



# FINANCIAL ENGINEERING SCHEMES IN ROMANIA



*Belgrade, East Agri meeting,  
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# Common issues

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## **Banks**

- Reluctance in lending loans for agriculture
- Low average loan size for agriculture per borrower
- Limited accepted collaterals (e.g., no land, no buildings etc.), more than 100% collaterals requested
- High interest rates for the agri-food sector

## **Farmers**

- Low quality business proposal
- Limited specialised education
- Limited experience

# Pre-accession – Public intervention aims

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**Stimulating lending loans and aligning the banks policy to the public policy on agriculture and rural development, thus:**

- **Increasing the agri-food production and productivity,**  
Indirect objective: **improved balance trade - making the ministry of finance happy 😊**
- **Creating new Jobs,** with a view of counter-acting the migration towards towns and abroad

# Setting-up the Guarantee Fund

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- Started in 1994 under a EU funded project, initial capital maintained and increased 😊
  - Legal entity under Central Bank registration
  - Shareholding: 99% banks and 1 share ministry of agriculture
  - Decisional board: banks and ministry of agriculture + farmers associations
- Alternative option: Paying Agency (?!)

# Legal Base and Flow of the funds

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- Need of the Parliament approval: 2 laws (1 for the guarantee fund and 1 for the loans scheme), but Laying down rules at the ministry decisional level
- Funds flow: State Budget → Ministry of Agriculture → Guarantee Funds → Banks (guarantee certificates for SAPARD beneficiaries: farmers, agri-food products processors and local councils and associations of local councils)

# Guarantee Fund STEPS

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- **BANK as mediator**, the borrower is not having any extra trips!!!
- The bank is analysing the documentation; if the bank agrees to lend, it will fill-in a Request to the Guarantee Fund
- The Fund analyses the documentation received and it will grant the guarantee within maximum 7 or 15 work days, taking into account the guarantee approval competence, and signs a Guarantee Contract with the bank

# Guarantee Fund specificities

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**Management: Guarantee fund president / Ministry of Agriculture, mainly referring to:**

- Interests generated by the capital goes over the capital
- **Guarantee fees: 1.6 – 6.3 %**, depending on the legal status of the beneficiary, its rating and credit type
- Rule: the fee is added to the guarantee capital
- Level of the guarantees in regard to credits: 70 – 100 %
- In case that the guarantee is executed, the **national fiscal authority takes over the responsibility**, considering the guarantee a debt to the state budget

# Guarantee Fund other specificities

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- **Not covering the interest**
- **Revolving:** Each monthly payment made by a beneficiary for the given loan means also a proportionally return of the guarantee over the original capital, so the guarantee may be re-used
- **Payment of a guarantee after banks initiating recovering procedures** for the loan from the beneficiary



# When NO?

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The Fund **does NOT grant guarantees** for:

- Repaying previous loans
- Credit beneficiaries registering overdue credits and interests
- Credit beneficiaries having overdue debts towards the state budget or local budgets
- Credit beneficiaries who register losses, have payment incapacity, or against whom legal action was introduced in order to state bankruptcy

# Results (monitoring data) in regards to SAPARD

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- No. of guarantee contracts: 1,250
- Value of the guarantees: around 175 millions euro
- Destinations of the guarantees: 46.13% for the processing measure and 47.68% for the farm investments measure
- Only 2 banks were real partners (based on the volume of credits that were given due to the guarantee funds, these banks covered 83% of the credits)

# Credit Fund main features

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- Tendering system for the selection of the banks
- Credits can be guaranteed by both guarantee fund and beneficiaries (buildings, agricultural land, agricultural machineries etc.)
- Public money for public policies: loans for specific investments

# Credit Fund main features

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- **For who?** agricultural producers, forest owners, agri-food products processors, local councils and associations of local councils and to fishery sector = SAPARD potential beneficiaries
- **What are the facilities?** no costs with technical documentation, subsidised interest rate (5%), reduction at the reimbursement of the credit (20 to 50%, depending on sub-sector and categories of beneficiaries - but not in the case of **SAPARD projects**)

# Results (monitoring data) in regards to SAPARD

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- No. of credit contracts: 1,240
- Financial envelope: 155 mil. EURO
- Value of credits: >140 mil. EURO
- Revolving: starting with 2008, the loans granted were financed based on the reimbursement of older loans

# Overall impact

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- Easier access to loans/capital, thus projects were faster implemented
- Better prepared/checked business plans (under both banks and guarantee fund checks)
- Lower interest rate in case of guarantees???

# What crisis brought with it ?

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- 2008 - 2009: NO guarantee scheme – slow implementation!!! Contracted projected were not implemented due to lack of pre and co-finance!
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- Committed budget, low level of payments!!!

# What crisis brought with it ?

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- **Increased reluctance especially to small farmers and to some sectors** for which the market perspective is negative (e.g. pork meat sector)
- Collaterals: **limited accepted** assets and **increased share**
- ➔ **Lower capital inputs on the sector**
- ➔ **Higher default rate** (from 4 to more than 10%) ➔ higher % of guarantees executed, eroding the increased working capital gained along the years



## Post-accession RD Programme, overcoming the crisis, lesson learnt

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- Increased **dialog** with the banking system - for more focus on having specialised bank products for the Programme beneficiaries
- **Extra 220 mil. euro** for the Guarantee Fund through the RDP, **special budget for SMEs**, with some adjustments: 1 euro goes for up to 5 euro (after risk analysis), covering maximum 80% out of the loans, single fee rate annually fixed after risk analysis for SMEs
- **Guarantees also used for advance payments** (paid by the Paying Agency)



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Thank You for attention,

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