

EAFRD financial instruments for agriculture and rural development in 2014-2020

The role of banks in delivering financial instruments for agriculture: The added value of guarantees for the agricultural sector

*Carlos Oliveira, Managing Director Agrogarante, Portugal
Seminar in Madrid, Spain on 31 May 2016*

Content:

1. Introduction: AECM and its members
2. Guarantee institutions for agriculture:
example of Agrogarante / Portugal

Annexe: Rationale for running a Credit
Guarantee Scheme (CGS)

Content:

- 1. Introduction: AEEM and its members**
 2. Guarantee institutions for agriculture: example of Agrogarante / Portugal
- Annexe: Rationale for running a Credit Guarantee Scheme (CGS)

AECM – The European Association of Guarantee Institutions

Founded in 1992 by 5 members from

- Belgium, France, Germany, Italy & Spain

In 2016

- 42 members in 25 countries (21 = EU)

Total volume of outstanding guarantees (end of 2015)

- approx. 81.6 billion EUR

Number of outstanding guarantees (end of 2015)

- around 3.1 million guarantees

AECM: legal background

- Registered office in Brussels
- International non-profit association (AISBL) = open, democratic, independent association
- Membership: either full or associated
- Bodies:
 - General Assembly
 - Board of Directors
 - Technical Working Groups
 - Secretariat General

AECM's mission



**Representation
of interests of
member
organizations**

(particularly at EU / EIB /
EIF level)



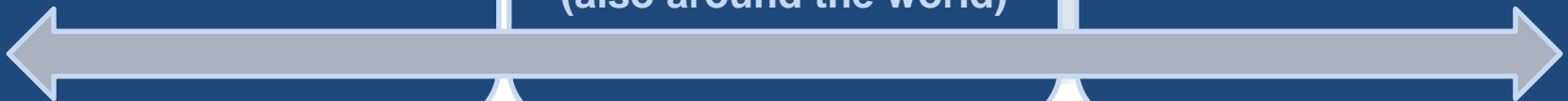
**Platform to
exchange best
practices /
knowledge /
experience
among the
members**

(also around the world)

