



Case studies: Loan instruments

Robert Pernetta,
EIB

Case studies



Romania



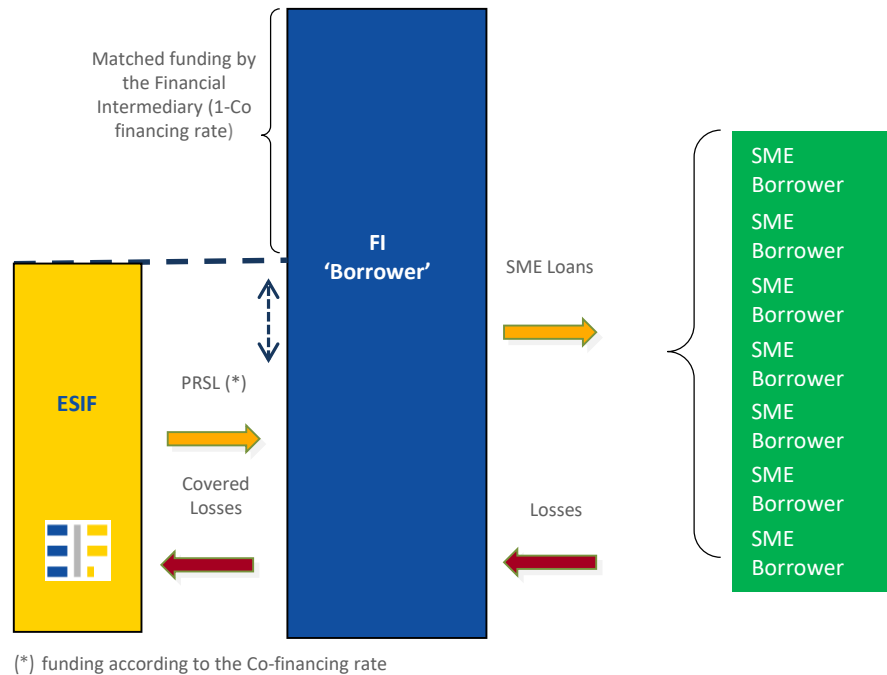
Case study of Romania



- Envisaged contribution of **EUR 94m**
- Proposed instrument: **Portfolio Risk Sharing Loan**
 - Funds provided at low or zero interest to banks for on-lending to final recipients (depending on applicable state aid / de minimis aid rules)
 - Each loan to a final recipient is co-financed at a rate of at least 70% with the banks, which provides interest reduction and collateral reduction to final recipients
 - Leverage effect: 1.35x
 - Measures: 4.1, 4.1a, 4.2, 4.2a and 6.4
 - Objective: portfolio of new loans of up to EUR 126m for at least 350 farmers and agricultural SMEs
 - Call for expression for interest for selection of Financial Intermediaries launched March 2018
- **Eligible beneficiaries:**
 - Primary agriculture producers with special focus on fruit producers (4.1a)
 - Food processing companies (with special focus on fruit processors (4.2a)
 - General SMEs located in the rural area
 - No conditionality linked to grant projects
- **Eligible activities:**
 - Investments
 - Working capital (linked to investments, only 30% eligible)



Product: Portfolio Risk Sharing Loan



Objective: to improve access to finance to SMEs by providing FIs with additional lending capacity (funding) and credit risk protection

- **Liquidity and risk sharing on a loan by loan**
- **Access to finance particularly for riskier SMEs**
- **Substantially reduced interest rates and potentially also reduced collateral requirements**
- **Leverage: 2 times (if co-financing 50%)**

