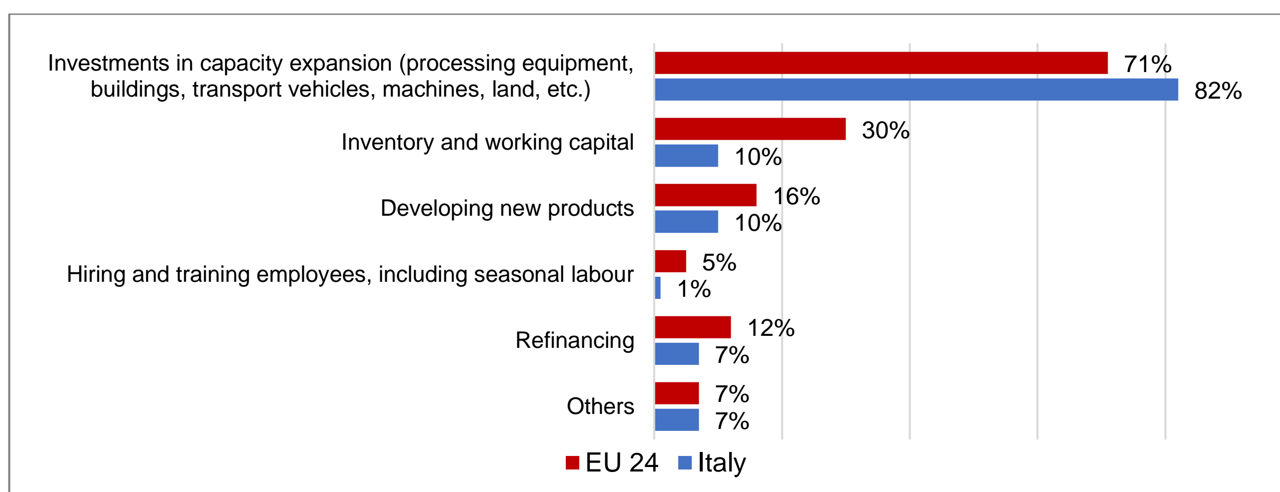
Source: Eurostat, 2019, Structural Business Statistics.

Investments are mostly directed towards the acquisition of machinery and equipment (74% of the total value), followed by the purchase of new buildings or reconstructing existing building (23%). Land acquisition only accounts for a minor share (3%).[86]

Demand is the highest for medium and long-term loans, confirming the expansion trend in the sector. Results from the Agri-food survey show that the demand for credit is mostly driven by medium and long-term financial products. More specifically, 92% of the respondents stated they had requested credit for investing in capacity expansion or developing new products (Figure 17), which confirms the expansion trend currently underway in the sector. 10% of the financial demand was driven by the need to invest in inventory and working capital, while 7% of the financial demand was directed at refinancing existing debts. In this regard, for a few stakeholders interviewed, the demand for debt refinancing is likely higher and is not currently satisfied by the financial system.

The maturity of loan products required varies according to the sub-sectors. For example, processors of fruits and vegetables, which have a short lifecycle and a seasonal pattern, are more in need of short-term finance for working capital compared to other sub-sectors, such as meat processing and dairy production, which require more long-term finance for longer-term investments.

Figure 17: Purpose of bank loans in the agri-food sector in 2018



Source: Agri-food survey.

86 Eurostat, 2019.

Trade is an important economic driver for the agri-food sector and, hence, also a driver of the demand for finance. In a globalised economy with a national market that shrank for many years prior to its current and gradual recovery, foreign trade has been the main driver that has sustained growth in the sector. As indicated in section 3.1, despite having higher production costs, goods labelled 'Made in Italy' and quality products with high levels of value-added can prove highly competitive against mass products from emerging markets. Therefore, sub-sectors that opened to foreign markets were also those that attracted more investments, and which have a higher demand for finance. More specifically, higher investment is registered among the most productive sectors and largest exporters; in 2016, 18% of the total value of investments came from bakery and farinaceous products, 12% from wine, 11% from fruit and vegetables, 11% from meat processing, and 10% from the dairy industry.[87] The future evolution of global demand will likely support 'Made in Italy' products, so export-oriented enterprises will be best able to compete and grow.

The propensity to invest has decreased over recent years, partly due to constrained access to credit, and this is a trend that mainly affects medium and long-term investments. The financial supply for medium to long-term investments decreased by 28% over the last ten years, 18% over the last five years, and 2.5% over the last year.[88] This trend is significant within the dairy sector, which is facing an ongoing structural crisis due to a decrease in the market price of output, an increase in production costs, and the contracting of domestic demand (which does not affect PDO products, such as Parmigiano Reggiano, for which demand is growing). As pointed out by some stakeholders interviewed, and despite being more costly, the practice of using credit lines and short-term loans instead of long-term investments in the agri-food sector is common (although less frequent than in the agriculture sector), because these are easier to obtain.

Market measures have played an important role in encouraging investments in the agri-food sector, in particular for wine production. The agri-food sector benefits from the market measures in the CAP. While numerous sub-sectors have benefitted from this support (section 2.2.1 has more details on this), the greatest beneficiary was the wine sector. The wine sector obtained EUR 1.6 billion from 2014-2018, which was mostly used to support reconstruction and investments (62% of the total expenditure), with Sicily and Veneto predominating as two of the largest wine producers.[89] Market support can be expected to impact access to finance for the wine sector, as well as for other sub-sectors such as olive oil, dairy and meat, by providing a guarantee to the banks, and ensuring the repayment capacity of the client.

For the olive oil production sub-sector (which is currently undergoing a period of crisis[90]), MIFAAPT (the Italian Ministry of agriculture) and *Cassa Depositi e Prestiti* designed a specific guarantee scheme to boost the sector (section 3.3 has more details on this). Soon, other sectors (such as wine and tomato processing) will also be supported with tailored financial instruments. Access to preferential loan conditions should normally have a positive impact on the finance demanded by the sector.

87 Eurostat, 2019.

88 ISMEA, 2018, Rapporto sulla competitività dell'agroalimentare italiano.

89 ISMEA, 2019, Scheda di settore – vino.

90 In 2018, olive oil production witnessed a drastic reduction compared to the previous year (-34.7%), with the highest loss in Puglia (-48% in value and -43% in volume), due to adverse weather conditions (spring frosts and summer drought), but also to the spread of Xilella (a bacterium that infests olive trees) and olive flies. See Annex 7 for details.

All regions have set aside funds for the RDP measure to stimulate investments in the agri-food sector, and ten regions are currently activating financial instruments to support the sector. Within the framework of sub-measure 4.2 of the RDP,[91] which is specifically directed at supporting investments in the agri-food sector, Italy has allocated EUR 1.2 billion for the period 2014-2020.[92] As of 2017, all regions had activated this measure, with 39 calls for applications in total. However, implementation is lagging behind the projected schedule; as of mid-2018, Italy had used only 13.7% of the available budget for Measure 4 (out of EUR 5.1 billion planned).[93] Hence, the insufficient availability and use of investment support measures may hamper the number of investments undertaken by the sector.

The most widely used form of financial support is via grants (*Contributo a Fondo Perduto*). This is despite the fact that activation of financial instruments is increasing and has so far been adopted by ten regions.[94] In some cases, regions have promoted support for the entire value chain, rather than just promoting an individual investment (for more details refer to '*Progetto Integrato di Filiera (PIF)*' in the supply session). Furthermore, Lombardy has adopted a financial instrument as its unique financing tool (section 3.3.1.2 contains more information on this).[95]

The EAFRD investment support measure can generate positive effects for the sector, facilitating access to finance by acting as a guarantee for the loans, as well as creating a link between the entrepreneur and the financial system. At the same time, stakeholders interviewed reported two main issues relating to the use of grants. First of all, the sector has difficulties in accessing public finance. Calls for applications launched by the managing authorities of the regions were considered too rigid and the process was regarded as unclear. This was especially the case in regards to the reporting of the project expenditures. Secondly, it was observed that, in some cases, the use of the grant approach has led to over-indebtedness, which is similar to cases in the agricultural sector. It has been pointed out by interviewed stakeholders that grant-based investment support combined with a lack of financial education attracts the agri-food firms to pursue large investments in order to access a higher grant amount. However, if the firm has not undertaken a solid pre-investment analysis, the investment may remain unfinished, causing over-indebtedness for the firm. This finding suggests an increased need for the use of EAFRD financial instruments and technical support, as explained in the section below.

3.2.2 Analysis of the demand for finance

The potential total demand for finance combines both met and unmet demand. The met demand consists of the value of all applications for finance which were accepted by the financial institutions in the relevant year. The unmet demand consists of the assumed value of applications rejected by a financial institution, offers of credit refused by farmers, alongside cases where farmers are discouraged from applying for credit due to an expectation of rejection or refusal.

Based on the Agri-food survey, the unmet demand for the agri-food sector in Italy is estimated at EUR 1.5 billion.

Even though data on the regional breakdown of unmet financial demand is not available, stakeholders interviewed believe that the financial gap is higher in Southern Italy and the islands, as this is where the sector is generally less developed, enterprises are smaller, and where a lack of financial education/culture is more widespread.

91 Sub-measure 4.2 aims to support investments for processing/marketing and/or the development of agricultural products. In case of processing activities, the support provided under the measure can also cover non-agricultural products.

92 Rete Rurale Nazionale, 2019, Report di avanzamento della spesa pubblica dei programmi di sviluppo rurale 2014-2020, Secondo trimestre 2019.

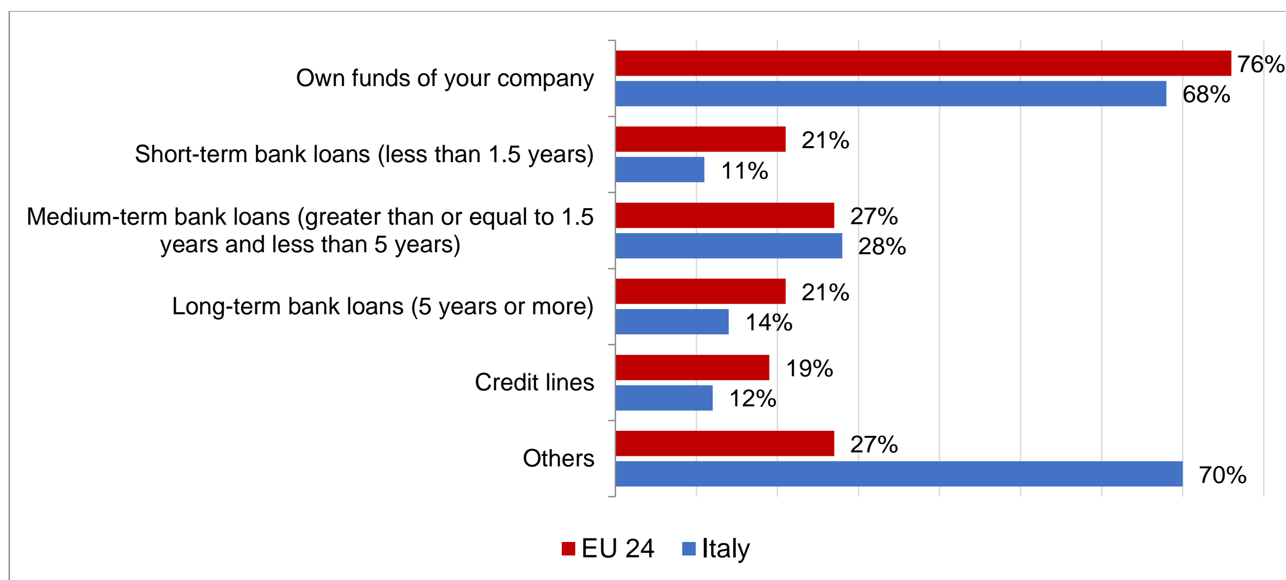
93 ISMEA, 2018, Avanzamento della spesa dei programmi di sviluppo rurale a livello comunitario: confronto fra stati membri.