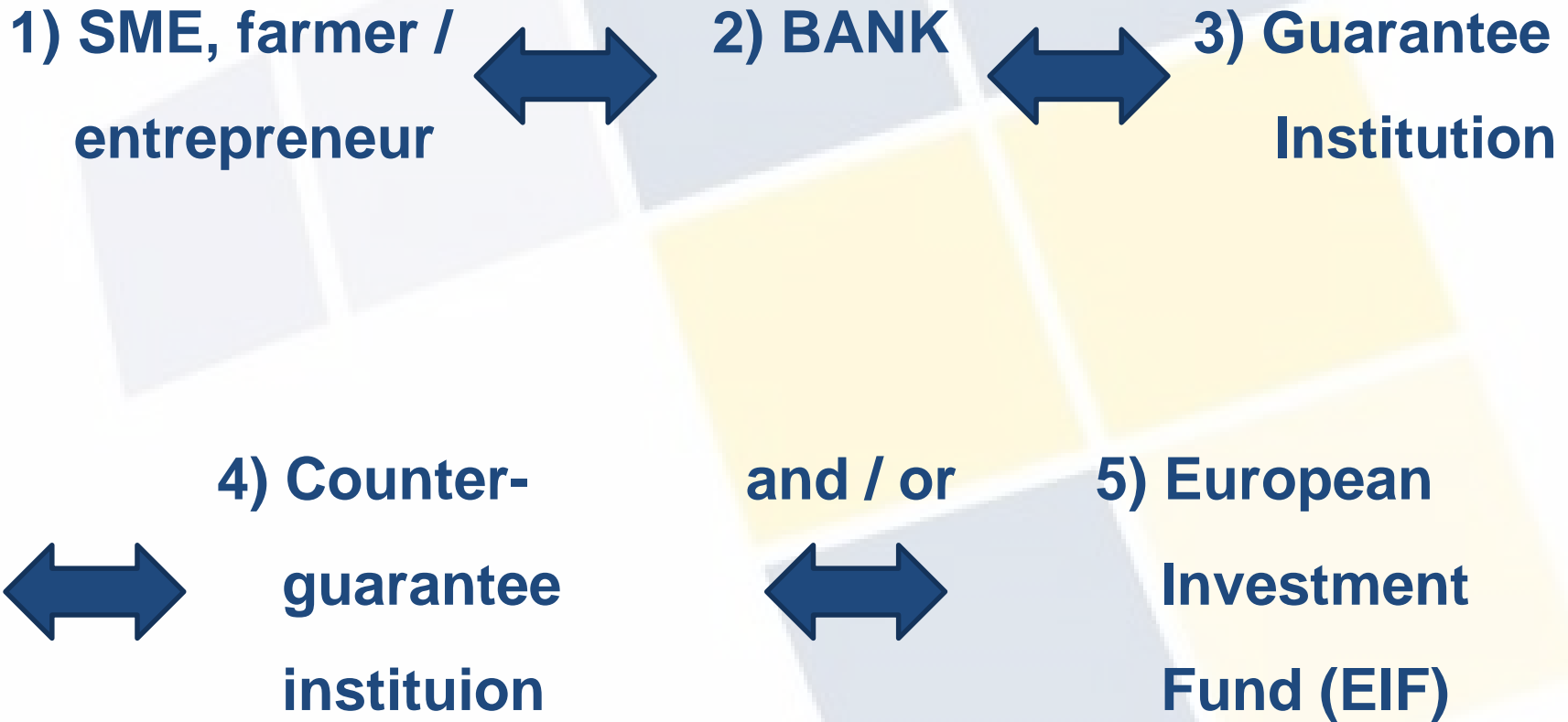


**Promotion of
the guarantee
instrument at all
levels**

(EU / OECD / World Bank
/ FAO / G20...)



Provision of guarantees: who is involved in Europe



AECM's members: types of ownership

- **Fully mutual, i.e. entrepreneurs**
e. g. SOCAMA / France, Confidis / Italy
- **Funded by private bodies who are representing businesses or have a strong interest in SMEs**
e.g. VDB / Germany
- **Fully public**
e.g. aws / Austria, INVEGA / Lithuania, KredEx / Estonia
- **Mixed, i.e. private / mutual and public elements**
e.g. SPGM, SGM / Portugal; SGR, CERSA / Spain;
MCAC / Luxembourg

AECM's members: product types

- Loan default guarantees
- Other guarantee types: for venture capital, mezzanine, leasing, project guarantees, export, public procurement guarantees, import guarantees, student loans, housing, etc.
- Other SME support instruments: subsidized loans, mezzanine finance, venture capital, coaching, mediation services, etc.

AECM's members: their beneficiaries

- SMEs in general (e.g. Romanian Guarantee Fund for Private Entrepreneurs, FRGC)
- Certain group of companies (e.g. MCAC Luxembourg: related to membership of chamber)
- Certain sector(s) (e.g. OINARRI = Spanish guarantee society for the social economy)

AEEM's members working in the agricultural sector (1)

- Bosnia and Herzegovina: Guarantee Fund of the Republik of Srpska
- Bulgaria: National Guarantee Fund, EAD
- Croatia: HAMAG-BICRO
- France: SIAGI
- Germany: Association of German Guarantee Banks, VDB
- Hungary: Rural Credit Guarantee Foundation, AVHGA
- Hungary: Garantiqa Hitelgarancia Zrt.

