Article

Potential and Complexity of Implementing Financial Instruments in the Framework of Rural Development Policies in Italy—The Friuli Venezia Giulia Revolving Fund

Federica Cisilino † and **Francesco Licciardo** *,†

Council for Agricultural Research and Economics, Research Centre for Agricultural Policies and Bio-Economy, 00187 Rome, Italy
* Correspondence: francesco.licciardo@crea.gov.it
† These authors contributed equally to this work.

Abstract: Although in recent years some credit institutions have shown a willingness to support agricultural entrepreneurs, there is still a lack of private financing or co-financing in the agricultural sector. Many farms, in fact, are not able to meet the indicators or to provide the fees required by banks to obtain investment loans. The financial instruments introduced by the European Commission within the Rural Development Programme aim at supporting access to credit for farms to make them more economically viable, competitive, and suited to market requirements. The objective of this paper is to analyze the role played by the financial instruments introduced by the European Union to support and encourage the improvement of farms and, in general, the agriculture, forestry, human capital, and rural development in Italy. The paper explores the topic in detail by presenting a case study of a region that has successfully applied these instruments using a revolving fund with a special background. The quantitative data used in this study are administrative; some information was obtained through a survey. Regional information on the implementation of this fund is examined in terms of both opportunities and limitations to highlight the best practice. The findings suggest that certain conditions are required to develop and implement effective financial instruments: a real and effective collaboration between regional administration, banking institutions, and farms that are willing to grasp the newness; a reasonable period of time (some years); know-how because knowledge and experience are crucial, together with the ability to face complexity both in terms of normative issues and financial engineering instruments themselves. Several implications derive from these findings.

Keywords: Common Agricultural Policy; agricultural credit; Rural Development Programme; financial instruments; revolving effect

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1. Introduction

Access to credit remains difficult for individual European Union (EU) farmers, especially for young farmers without a credit background. The conditions for obtaining a loan or guarantees for investments and productive restructuring have become more difficult to meet. A recent study carried out by Fi-compass [1] in the member states (MSs) estimated a substantial short and longer-term financial gap for EU farmers between EUR 7.06 billion and EUR 18.60 billion. Meeting the conditions to unlock financial sources consequently becomes more difficult.

The Common Agricultural Policy (CAP) contributes to the sustainable development of rural areas through three main long-term objectives: a) to enhance the competitiveness of the agricultural and forestry sector; b) to ensure the sustainable management of natural resources and climate action; c) to achieve balanced territorial development of rural economies and communities, including job creation and maintenance. Rural development policies consider sustainability at the core; in fact, the Rural Development Programme

(RDPs) must allocate at least 30 percent of funding to measures aimed at protecting the environment or mitigating climate change. These are channelled both through grants and annual payments to farmers (who choose more environmentally friendly practices) and increasingly through financial instruments (FIs). The European Agricultural Fund for Rural Development (EAFRD) thus operates as a source for loans, microcredits, guarantees, and venture capital available to agricultural and forestry operators and rural areas who undertake projects that are financially sustainable and compatible with EAFRD priorities. In this context, EAFRD, the financial tool of the second Pillar of the Common Agricultural Policy (CAP) of the EU, with a budget of over EUR 96 billion for the period 2014–2022, aims at strengthening the EU's agriculture, forestry sector, and rural areas in general.

As shown by Carillo et al. [2], the activation and management of these interventions takes place with the participation of various public and private actors: European Commission (EC); MSs; regions and financial institutions, such as banks; credit consortia; or other institutions that physically manage the funds (guarantee and credit, in particular).

FIs were first applied to agriculture in the 2000–2006 programming period and were then extended to 2007–2013 to help farmers and rural small- and medium-sized enterprises (SMEs) to receive private funding for rural investment programs, but their impact has been limited because they were used only in occasional cases. However, they did not work as expected and, consequently, did not provide the expected results in terms of revolving and leverage effects.

A key factor of these instruments is that they ensure an alternative to grant funding and at the same time they can all reuse the initial allocation of money used to finance the funds. They are thereby able to further promote the development of agriculture. In other words, they represent a more efficient way of funding beneficiaries than traditional instruments (grant support).

During the 2014–2022 programming period, the European Structural and Investment Funds (ESIF) have been strengthened and represent the supporting measures to achieve one or more specific objectives of the EU [3]. According to the EC [4], the main advantages in the uses of FIs to encourage economic activities are as follows:

- FIs are designed to address market imperfections in the availability of capital. State-funded FIs are justified by the two main market imperfections. The first is information asymmetry, or the lack of adequate information for potential investors for certain types of projects (such as start-ups). The second is that (inevitably) commercial estimates of investment returns do not capture all the related positive externalities or social benefits. For example, lack of access to financial resources may limit investment in research and development (R&D), as well as innovation;
- Policymakers may argue that the use of FIs will increase the cost-effectiveness of public funds because the grants, including interest and dividends, create revolving assets that can be reinvested, and financial instruments create mechanisms to attract the private sector funds;
- It is important to note that reimbursable financial sources improve the quality of investments (compared to those that obtain grant funding) due to the requirement of repaying the investment and the due diligence required to evaluate investment bids.

The advantages of introducing FIs under ESIF programmes and the increasing pressure to do so have been well documented in numerous studies, among others Wishlade and Michie [5,6], D'Auria and Guido [7], Núñez-Ferrer et al. [8], Matshkalyan and Feher [9], Nyikos et al. [10], Fi-compass [11], European Network for Rural Development [12], and European Court of Auditors [13].

The aim of this paper is to draw attention to the role played by the EU FIs to support and encourage the improvement of farms and, in general, to improve agriculture, forestry, and human capital, as well as rural development. The analyses concerned Italy, with a focus on a region that has successfully applied these instruments using a revolving fund with a special background. Furthermore, this region is the one that has allocated the highest percentage of resources to FIs in Italy (4% of the regional 2014–2022 RDP's budget). The

paper tries to answer the following question: what are the reasons behind the success of the regional financial instrument in the framework of rural development policies? To thoroughly investigate the topic, regional administrative database data have been collected and processed. Through the analysis of the information related to the 2017–2021 implementation of the regional revolving fund for operations in the agricultural and fisheries sectors, the regional choice is examined both in terms of opportunities and limits.

The remainder of this paper is organized as follows: Section 2 provides a review of the literature on FIS and describes the conceptual framework of the topic at European level in the 2014–2022 programming period. The research methodology and the analysis of the ongoing experience in Italian RDPs between 2014–2022 are illustrated in Section 3. Section 4 describes the revolving fund of Friuli Venezia Giulia as the case study under investigation, and Section 5 shows the research results and discussion. Section 6 concludes our paper, outlines the main requirements and implications for policymakers, and makes recommendations for future research.

2. Background

Even though in recent years some credit institutions have shown a willingness to support farmers, there is still a lack of private funding or co-funding for the agricultural sector [11]. The poor access of farms to large parts of the EU funds for agricultural development is due to several factors, including the request of guarantees for loans by the banks, the credit market itself and its risks, and the low profitability of the agricultural sector, compared to other high value-added sectors, especially regarding small and medium farms. A large number of them, in fact, are not able to meet the indicators or to provide the fees required by the banks to obtain investment loans [11,12].

In this sense, FIs provide funding for investments, which are expected to be financially viable and do not give rise to sufficient funding from market sources [3–6,10].

