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BG Guarantee Fund

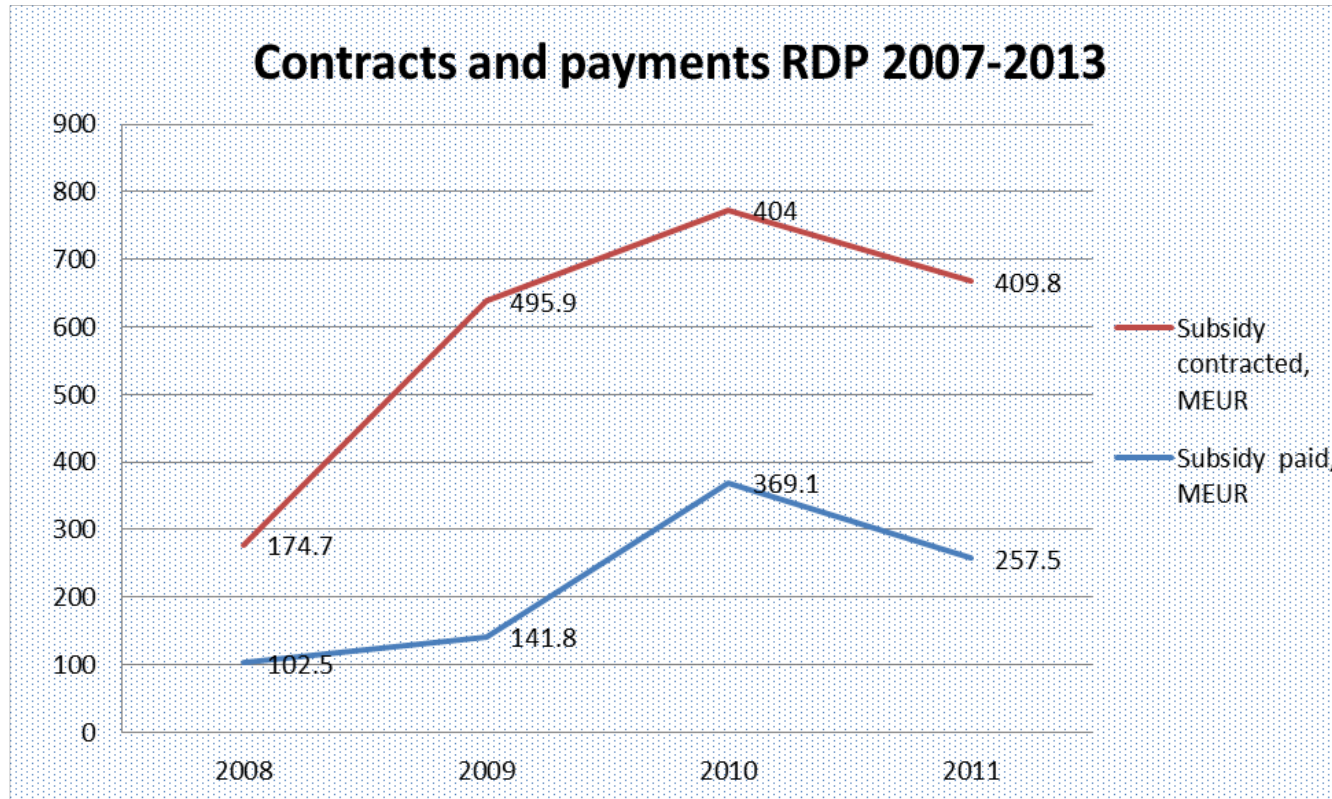
Establishment and Development



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Establishment of Guarantee Fund



N+2 implementation, MEUR		
1	2	3
Target EAFRD 2011	Payments EAFRD 2011	Automatic decommitment
1018,5	979,6	38,9



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Establishment of Guarantee Fund



Implementation of RDP 2007-2013

Axis	Total payments 2008-2011 without GF, MEUR public expenditure	%
Axis 1	324,935	31%
Axis 2	114,081	11%
Axis 3	263,575	25%
Axis 4	5,315	1%
M511	9,085	1%
M611	153,99	15%
Total	870,982	100%



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Establishment of Guarantee Fund



Implementation of RDP 2007-2013 :