AECEM's members working in the agricultural sector (2)

- Italy: Assoconfidi
- Italy: Institute of Services for the Agricultural Food Market, ISMEA
- Latvia: ALTUM
- Lithuania: Garfondas – Agricultural Credit Guarantee Fund
- The Netherlands: The Netherlands Enterprise Agency – Rijksdienst voor Ondernemend Nederland
- Portugal: Agrogarante
- Romania: Romanian Rural Credit Guarantee Fund, FGCR

AECM's members working in the agricultural sector (3)

- Romania: National Credit Guarantee Fund for SMEs, FNGCIMM
- Romania: Romanian Counter Guarantee Fund, FRC
- Russia: Fund of Small Enterprise Credit Assistance of Moscow, FSECA
- Serbia: Guarantee Fund of the Autonomous Province of Vojvodina
- Spain: Confederation of Spanish Mutual Guarantee Societies, CESGAR
- Turkey: Credit Guarantee Fund, KGF

AECEM's members working in the agricultural sector (4)

Special situation:

- France: Bpifrance normally does not cover the agricultural sector but in summer 2015 they created the funds “livestock” to address the crisis of breeders, especially of pigfarmers

Total = 20 + 1 member out of 42

Content:

1. Introduction: AECM and its members

2. Guarantee institutions for agriculture: example of Agrogarante / Portugal

Annexe: Rationale for running a Credit Guarantee Scheme (CGS)