Securities law compliance, accounting and financial reporting have developed different classification approaches for FIs. There is no universally accepted definition of FIs [10,14]. For example, at the European level, FIs are measures of financial support provided as a complement from the budget to address one or more specific EU policy objectives [3,15].

However, what do we refer to by the term FIs? Within the framework of European cohesion policy, the term refers to several measures to support investments, which, unlike traditional straight grants, provide repayments by the beneficiary of the sums received as a support of their investments.

From a policy design perspective [6], FIs are an alternative delivery mechanism to grants. Conventionally, four main advantages of financial instruments can be distinguished from grants [4,8,12,13]:

- First, FIs are more sustainable because funds are repaid (revolving effect);
- Second, they have a leverage effect that enables them to unlock public and private sector resources;
- Third, FIs can improve project quality;
- Fourth, they can make more cost-effective use of public funds.

Matshkalyan and Feher [9] highlighted how FIs used by EAFRD are implemented in many different ways. These can concern interest subsidies, subsidized loans, loan guarantees, etc., as indicated by typologies of different financial institutions (e.g., European Investment Bank), referring to a broad set of loan guarantees, mezzanine (quasi-equity funds), equity and venture funds, microcredits, using tailor-made instruments, off-the-shelf instruments, or combined solutions and can be implemented, as established at EU or at national level [4–6,10,11]. The main forms used by the ESIF are shown in Table 1.

Table 1. Description of FIs by form (Source: Nyikos [16]).

Key Types	Description
Equity	Direct investment in the share capital of an undertaking. Involves ownership and capacity to influence governance of the investee firm. May cover seed, start-up, and expansion capital. May also be known as venture capital, which is a subset of private equity, strictly defined. Can take various forms, with various levels of risk. Risks for investors may be high (depending on security); thus, may be returns (depending on performance)
Loan	Borrowing to finance businesses or projects over a period and at an agreed rate of return, typically based on the quality of cash flow and strength of the underlying assets; may be on commercial or subsidized terms
Guarantee	Underwriting funds to provide security for firms that are unable to obtain financing otherwise; may cover all or part of the capital. May take the form of guarantees on bank loans, micro-credit, or equity. May involve a fee or higher interest rate for the borrower

According to the literature [5–13], the use of FIs can have a potentially greater financial impact than grants because of attracting additional public and private sector resources (leverage effect), thus multiplying the effect of financial resources and the national/regional contributions used to address market failure.

Additionally, risk coverage or risk participation may encourage investors to participate in projects that are not attractive without public intervention. However, the widespread existence of FIs has to be accompanied with specific procedures to ensure that those instruments are not crowding out private finance but complementing them. For this reason, as highlighted by Núñez-Ferrer et al. [8] (pp. 29–30), the ex-ante assessment requires MAs to provide evidence of the adequacy of the envisaged FIs against an identified market failure or suboptimal investment and to ensure that the FI will contribute to the achievement of planned objectives.

Wishlade and Michie [6], Guido et al. [17], Cisilino and Floreancing [18] have pointed out that FIs can promote efficiency in the allocation of public funds and allow for the long-term sustainability of public investment, in the sense that they can recycle capital for future use (opposite to the one-off nature of non-repayable grants) [8]. In other words, they potentially allow reinvestment of structural funds for more projects (revolving effect). Therefore, the initial distribution of money can be used to promote further development of agriculture projects [9,12]. This importance has been heightened by the economic crisis.

Nyikos et al. [10] (p. 438) argue that one of the main advantages of using FIs is the added value that revolving instruments have over grants in terms of the efficient use of public resources. By unlocking other public and private sector resources through co-investment, FIs aim to increase the overall capital available [10].

Wishlade et al. [19] and Brown and Lee [20] also identify that FIs encourage the pooling of expertise and know-how, for example to support start-up SMEs and to improve the quality of projects. Indeed, repayable forms of support can act as an incentive for better quality investments as the investments need to be economically viable so that the final recipient is able to repay the support provided [5,7,10]. This rationale is partly founded on the notion that the level of deadweight involved in such instruments is lower than for grants [5].

Briefly, the key characteristic of FIs is the repayment of the borrowed resources, which differentiates them from grants. This also implies that projects have to be financially viable or have at least a part, which generates resources or provides for savings that can be used for returning the borrowed resources. Nevertheless, the FIs, as opposed to grant support require a more complex implementation system [21].

2.1. Conceptual Framework: Financial Instruments in 2014–2022 Programming Period

FIs have been used for many years as part of cohesion policy to support enterprises; in 2007–2013, their use has become more important than in the past.

In the context of rural development policies, the use of FIs is not new. The so-called financial engineering instruments were already programmed during the period between 2000–2006 and were confirmed between 2007–2013. However, the previous experience of the application of financial instruments in the Rural Development Programme (RDPs) is rather limited [12,22]. During the various programming periods the FIs have had extremely limited success in most cases, due to issues linked to both the supply and demand of these policies [23].

On the demand side, there was a restricted use of such interventions by the potential beneficiaries to finance their investments.

On the supply side, these measures have not been widely adopted by the managing authorities (MAs) of rural policies; for example, between 2007–2013 only 14 RDPs in seven MSs (Bulgaria, France, Greece, Italy, Latvia, Lithuania and Romania) included them in their programmes, allocating a total amount of resources of EUR 531 million, which represents only 0.3% of the total EAFRD budget [24]. As for the Italian case, for example, 8 regions out of 20 actively used EAFRD FIs to guarantee and co-guarantee operations for bank loans intended for the realization of investments; the total public expenditure for such RDPs financing tools was around EUR 77.2 million between 2007 and 2013. FIs were not considered useful by most regions.

In this regard, some audits of the European Court of Auditors (ECA) [13,25,26] related to the results of implementation, highlighting that the low use of these measures by the RDPs beneficiaries would be due to erroneous budget forecasts by individual MAs, which made inaccurate ex-ante assessments, allocating an excessive amount of funds, compared to the potential needs of RDPs beneficiaries. Other critical elements, which partly match with the findings of the European Court of Auditors audit, also emerged from a survey carried out by the European Network for Rural Development [12]. This study underlines, among other issues, delays in setting up the programming framework, difficulties in combining traditional grants with FIs, low economic performance, insufficient monitoring, and limited reporting on fund performance.

The European Framework for the period between 2014–2022 encourages MSs to introduce private investment support in their RDPs, combining these support measures with financial instruments. The relevant rules for the development and implementation of financial instruments are defined in Title IV of the Common Provisions Regulation (CPR) [3].

In the 2014–2022 programming period, these instruments have been strengthened and represent support measures for achieving one or more specific objectives of the EU.

The regulation places increasing importance on the use of FIs, which will become increasingly important as an alternative to traditional grants. The regulatory texts show that the legislators have attempted to address many of the challenges that have arisen in the past (see Table 2 for the EAFRD). These include a range of changes that directly address issues raised by the ECA [13–26].

Table 2. Main regulatory changes on financial instruments between 2007–2013 and 2014–2022 (Source: European Commission [4]).