94 Basilicata, Sicily, Friuli Venezia Giulia, Lazio, Lombardia, Piemonte, Toscana, Puglia, Umbria, Campania, Calabria, Emilia-Romagna, and Veneto.

95 ISMEA, 2016, PSR 2014-2020 il sostegno per la competitività nei PSR 2014-20: analisi delle focus area 2A E 3A.

Italian agri-food companies rely on a mix of financial resources. Agri-food enterprises, despite their generally small size, are more structured than farms, hence, they keep an official bookkeeping, and do not mix the household finances with that of the business. However, their financial exposure is more complex than that of farms. In general, enterprises rely on a mix of financial sources (with the same intensity). This includes their own internal funds, bank products (with a higher incidence of medium-term loans), and other sources (e.g. leasing, microfinancing, private financing from friends or family, etc.) (Figure 18). However, as mentioned earlier, firms from Southern Italy are more financially dependent on external resources than the firms elsewhere in the country.

Figure 18: Most important financing instruments to agri-food enterprises in 2018



Source: Agri-food survey.

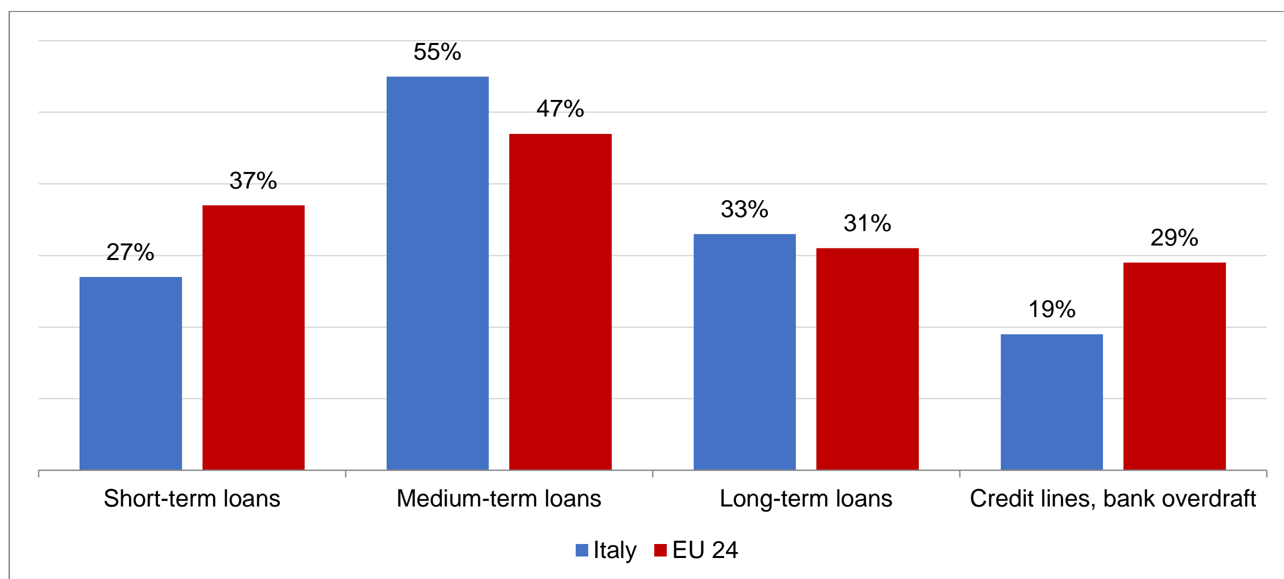
About 30-40% of agri-food firms can be expected to have at least one outstanding loan. Demand for finance in the agri-food sector is recorded at a higher level than in the agriculture sector. According to the Agri-food survey, 43% of respondents applied for financing in 2018, which is slightly lower than the EU 24 figure of 46%**.** While detailed data from BankItalia on the total number of requests from the agri-food industry are not available, it is estimated that, in 2017, 30% of firms in the manufacturing sector[96] (of which the agri-food sector is the biggest sub-sector in terms of output) had at least one outstanding loan.[97] Even though these two figures are not fully comparable, it can be concluded that the agri-food sector has a significant demand for finance.

The demand for medium and long-term financing is higher than for short-term financing. Of the total applicants in Italy in 2018, 27% of enterprises applied for a short-term loan, 55% for medium-term, 33% for a long-term loan, and 19% for credit lines/bank overdrafts (Figure 19). Compared to results from the EU 24, it appears that the Italian sector's financial needs are aligned with those of the EU 24; the latter requires more liquid financial products (short-term and credit line/bank overdrafts), while Italian firms prefer medium and long-term loans.

96 Registered in the Italian Register of Companies.

97 Calculated by dividing the number of enterprises with at least one outstanding loan (in bonis) by the number of enterprises registered in the national registry for enterprises.

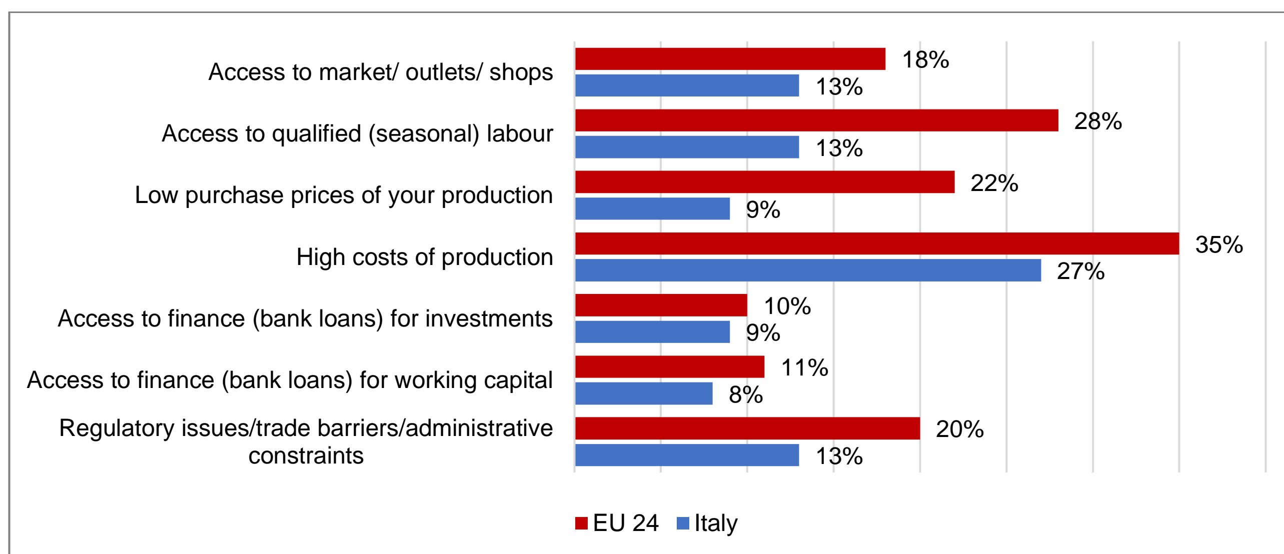
Figure 19: Italian agri-food enterprises applying for finance in 2018, by financing product



Source: Agri-food survey.

Access to finance is a concern for 17% of Italian agri-food firms, but issues related to economic management are considered more challenging. According to the Agri-food survey, 9% of firms had difficulty accessing finance for investments and 8% for working capital. However, agri-food firms consider economic management as more problematic than the lack of access to finance. Their main concerns relate to the high cost of production (which 27% of respondents reported as one of the difficulties encountered in the last year), access to the distribution chain (13% of respondents), and export conditions, such as regulatory issues, trade barriers, and administrative constraints (13% of respondents) (Figure 20).

Figure 20: Difficulties experienced by agri-food enterprises, 2018

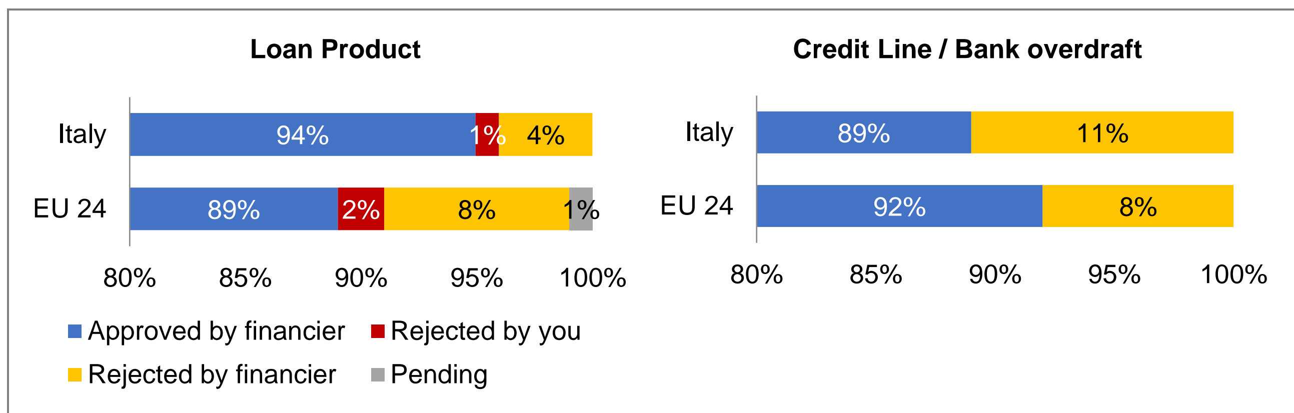


Source: Agri-food survey.

The rejection rate for bank loan applications, 4%, is below the EU 24 average. According to the Agri-food survey, the rejection rate for loan products was 4% in Italy in 2018, lower than the EU 24 average of 8%. This is in line with the results from the SAFE survey on access to finance for SMEs from all economic sectors, which noted a rejection rate for loan products of 4% for Italy. However, the rejection rate for credit lines/bank

overdrafts is significantly higher for the agri-food sector, 11% compared to 4% in the SAFE survey. It is also higher in Italy than for the EU 24.

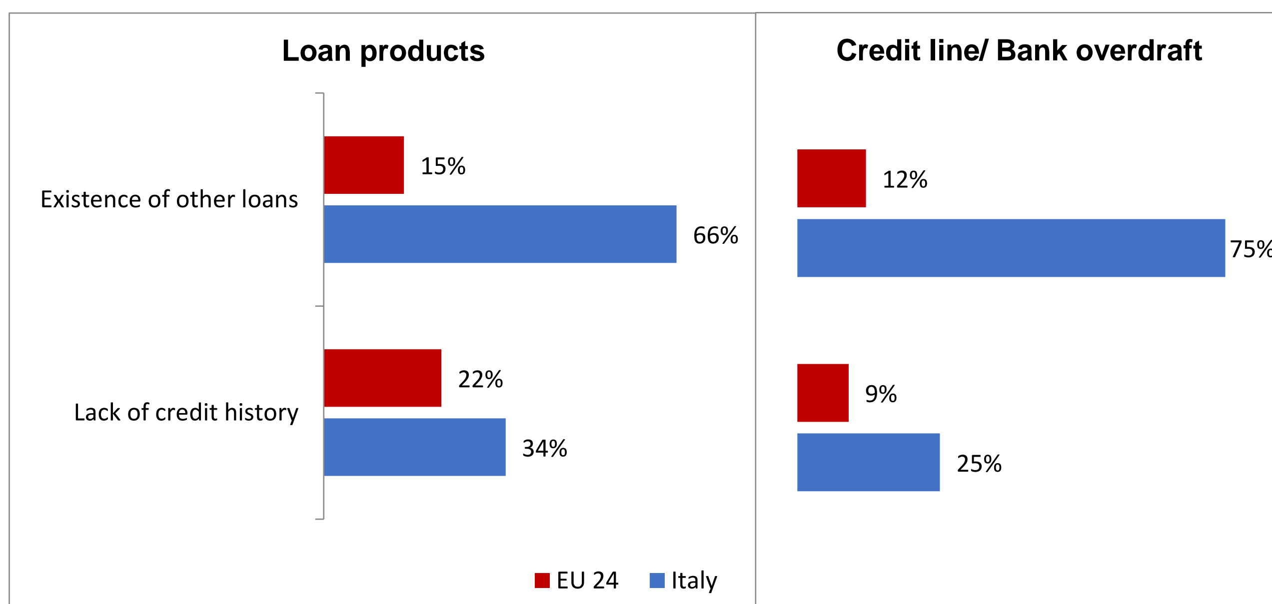
Figure 21: Results from loans applications in the agri-food sector in 2018



Source: Agri-food survey.

