ICOS submission to Indecon

On the Ex Ante assessment on the Introduction of Financial Instruments to Ireland

On 14 July 2014, the EIB and the European Commission signed a Memorandum of Understanding on agriculture and rural development. Subsequently, a "model guarantee instrument" for agriculture was launched. This financial Instrument will provide security for up to 80% of a loan, which will significantly reduce the cost of finance and will be of most benefit to new entrants to farming, who may not have security or built up a track record with a bank.

The European Commission has urged Member States to give greater emphasis to using financial instruments in their Rural Development Programme, as for every €1 a Member State provides to the guarantee through its Rural Development Programme, the EIB will provide €5. Funding will be provided for investments in farm performance, processing, marketing and business start-ups, with local banks acting as financial intermediaries. We welcome the start of the Ex Ante Assessment and encourage the Government to adopt a financial instruments measure within our Rural Development Programme.

Lending to Farmers

While Irelands cost of borrowing is hitting record lows, this saving is not being passed onto the consumer, particularly in the agriculture and rural sectors. Credit is currently very expensive in Ireland. Data from the European Central Bank shows that the average rate charged on loans to small and medium enterprises (SMEs) is 6.56% in Ireland. This is almost three times more than the 2.28% on offer to French SMEs, and double the rates in Germany, Italy and Spain according to a recent article in the Irish Independent. [i]

Many factors are responsible for this high interest rate including the lack of competition in banking in Ireland (the combined market share (new lending) of the three main banks is 95%) and this particular factor as well as other mean that those banks are reluctant to pass on or promote any new initiatives such as an EIB financial instrument or other lending tools to the agricultural and rural sector.

Initiatives targeted at the agricultural sector are not new. The Strategic Banking Corporation of Ireland[ii] does provide slightly cheaper credit to farmers through their Agricultural Investment Loans at an interest rate of 5% but this rate is still much higher than the proposed EIB financial instruments and is far higher than the European average lending rates. Furthermore, this product is not promoted widely enough to the agricultural community.

Crédit Agricole in France (whose clients are 90% of French farmers) – have plans to lend €5 million to the French agricultural sector at 1.5% interest rate.

We understand from our research through our Brussels office that credit lending cost to farmers in other European Union countries is as follows.

- Germany: 3%
- Netherlands: 3.5%
- Spain: 3.5%
- Finland: 4%

These rates are substantially lower than Irish bank rates and further highlight the additional cost burden on Irish farmers and rural businesses.

Affordable credit is a necessary for farmers and rural communities to develop their businesses and regions.

2016 will be remembered as a terrible year for farm incomes across all facets of agriculture. The lifting of milk quotas in 2015 was met with great optimism by farmers and farmer organisations with many producers initiating plans to develop their production capacity and expand their businesses. Those plans depended on finance and finance required dependable income forecasting to service the repayments. While 2015 enabled farmers to plan for this opportunity, the global market conditions of 2016 damaged that income stream and, with it, the prospects of those investment and expansion plans coming to fruition. While the growth of global dairy demand (particularly in the East) appears secure in the long run, the impact of 2015 and 2016 has been to severely hamper Irish farmers take implement plans to harness that growth potential for their own benefit and for that of the Irish economy.

The cost of credit and the dependence on private banks with their relatively inflexible approach to determining risk, has particularly hit younger farmers whose new entrance into farming meant Irish banks were either particularly tough in the context of credit terms and conditions or refused to lend in the first instance.

The financial instruments being proposed would be of great benefit to Irish farmers whose businesses are so important to the Irish economy (in particular, the rural economy) and who need access to these proposed financial instruments in order to allow their businesses to survive and prosper.

Lending to Rural Communities

Rural communities can also greatly benefit from the provision of financial instruments from the EIB through the Rural Development Programme.

The LEADER programme has been of great benefit to rural communities and has helped build strong, well resourced, sustainable community enterprises in many areas. The Department of Housing, Planning, Community and Local Government[iii] state that in the 2007 – 2013 LEADER Programme €340 million was distributed to rural communities supporting 9,000 enterprises and creating more than 4,000 jobs.

However, the cost of accessing LEADER funding can be immense. Due to the fact that LEADER funding is drawn down once projects are near completion and also communities are not grant aided 100% funding but to a maximum of 75% for capital projects, these communities need to raise funds elsewhere in order to take advantage of the LEADER funding.

Communities need to acquire bridge finance until they can draw down funding. They also need to match-finance so as to meet the remaining 25% of the investment cost. Typically, a mix of bridging finance and matching finance is required to cover the initial 75% over the short term while the project is being developed and to cover the 25% in the long term. Rural enterprises don't get as attractive funding rates so the burden of accessing affordable finance is even greater.

Communities should not be required to pay SME rates but as they have increased risk and a less attractive asset for a bank to take security on, these loan applicants are typically treated less favourably than their SME counterparts.

Financial instruments should be available to the community and voluntary sector and to rural businesses to prevent any unnecessary cost, expense and barriers to these initiatives working towards developing sustainable, vibrant rural communities.

Conclusion

ICOS contends that the cost of credit for Irish farmers, rural businesses and rural communities is a very real and very large barrier preventing the sustainable development of our rural economy and rural communities.

These developments and initiatives benefit not only rural Ireland but the economy at large and further impediments will only lead to further stagnation in rural Ireland.

ICOS recommend, without further delay, the amendment of the Rural Development Programme to ensure the provision of long term and low cost finance for farmers and the agri-food sector.

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[i] http://www.independent.ie/business/farming/low-cost-farm-loans-on-the-way-from-eu-34475207.html
[ii] http://sbci.gov.ie/products/agriculture-investment-loan
[iii] http://www.housing.gov.ie/community/rural-development/leader/rural-development-programme-leader-2007