	2007–2013	**2014–2022**
	Articles 50–52 of Regulation (EU) No 1974/2006	**Title IV of Regulation (EU) No 1303/2013**
Scope	Support for all revenue-generating investments under the RDP	Support for all revenue-generating investments under the RDP
Set-up	Ex-ante assessment only for guarantee funds	Compulsory ex-ante assessment for any FI

Table 2. *Cont.*

	2007–2013	2014–2022
	Articles 50–52 of Regulation (EU) No 1974/2006	**Title IV of Regulation (EU) No 1303/2013**
Implementation options	Financial instruments at national or regional level—tailor made only Only loans, guarantees and venture capital	Financial instruments at national level, regional level and transnational or cross border level: Fund of funds; Tailor-made or off-the-shelf or MA loans/guarantees Contribution to EU level instruments
Payments	Possibility to declare to the Commission 100% of the amount paid to fund—not linked to disbursements to final beneficiary	Phased payments linked to disbursements to final recipients
Reporting	No compulsory reporting—part of the general annual reporting of the program's implementation	Compulsory reporting from the outset, in a range of indicators linked to the financial regulation.

Any FI supported by the ESIF must comply with the relevant programme, its objectives within the priorities, and focus areas for EAFRD, including eligibility rules (within the measures for EAFRD), expenditure provisions, co-financing elements, monitoring, and reporting requirements [2].

To be sufficiently attractive to the private sector, it is essential that FIs be designed and implemented in a flexible way: MAs should, therefore, assess and decide on the most appropriate forms of FIs implementation. The CPR makes it clear that more than one type of combination will be possible, for example, combining different programme contributions and different funds into a single FI or combining FIs and grants and other forms of support. The advantage of combination may be the achievement of critical mass and economies of scale.

The decision to finance support measures through FIs should, therefore, be determined based on an ex-ante assessment [21,27]. According to Article 37.2 [3], the ex-ante assessment requirements should include:

- An analysis of market failures, suboptimal investment situations, and investment needs for policy areas and thematic objectives;
- An assessment of the value-added of the financial instruments considered for ESIF support;
- An estimate of additional public and private resources that the financial instrument could potentially raise up to the level of the final beneficiary (expected leverage effect);
- An assessment of lessons learned from similar instruments;
- A specification of the expected results.

The ex-ante assessment help MAs to have a sound decision-making basis for the use of FIs and for the creation of an effective FI. Furthermore, the ex-ante assessment aims to ensure the adequacy of human resources and administrative capacity to manage the programme, as well as the suitability of procedures for monitoring the programme and collecting the data needed to carry out evaluations.

In assessing the market failure, investment needs, and the required contribution of ESIF programme to an FI, special attention should be paid to the proper assessment of the revolving capacity of existing FIs.

In this context, an ex-ante assessment is designed to enable MAs to understand the prospective demand for FIs, key relevant market players, the ability to attract private sector co-investments, and to help ensure that their introduction does not cause existing funds to be depleted.

3. Materials and Methods

The method used in this study to collect quantitative data is based on desk research. An in-depth literature review was carried out to provide a descriptive overview of the current use of FIs in the ESIF. The literature review revealed that there are few scientific

articles on this topic, while many documents, such as reports, evaluation reports, policy studies and other reports on the subject, are available as public documents at EU level, and evaluation material is developed at a national and regional level. The literature reviewed provides a general descriptive overview rather than an in-depth evaluative analysis based on secondary data.

The methods used in carrying out this research included planning, designing, data collection and processing to ensure meaningful interpretation and reporting of the results [28]. Three main sources were used: a) information from the Italian regional MAs and the European Investment Fund (EIF); b) information collected by the Council for Agricultural Research and Economics, Research Centre for Agricultural Policy and Bioeconomy (CREA - PB); c) a direct survey carried out by the Italian Network for Rural Development 2014–2022, by CREA - PB [29]. The National Rural Network in 2020 launched an in-depth survey to support the MAs of RDPs in the implementation and deployment of financial instruments. The ten MAs that had planned to activate financial instruments in 2014–2022 programming were involved in a questionnaire survey aimed at:

- Identifying critical issues in the flow of information from the public administration to the end user.
- Capturing specific training needs.

Evaluating paths for adjusting the implementation procedures of financial instruments in the current RDPs, attuning them as best as possible for the new programming period.

Collecting information (physical and procedural) related to the implementation of FIs allows a financial analysis of the amount of public expenditure. This made it possible to examine the financial choice of the Italian RDPs by measure, by sub-measure, and by type of support.

Then, the regional case study highlights the key elements for successful implementation of financial instruments, which in this case is rooted in a previous important experience in the field. In fact, especially in the Italian context, the remaining obstacles are the resistance and the low propensity of many regions to use FIs within RDPs. The adoption of FIs is complex and requires technical and organizational skills on specialist subjects that not all regions possess. Indeed, there are only a few MAs of Italian RDPs that have specific experience with the subject. For this reason, we found it interesting to investigate the case of Friuli Venezia Giulia, as it represents a unique case at the national and European level. To thoroughly investigate the elements underlying the regional instrument, the administrative database has been considered. Through the collection of several categories of information related to the implementation of the revolving fund for operations in the agricultural and fisheries sectors, the regional choice is examined in terms of opportunities seized and limits to be overcome [30].

It should be noted that the data available from various sources can be incomplete and sometimes contradictory. MSs reporting on FIs use was, until 2013, voluntary, and although mandatory reporting has now been introduced (2014–2022), there are still inconsistencies. The latest available overview data on implementation is also early enough to usefully evaluate results (end of 2021).

3.1. The Ongoing Experience in the Italian RDPs 2014–2022

The context analysis of the 21 RDPs between 2014–2022 gives an overview of an Italian agricultural and forestry sector characterized by a number of structural weaknesses (high start-up costs, small farm size, limited access to land, fragmentation of the supply chains, high percentage of elderly people among the population, low degree of innovation, etc.), which, in addition to the difficulties in accessing credit, have an impact on the development of agricultural enterprises and rural areas, thus limiting their investments. In other words, we could say that an exceptionally large share of the agriculture sector in Italy, including agri-food, is made up of SMEs with a high degree of fragmentation, inefficiency in the supply chain, low level of education of agricultural workers, and low

propensity to innovate. Furthermore, most farms are sole proprietorship, often lacking formal documentation proving their profitability and financial situation (Figure 1).

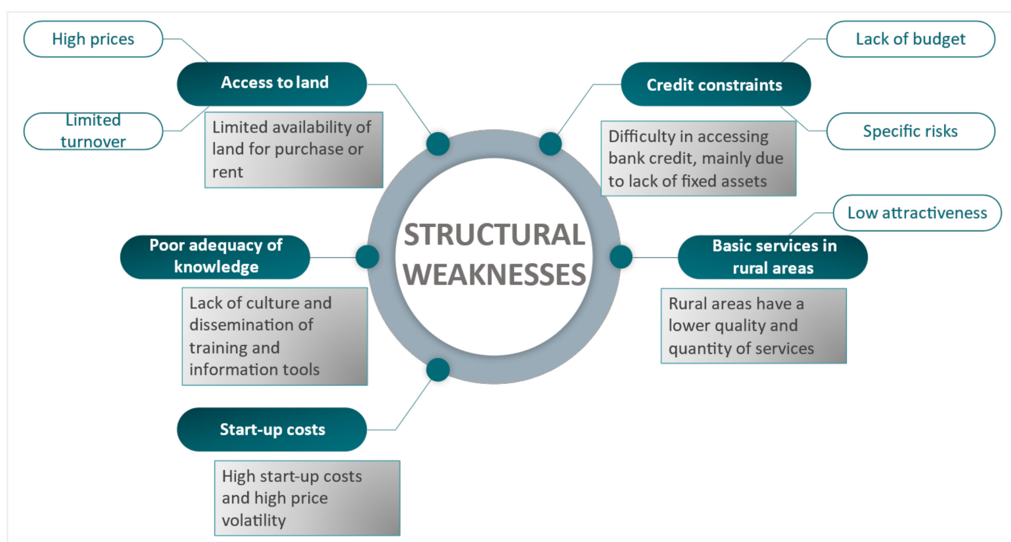

Figure 1. Main structural problems of the agriculture and agri-food sectors in Italy in the period 2014–2022 (author: our elaboration).

