



# GUARANTEE FUND BULGARIAN RDP 2007-2013

European Agriculture Fund for Rural Development





## Establishment

Implementation of RDP 2007-2013

Choice of Financial Instrument

## Implementation

Guarantee scheme parameters

Success factors

## Lessons learned



# Establishment of Guarantee Fund



## Implementation of RDP 2007-2013

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

- Grants are paid after realization;
- Advance payments must be collateralized;
- Banks consider grant 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 time of crisis.

# Establishment of Guarantee Fund



## Choice of Financial Instrument

**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.

### SME

- Access to bank loans in order to realize the project
- No additional collateral required - the assets acquired within the project are enough
- 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



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### BANK

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

# Establishment of Guarantee Fund



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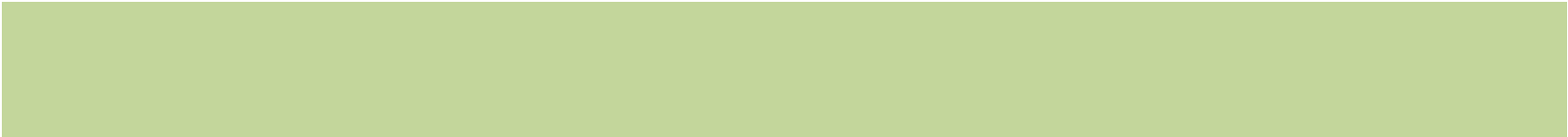
## MANAGING AUTHORITY

- 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

# Design of the Guarantee scheme

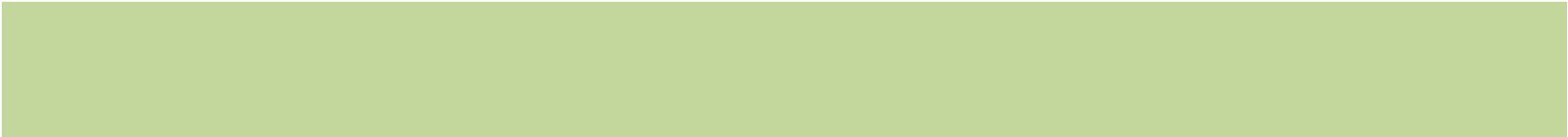
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Financial agreement between National Guarantee Fund and Ministry of Agriculture and Food:

- Capital – 121.1 MEUR: 96.88 EAFRD, 24.22 national contribution;
  - Purpose - support of beneficiaries of the Rural Development Programme;
  - Eligible SMEs – beneficiaries under Measures 121, 122 and 123 of the RDP;
  - Guarantee percentage - up to 80%, maximum guarantee amount - 1.5 MEUR; CAP on the portfolio 20% and individual pre-approval of the guarantees;
  - Intermediaries - banks were selected after a public procurement procedure - 14 banks
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# Results of the Guarantee scheme

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- Results - the scheme was initiated in the beginning of 2013. The volume of the guarantees issued until August 2015 is 90 MEUR; The total volume of the supported loans - 116 MEUR, at an average interest rate of 6.6% and no additional fees;
  - Beneficiaries - 80% of the supported SME's are companies with up to 5 people
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# Implementation



## Success factors

- **Financial institutions:** The major source of financing in Bulgaria is the banking sector which is well developed, regulated and mixed in terms of ownership. Using 14 banks creates competition between the institutions and this assures the transfer of the guarantee benefits to customers.
- **Previous experience:** NGF started its first guarantee scheme in 2009 and gained the needed experience, trust and market knowledge.
- **Simple procedures:** NGF is a public entity and has no in-depth knowledge of SME's like for example a mutual guarantee fund has. For that reason the fund relies on bank expertise on evaluating the SME's and the risk management is focused on the guarantee scheme parameters.

# Implementation



## Success factors

- **Minimum administration:** NGF uses standardized, easy to use xls forms for the banks and one form 10 fill from the beneficiary which was part of the credit documentation. This minimizes the administrative costs both for the banks and the fund.
- **Minimum interference in the process:** using a guarantee do not change the normal credit process and it is easy to implement in every commercial bank.
- **Quick approval:** NGF checks are focused on compliance with the scheme issues and much of the work is delegated to the commercial banks.

# Implementation



## Success factors

- **Portfolio risk management:** risk management was not done on case by case basis. The role of the fund was to inform and consult not so much to approve. The risk management was shift from the customer level to scheme/product level. The scheme is capped portfolio based where the focus is at the control of the utilization of the loan and own fund used (other collateral could substitute the absence of own fund in order to manage risk).
- **Cooperation and communication with MA:** MA is engaged in the process of implementation of the scheme, receives feedback from the financial institutions concerning the approved projects and from the beneficiaries concerning the problems they are facing with access to finance.

# Lessons learned



## Guarantee scheme conditions

- **Equity:** Overcapitalization is a common problem with side effects - the interest from the FI was high but the success was not evaluated properly;
- **Leverage:** ex-ante is crucial, the effect works if right conditions are met;
- **Coverage:** in case of a shortage the "good" projects will crowd out "bad" projects;
- **Timing:** due to the late start, the scheme supported projects that were riskier and facing difficulties

# Lessons learned



## Financial intermediaries

- **Selection:** the right mix - management and competition;
- **Delegation:** No duplication of functions - banks evaluates the projects, the fund monitors the eligibility
- **Administration:** simple procedures and process benefits all;
- **Risk sharing:** using a capped guarantee secured that the banks will perform the financial assessment and monitoring of the loan in line with the good banking procedures;

# Lessons learned



## SME's

- **Benefits:** high leverage, small support and vice versa;
- **Knowledge:** not having support from the beginning a lot of farmers did not apply for support knowing that they will not receive a loan to finance the related costs;
- **Use:** the process for receiving a guarantee is part of the loan application documentation and the communication with the fund is performed by the banks.



**Thank you**

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