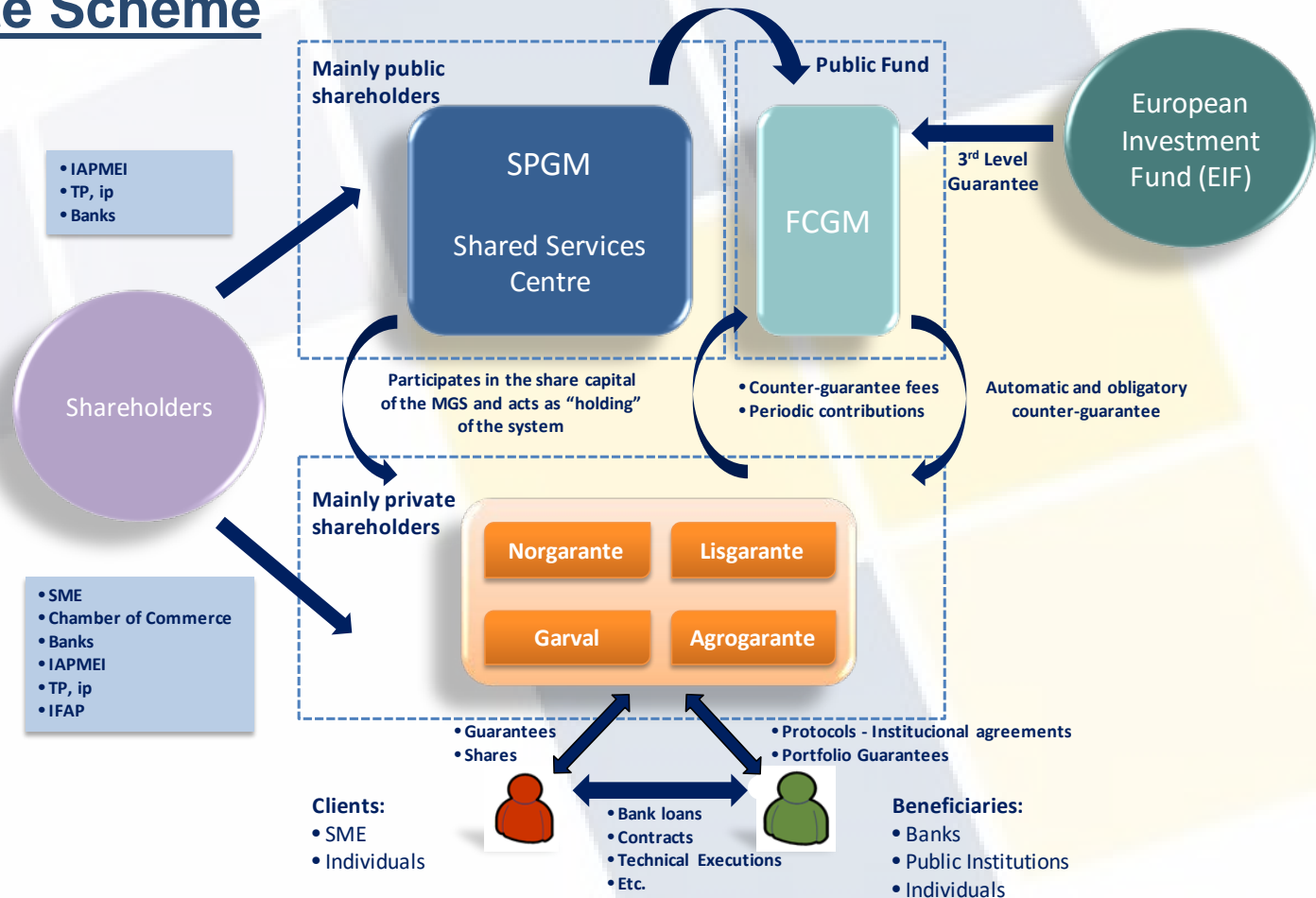
Agrogarante

National Mutualistic Guarantee System

- **Founded in Portugal in 1992;**
- **Mutualistic nature of private support system for SMEs;**
- **Provides financial guarantees to facilitate obtaining credit in price and term conditions, appropriate to investment and activity cycles;**
- **Consisting of financial companies , mostly private, regulated and supervised by the Bank of Portugal , which are counter-guaranteed by the Mutual Counter Fund (FCGM), a public fund managed by SPGM - Sociedade de Investimento, SA.**

Agrogarante

Portuguese Guarante Scheme Model



Agrogarante

Agrogarante is one of four Mutual Guarantee Societies (MGS) existing in the country, participated by the Portuguese State and the main national banking groups, acting along the SMEs by providing guarantees for the sectors of Agriculture, Agro - Industry and Forestry.

Started-up in 2006

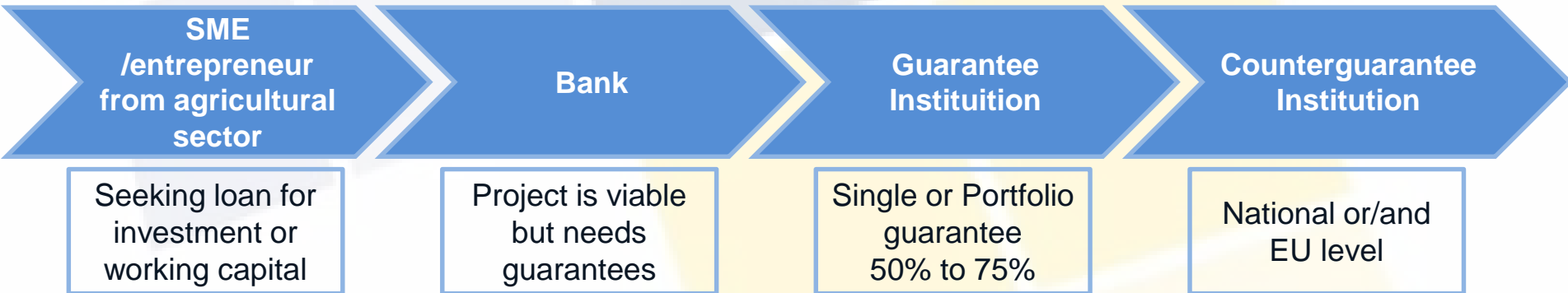
Guarantee 50 % of the financing , which may rise to 75 % in MLT operations (less than 3 years)

Maximum guarantee of €1.5 million by Company or Group, may amount to €4.5 million in Special Line operations

Company buys shares amounting to 2 % of the guarantee

Agrogarante

Operating Flow



Agrogarante

Advantages for Companies

- **More competitive credit cost;**
- **Deadlines and more appropriate amounts to the company's needs;**
- **Avoids / reduces the need to provide other real / personal guarantees ;**
- **Diversifies relation to the financial system, freeing credit ceilings at the Bank, allowing more alternative future funding;**
- **Support in negotiations with the credit institutions.**

Agrogarante

Advantages for Credit Institutions

- **Guarantee on first demand: MGS responds to the request of the Bank to request 1;**
- **Risk sharing with MGS, leveraging potential involvement with the client;**
- **Creating new business opportunities, unviable without the intervention of MGS by limitations of ceiling or absence of other guarantees;**

Agrogarante

Some Products



Agrogarante



- A Line amounting to 1.650 billion euros, to support new investment and strengthening of working capital or fixed capital of the national SMEs, with more favorable and competitive conditions.