Case studies



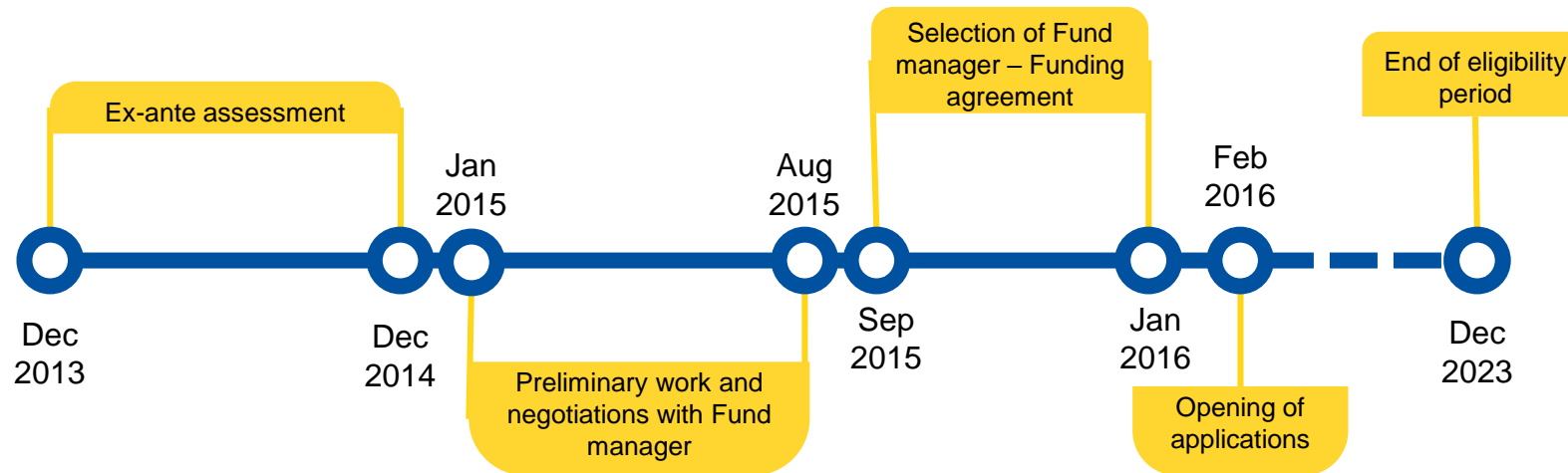
Estonia



Case study: Estonian EAFRD Loan Fund



Timeline of the financial instrument



Findings of ex-ante assessment

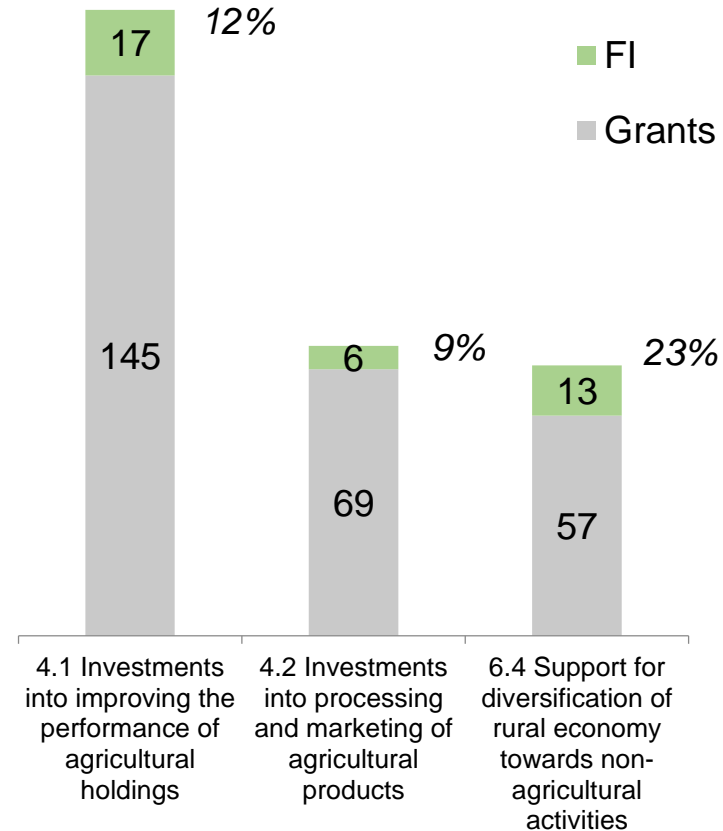
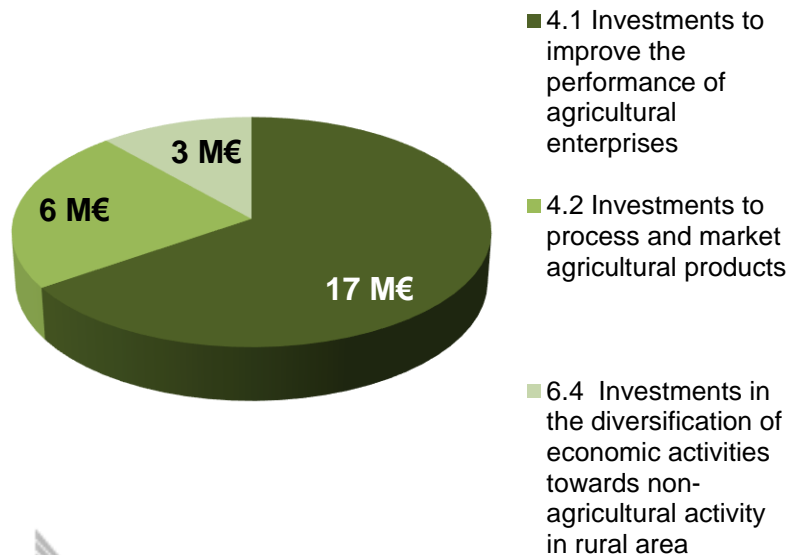