The main reasons for rejection are the lack of credit history and a high level of indebtedness, together with lack of collateral. The main reasons for rejection are a lack of credit history (mostly among those that request short-term loans) and a high level of indebtedness (Figure 22). These reasons for rejection apply, in particular, to young applicants and start-ups. Although this is not reflected in the Agri-food survey results, many stakeholders emphasised the lack of collateral as an important constraint that hampers their access to credit and which limits young entrepreneurs and start-ups the most.

Figure 22: Reasons for loans rejection in the Italian agri-food sector in 2018



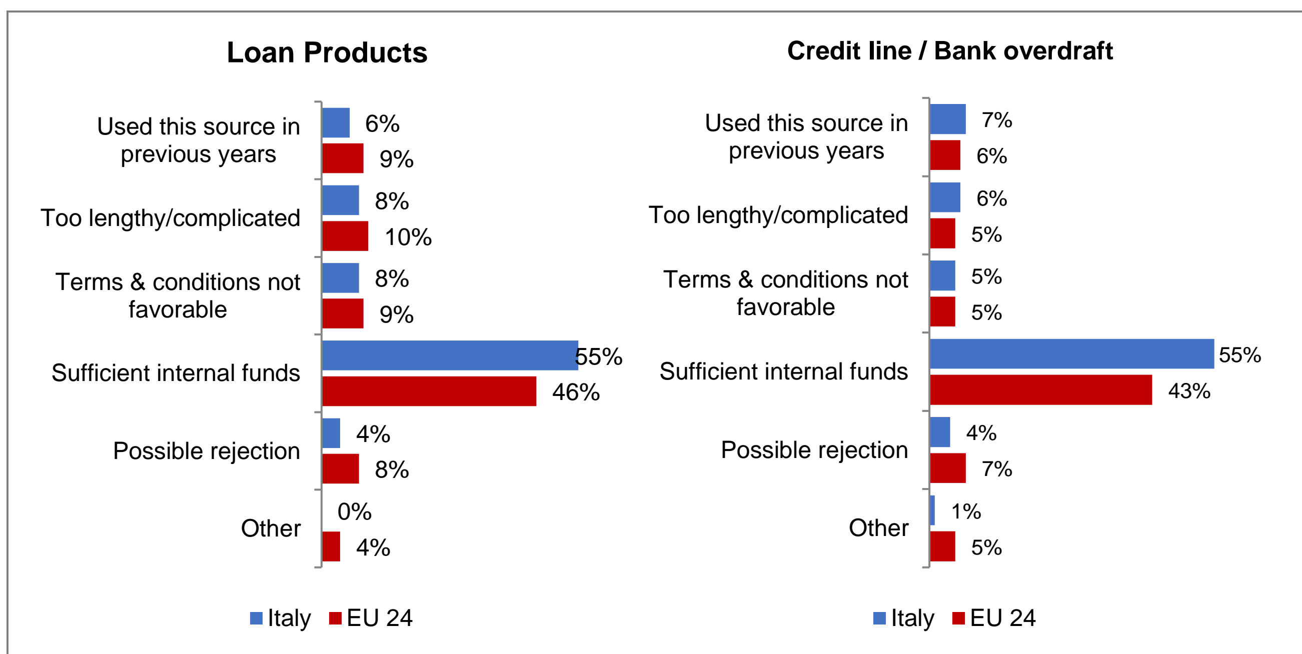
Source: Agri-food survey.

Numerous bottlenecks to access to credit can be identified (according to stakeholders):

- **The absence of, or limited, credit history poses a challenge for young entrepreneurs and start-ups.** Intergenerational change, which greatly affects the agriculture sector, is also relevant in the agri-food business, given that only 8% of registered firms are owned by people aged under 35. On the other hand, some mature firms also have high levels of indebtedness and this affects their ability to access additional finance.
- **Lack of collateral or low value of fixed assets impact firms in Southern Italy in particular.** In terms of regional disparities, Southern Italy registers more difficulties than other regions in accessing finance. As reported in the section 3.1, firms in the south record lower levels of fixed assets. This explains the strong need for investments (and firms' higher financial dependency on external sources) and also affect firms' financial capacity, due to a lack of sufficient collateral. This is particularly true for the meat, olive oil and vegetable preserve sub-sectors.[98]
- **Limited access to credit is also registered among cooperatives** (for example, in the dairy sector). Financial institutions have difficulties in properly assessing cooperatives due to the structure of their assets and liabilities. Cooperatives are less capitalised than other enterprises and they have limited assets (essentially members' contributions) and high liabilities. Therefore, the potential higher negotiating power that the cooperative members can obtain by acting as a single entity is not fully exploited in their relations with financial institutions. Cooperatives require tailored financial products which currently not available on the market. These include, for example, investment loans to buy machinery on behalf of their members, with a single large purchase for collective use.

The main reason for not applying for finance is due to sufficient internal resources. However, a substantial share of firms chooses not to ask for a loan despite their need for one. In general, having sufficient internal financial resources is the main reason for not applying for a loan. According to the Agri-food survey, this is the case for around 55% of the firms, and mostly for those wanting medium and long-term loans (Figure 23).

Figure 23: Reasons for not applying for loans in the Italian agri-food sector in 2018



Source: Agri-food survey.

98 ISMEA, 2019, La competitività dell'agroalimentare del mezzogiorno.

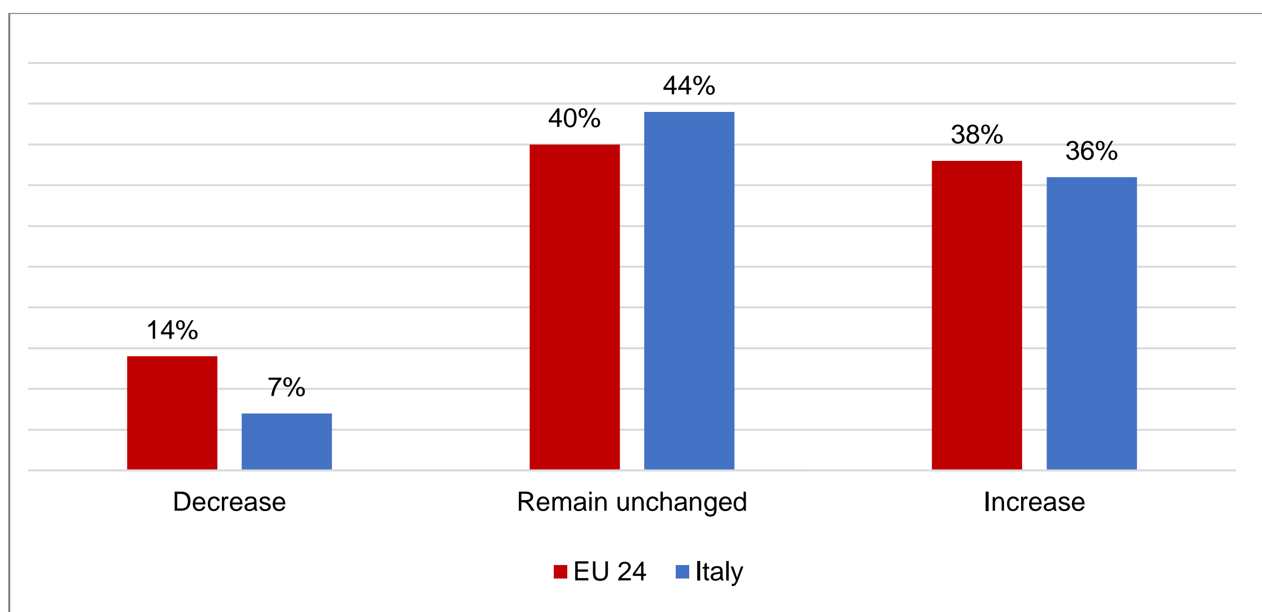
However, a substantial share of firms do not ask for a loan for other reasons. The main reasons for firms not applying for finance relate to:

- **Unfavourable conditions or lack of awareness of the existence of products**: either firms received unfavourable loan terms and conditions (around 7-8% interest rate for mostly short and medium-term loans) and thus rejected the loan offer (Figure 21), or they did not submit a formal application for it (8%, Figure 23). Some firms were also not familiar with the specific product, such as credit lines/bank overdrafts.
- **Lengthy and complicated loan application processes.** Around 6-8% were discouraged from applying by the lengthy/complicated process, mostly for medium and long-term loans (Figure 23).
- **The risk of not obtaining the loan requested.** 4% of the enterprises did not apply due to a fear that their application would be rejected (Figure 23).

In addition to this, stakeholders have also pointed out that some entrepreneurs could have been discouraged from applying for financing, despite having a need, because some important types of investments (such as buying second-hand machinery) are excluded from the eligibility criteria of RDPs. As a result, the agri-food company refrains from investing.

The demand for financing is expected to increase significantly over the next 2-3 years. One-third of respondents in the Italian agri-food sector expected that their future financial needs would increase, while almost half of the respondents did not expect any significant changes (Figure 24).

Figure 24: Agri-food companies' expectations on future financing needs, 2018



Source: Agri-food survey.

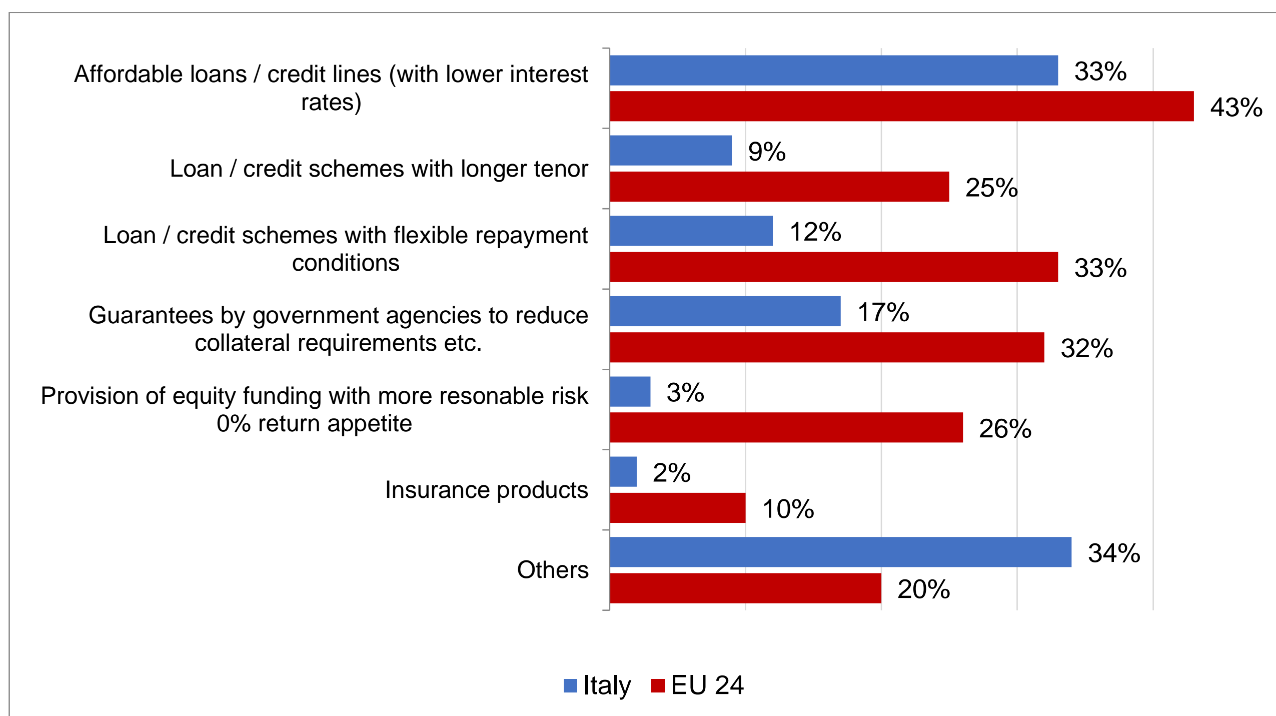
More favourable loan maturities and conditions would lead to a higher demand for finance among the agri-food sector. The current supply of financial products is not always fully tailored to the sub-sector's financial needs. According to the Agri-food survey, the constraints on access to finance could be largely overcome if financial institutions offered products with rather favourable conditions to the sector (such as maturity, interest rates, etc), as well as requirements (such as collateral). According to the Agri-food survey (Figure 25), the sector would like to see:

- **More affordable loans/credit lines with lower interest rates**. Even if guarantees are used, the impact on the cost of financing does not seem to compensate for the cost of the guarantee fee, even though they do mitigate enterprises' financial risks.