- Program that facilitates access to financing solutions and service differentiators for business projects, close to the market or economic value potential:

in the company's design phase;
companies in the first 4 years of activity.

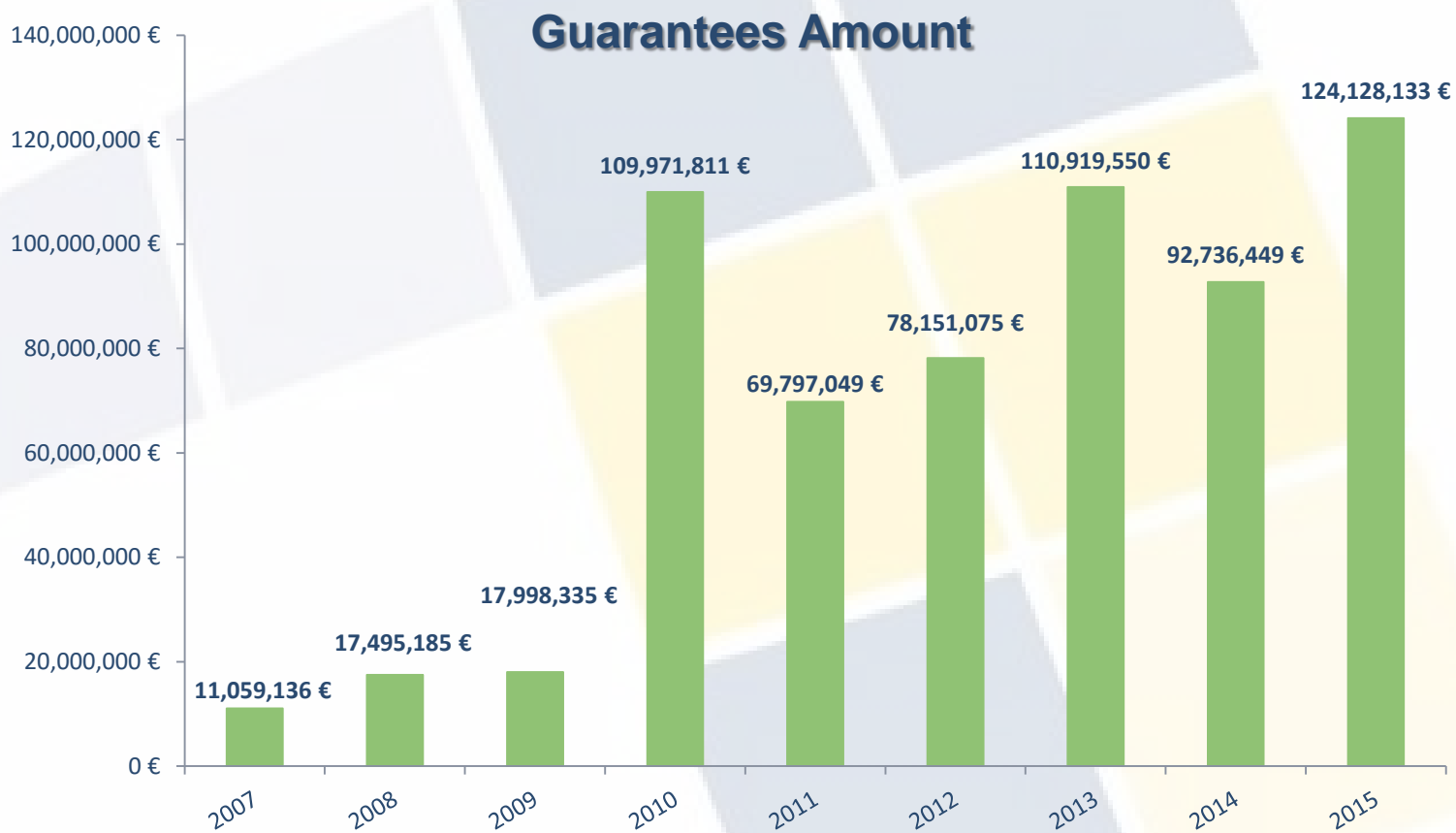


- Line Support for Entrepreneurship and Self-Employment Creation. LAECPE intended to facilitate unemployed, young people seeking their first job and Employed low-income, the creation of their own company / job through bank loans with subsidies.