- 60% of agri, agrifood and fisheries, rural enterprises and 50% of producers experienced **problems in accessing finance**
- 80% of the interviewees **interested in financial instruments**
- Buildings and facilities, equipment and machineries, fixed asset, product development as main funding needs
- FI as opportunity to **complement grant and stimulate final recipients' own contribution**
- **Off-the-shelf** as a possible option or at least as inspiration

Resources available and measures involved



FI accounts **EUR 36 Million, 4% of the entire RDP budget (EUR 993 Million)**



Data provided by Estonian EAFRD managing authority



Estonian loan fund features and facts



- Common **ex ante assessment** for the EAFRD and the EMFF (Dec.2013-Dec.2014, externally procured to consultants)
- General description of FIs in RDP (February 2015); **RDP amendment** with a more detailed description of FIs submitted to EC in February 2016 and approved in April 2017
- **Selection of the fund manager** via negotiated procedure; consequent funding agreement signed with the Estonian Rural Development Foundation (MES) on 29th January 2016
- Conditions for grant and FI in the same measure are not the same, as grants conditions are more binding in terms of target group, eligible activities, own contribution, applicable aid schemes
- **General Block Exemption information** submitted on March 2016



Data and info provided by Estonian EAFRD managing authority



Financial products



	Growth loans	Long-term investment loans
4y target	EUR 14,2 million	EUR 16,1 million
Target group	Micro and small enterprises	SMEs
Loan amount	EUR 5.000,00 – 100.000,00 (direct loan or co-lending)	EUR 250.000,00 – 1.000.000,00; producer groups EUR 250.000,00 – 3.000.000,00 co-lending with banks (bank at least 50%)
Collateral	At least 50%	At least 80%; producer groups at least 30%
Duration	Up to 5 years (+ up to 3 years of grace period)	1 to 15 years (+ up to 5 years of grace period)
Interest	6%+ ECB's refinancing rate	Market conditions (bank interest)
Subsidised interest	Young farmers and producer groups: 2% + ECB; Start-ups and microenterprises, people with disabilities, women: 4% + ECB	Young farmers and producer groups: 1% + ECB; Start-ups and microenterprises, people with disabilities, women: 2% + ECB

Combination of FI and grant



Allowed if the **sum of grant and the FIs gross grant equivalent** for the same project is less or equal to:

1. amounts of support or support rates stated in the **annex II** of the regulation **1305/2013** for this measure
2. total amounts for the period stated in the **Estonian RDP** for this measure