- **Better access to public guarantee funds to reduce collateral requirements,** as firms suffer from a lack of sufficient collateral.
- **Better tailored repayment schedules (with flexible repayment conditions and/or longer tenor**). As argued by some stakeholders, long-term maturity or grace periods (mostly for start-ups or innovation) might be helpful in supporting the development of new firms or products. Loan maturity and repayment frequency should be aligned with the product life cycle.

On the other hand, the need for more sophisticated financial products (e.g. equity or insurance) is not a priority, given the small size of the firms. Nevertheless, stakeholders reported that very large firms would require tailored financial products, mostly to support their development and any merger and acquisition processes.

Figure 25: Solutions to reduce difficulties in accessing finance



Source: Agri-food survey.

The provision of technical support and coaching to promote knowledge sharing and improve financial education among entrepreneurs could be considered. According to stakeholder feedback, and just like for farmers, small agri-food sector firms could also benefit from financial education training. This could take the form of, for example, modules on business development services, orientation on existing financial products and financial instruments, and other public measures (what the existing opportunities are, how they work, etc.).

3.3 Analysis on the supply side of finance to the agri-food sector

This section provides an overview of the financial environment in which the agri-food sector in Italy operates. It describes the main available financial products, including any currently operating financial instrument targeting the agri-food sector, with national and/or EAFRD resources. The section draws its information from interviews with financial institutions, as well as from national statistics.

An attempt is made to give a description of the general conditions for accessing finance, such as interest rates and requirements for collateral, and the availability of funding for agri-food enterprises. Potential differences in availability of financial products across different types of agri-food enterprises are reviewed and analysed.

Key elements on the supply of finance to the Italian agri-food sector

- Financial products offered by banks to the agri-food sector fall into four categories: credit lines/overdrafts and short-term loans for working capital, medium and long-term loans for investments, and loans to pre-finance public support. The terms and conditions of such products are very similar to those of products offered to other economic sectors.
- Like in the agriculture sector, banks generally do not have specialised departments or staff members for the agri-food sector, with loans to agri-food companies largely treated as retail or corporate loans based on the size.
- In Q4 2018, the total outstanding loan volume to the food, beverage and tobacco sectors in Italy stood at EUR 31.4 billion, equal to 4.2% of the total banking credit to all sectors. Like the agriculture sector, credit to the agri-food sector is concentrated in Northern Italy.
- Although total banking credit to the agri-food sector has been stable over the past four years, credit to Northern regions has increased while credit to Central and Southern regions has decreased substantially.
- Compared to agricultural enterprises, banks and other stakeholders reported fewer difficulties in access to finance for agri-food enterprises, as these tend to be larger and better prepared for the loan application process.
- Groups that have the most difficulties in accessing bank finance are young agri-food entrepreneurs and new agri-food companies, who have limited credit history and collateral; and enterprises in the southern regions, due to the more unfavourable macroeconomic context and more difficult access to investment support measures.
- EAFRD financial instruments can therefore play a role in increasing access to finance for agri-food companies, particularly for enterprises led by young entrepreneurs and new enterprises, as well as for enterprises in Central and Southern Italy. Financial instruments can also be key in fostering greater integration in the agri-food value chain, linking farmers and agri-food companies.
- The EAFRD co-funded Lombardy Credit Fund and the 'value chain contracts' financed by the Ministry of Agriculture seek to promote agri-food value chain integration. However, both have their caveats; concessional loans provided by the Credit Fund are not uncollateralised, which represents an obstacle for enterprises that lack collateral (e.g. young entrepreneurs and start-ups), and selection procedures for the value chain contracts have witnessed severe delays, resulting in an insufficient level of spending.
- Agri-food enterprises can now benefit also from the uncapped portfolio guarantee under the AGRI Italy Platform offered by the EIF in ten Italian regions.

3.3.1 Description of finance environment and funding availability

3.3.1.1 Finance providers

There is a high concentration of banking assets among large banking groups. As pointed out in the agriculture section (section 2.3.1), despite the high number of operators in the Italian banking system (505 active banks, as of the end of 2018), 74% of the sector's assets are concentrated within the 11 banking groups classified as 'significant,' according to the Single Supervisory Mechanism (SSM).

There is a lack of specific agri-food sector expertise within banks. All major financial intermediaries in Italy provide financial products and services to agri-food enterprises. Some of the most active banks are Intesa Sanpaolo, UniCredit, Gruppo Bancario Cooperativo Iccrea and Credit Agricole Italia. Like in the agriculture sector, banks do not generally have a specialised department for the agri-food sector, with loans to agri-food companies falling under the retail or corporate departments, based on size. Rather, most banks have a coordination unit or focal person who supports/advises the bank's activities in both the agriculture and agri-food sectors and who is assisted by agricultural specialists (e.g. agronomists) at the branch level. Farmers and agri-food companies are hence considered part of the larger agricultural sector.

3.3.1.2 Financial products

Financial products offered by banks to the agri-food sector fall into four main categories and the terms and conditions of such products are similar to those offered to the rest of the economy. Given that banks' agriculture-related operations cover both the agriculture and agri-food sectors, the financial products provided are also the same. These basically fall into four types, according to loan purpose and maturity (Table 2 in section 2.3.1.2):

- **Short-term loans (12-18 months) for working capital purposes**, which are mostly unsecured or guaranteed by a credit guarantee scheme. Interest rates are in the range of 1.5 to 3% p.a.
- **Medium (5-7 years) and long-term loans (15-20 years) for investment purposes**. Medium-term loans are either unsecured or guaranteed by credit guarantee schemes. Long-term loans are mostly guaranteed by a mortgage on property. Interest rates vary from 1.5% to 4.5% p.a.
- **Credit lines/overdrafts for cash-flow needs** (closed or open-ended duration), which can be unsecured or guaranteed by credit guarantee schemes. Interest rates are in the range of 2-4% p.a. and are paid only when the facility is used.
- **Loans to pre-finance public and CAP funds**, which can pre-finance up to 80-100% of approved grant subsidies to be received by the enterprise in the framework of agriculture-support programmes. These are mostly unsecured as the receivable public funding acts as a guarantee for the bank. Interest rates are in the range of 1-2% p.a.

Some banks do advertise ad-hoc financial products for specific agri-food sectors (e.g. wine production, fruit and vegetables, milk and meat, etc.),[99] but these still essentially fall within the above-mentioned types.[100] More generally, as already mentioned for the agriculture sector (section 2.3.1.2), the terms and conditions of most financial products for the agri-food sector are very similar to those of products offered in other economic sectors.

99 For example, Credit Agricole Italia advertises products targeting the fruit and vegetable (Orizzonte Ortofrutta), wine (Orizzonte Vino), dairy (Orizzonte Latte) and meat (Orizzonte Carni) sectors, and claims to have flexible financing solutions adapted to the specific needs of agri-food enterprises in these value chains.

100 Source: interviews with stakeholders.

With regards to financial instruments in place to support lending to the agri-food sector, and in addition to the already-described financial instruments offered by mutual guarantee associations (*confidi*) and ISMEA (direct and subsidiary guarantees[101], specific funds, etc.), there are three active financial instruments co-funded by the EAFRD under the 2014-2020 programming period in Italy (Table 8). One is a guarantee instrument implemented in a delegated model and two are credit fund schemes.

Table 8*:* Active financial instruments for agri-food in Italy funded by the EAFRD

Financial instrument	Objective	Fund manager	Contributing regions	Other funding sources (excluding national/regional financing)	Partner banks
AGRI Italy Platform	Provide uncapped guarantees to selected financial institutions to cover portfolios of newly originating loans supporting investments in agriculture and agri-industrial sectors.	European Investment Fund (EIF)	Calabria, Campania, Emilia-Romagna, Piemonte, Puglia, Toscana, Veneto, Umbria	EIF, EIB, Cassa Depositi e Prestiti (CDP)	Iccrea Banca, MPS, Credem, Banca di Cambiano, Creval, Banca popolare Puglia e Basilicata, Banca popolare pugliese, Banca Monte dei Paschi di Siena[102]
Regional Revolving Fund for Agriculture	Provide subsidized loans for investments in primary production, transformation and commercialisation of agriculture products.	Regional Managing Authority	Friuli Venezia Giulia	No.	Federazione BCC Friuli Venezia Giulia, Banca di Cividale, Friuladria (Credit Agricole)
Credit Fund	Provide a combination of grants and low interest loans to support agri-food companies to increase value added along the entire food production chain.	Finlombarda Spa (Milan)	Lombardy	No.	Banca Popolare di Sondrio, UBI Banca, BCC Agrobresciano, Banco BPM, Mediocredito Italiano (Intesa Sanpaolo), Unicredit, MPS, Credit Agricole, Credito Valtellinese, BCC Banca Centropadana

101 ISMEA guarantee funds are accessible only for agri-food cooperatives (food processing or beverage) constituted by associated farmers. Corporate agri-food enterprises are excluded from the scope of the instruments.

102 For more details on the banks and where they operate, please see Annex A.7

Guarantee fund	Facilitate access to finance in the agricultural and processing sector, with an unlimited portfolio guarantee ('uncapped guarantee') in support of investment projects provided for and under sub-measures 4.1 Support for investments in agricultural holdings and 4.2 Support for investments in the processing, marketing and development of agricultural products.	EIF	Puglia	EIF, EIB, Cassa Depositi e Prestiti S.p.A.	N/A

Source: Desk review and stakeholder interviews.

The Lombardy Credit Fund specifically targets the agri-food sector. Whereas the AGRI Italy Platform and Regional Revolving Fund for Agriculture target both the agriculture and agri-food sectors, the Credit Fund set up by the Lombardy Region specifically caters to agri-food companies. This EUR 54 million fund was set up to improve the competitiveness of agri-food enterprises through better integration in the agri-food value chain and increased cooperation with primary producers. The instrument finances the purchase, construction, and improvement of buildings and machinery linked to the transformation and commercialisation of agricultural products. This occurs through a combination of grants (20% of the requested investment amount) and low-interest loans (32% of the requested amount, with an interest of 0.5% p.a.), and must be coupled with a bank loan at the market interest rate (48% of the requested investment). To date, the fund has supported 12 projects in the first two calls for applications in 2016 and 2017. It is expected to support some 20 others in the third call (not yet awarded at the time of writing).

As mentioned in section 2.3.1.2, the 2014-2020 RDP of Umbria foresees two financial instruments - guarantee funds: one regional and one multi-regional, which also target the agri-food sector. The implementation of the multi-regional guarantee fund is under the framework of the AGRI Italy Regional Platform (see Table 8). At the moment of preparation of this study, the decision for activation of the regional fund is under evaluation by the Region because the multi-regional fund seems sufficient to respond to the needs identified in the RDP.