Activity Numbers

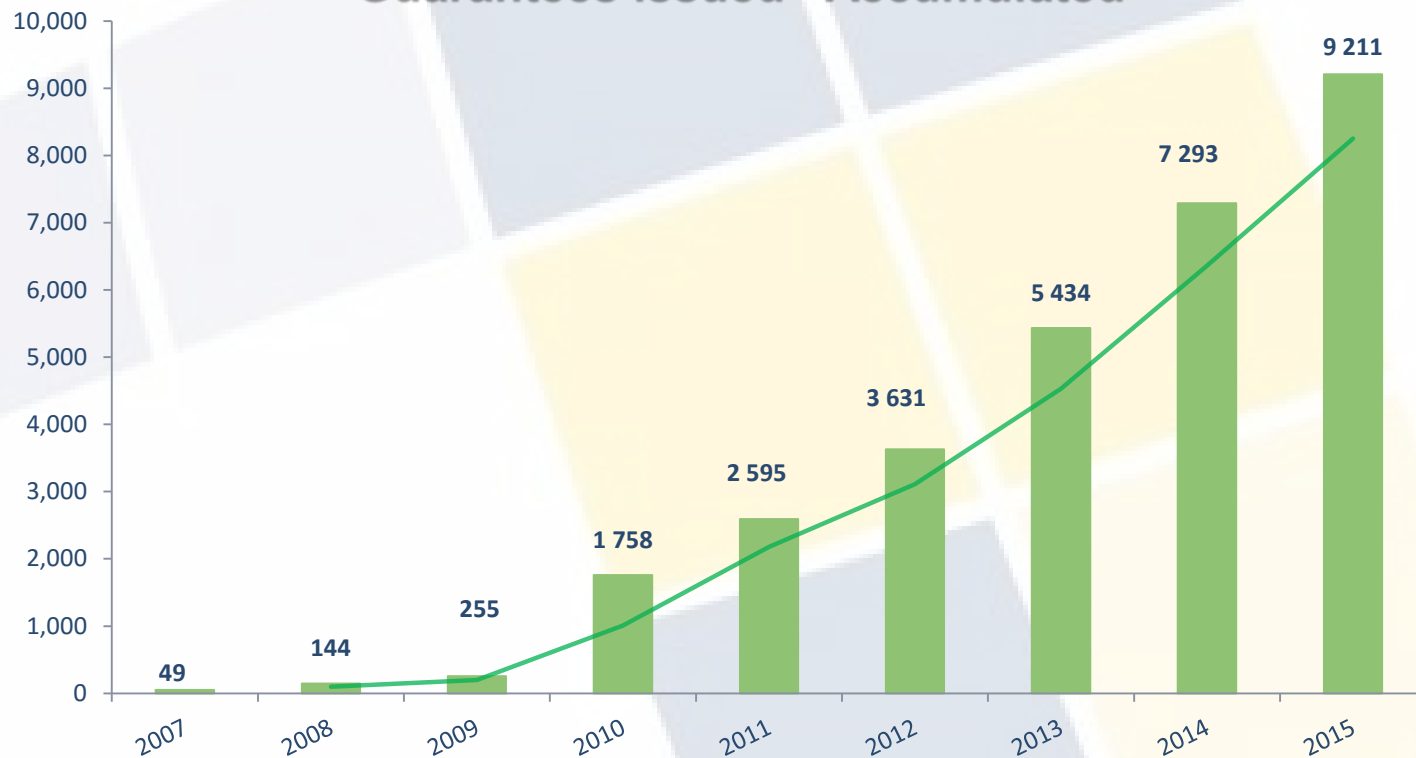


Activity Numbers



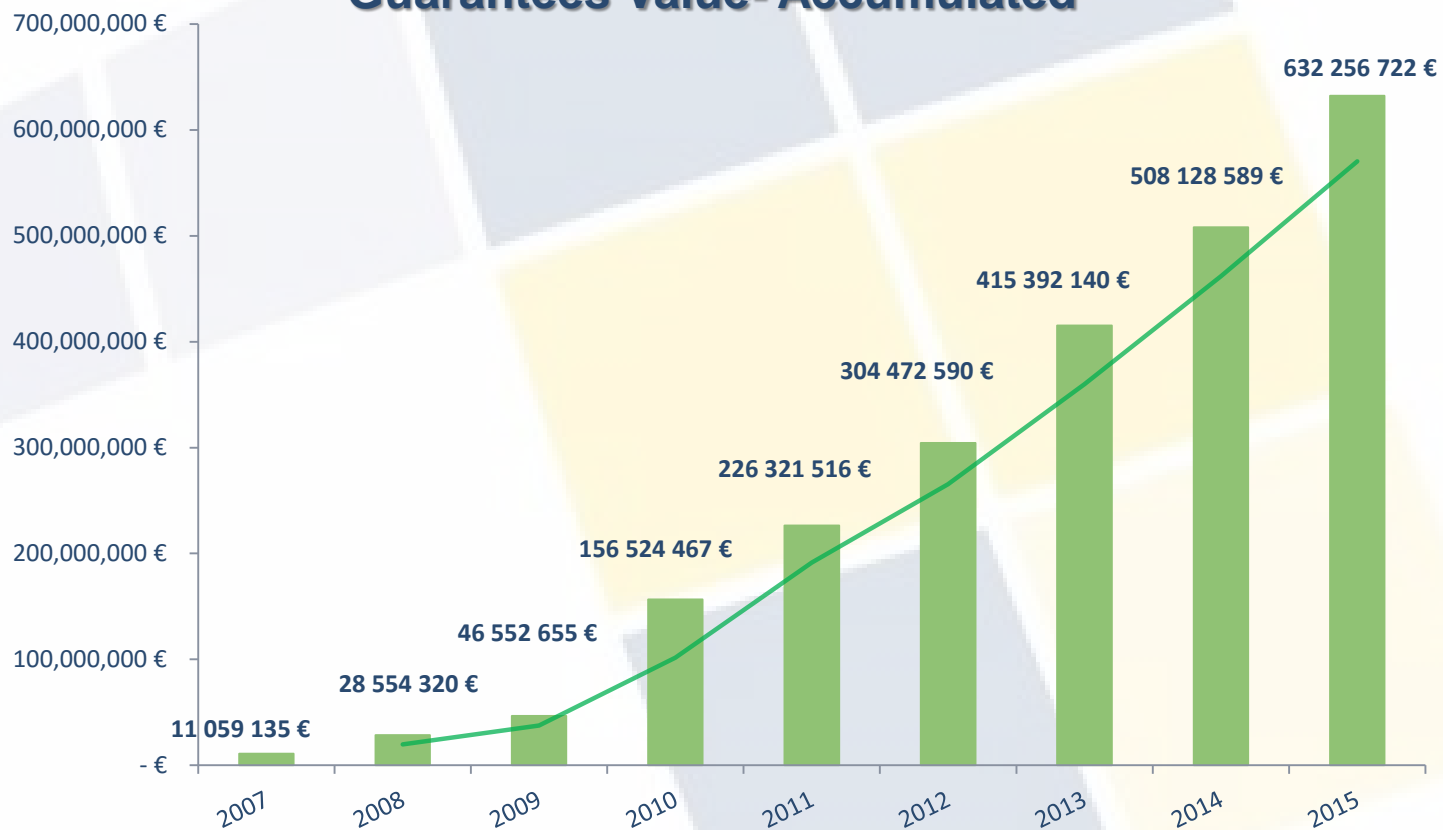
Activity Numbers

Guarantees issued - Accumulated



Activity Numbers

Guarantees Value- Accumulated



Activity Numbers

Agrogarante had, as of December 31, 2015, a portfolio of €305,104,492.