At the end of 2011 the utilization of RDP funds under the M 121 and 123 was as follows:

- M121 – 2430 contracts, for 316 MEUR, of which payments amounted to 231 MEUR
- M123 – 242 contracts, for 121 MEUR, of which payments amounted to 34 MEUR
- Signals for slow project execution due to lack of financing



Reasons for establishment of GF



Main issues :

End of 2011 the utilization of RDP funds was decreasing and many projects, especially the small ones were facing difficulties;

- Subsidies are paid after project realization;
- Advance payments must be collateralized;
- Banks consider subsidy payment as "comfort factor" and assets alone are not sufficient unless high self participation in realization is provided.

Bank loans are the main source of financing for small RDP projects but they face:

- High collateral requirements;
- High interest rates and fees;
- Credit history requirements;
- Risk averse policies and deleverage of bank portfolios in times of crisis.



Design of the Guarantee scheme

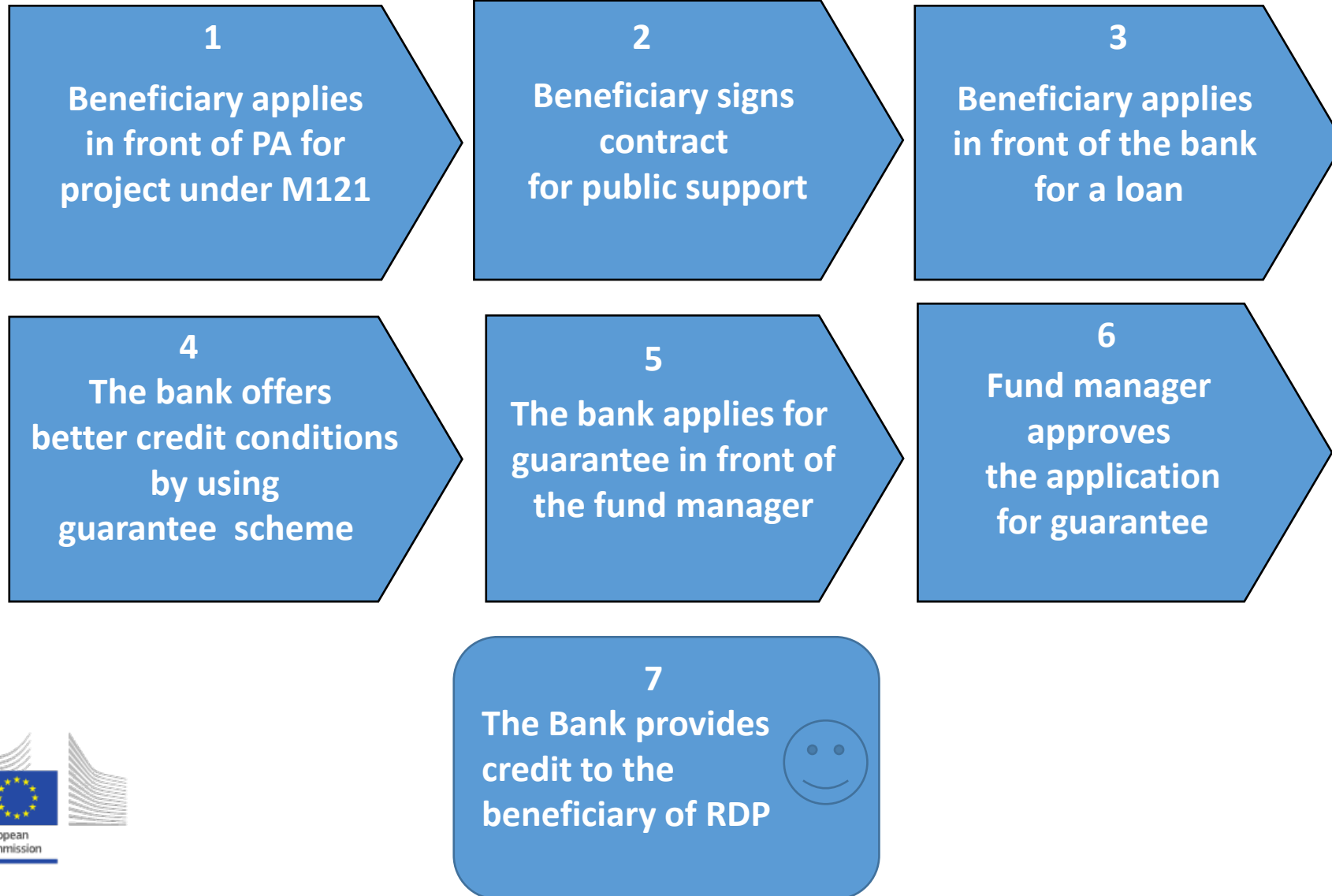


Financial agreement between National Guarantee Fund and Ministry of Agriculture and Food:

- Capital – 121.1 MEUR (96.88 EAFRD, 24.22 national contribution);
- Purpose - support of beneficiaries of the RDP by providing guarantees for their loans;
- Eligible SMEs – beneficiaries under Measures 121, 122 and 123 of the RDP;
- Guarantee percentage - up to 80% from the loan amount,
- Maximum guarantee amount per loan - 1.5 MEUR;
- CAP on the loan portfolio 20% - losses incurred are covered up to 20%
- Intermediaries - banks were selected after a public procurement procedure - 14 banks



How does it work



Establishment of Guarantee Fund



Efficient FI - implemented through the financial system which increases significantly the leverage of the funds needed for its capitalization;

Effective FI - supports only healthy SME's with a sound business projects as much of the risk remains in the financing institutions.

SMEs benefits:

- Access to bank loans in order to realize the project
- No additional collateral required - the assets acquired within the project are enough in the majority of cases
- No fees for the loan and for the guarantee - decrease costs and easy to calculate
- Lower interest rates for the loans



Establishment of Guarantee Fund



Efficient FI - implemented through the financial system which increases significantly the leverage of the funds needed for its capitalization;