Financial instruments based on agreements between various agri-food value chain actors. Among financial instruments targeting the agriculture and agri-food sectors, the 'value chain contracts' (*contratti di filiera*) should also be mentioned. These are managed by the MIPAAFT (the Italian Ministry of Agriculture, Forestry and Tourism) and co-funded by Cassa Depositi e Prestiti (CDP), the Italian National Promotional Bank. Currently at its fourth call for bids,[103] this instrument aims at supporting investments in primary production and in the transformation and commercialisation of agricultural products, through the aggregation of multiple value chain players (e.g. enterprises, cooperatives, producer organisations or associations, etc.). The *contratti*

103 The first three calls for bids for the contratti di filiera were launched respectively in 2004, 2007 and 2013. The fourth call for bid was launched in 2017.

di filiera are based on agreements between agri-food value chain players across multiple regions who can benefit from grant subsidies and concessional loans that have to be matched by a bank loan of the same amount. This is for investment plans ranging from EUR 4 to 50 million.

3.3.2 Analysis of the supply of finance

The analysis of the supply of finance is based on data from BankItalia on the outstanding portfolio of loans to the food, beverage and tobacco sectors, for the years 2014 to 2018 and by macro-area (NUTS-1) and region (NUTS-2) (Table 9). In Q4 2018, **credit to the food, beverage and tobacco sectors in Italy stood at EUR 31.4 billion, which was equal to 4.2% of the total banking credit to all sectors**. The total outstanding loan volume has been stable over time.

Table 9: Volume of outstanding banking loans to the food, beverage and tobacco sectors, 2014-2018, EUR million[104]

Region	2014	2015	2016	2017	2018	% total loans 2018-2017	% total loans 2018-2014	% of total loans
North-West	**8 319**	**8 191**	**8 959**	**8 808**	**9 236**	**4.9%**	**11.0%**	**29.4%**
Piemonte	2 623	2 499	2 836	2 570	3 107	20.9%	18.5%	9.9%
Valle d'Aosta	48	33	32	36	29	-19.6%	-39.9%	0.1%
Liguria	461	442	431	468	463	-1.0%	0.5%	1.5%
Lombardia	5 186	5 215	5 660	5 734	5 636	-1.7%	8.7%	17.9%
North-East	**11 090**	**11 413**	**11 999**	**11 987**	**11 814**	**-1.4%**	**6.5%**	**37.6%**
Veneto	3 650	3 885	3 944	4 027	3 995	-0.8%	9.4%	12.7%
Friuli Venezia Giulia	538	548	521	533	570	7.0%	6.0%	1.8%
Emilia Romagna	6 088	6 147	6 696	6 556	6 343	-3.2%	4.2%	20.2%
Trentino Alto Adige	813	831	836	870	905	4.0%	11.2%	2.9%
Centre	**4 131**	**3 984**	**3 866**	**3 634**	**3 357**	**-7.6%**	**-18.7%**	**10.7%**
Toscana	1 540	1 513	1 409	1 455	1 354	-6.9%	-12.1%	4.3%
Umbria	858	790	776	781	702	-10.1%	-18.2%	2.2%
Marche	595	595	599	556	509	-8.5%	-14.4%	1.6%
Lazio	1 137	1 085	1 080	841	791	-5.9%	-30.4%	2.5%
South	**5 630**	**5 663**	**5 608**	**5 577**	**5 157**	**-7.5%**	**-8.4%**	**16.4%**
Abruzzo	965	959	960	866	783	-9.6%	-18.9%	2.5%
Molise	166	157	147	137	107	-21.9%	-35.5%	0.3%
Campania	2 338	2 380	2 311	2 329	2 289	-1.7%	-2.1%	7.3%
Puglia	1 602	1 633	1 676	1 759	1 568	-10.9%	-2.1%	5.0%
Basilicata	130	120	109	104	87	-16.0%	-32.7%	0.3%
Calabria	427	412	401	379	321	-15.4%	-24.8%	1.0%
Islands	**2 077**	**2 102**	**2 040**	**1 953**	**1 841**	**-5.7%**	**-11.4%**	**5.9%**
Sicilia	1 389	1 380	1 370	1 293	1 182	-8.5%	-14.9%	3.8%
Sardegna	688	721	669	660	658	-0.2%	-4.3%	2.1%
ITALY	**31 249**	**31 355**	**32 474**	**31 961**	**31 407**	**-1.7%**	**0.5%**	**100%**

Source: Elaborations on data from ISMEA and BankItalia.

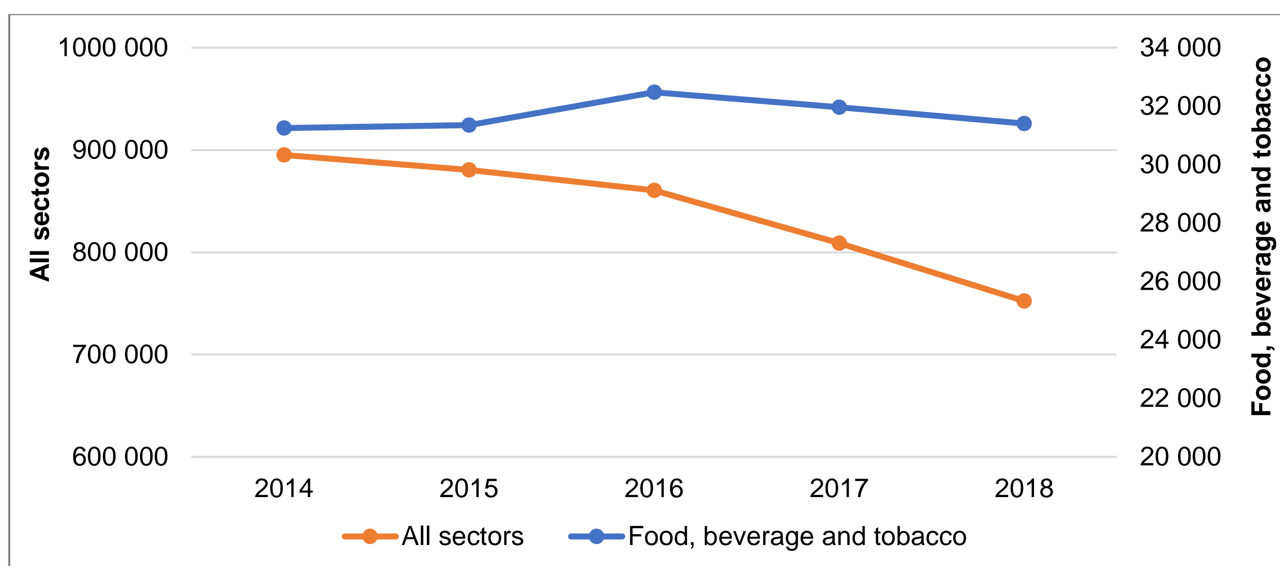
Similar to the agriculture sector, **credit to the agri-food sector is concentrated in Northern Italy.** The regions in the North-East and North-West originate 67% of total banking credit to the sector. Again, the same three regions take up half of all banking credit to the sector. These are Emilia Romagna (20.2%), Lombardy (17.9%) and Veneto (12.7%). Northern Italy is followed by Southern and insular Italy, which absorbs 22.3% of

104 Available statistics from Bankitalia only provide figures for the food, beverage and tobacco sectors as a whole.

total agri-food credit – hence a more significant share than that for agriculture credit – and finally by Central Italy (10.7% of credit).

While total bank lending provided to the food, beverage and tobacco sector has been stable over the past four years, the divide in the lending provided by region has changed. In terms of credit supply, despite a slight decrease between 2018 and 2017 (-1.7%), total banking credit to the food, beverage and tobacco sectors has remained largely unchanged over the last four years (+0.5% in 2018 compared to 2014). At the national level, credit to the agri-food sector has thus proven considerably more resilient than credit to the overall economy, which has consistently decreased (-7% in Q4 2018, compared to 2017, and -15.9% compared to 2014). This is shown below in Figure 26. This is not the case at the regional level, where the divide remains substantial. While regions in the north have mostly seen an increase in the supply of agri-food credit (+1.2% compared to 2017 and +8% compared to 2014, in the North-East and North-West combined), with the exception of Valle d'Aosta, all of the other regions have witnessed a decrease. Central Italy saw the sharpest decrease (-7.6% compared to 2017 and -18.7% compared to 2014), followed by Southern and insular Italy (-7.1% compared to 2017 and -9.2% compared to 2014).

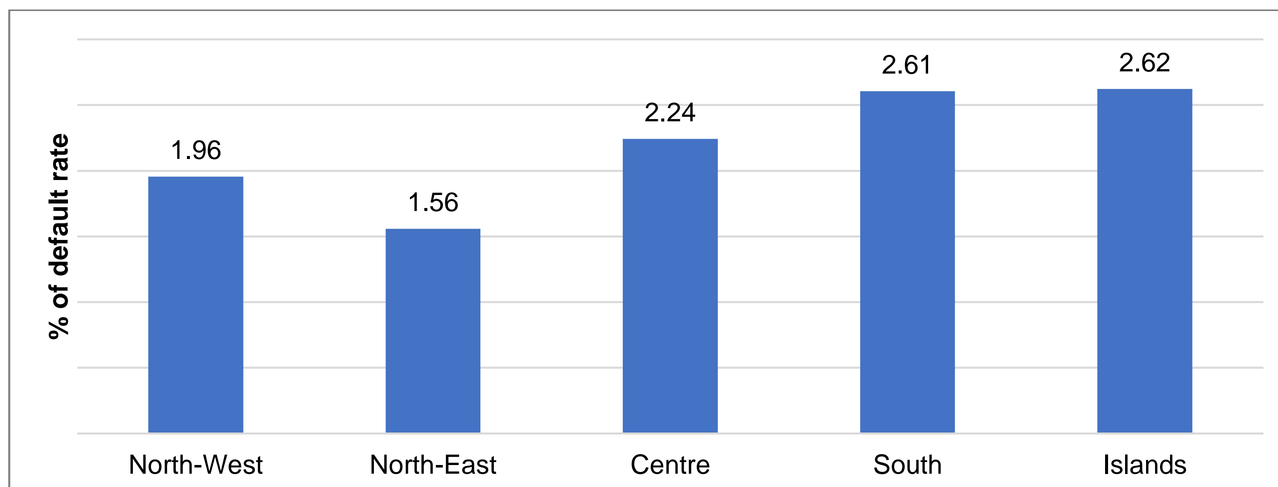
Figure 26: Volume of outstanding bank loans to food, beverage and tobacco sectors vs all sectors, 2014-2018, EUR million



Source: Elaborations on data from ISMEA and BankItalia, 2019.

In terms of the portfolio quality of banking credit to the sector, **although default rates have decreased across the country**, dropping from 3.9% in 2014 to 2.1% in 2018, **they remain higher in Central and Southern regions** (Figure 27). Overall, default rates for the agri-food sector are basically aligned with those of the overall economy (2.2% in 2018).

Figure 27: Default rates[105] of bank lending to food, beverage and tobacco sectors by NUTS-1 region, in 2018



Source: Elaborations on data from ISMEA and BankItalia.

In general, banks and other stakeholders in the agri-food sector that were interviewed reported fewer difficulties in access to finance compared to agricultural enterprises. This is because agri-food enterprises tend to be larger and more structured[106] and are therefore less affected by the typical weaknesses of agricultural enterprises (e.g. lack of proper financial accounting), which hinder their capacity to access finance (e.g. due to asymmetric information). This seems to be confirmed by the Agri-food survey, which reported a relatively high percentage of successful loan applications among the agri-food companies interviewed. This was particularly the case for medium and long-term loans, which had success rates of 93% and 94%, respectively. This compares to only 74% for agriculture enterprises, according to the *fi-compass* survey (sections 2.2.2 and 3.2.2).

Young agri-food entrepreneurs and new agri-food companies have more difficulties in accessing finance. As noted in the demand section (section 3.2.2), those enterprises in the survey who were unable to get a loan said that their lack of credit history and the existence of other loans were the main reasons for rejection. As in the case for young farmers, this suggests that young agri-food entrepreneurs and new agri-food companies – who by definition have no or limited credit history – are likely to face the most difficulties in accessing finance, provided they cannot leverage prior experience in the sector or rely on family support.