In this regard, the national ex-ante assessment [17] highlighted the significant credit constraints affecting support for agriculture and agri-food enterprises.

Regional SWOT analyses [31] show that limited access to credit is a recurrent weakness that has led to the identification of specific needs. In order to address these needs, 16 RDPs have provided for the implementation of FIs for the EAFRD, which would replace the traditional grants, to improve access to credit for agricultural and forestry enterprises, especially those run by young farmers. Ex-ante assessments in the different regions emphasized the need to ease the credit conditions offered to farmers, as well as to improve or create financial instruments to support farms and enhance the competitiveness of rural SMEs. However, the initial plans did not always lead to an ex-ante assessment.

To date, based on the information provided by the MAs, FIs are active in 10 regional RDPs, while all regions had planned to use FIs as a complement to other forms of support. Some of these regions have the highest financial gaps in Italy.

The two autonomous provinces (Bolzano and Trento) and the regions Valle d'Aosta, Molise, and Liguria have not planned to activate them for the 2014–2022 period.

The state of the programming, in addition to revealing the experimental nature of the forms of support with FIs, reflects the limited experience of the Italian regions, which, despite having an ex-ante assessment report for the design of the instrument and a financial commitment, have not always proceeded with implementation.

As is the case in other MSs [32], most of the resources allocated to FIs are intended, firstly, to support investments to improve the competitiveness and economic performance of agricultural enterprises and, secondly, to promote processing and supply chain integration (priorities 2 and 3 [15]). Therefore, the sub-measures for which support is also provided through FIs are the following:

- Sub-measure 4.1: Support for investments in agricultural holdings;
- Sub-measure 4.2: Support for investments in processing, marketing, and development of agricultural products;
- Sub-measure 6.4: Investment in the creation and development of non-agricultural activities.

For sub-measures 4.1 and 4.2, the type of support offered in the RDPs is shown in Figures 2 and 3.

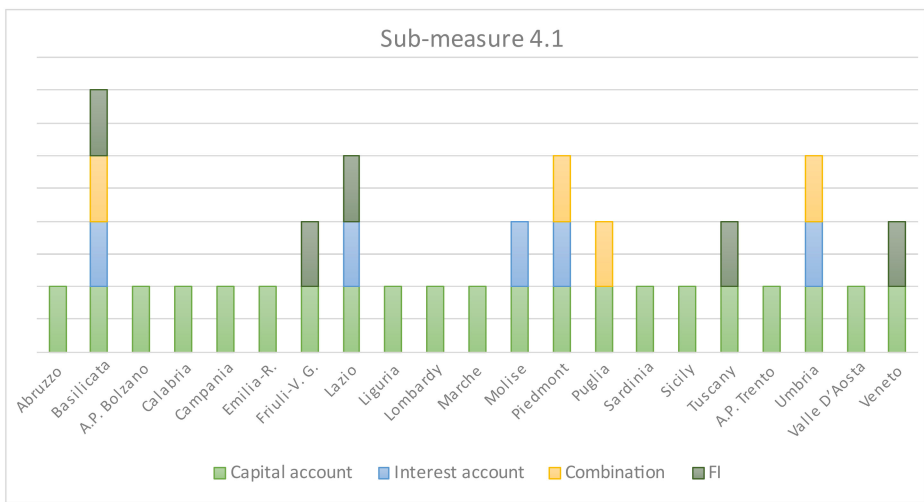

Figure 2. Type of support provided by Italian RDPs 2014–2022 for sub-measure 4.1 (author: our elaboration).

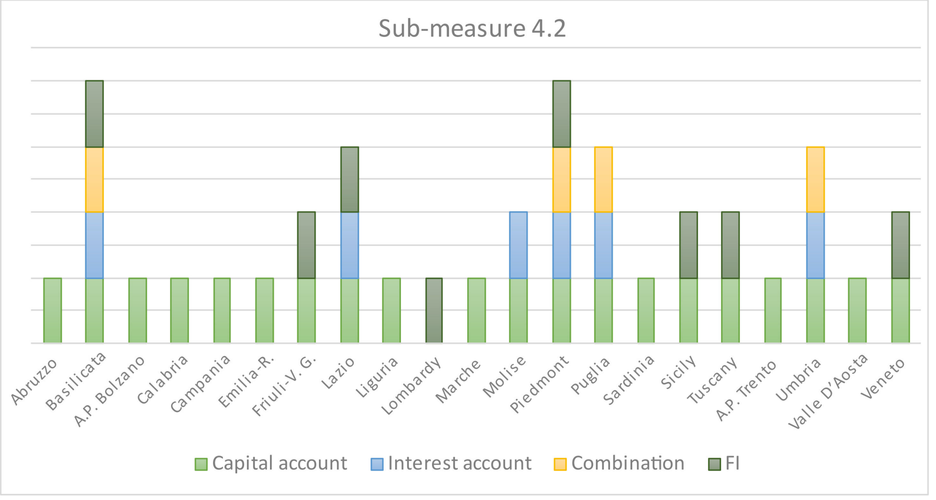

Figure 3. Type of support offered by Italian RDPs 2014–2022 for sub-measure 4.2 (author: our elaboration).

Although it has been specified, in several regions this support can also be accessed through FIs; in five cases for sub-measure 4.1 and eight for sub-measure 4.2, non-repayable grants are still the predominant type of support. A particularly interesting case is that of the RDP of the Lombardy region, which provides support for sub-measure 4.2 exclusively through FIs.

Considering EU resources and national co-financing, the value of FIs within the Italian RDPs amounts to about EUR 122.3 million, 71.4% of which were planned in the more developed regions (EUR 87.3 million) (Table 3).

Overall, this represents 0.8% of the total regions that have planned—a figure that suggests caution on the part of the MAs, despite the potential advantages of FIs (in particular, revolving factor and leverage effect). Public resources will, in fact, produce a significant leverage—variable and estimated in the order of 4.5%—on the private resources made available by the financial intermediaries, also giving rise to an increase in the number of beneficiaries and projects eligible for funding in the RDPs. As highlighted in the fi-compass report [33], the leverage of public resources is calculated as the total amount of funding to final beneficiaries, divided by the total public resources allocated to the financial instrument (it does not include the re-use of resources returned to the instrument).

Table 3. Financial instruments in the 2014–2022 (authors' own elaborations on regional data as at 31 December 2021).