Effective FI - supports only healthy SME's with a sound business projects as much of the risk remains in the financing institutions.

BANKS benefits:

- New customers and new volumes
- Capital relief
- First class collateral - guarantee up to 80%
- Cross sale opportunities



Establishment of Guarantee Fund



MANAGING AUTHORITY benefits:

- Support to the beneficiaries (especially for small farms and start ups)
- Efficient utilization of the budget- one EUR guarantee six EUR of loans (project ...)
- Minimal market interference - the scheme is realized through the banking system
- Support only sustainable projects due to the participation of the commercial banks



Results of the Guarantee scheme



- The volume of the guarantees issued until the end of the RDP 2007-2013 is 90 MEUR
- The total volume of the supported loans - 116 MEUR
- Average interest rate of 6.6% and no additional fees
- Beneficiaries - 80% of the supported SME's are companies with up to 5 people
- About 30 % of the payment for M121 and M123 have been supported by Guarantee Fund
- Only one guarantee default



Example



- Beneficiary under M 121 to build a greenhouse and purchase of equipment and machinery (creates 20 ha of plantations of Paulownia)
- Contract project with total approved investment costs – 980 220 EUR
- Subsidy 50% - 416 271 EUR
- Use a bank loan in the amount of **383 469 EUR** for a period of 72 months,
- Annual interest rate on the loan - 3.16%,
- Beneficiary provides collateral as follows:
 - ✓ Guarantee of GF 80% - **306 000 EUR** for a period of 72 months
 - ✓ Deductible / risk sharing: 28.6 percent or 237 600 EUR
 - ✓ Collateral - pledge of assets acquired in the project:
 1. Pledge of machinery in the project - 97 840 EUR
 2. Pledge of subsidy from PA – 208 000 EUR
 3. First mortgage of land and buildings in the project 383 400 EUR
- Total amount of the collateral **995 240 EUR.**



Questions : What % of the collateral is covered by the guarantee?
What is the % of collateral compared to the loan amount ?



Lessons learned



- Guarantee percentage - up to 80% from the loan amount.
- What % of the collateral required is substituted by the guarantee?
- CAP on the loan portfolio 20% - losses incurred are covered up to 20%.
- CAP is crucial for the collateral required.
- The part of the collateral which will be secured by the guarantee is decided through public procurement procedure.
- % of substitution of the collateral by the guarantee should be an important award criteria in the tender.





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