Providing credit to firms in Southern Italy is a more challenging task for banks. While banks do not appear to have major challenges in financing agri-food enterprises, they do report having more difficulties in providing credit to enterprises in the Southern regions. This is shown by the sharp decline in the supply of credit to Southern and insular Italy. Among the reasons given by interviewed banks for such challenges are the more unfavourable macroeconomic conditions of Southern regions, as well as the frequently difficult access to investment support measures, which could otherwise facilitate access to finance by acting as a guarantee for their loans. Reportedly, investment support measures are scarce due to either administrative delays or because they are simply not known by agri-food enterprises.

EAFRD financial instruments therefore have a role to play in increasing access to finance for agri-food companies, **particularly for enterprises led by young and new enterprises, and for those based in Central and Southern Italy**. In addition, financial instruments could also be key to fostering greater integration in the agri-food value chain, linking farmers and agri-food companies involved in the transformation and commercialisation of primary products. In this respect, some of the existing financial instruments for the agri-food sector described above are already attempting to do just this, although there is room for improvement.

105 The default rate is calculated as the annual flow of new loans in default divided by loans not in default.

106 The average turnover of agri-food enterprises in Italy is EUR 2.5 million (source: ISTAT). For small-sized enterprises (<50 employees), average turnover stands at EUR 1.6 million.

In the case of the **Credit Fund set-up by the Lombardy region**, given the difficulties in financing farmers directly (due to asymmetric information stemming from structural weaknesses), the financial instrument opted to fund agri-food enterprises instead. This was in order to support the entire value chain and to have the benefits flow down to the primary producer level. It was requested that applicants attach proof of contracts with favourable pricing conditions to their applications, which are signed by the primary producers with whom the applicant would work with if they were financed by the financial instrument. The Credit Fund's experience therefore provides an important example of the benefits of adopting a value chain approach. On the other hand, although the credit risk of the low-interest loan is entirely borne by the financial instrument (with the fund manager carrying out the loan appraisal), it is not uncollateralised, meaning that guarantees have been requested when the applicant's credit history was considered insufficient. This obviously represents a further challenge for those enterprises with a lack of guarantees (e.g. enterprises led by young entrepreneurs and new enterprises). Moreover, the mismatch between the rapidly evolving financial environment in Lombardy (which had led to the decision to set up the financial instrument in the ex-ante assessment, conducted in September 2015, and to the approval of the first contracts with final recipients in March 2018) also played a role. Allegedly, this time span contributed to making the support offered by the fund less attractive to potential beneficiaries, as the market conditions had improved in the meantime and finance was therefore more easily available.[107]

As far as the above-mentioned ***contratti di filiera*** **(value chain contracts)** are concerned, a recurrent weakness lies in the complexity of the FI's procedures and the corresponding delays in the selection of projects. According to the Italian Court of Auditors, the selection process, from proposal submission to contract award, took as long as three years in past calls for bids. This has contributed to the insufficient level of spending, with less than 50% of all resources allocated to the financial instrument spent, as of 2017.[108] In addition, the supervisory and monitoring role by the Ministry of Agriculture on the financial instruments' implementation body (ISA from 2005 to 2015, ISMEA from 2016) is also considered to be inadequate, resulting in further inefficiencies in spending and a lack of reporting on the instrument's performance.[109]

More generally, technical support and capacity building on financial instruments should be provided to all stakeholders involved (banks, agri-food enterprises and national managing authorities) to increase awareness, knowledge and the competencies required to set-up and use such instruments. Interviewed stakeholders have highlighted, among other things: i) the lack of awareness of financial instruments (and other investment support measures) among enterprises, particularly in Southern Italy; ii) the hesitance of banks in liaising with EAFRD financial instruments, often linked to fears of administrative, reporting and audit-related burden from EU authorities; and iii) insufficient knowledge among national and regional managing authorities of financial instruments, as opposed to more traditional investment support measures, as demonstrated by the low number of regions having implemented such instruments. Some regions interviewed also advocated for the existence of some kind of award mechanism. For example, in terms of extra financial support for those regions actively implementing financial instruments.

107 Interview with fund manager, Finlombarda.

108 Corte dei Conti, Deliberazione 8 settembre 2017, n. 13/2017/G, 'La gestione dei contratti di filiera nel settore agroalimentare (2004-2016)'.

109 The ISA (Istituto per lo Sviluppo Agroalimentare) was incorporated by ISMEA in 2016. With regards to the contratti di filiera, as the body in charge of the contracts' implementation, ISMEA's role is to assist the Ministry in the appraisal and selection of projects to support, monitor projects' implementation, act as paying agency and submit annual reports on the status of implementation.

Finally, in addition to the aforementioned flexibility in financial products for agriculture and agri-food (section 2.3.2), some degree of flexibility could be introduced in the planning and implementation of the EAFRD financial instruments, to allow for future adjustments. The regional managing authorities and existing financial instrument managers interviewed confirmed that in the current set-up of RDPs and ex-ante assessments, it is difficult to plan sufficiently well, in terms of what financial instruments might be needed in years ahead, given the rapidly evolving economic and financial contexts. In this regard, some flexibility to make future adjustments would be welcome. The new proposal of the Commission for EAFRD-funded financial instruments in 2021-2027 already gives certain flexibility vis-a-vis the current legal rules. As the legal proposal is not yet adopted, it is difficult to draw any further conclusions.

3.4 Financing gap in the agri-food sector

This section presents an assessment of the financing gap in the Italian agri-food sector, broken down by firm-size and financial product.

Key elements on the financial gap in the Italian agri-food sector
• The financing gap for the agri-food sector in Italy is estimated to be EUR 1.5 billion. • The financing gap mainly concerns small agri-food enterprises (under 50 employees), equivalent to 90% of the total gap. • The gap is largest for long-term loans (62% of the gap). • The financing gap is mainly linked to agri-food firms being discouraged from applying for loans – 13.6% of agri-food firms did not apply for a loan due to a fear of rejection. • Although there is limited information available on the reasons why firms fear rejection, survey data and stakeholder interviews suggest that the drivers of the gap relate to (i) the lack of credit history of agri-food firms led by young entrepreneurs; and (ii) the insufficient collateral, financial information and education of agri-food enterprises in particular in Central and Southern Italy. • Given the existence of a financing gap, financial instruments have a role to play in facilitating access to finance in the agri-food sector, particularly for firms led by young entrepreneurs and those based in Central and Southern Italy. A number of improvements could be considered for future financial instruments.

This section presents an estimate of the total volume of unmet financing needs of financially viable agri-food enterprises, defined as **financing gap**, for 2018. The estimate is calculated by multiplying the total number of firms by the proportion of financially viable firms reporting unmet demand for finance multiplied, in turn, by the average obtained loan value to firms.

Financing gap = Number of firms X percentage of firms that are both financially viable and have unmet demand X average loan volume

All the calculations are based on the results of the Agri-food survey for Italian firms (see Annex A.5 for more information). The methodology used for calculating the gap is the same as the methodology used for the agriculture sector (see Annex A.3).

The financing gap arises from unmet financing demand from economically viable firms[110]. As explained in section 2.2, the unmet demand for finance includes

(i) lending applied for but not obtained, or

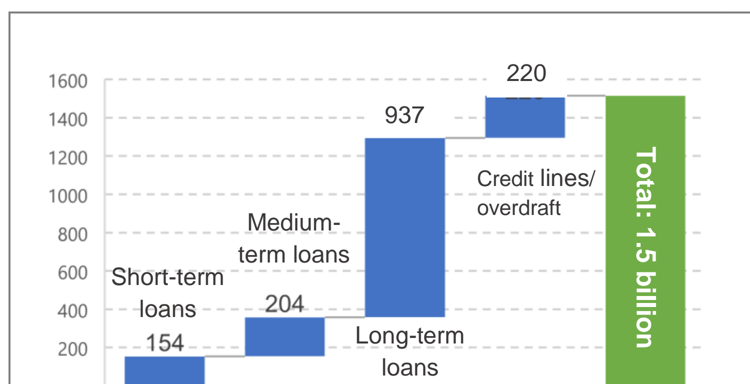
(ii) a lending offer refused by the potential borrower, as well as

(iii) lending not applied for due to expected rejection.

For the purpose of this study, 'turnover growth' is used as a proxy of firm viability. In particular, we make the hypothesis that all enterprises which reported a stable (non-negative) turnover growth can be considered as viable.

110 The financing gap presented in this section is different from the total unmet demand presented in Section 3.2.2. In the quantification of the total unmet demand, all the enterprises in the population applying for finance are considered independent from their economic viability.

Figure 28: Financing gap by product in the agri-food sector, 2018, EUR million



Source: Calculation based on results from Agri-food survey.

The financing gap for the Italian agri-food sector in 2018 was estimated to be EUR 1.5 billion (Figure 28 and Table 10). **The financing gap mainly concerns small agri-food enterprises** (under 50 employees), which account for 90% of the total financing gap. **The type of loans for which the gap is the largest are long-term loans** (more than five years), which accounts for 61.8% of the gap.

Table 10: Financing gap by firm in the agri-food sector, 2018, EUR million

	Total	Short-term Loan	Medium-term Loans	Long-term Loans	Credit lines/bank overdraft
Small firms	**1 368.7**	134.9	184.6	850.0	199.3
Medium firms	**119.1**	16.6	15.6	70.4	16.4
Large firms	**27.6**	2.2	3.7	17.0	4.6
Total	**1 515.4**	**153.7**	**204.0**	**937.4**	**220.4**

Source: Calculation based on results from Agri-food survey.

One important explanation for the gap is the high share of firms being discouraged from applying for loans. According to the Agri-food survey, 13.6% of all agri-food enterprises did not apply for a loan due to a fear of rejection. It is difficult to determine the reasons for discouragement and the types of agri-food enterprises which are most discouraged. However, looking at data on rejected applications from the survey, which report a lack of credit history as one of the main reasons for rejection, as well as feedback from stakeholders on difficulties in financing agri-food firms in Southern Italy, we can assume that discouraged firms do not apply due to similar reasons. Hence, agri-food enterprises which do not apply for finance due to fear of rejection, are likely to have limited credit history, as is the case for young entrepreneurs or new enterprises, or to be based in areas of the country with weaker supply of finance (i.e. Central and Southern Italy), due to less favourable economic conditions and a lack of implementation/knowledge of investment support and financial instrument options (section 3.3.2).

General **drivers of the financing gap for the Italian agri-food sector** may thus relate to the following:

- **A lack of credit history for agri-food firms,** which mainly affects **firms led by young entrepreneurs and new enterprises** who have no or limited credit history. Clearly, the lack of credit history increases firms' credit risk, hence increasing the request for appropriate collateral, which young entrepreneurs/ new enterprises will unlikely be able to provide if they cannot count on adequate external support.
- **Insufficient collateral, financial information and education on the part of agri-food firms,** which particularly affects **firms in Central and Southern Italy**. Interviewed banks mentioned that investment support measures, which could act as a guarantee for lending in these regions, are frequently underutilised because firms are not aware of their existence or do not know how to access them. It should also be noted that in some regions such measures are difficult to access due to administrative delays implementation.
- **Banks' reluctance to lend in a generally less favourable/less profitable macroeconomic environment,** as is the case with Southern and insular Italy. This is linked to the aforementioned insufficient specialisation of the banking sector, which further increases the risk associated with lending to agriculture and agri-food firms in less developed regions of the country.

Based on survey responses concerning firms' financial needs over the coming 2-3 years, the financing gap is likely to increase in the near future as discussed in chapter 3.2.2 (Figure 24).

3.5 Conclusions

With a total production value of EUR 113.7 billion in 2018, **the agri-food sector is the largest manufacturing sector in Italy**. The sector is defined by the following characteristics:

- A predominance of micro and small-sized enterprises (less than 50 employees), which make up 98% of all enterprises.
- A reliance on exports – EUR 34.6 billion in 2018 – as a driver for the stability and growth of the sector, especially during periods of economic recession.
- The 'Made in Italy' quality scheme, which is a key driver for Italian competitiveness worldwide and which saw a record number of registered products at the EU level.