Regions	Total Resources of the Program (a)	Total Resources Allocated to FIS (b)	% of FIs on Total Resources (b/a)	Measures		Fund Type		
				Implemented with FIs	Planned but not Implemented with FIs	AGRI Italy Platform *	Guarantees	Loans
Calabria	1,452,496,822	10,000,000	0.69	4.1–4.2		l		
Campania	2,373,937,508	10,000,000	0.42	4.1–4.2		l		
Emilia-R.	1,583,136,389	6,000,000	0.38	4.1–4.2		l		
Friuli V.G.	398,600,812	16,100,000	4.04	4.1–4.2				l
Lombardy	1,543,418,831	35,351,800	2.29	4.2				l
Piedmont	1,457,802,805	5,000,000	0.34	4.1–4.2		l		
Apulia	2,067,465,245	10,000,000	0.48	4.1–4.2	6.4	l	¡	
Tuscany	1,291,647,585	9,845,500	0.76	4.1–4.2		l		
Umbria	1,195.326,465	5,000,000	0.42	4.1–4.2	6.1–6.4	l	¡	¡
Veneto	1,561,242,135	15,000,000	0.96	4.1–4.2		l		¡
Total	14,925,074,594.91	122,297,300	0.82	–				

Notes: (*) Uncapped guarantee for which the supported loan can be equal to 100% of the investment value; (¡) planned in ex ante but not implemented.

The financial allocation (Table 3) to the instruments varies, not based on the resources of the individual programme but according to the specific strategic and programming choices adopted and, to a certain extent, to the level of experience in the operation of FIs, which is not equally distributed among the Italian regions. Furthermore, it should be noted that the resources feeding the FIs derive from the intervention measures that have provided for exclusive and/or combined support to the FIs and that the RDPs currently being implemented may be subject to revision, both in terms of strategic choices and financial allocations.

The regions that have planned the largest number of resources for FIs in absolute terms are Lombardy with EUR 35.4 million and Friuli Venezia Giulia with EUR 16.1 million. However, in percentage terms, the region that has allocated the most resources to FIs is Friuli Venezia Giulia (4%) [22], which can be attributed to the existence of a regional revolving fund for interventions in the agricultural sector and to previous and consolidated experience in the sector. The national average is close to EUR 12.2 million and the regions that made the smallest financial commitments were Piedmont and Emilia Romagna, with EUR 5 and 6 million, respectively, which may indicate that this was a pilot experience for these two MAs.

The technical form of the instruments activated shows a preference for mixed options in three regions (Apulia, Umbria, and Veneto [22]), that is, a combination of financial products, often innovative for the agricultural sector, such as to guarantee a certain flexibility, with respect to the needs of the final borrowers, and a quick response to changes in the phases of the economic cycle. The decision to focus on providing guarantees, on the other hand, addresses the clear need to tackle the phenomena of bank loans rationing and/or the increasingly demanding disbursement criteria, by calling in intermediaries, other than banks, that could support greater demands from farmers [29]. A Centre For Strategy and Evaluation Services evaluation study [34] suggests that the complexity of the model selected depends on issues, such as the market structure in the MS/region, identified funding gaps, and the type of MS/region. Some fund structures are found to be more complex to set up than others.

The AGRI Italy Platform (AIP) is managed by the EIF and is currently set up in cooperation with the Italian Regions of Calabria, Campania, Emilia-Romagna, Piedmont, Apulia, Tuscany, Veneto and Umbria.

The AIP refers to sub-measures 4.1 and 4.2 because the policy objectives and the related terms and conditions of these two measures define the eligibility criteria of the final beneficiaries of loans eligible for the guarantee.

Total contributions to the AIP amount to EUR 202.8 million, of which EUR 70.8 million comes from the regions and EUR 132 million are committed by the EIF to cover senior risk. In practice, the participating regions contribute their share of resources made available under the RDPs to guarantee 50% of the first tranche of losses on new bank loan portfolios at the regional level. The guarantees covering 50% of the most senior tranche are provided by European Investment Bank (EIB), Cassa Depositi e Prestiti, and the ISMEA. The residual risk is covered by seven financial intermediaries: Banca di Cambiano, Banca Popolare di Puglia e Basilicata, Banco Popolare Pugliese, Credem, Creval, Iccrea Banca Impresa and Monte dei Paschi di Siena. These financial intermediaries, selected by the EIF, offer better interest rates and/or guarantee requirements.

By covering potential defaults at 50% on each loan, the AIP contributes to reducing the financial gap of EUR 200 million for the regions, as identified in the national ex-ante assessment [17] for the potential use of FIs under EAFRD.

The maximum loan guaranteed by the AGRI Platform varies from region to region and has to be repaid over a period of between 2 and 12 years with a zero-interest rate for the risk-share. The advantages for final beneficiaries derive from the lower costs of bank financing, both in terms of interest rates and lower collateral requirements [33].

The actual impact, however, will only be visible once the AIP becomes fully operational at a territorial level, which will depend on the capabilities of the regions involved.

As of December 2021, 40 loans to final beneficiaries amounting to a total of EUR 34.4 million have been disbursed (Table 4).

Table 4. Progress AGRI Italy Platform (authors' own elaborations on regional data at 31 December 2021).

	Total Number of Signed Operational Agreements	**Total Amount Committed to Financial Intermediaries**	**Total Number of Final Recipients having Received Financing during the Whole Programme Period (Accumulated)**	**Total Number of Employees at Time of Inclusion**
Calabria	3	2,375,000	6	117
Campania	3	5,950,000	2	48
Emilia-R.	NA	NA	NA	NA
Piedmont	5	2,225,000	3	63
Apulia	5	6,725,000	16	169
Tuscany	5	5,675,000	10	66
Umbria	3	1,375,000	–	–
Veneto	4	10,050,000	3	138
Total	28	34,375,000	40	601

NA: not available.

4. The Case Study

4.1. The Revolving Fund of Friuli Venezia Giulia

The history of the Friuli Venezia Giulia Agricultural Revolving Fund began in the 1980s after the 1976 earthquake that devastated the region. The Revolving Fund for Interventions in the Agricultural Sector was established by the Autonomous Region of Friuli Venezia Giulia by Regional Law No. 80 of November 20, 1982, following a state regulation (Law No. 546 of 1977) that provided for supporting and promoting reconstruction and social economic development with a view to safeguarding the cultural heritage of the populations (Art. 1). The fund's operations concretely began at the end of 1985. In 2016, it was included as an FI within the 2014–2022 finances, thus finding a new role to support regional farms. During this period, the fund has always managed to achieve the objectives for which it was created, albeit not without difficulties, both in terms of resources from the regional budget

and the number of banking institutions involved. The main characteristics of the revolving fund are [18]:

- It is a financial instrument for granting subsidized financing (loans and mortgages) through contracted banks;
- It is established by special legislative norms;
- It restores the financial endowment through the repayment of loan installments;
- It ensures continuity in credit flows.

There are two key elements to understanding the fund operating until 2016, which relate to its nature and management methods. The first relates to its framework, because the fund was an off-budget management. This means that the acquisition of revenues and the making of expenditures by the government take place outside the budget and are, therefore, not subject to the normal (and often rigid) legal administrative procedures for their execution. The regulations consist of Law No. 1041 of 1971 and the regulations approved by Presidential Decree No. 689 of 1977, which provide for mandatory reporting and control by the competent Accounting Office and the Court of Auditors. Any off-budget management must be authorized by a specific legislative norm, which, in this case, is Regional Law No. 80/1982. In Friuli Venezia Giulia, off-budget management has continued to grow in recent years, or at least the number of regulations establishing this type have increased, since not all of them are operational. The second aspect to consider is that of rotation: this is a financing modality that makes it possible to use available financial resources on a permanent basis over time: as the beneficiaries pay off the instalments of the loans they have received, the repaid portion of the main amount flows into the fund and can be reused to finance new intervention programs. The fund's ability to replenish the main disbursed amount and the resulting guarantee of continuity of credit flows have certainly become increasingly important over time, in response to the growing difficulty of institutions in raising financial resources.