Supported so far more than 5,200 companies.

Helping to maintain/create more than 68,000 jobs.



Agrogarante

Instrumentos Financeiros para a agricultura - Portugal 2020

“Financial instruments for agriculture Portugal 2014-2020”



- *De Minimis* rules limitation, taking into account the reduced value of 15,000 euros for agriculture. It should be rethought to increase this value to the *de minimis* ceiling for the sectors of industry, commerce and services.

Agrogarante

Instrumentos Financeiros para a agricultura - Portugal 2020

“Financial instruments for agriculture Portugal 2014-2020”



- Guarantee under the COSME cannot be combined with a co-financed by the EAFRD expenditure.
- This constitutes an obstacle and is contrary to the philosophy of the Investment Plan, which focuses on removing barriers to investment.

Council Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the Rural Development of the European Agricultural Fund (EAFRD).

**Thank you for
your
attention**

www.aecm.eu
info@aecm.eu

Content:

1. Introduction: AECM and its members
2. Guarantee institutions for agriculture:
example of Agrogarante / Portugal

Annexe: Rationale for running a Credit Guarantee Scheme (CGS)

CGS' customers: the importance of SMEs

SMEs account for a very large share of employment and GDP in all economies of the world (e.g. WEF 2015);

In the **European Union** (SME Performance Review 2014/2015):

- In 2014 SMEs accounted for **99.8% of all enterprises** in the non-financial business sector in the EU28
- **93%** of the EU SMEs **are micros** (= less than 10 employees)
- In 2014 SMEs employed almost 90 million people - **67% of total employment**

CGS' customers: SMEs and access to finance (1)

- SMEs are crucial both in static and dynamic terms but financial market imperfections hinder their ability to survive and expand (WEF 2015)
- In surveys, access to finance remains among most pressing problems faced by SMEs
- In emerging economies the SME financing gap is generally wider than in developed economies *

* "Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe" - a report by the Vienna Initiative Working Group on Credit Guarantee Schemes with input from AECM

CGS' customers: SMEs and access to finance (2)

- Reasons are i.a.
 - asymmetric information between financial institutions and firms,
 - SMEs are more “opaque” than large firms (= the more for start-ups),
 - SMEs are regarded as risky not possessing sufficient collateral (= the more for start-ups)

- Solution:

Running a CGS as a tool to improve access to finance of SMEs

Major advantages of running a CGS: for SMEs (1)

- SMEs get access to finance at all for economically sound projects
- SMEs get access to finance at better conditions for economically sound projects
- SMEs get additional expertise / support services – problem of asymmetric information gets addressed
- Recognition of qualitative factors in risk analysis

Major advantages of running a CGS: for SMEs (2)

- Geographic coverage of all SMEs: CGS work together with all banks in their region or country
- Non-profit / self-sustainable orientation of guarantee institutions (= vast majority)
- In mutual guarantee institutions SMEs participate in the management of the scheme

Major advantages of running a CGS: for banks

- Reduction of bank's risk exposure – market failure gets effectively addressed
- Bank can increase lending activity
- Positive effect of guarantees on the capital requirements in many countries
- No competition between guarantee institution and bank
- High level of liquidity of guarantee in case of default

Major advantages of running a CGS: for public authorities

- Cost efficient due to risk sharing
- High leverage effect
- Costs are outweighed by benefits (= outcome of external studies of universities, consulting companies, etc. and of internal evaluation) = cost-effective method
- Efficient way to implement policy objectives e.g. public support for specific sectors
- In times of financial downturns CGSs can be a part of a counter-cyclical public policy toolkit to support lending to SMEs



**Thank you for
your
attention**

www.aecm.eu
info@aecm.eu