Demand for finance in the agri-food sector is therefore driven by the need for medium and long-term investments of the most productive and largest-exporting sub-sectors, namely bakery and farinaceous products, fruit, vegetable and meat processing, dairy and wine. Investments are mostly directed towards the acquisition of machinery and equipment.

However, **the sector's propensity to invest has decreased considerably in recent years, due in part to constrained access to credit**, as shown by the decreasing trend in the volume of banking credit to the agri-food sector. This is especially the case for Central and Southern Italy, which saw decreases of 18% and 9%, respectively, between 2014 and 2018.

As a result, **the study shows that there is a substantial financing gap in the agri-food sector in Italy, estimated at EUR 1.5 billion**. The gap mainly concerns small agri-food enterprises (90% of the total gap) and long-term loans (62% of the gap). This gap is mostly due to agri-food firms not applying for finance due to a fear of rejection, rather than firms actually being refused credit. This was confirmed by the survey and stakeholders interviewed.

Available information suggests that the **drivers of the gap in the agri-food sector** are related to the lack of credit history, which particularly affects firms led by young entrepreneurs and new firms; and insufficient financial education, lack of knowledge of the existing support measures and lack collateral, which mainly affects firms in Central and Southern Italy.

EAFRD-funded financial instruments can therefore play a crucial role in helping to increase access to finance for agri-food firms, particularly for young/new firms and for firms in Central and Southern Italy. Financial instruments can also be key in fostering greater integration in the agri-food value chain, linking primary producers to agri-food companies.

Among the existing financial instruments, two instruments seek to promote agri-food value chain integration: the EAFRD-funded Lombardy Credit Fund and the Ministry of Agriculture-funded 'value chain contracts'. In total, ten Italian regions are activating EAFRD financial instruments' support for their regional agri-food enterprises.

As with the agriculture sector, CAP support positively impacts the agri-food sector's demand for and access to finance, and respectively, their investments.

Based on the above, the following recommendations should be considered in the planning of future financial instruments:

- **Make a broader use of financial instruments to promote greater integration in the agri-food value chain**, **especially in regions with weaker access to credit** (Central and Southern Italy). This will allow multiple players along the value chain to reap the benefits of the instrument. These instruments should aim to provide uncollateralised loans as much as possible, to reduce the challenges faced by firms with insufficient collateral.
- **Pursue the use of guarantee instruments**, **specifically for agri-food enterprises led by young entrepreneurs and for start-ups,** which lack the credit history and collateral needed to access longer-term investment loans. This is provided that procedures to access, manage and use such kind of instruments are streamlined and simplified.

- **Explore the possibilities for setting up specific and focused equity fund(s) in agri-food, preferably at centralised level to allow economies of scale and ensure better coverage and successful implementation,** based on current experience of business angles, equity investors, backed-up by well-founded ex-ante assessments and analyses.
- **Provide technical support and capacity building on financial instruments to all stakeholders involved** (banks, agri-food firms and national managing authorities) to increase the awareness, knowledge and competencies needed to set-up and use such instruments.

ANNEX

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A.2. Stakeholders interviewed

Type of Stakeholder	Name of institution/organisation	Address and website
Banking association	Associazione Bancaria Italiana (ABI)	Piazza del Gesù, 49. 00186 - Roma www.abi.it
Financial institution	Banca Intesa	Piazza San Carlo 156, 10121 Torino www.intesasanpaolo.com
Financial institution	Banco BPM	Via Polenghi Lombardo, 13 26900 Lodi www.bancobpm.it
Financial institution	BPER	Corso Vittorio Emanuele 31 - 41121 Modena www.bper.it
Financial institution	Crédit Agricole Italia	Via La Spezia, 138/A, Edificio Luce II piano, Parma; gruppo.credit-agricole.it
Financial institution	Iccrea BancaImpresa	Via Lucrezia Romana, 41/47 - 00178 Roma www.gruppobancarioiccrea.it www.iccreabanca.it
Representatives of young farmers	AGIA - Associazione giovani imprenditori agricoli	Via Mariano Fortuny, 20 - 00196 Roma www.agia.it
Agricultural Cooperative	Alleanza delle Cooperative Italiane	Palazzo della cooperazione, Via Torino 146 - 00184 Roma www.alleanzacooperative.it/agroalimentare
Farmers' organisation	CIA - Agricoltori italiani	Via Mariano Fortuny, 20 - 00196 Roma www.cia.it
Farmers' organisation	Confagricoltura	Corso Vittorio Emanuele II, 101 www.confagricoltura.it
Food Industry organisation	Federalimentare	Viale Luigi Pasteur, 10 - 00144 ROMA www.federalimentare.it
Other	ISMEA: Public body providing information and financing to the agri sector	Viale Liegi, 26 - 00198 Roma www.ismea.it
Managing authority	Managing Authority Marche	Via Gentile da Fabriano, 9 - 60125 Ancona http://www.regione.marche.it
Managing authority	Managing Authority Veneto	Palazzo ex Gazzettino Via Torino, 110 - 30172 Mestre (VE) www.regione.veneto.it
Managing authority	Rete Rurale Nazionale (National rural Network): linked to Rural Development Programmes at national & regional level (PSR)	Viale Liegi, 26 - 00198 Roma www.reterurale.it
Managing authority	Regional Revolving Fund for Agriculture - Regione Friuli Venezia Giulia	Piazza Unità d'Italia 1 Trieste
Financial institution	Finlombarda	Via Fabio Filzi, 25/A, 20124 Milano
Financial institution	European Investment Fund (EIF)	37B, avenue J. F. Kennedy L-2968 Luxembourg www.eif.org

A.3. Methodology for financial gap calculation

This section of the report clarifies the terminology and proposes a method for estimating the financial gap formula for Target Group I and Target Group II. This version of the formula aligns with the *fi-compass* Factsheet on the financial gap in agriculture and the 2013 EC working paper on the Ex-ante assessment of the EU SME initiative. It is based on the data from the *fi-compass* survey of 7 600 farms carried out in mid-2018.

Financing gap definition. We define the financing gap to be the *unmet credit demand due to constrained or missing access to financing*. This definition includes market failures as well as other types of constraints.

Operationalisation of the financing gap formula. Each component of the formula can be obtained in the survey data under the following **assumptions**:

- $\boldsymbol{Rejected}$ **credit applications** include applications that are rejected by banks (or other credit organisations) and offered from banks, but turned down by the farmers/firms.
- **The share of $\boldsymbol{Viable}$ firms is measured by** the share of total firms that have a non-negative turnover growth[111] or a non-negative turnover and that are not in a situation of cost increase (these two criteria might be used to obtain an upper and lower boundary for the calculations).
- **Discouraged application is proxied by the average size** (financial value) of loan applications made by firms that applied for a similar type of financial product. This allows for grouping firms, which did not apply for fear of rejection with rejected firms (see step 2 and 4 below).

To calculate the financial gap, we define the following four steps. Each step refers to the latest surveyed year for both the surveys.

Step1: Ratio of viable farms with unmet demand for finance

$\boldsymbol{Rejection\ Rate^{Viable}}$ **:** This refers to the share of viable enterprises whose application was unsuccessful. It is measured by the ratio of enterprises with unsuccessful applications over the total population. It includes rejected applications by the lending institution and offers turned down by the applicant itself.

$$Rejection\ Rate_j^{Viable} = \frac{Number\ of\ Rejected\ Viable\ Firms}{Total\ survey\ population_j}$$

with and $j = Short\ Term\ , Medium\ term, Long\ Term\ Loans, Credit\ lines$.

$\boldsymbol{Discouraged\ Rate\ ^{Viable}}$**:** It represents the share of viable enterprise that were self-discouraged because of fear of rejection. It is computed as follows:

$$Discouraged\ Rate_j^{Viable} = \frac{Number\ of Discouraged\ Viable\ Firms}{Total\ survey\ population_j}$$

with and $j = Short\ Term\ , Medium\ term, Long\ Term\ Loans, Credit\ lines$.

$\boldsymbol{Unmet\ demand\ Rate\ ^{Viable}}$**:** The total share of survey respondents with unmet demand for finance is obtained by summing the two rates:

$$Unmet\ demand\ Rate_j^{Viable} = Rejection\ Rate_j + Discouraged\ Rate_j$$

111 A turnover that has been stable or growing in the last year.

Step 2: Number of farms rejected or discouraged

$\boldsymbol{N.of\ Farms\ in\ unmet\ demand_{ij}^{Viable}}$: In order to get the number of farms constrained in accessing financing, we multiply total share of viable respondents with unmet demand from the survey sample (Step 1) by the total farm population from Eurostat by farm size.

For TGI, this total population is adjusted by removing farms having a Standard Output (SO) below EUR 8 000 EUR 4 000 or EUR 2 000, depending on the Purchasing Power Parity Index (PPI) of the country. The EUR 8 000 EUR 4 000 or EUR 2 000 SO thresholds are used for countries with their 2017 PPI respectively above the 66th percentile, between the 33th and 66th percentile, or below the 33th percentile of the PPI index in the EU. We assume equal rates of rejections among small, medium and large-sized farms, and disentangle the share of farms with constrained in obtaining credit by financing product.

$$N.of\ Farms\ rejected_{ij}^{Viable} = Eurostat\ Farm\ population_i * Rejection\ Rate_j^{Viable}$$

$$N.of\ Farms\ discouraged_{ij}^{Viable} = Eurostat\ Farm\ population_i * Discouraged\ Rate_j^{\ Viable}$$

$$N.of\ Farms\ in\ unmet\ demand_{ij}^{Viable} = N.of\ Farms\ rejected_{ij} +\ N.of\ Farms\ discouraged_{ij}$$

for $i = Small, Medium, Large$
and $j = Short\ Term\ , Medium\ term, Long\ Term\ Loans, Credit\ lines.$

Step 3: Standard Loan Application Size

$\boldsymbol{Application\ Size_{ij}}$: For each type of financial product and each firm/farm size category, a standard size of application is constructed. A starting point for Country experts might be the EU wide geometric mean, adjusted at country level with the purchasing power party index. This value might be further adjusted based on the results of the analysis.

Step 4: Financial gap across farm size and product type

The financing gap is obtained by multiplying the amount of loans (Step 3) by the total number of farms facing constrained access to credit as calculated in Step 2.

Note: when the survey sample size allows, an indicative breakdown of the gap will be provided for young farmers per member state. The breakdown is obtained from the age ratio within rejected loan applications.

$$\boldsymbol{Financial\ Gap_{ij} =\ Application\ Size_{ij}} \times \mathbf{N.of\ Farms\ in\ unmet\ demand_{ij}^{\mathit{Viable}}}$$

for $i = Small, Medium, Large$
and $j = Short-term\ , Medium-term, Long-term\ Loans, Credit\ lines.$

Finally, the total gap is the sum of figures across size classes (*i*) and products (j).

Private financing (obtained from family or friends) will be included in a separate quantification for countries with a high share of private lending.

The methodology for the gap calculation for TG II is the same as for TG I, but no lower limit on the size of enterprises is applied in step 2 (all enterprises in the population are included in the calculation). For Target Group II, we obtain each component of the financing gap formula from the following questions in the Agri-food survey of Target Group II carried out in mid-2019:

Lending/funding applied to: For what kind of finance did you apply in 2018 and with what amount?

Lending not applied to: For what reasons did you not apply for some kind of finance?

Rejected: What was the result of your application?

Viability: Has the following company indicator changed in the last year: Turnover?

It has to be noted that the surveys to be used by the Study for the calculations, the *fi-compass* farm survey and the Agri-food survey, are designed to be statistically representative at national level. Therefore regionalised figures and calculations could be applied with a limited dimension and for only few countries. Information from interviews may complement such regionalised descriptions.

For Italy the subsequent tables report the elements used in the calculation of the financing gap for the agricultural and agri-food sector, respectively.