The revolving instrument, which is also used in other Italian regions (see Section 3.1), is seen by businesses as a quick and effective opportunity to access credit, as the case study shows.

The fund is an alternative instrument to both the conventional capital contribution, which has historically been used to support the agricultural sector, and the interest subsidy, which consists of providing a discount on the cost of a normal bank loan. Facilitation is achieved through the disbursement, by affiliated banks, of directly subsidized loans that use, in whole or in part, the funding derived from the fund's financial resources. The cost to enterprises is convenient as no precautionary measures are applied to protect the entire amount of financing. It is important to note that with the fund, compared with the mechanism of the interest subsidy, and thus the commitment and expenditure roles, the budget is preserved for several years.

In the case of the Friuli Venezia Giulia, to manage the revolving fund a drastic simplification of the administrative regional offices responsible for the mechanisms regarding the investigation and granting of funding was required; it initially incorporated the standard methodologies of the institution formulated and implemented according to other requirements. In this sense, it is relevant to point out that in the face of this major simplification, the methodology of expenditure control and reporting remained almost unchanged. Regarding the banking system, the fund has sought an operational and goal harmony with it. Before 2016 (1985–2015) when the revolving fund was not yet included as FI into the RDP, the system was made up of more than ten banking institutions—of which there are now four—characterized by strong roots with the territory. Following Thakor [35] it is possible to state that the regional banks are 'talented'. Another study by Berger [36] analyzes significant difficulties in accessing funding by small businesses that are creditworthy (lack of credible information and lack of certified audited financial statements). Both highlighted that the main obstacles that a farmer might encounter in applying for mortgages or loans are in a sense overcome, since they are guaranteed by a solid and reliable system.

If the goal of the fund is to provide financing that is comparable to those of ordinary credit products, the network of actors involved is crucial. It includes the agricultural enterprises that benefit from the fund's resources and the two institutions that guide the process, namely the banking system and the autonomous region of Friuli Venezia Giulia. The relationship between the region and the banks is based on a system that applies an overall simple formula: it is marked by the sharing of initiatives through the involvement of credit operators from the construction phase of the new types of financing (Figure 4). The current procedure is made by five steps, which are essentially the same as those adopted in the 1980s: first, the farm submits the application both to the region and the bank, then the region starts the assessment and sends formal approval (if this is the case) to the bank together with the regional funding. The third step is made by the farm, which sends all the information and data to the bank that is required to allow creditworthiness. Then, the bank with a formal resolution grants the financing while the region concludes the procedure by providing the bank with the regional share.

Figure 4. The actors involved and the steps to obtain funding from the Friuli Venezia Giulia revolving fund—from the beginning until today (author: our elaboration).

4.2. The Recent Evolution of the Revolving Fund: A New Option as Financial Instrument for Rural Development

The 1982 law has undergone several amendments and additions; however, it maintained its basic structure, which remains until today, with the Resolutions of the Regional Council 442/2014 and 1511/2014 that revised the method of setting subsidized rates in accordance with the communications of the European Commission [30,37–39] to lastly become the financial instrument within the RDP in 2016, Law No. 24, 2016. In fact, in accordance with the ex-ante evaluation of the regional RDP, it was selected by the RDP MA as the main reference for the financial instrument to be implemented under the EAFRD [38,39]. The revolving fund can be accessed by enterprises in the agricultural and fishing sectors through the partner banks. They provide medium to long term financing (loans) at subsidized rates. A majority share of the loan comes from the revolving fund, which grants its financing at subsidized rates and, in the case of investments for primary production and product processing at zero interest. The remaining share, usually 50 percent, comes from the banking institutions themselves, according to specific agreements with an interest rate equal to Euribor plus a spread, however, not exceeding 4.8. The loans granted are then repaid through constant installments including principal and interest. The installments are scheduled on a six-monthly basis, but the pre-amortization installments include only the interest portion. The revolving fund thus succeeds in significantly lowering the interest cost while providing additional financing to generate a leverage effect that optimizes the investment opportunity. Financing is granted based on appraisals that are the sole responsibility of the bank, a party that also guarantees the returns of both its own share of the financing and that provided with capital from the fund. In this way, the fund is not subject to exposure, thus guaranteeing even in the event of default. The early repayment of loans is also allowed, subject to compliance with the constraints established in the financing agreements that regulate the criteria and methods for facilitating the various investments. The agreement signed with the banks thus allows the fund to be a flexible instrument

in terms of duration, costs, guarantees, and timing of loan disbursement. Another feature of the revolving fund is in fact its rapidity of disbursement: in this way, the farm can avoid resorting to onerous forms of pre-financing that are very often necessary if the wait for the disbursement of the contribution (whether capital or interest) or financing is exceedingly long.

In summary, the three main benefits of facilitated financing for agriculture are related to "Support" as financing is provided with the fund's 50% capital contribution at zero interest. In some cases, the fund's share can be as high as 100%. It is also "Cumulative" as financing obtained through the fund, in the cases provided for by the regulations, can be combined with other types of financing and with any national or European public grants. Finally, it is characterized by "Flexibility" as the financing of the regional share has a maximum duration of 15 years, while there are no set time limits for the bank share. You can pay off the financing early in its entirety without penalty.

The main interventions that are supported by the fund include:

- Investments in agricultural production;
- Investments in the processing and marketing of agricultural and fishery products;
- The strengthening of the financial structure.

However, not all the activities financed by the revolving fund fall within the aims of the RDP. Considering the parameters included in the Regulation for Rural Development and the areas of operation of the regional fund, the support through the EAFRD has been identified on the following sub-measures:

- Sub-measure 4.1.4: Improving the profitability and the competitiveness of farms;
- Sub-measure 4.2.3: Investments in the processing, marketing, and development of agricultural products.

The total amount in the first year of this new route: EUR 93 million, 82.7% comes from regional resources, and 17.3% comes from the RDP resources [40]. Loans are granted to the final beneficiaries through four local financial intermediaries/banks. Loans of up to EUR 3 million can cover 100% of eligible investments and have a zero-interest rate for the contribution of the EAFRD loan fund. A financial intermediary may add up to 50% to each loan, at a market interest rate, and assume the risk for each operation, including those from EAFRD resources.

The types of investment supported by the fund are the following:

- Construction, acquisition, or improvement of real estate;
- Purchase of new machinery and equipment and structural investments, such as irrigation investments;
- Purchase of computer programs and patents, licenses, copyrights, and trademarks;
- Investments to prevent damage caused by natural disasters;
- Financing of financial advances related to the trade of products that require aging or seasoning;
- Financial consolidation;
- Investments to protect and conserve biodiversity of species and habitats.

5. Results and Discussion

The main opportunities and limitations of the Friuli Venezia Giulia Revolving Fund (EAFRD) are shown in Table 5.

This new framework had immediate and great feedback; the demand for funding was significant so that the EAFRD resources were all allocated during 2018 (the first year of activity). At the end of 2021, considering the whole period from 2017, 626 farms were supported by over EUR 126 million of subsidized loans (Figure 5).

Table 5. EAFRD loan fund for agriculture in the Friuli Venezia Giulia Region: opportunities and limitation (authors' own elaborations).

Opportunities	Limitations
• Loans are granted to the final beneficiaries through four local banks. • Financing is provided with the fund's 50% capital contribution at zero interest. • Loans of up to EUR 3 million can cover 100% of eligible investments; a zero-interest rate for the contribution of the EAFRD loan fund. • The region directly manages/co-ordinates the whole process (any operation is outsourced). • IT systems of the various partner banks and the regional administration are harmonized. • Time (short time to receive funds—10 days), leverage and revolving effects are the three top issues.	• The number of financial institutions involved have decreased. • Only two sub-measures of the RDP are supported (4.1.4 and 4.2.3). • Young farmers located in the mountain areas, forestry farms and agro-industrial supply chains need more attention (low adhesion/application rate). • The advancement of operating expenses is still the most important share of fundings. • Funds availability and additional resources from EAFRD are required to address the needs. • Multi-fund opportunities not yet developed.

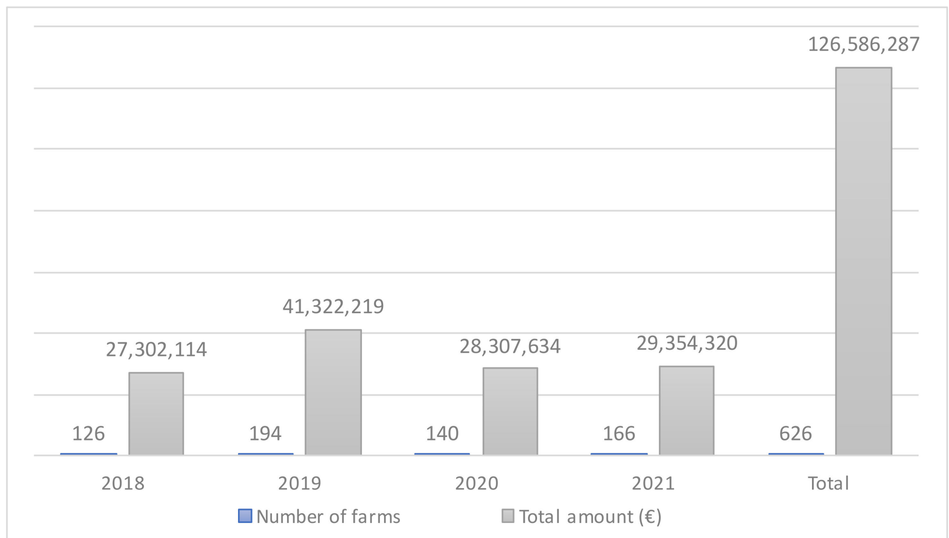

Figure 5. Number of beneficiaries and total financing of Friuli Venezia Giulia Revolving Fund (EAFRD 2018–2021) (Source: own processing on Friuli Venezia Giulia region data).

EAFRD resources are crucial and they represent a novelty, a successful experiment; however, the instrument works thanks to regional and national resources, which represents the largest share of the total (in 2021, the total amount was more than 99 million); considering the whole period, since 2017, the total resources accounted for farms is more than 402 million. Figure 6 shows the amounts by type of fund over the last five years. The type of funding that proves to account for most of the resource in 2021 is the advancement of operating expenses under the temporary state aid framework (35.15%), an option that was not present in the first three years (2017–2019) and which sees an increase of more than 55%, compared to 2020. This is followed by production investment (EAFRD 23.84%, region 9.19%). The consolidation related to processing and marketing is 6.90% [41]. In 2021, about 2% is allocated to agro-industrial supply chains [42], whereas in previous years there were no funds allocated to this regard. The same applies to young farmers located in the mountain areas, which in 2021 are funded with 3.89% of the resources, while in previous years they did not appear to be supported by the revolving fund. Forestry companies, on the other hand, see a reduction in the total amount, due to the poor response received over the years.

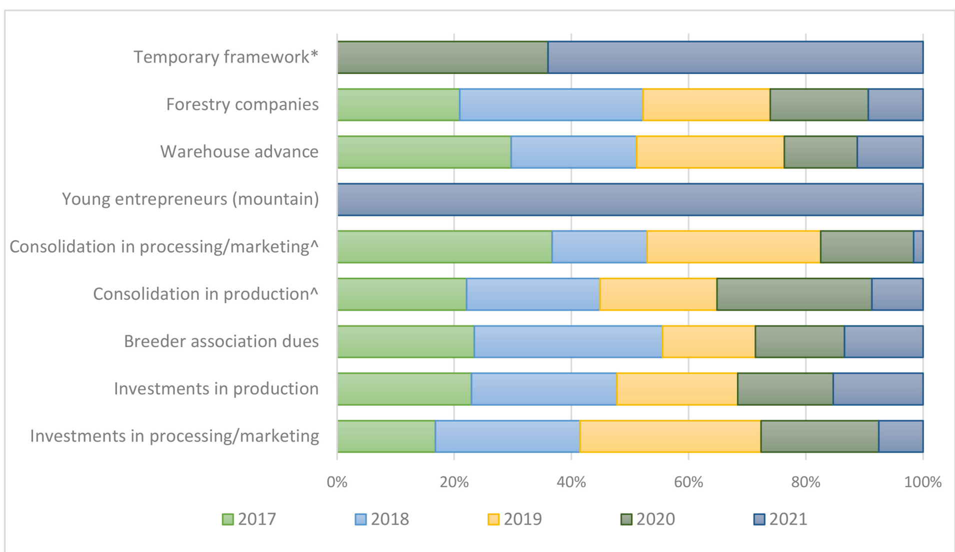

Figure 6. Friuli Venezia Giulia Revolving Fund: overall evolution of the total amount by type of funding (2017–2021 both EAFRD and regional/national funds; values in %) (Source: own processing on Friuli Venezia Giulia region data). Notes: * [41]; ^ [42].

The main characteristic of the rural economy in UE is the presence of SMEs, with a high share of self-employment. These rural SMEs represent an enormous potential for financial instruments. In addition, they can play a crucial role in the recovery from COVID-19 and could have an impact for job creation/opportunities. Therefore, access to financial resources for rural SMEs is considered a crucial element for the development of rural areas.

It is important to emphasize that the implementation of the facility from the administrative point of view is the most relevant and concrete critical issue. In fact, for each type of management, in addition to a specific establishing rule, there is the need to design an ad hoc system that is functional and compatible with the mechanisms of expenditure and control by the managing entity. This design, in addition to being organized from an information technology (IT) point of view, includes the definition of tasks, functions, and responsibilities of management officials, thereby assisting with the task, in many cases, of establishing from scratch and conventionally treating the relationships as external entities, which are primarily banking institutions. It is, therefore, probably a matter of grafting on a new procedure that, although based on a tested system, shows peculiar operating mechanisms, which are also from the point of view of timing.

Regarding the organizational aspect outside the administration, the fund has sought operational and goal harmony with the banking system, starting from the method applied to the content of the relationship. Furthermore, the effort made to standardize the IT systems of the various partner banks and the regional administration as much as possible proved to be decisive. This issue in the early years had in fact played a decisive role in hindering the fund's operations. The process triggered by the fund began to have a positive impact when it was able to grant financing within one week/ten days. Since that time, there has been a sharp increase in applications from businesses. The implication at the end of this process is that, even in the field of subsidized credit, the degree of user satisfaction determines the intensity of the use of an instrument.