Table 11: Elements for the calculation of the financing gap in the agriculture sector

		Short-term Loans	Medium-term Loans	Long-term Loans	Credit lines/bank overdraft
Lower bound: farms with a non-negative turnover growth and no cost increase	Share of respondents rejected by creditor or farmer	0.00%	0.33%	0.00%	0.00%
	Share of respondents that have not applied because of possible rejection	0.00%	0.00%	0.00%	0.00%
	Total (sum of rejected and discouraged)	0.00%	0.33%	0.00%	0.00%
Upper bound: farms with a non-negative turnover growth	Share of respondents rejected by creditor or farmer	0.00%	1.00%	0.00%	0.00%
	Share of respondents that have not applied because of possible rejection	0.00%	0.33%	0.80%	0.66%
	Total (sum of rejected an discouraged)	0.00%	1.33%	0.80%	0.66%
Total unmet demand: all farms	Share of respondents rejected by creditor or farmer	0.00%	1.00%	0.00%	0.00%
	Share of respondents that have not applied because of possible rejection	1.47%	1.80%	2.74%	2.13%
	Total (sum of rejected an discouraged)	**1.47%**	**2.80%**	**2.74%**	**2.13%**
Farms with constrained access to finance, **lower bound**	Small-sized farms	-	2 057	-	-
	Medium-sized farms	-	396	-	-
	Large-sized farms	-	56	-	-
Farms with constrained access to finance, **upper bound**	Small-sized farms	-	8 227	4 965	4 113
	Medium-sized farms	-	1 585	957	973
	Large-sized farms	-	223	135	112
Standard loan application size (EUR)	Small-sized farms	17 537	42 542	117 328	15 833
	Medium-sized farms	22 220	40 435	127 399	17 563
	Large-sized farms	65 536	102 900	229 394	93 538

Source: fi-compass survey.

Table 12: Elements used for the calculation of the financing gap in the agri-food sector

		Short-term Loans	Medium-term Loans	Long-term Loans	Credit lines/bank overdraft
Farms with a non-negative turnover growth	Share of respondents rejected by creditor or farmer	0.23%	0.23%	0.23%	0.23%
	Share of respondents that have not applied because of possible rejection	2.72%	2.72%	4.55%	3.63%
	Total (sum of rejected an discouraged)	**2.95%**	**2.95%**	**4.78%**	**3.86%**
Total unmet demand: all farms	Share of respondents rejected by creditor or farmer	0.23%	0.23%	0.23%	0.23%
	Share of respondents that have not applied because of possible rejection	2.72%	2.72%	4.55%	3.63%
	Total (sum of rejected an discouraged)	**2.95 %**	**2.95%**	**4.78%**	**3.86%**
Farms with constrained access to finance	Small-sized farms	1 643	1 643	2 667	2 151
	Medium-sized farms	26	26	41	33
	Large-sized farms	3	3	6	5
Standard loan application size (EUR)	Small-sized farms	82 076	112 359	318 686	92 672
	Medium-sized farms	652 059	614 011	1 708 063	496 122
	Large-sized farms	642 993	1 075 404	3 018 823	1 009 000

Source: Agri-food survey.

A.4. TG I: *fi-compass* survey

The analysis for the agriculture sector in the report relies on the *fi-compass* survey on financial needs of EU agricultural enterprises, conducted from April to June 2018 across 24 EU Member States (EU 24): Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

The survey was carried out targeting the completion of 300 questionnaires for each Member State. The target was reached in all countries except Lithuania (for few interviews) and Ireland, where the farmers were less confident in sharing information.

Overall, the survey consists of 7 659 respondents, of which 73% own the agricultural enterprise, 8% are member owners, 8% are owner's relatives, 7% administrative managers, 3% other employees, and 1% human resource managers. Table 13 reports the number of respondents by Member State.

Table 13: *fi-compass* survey sample size per Member State

Country	No. of Respondents	Country	No. of Respondents
Belgium	350	Latvia	315
Bulgaria	351	Lithuania	296
Czech Republic	309	Hungary	315
Denmark	302	The Netherlands	301
Germany	376	Austria	320
Estonia	310	Poland	320
Ireland	151	Portugal	349
Greece	350	Romania	350
Spain	354	Slovenia	300
France	350	Slovakia	312
Croatia	300	Finland	327
Italy	351	Sweden	300

Source: fi-compass survey.

Additionally, the sample covers 198 (94.7%) of the 209 NUTS2 regions in the 24 Member States. These regions have nearly 99% of EU 24 farms.

Almost 85% of questions were completely answered and 98% of all questions were answered on average. The most problematic questions were on confidential, financial aspects. Only 50% of interviewees replied concerning their turnover, 67% gave the specific amount of their loan and 56% the exact interest rate of their loan.

For additional information, please refer to https://www.fi-compass.eu/publication/brochures/survey-financial-needs-and-access-finance-eu-agricultural-enterprises.

A.5. TG II: Agri-food survey

To mirror the *fi-compass* survey on the needs of EU agricultural enterprises, a computer assisted telephone interviewing (CATI) survey was conducted for the agri-food processing sector in mid-2019.

For the purpose of this survey, a commercial global register was used in each country. A commercial global register provides data in a single source, harmonises the information collected on businesses (e.g. industrial classification, employee size, turnover, contact names etc.) and offers software platforms that allow users to easily access a sample of businesses for commercial purposes.

The survey was conducted targeting the completion of a minimum of 45 questionnaires for each Member State. The minimum sample size obtained varied per country mirroring the differences in the size of the sector. Table 14 reports the sample size per country.

Table 14: Agri-food survey sample size per Member State

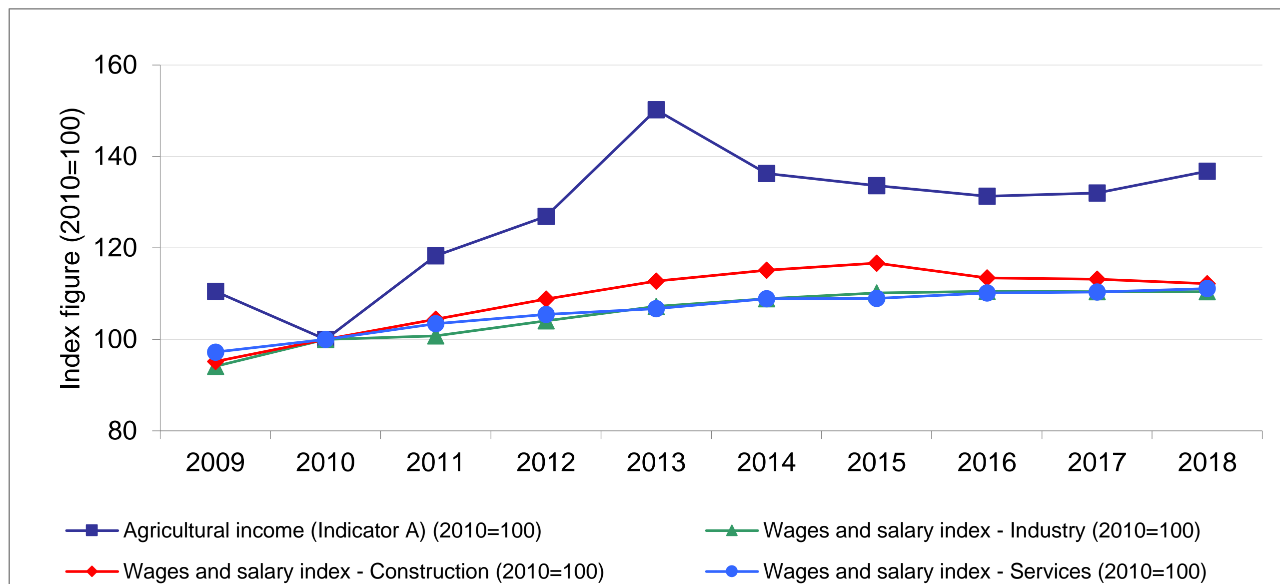
Country	No. of Respondents	Country	No. of Respondents
Belgium	100	Latvia	50
Bulgaria	100	Lithuania	50
Czech Republic	66	Hungary	46
Denmark	50	The Netherlands	80
Germany	186	Austria	50
Estonia	50	Poland	130
Ireland	50	Portugal	100
Greece	70	Romania	150
Spain	197	Slovenia	50
France	180	Slovakia	50
Croatia	45	Finland	50
Italy	200	Sweden	48

Source: Agri-food survey.

The survey consists of 2 148 respondents, of which 85% were enterprises operating in the manufacturing food sector, and 15% in the manufacturing of beverages.

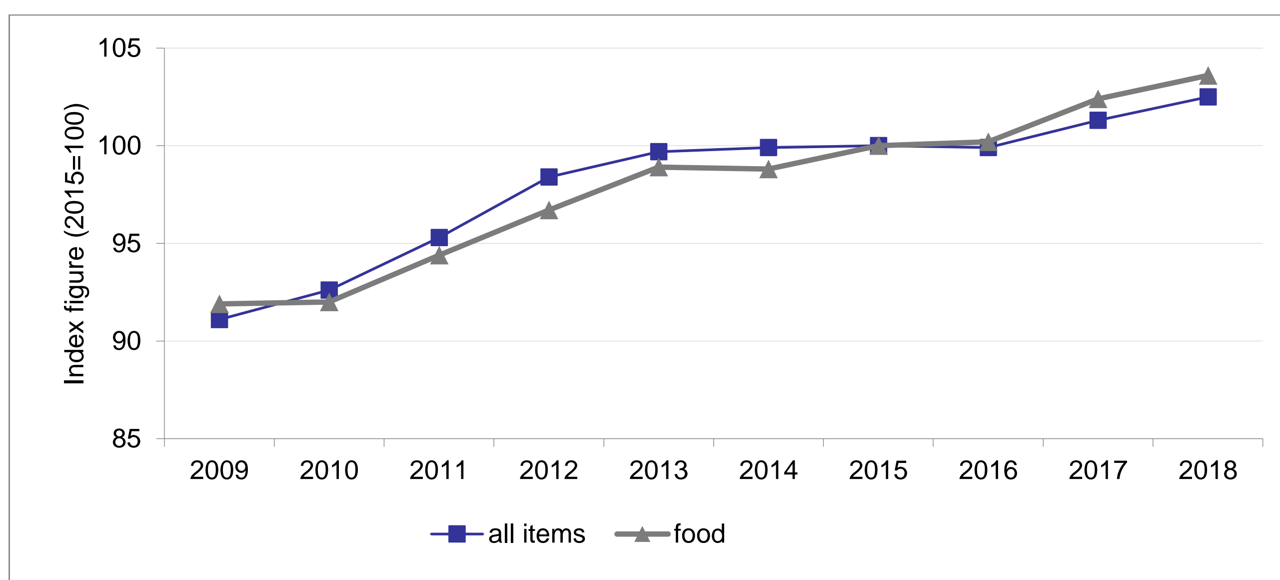
A.6. Data from the agriculture statistical factsheets

Figure 29: Evolution of agricultural income compared to wages and salaries in other sectors of the economy, 2009-2018



Source: European Commission, DG AGRI, June 2019, Statistical Factsheet for Italy.

Figure 30: Evolution of harmonized indices of consumer prices, 2009-2019



Source: European Commission, DG AGRI, June 2019, Statistical Factsheet for Italy.

A.7. AGRI Italy Platform - Banks operating in the participating Regions

Table 15: Overview on banks offering the financial instrument products in the regions

Region	Banks offering the financial instrument products
Piemonte	Banca Cambiano, Iccrea BancaImpresa, Creval, Credem, Monte dei Paschi di Siena
Veneto	Iccrea BancaImpresa, Creval, Credem, Monte dei Paschi di Siena
Emilia-Romagna	Banca Cambiano, Creval, Credem, Iccrea BancaImpresa, Monte dei Paschi di Siena
Calabria	Credem, Iccrea BankaImpresa, Monte dei Paschi di Siena
Tuskany	Banca Cambiano, Creval, Credem, Iccrea BancaImpresa, Monte dei Paschi di Siena
Umbria	Creval, Credem, Iccrea BancaImpresa
Puglia	Credem, Iccrea BancaImpresa, Monte dei Paschi di Siena, Banca Popolare di Puglia e Basilicata
Campania	Credem, Iccrea BancaImpresa, Banca Popolare di Puglia e Basilicata

Source: European Investment Fund, 2020.

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