The complexity of the interventions financed by the fund highlights how essential a good overall management capacity of the instrument is: from the bank counter to the regional office, especially regarding the impact that a flow of hundreds, or even thousands, of financing requests can exert on the team in charge. The fund, seen as the regional bank system, has been able to experience this condition in recent years, even after its inclusion as a financial instrument within the RDP while keeping the timing of the spending almost unchanged in the face of an ever-increasing growth in funding granted over time. Business perception is then positive, the aim for the future is to guarantee continuity with regional

funds to face new programming with additional projects, broadening the perspective with a new section for the ERDF (in 2023) and additional resources for EAFRD, searching for more possibilities of multi-fund opportunities. The advantage of this fund lies in the relationship between banking system institutions. Currently, the economic period that we are experiencing is characterized by numerous and continuous concentrations of banks; moreover, the standard of working arrangements is based on the ordinary, and any extraordinary efforts (such as managing the FIs) are judged to be impractical at the outset. As far as the agricultural sector is concerned, the divestment of specialized facilities by all banking institutions is registered because it requires specific expertise in the field (that has been progressively lost). Although the credit market would have a willingness to fill in agriculture and agribusiness, interest is low because those activities do not provide the required feedback and are considered unprofitable.

Friuli Venezia Giulia revolving fund is operational because of its history and because the regional administration is directly involved, while in most cases this role is taken by financial agencies. With respect to the research question, we could say that to achieve similar results, it would be necessary to find a common purpose between the regional administration, the banking institutions, and the farms that are willing to grasp the newness.

The main evidence from the CREA-PB survey [29] and the regional case study [18,39–41] could be summarized as follows, also contributing to the discussion of some papers [5–10,43]:

- Time: FIs take time to be created and implemented. Current practice shows that it takes 6 months to 2–3 years for an EAFRD instrument to become operational [11,32];
- Dialogue: dialogue and information exchange between public and private sector actors on the objectives of FIs is necessary to increase visibility, encourage understanding, and improve the knowledge of EU requirements;
- Complexity: compared to grants, FIs take a long time to set up and are complex to implement, which is aggravated when the regulatory environment is complex and the instruments are new to the actors concerned [3,15];
- Know-how: The lack of knowledge and experience of MAs in the field of FIs, on the one hand, and the difficulty of understanding FI regulations, on the other, have led to delays and misinterpretations. This is strongly interlinked with the other main disadvantages highlighted by the MAs [29], i.e., on the one hand, the complexity of the regulations and, on the other hand, the long and complex processes that are required for setting up financial engineering instruments [43];
- Approach: investments financed through FIs require a different approach from the one adopted by the MAs, which represents a significant necessary cultural change (this underlines the need to provide clear and timely guidance);
- Access: The main reason for offering FIs is the need of SMEs to access finance. This is particularly true in the post-COVID-19 context and in the risk aversion of private actors in supporting SMEs and, in particular, start-ups in the agricultural sector;
- Leverage and revolving effects: leverage and revolving effects are the main arguments for increasing public money, but the effects are not yet visible in most cases.

During the 2014–2022 programming period, the Italian MAs have created several FIs, using the experience gained in previous programming periods and also considering the best practices, such as that of Friuli Venezia Giulia. In fact, some FIs have just begun the implementation phase. As the funds have been adapted to the specific situations [31], each region has different priorities, budgets, and implementation structures while remaining within the regulatory framework [3,15,41,42]. There is no ideal model, but the issues discussed in this paper aim at contributing to a better knowledge and implementation of FIs in the future [34].

6. Conclusions

The FIs are part of the rural development policy in the programming period between 2000–2006 and between 2007–2013; they have been expanded to support farmers and SMEs in finding private funding to support EAFRD investment projects.

Although the results recorded in the past did not display an impressive performance in this regard, to address the problems of access to credit and the growing financial gap in the agricultural sector, the EC [44] is encouraging MSs to introduce FIs that can provide both loans and guarantees for rural development needs [7]. In this respect, some procedural aspects concerning the eligibility of expenditure and the compatibility between non-repayable grants and FIs have been simplified in the 2014–2022 programming period [45].

The recent experience of the AIP, a new generation of multiregional FIs, designed to optimize the use of EAFRD and to facilitate access to credit for SMEs in the agricultural and agrifood industries, should be interpreted in this light. Due to delays with COVID-19, the impact at the territorial level, however, will only be visible at the end of the programming period in 2022, which will depend on the capabilities of the regions involved. This is also in view of the CAP 2023–2027, which faces greater flexibility in the use of FIs for interventions, such as the purchase of agricultural land and helping young farmers start their businesses.

The regulatory texts on FIs for the period 2023–2027 [46,47] show that the EU, in the new regulations, has tried to address many of the challenges that have emerged in this programming period. These include several changes that directly address the issues raised by the MAs.

Some of these identifications concern:

- The possibility of using existing or updated ex-ante evaluation;
- Reduction in the number of rules to facilitate implementation, as well as faster set-up (e.g., fewer eligibility restrictions and no limits on land purchase by young farmers);
- New possibilities for combining grants and FIs into a single operation;
- The MA can develop, within a single FI, several products for different final recipients (e.g., an agricultural loan fund and a non-agricultural start-up guarantee fund);
- Simplified monitoring and reporting.

FIs have to be programmed under the EAFRD types of intervention even if they only provide support for working capital. From the eight broad EAFRD types of intervention, the following have been identified in the legal framework as potentially relevant: investments (including investments in irrigation), setting up of young farmers and rural business start-ups, cooperation, risk management, knowledge exchange, and information.

In Italy, the regions that have shown their intention to activate financial instruments in the new programming period are the following: Abruzzo, Campania, Emilia-Romagna, Friuli Venezia Giulia, Lombardy, Apulia, Sicily, and Tuscany.

The privileged interventions for support both in the case of grants (capital) and through financial instruments are related to the following issues: (a) productive investments in agricultural holdings; (b) productive investments for environmental purposes in agricultural holdings; (c) investments in the processing, marketing, and development of agricultural products; (d) the setting-up of young farmers.

To prevent direct subsidies from competing with the financial instruments implemented, paths may be explored to encourage the combined use of financial instruments (guarantees, credit, etc.) with traditional aid in the form of direct non-repayable subsidies while also encouraging contributions in the form of working capital.

At the core of the regional strategies is the re-financing of the types of instruments that have so far proven to be more efficient and able to activate public and private financial resources. This can also take place through both national and regional resources.

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Abbreviations

AIP	AGRI Italy Platform
CAP	Common Agricultural Policy
CPR	Common Provisions Regulation
EAFRD	European Agricultural Fund for Rural Development
EIB	European Investment Bank
EIF	European Investment Fund
EC	European Commission
ECA	European Court of Auditors
ESIF	European Structural and Investment Funds
EU	European Union
FI	Financial Instrument
IT	Information Technology
MA	Managing Authority
MAC	Material Adverse Change
MS	Member State
RD	Rural Development
R&D	Research and Development
RDP	Rural Development Programme
SF	Structural Funds
SME	Small and Medium-sized Enterprises

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