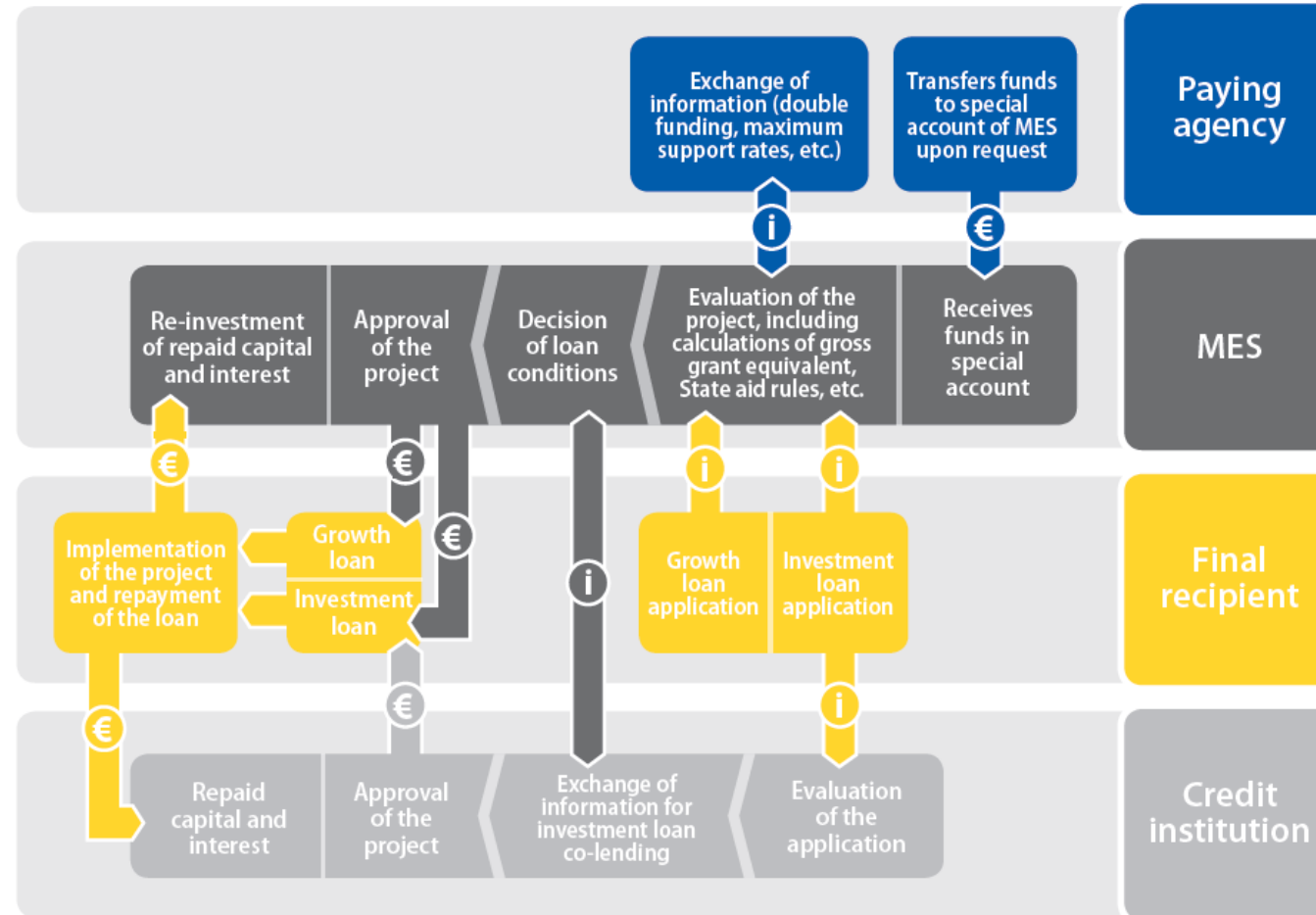


Applicable state aid rules

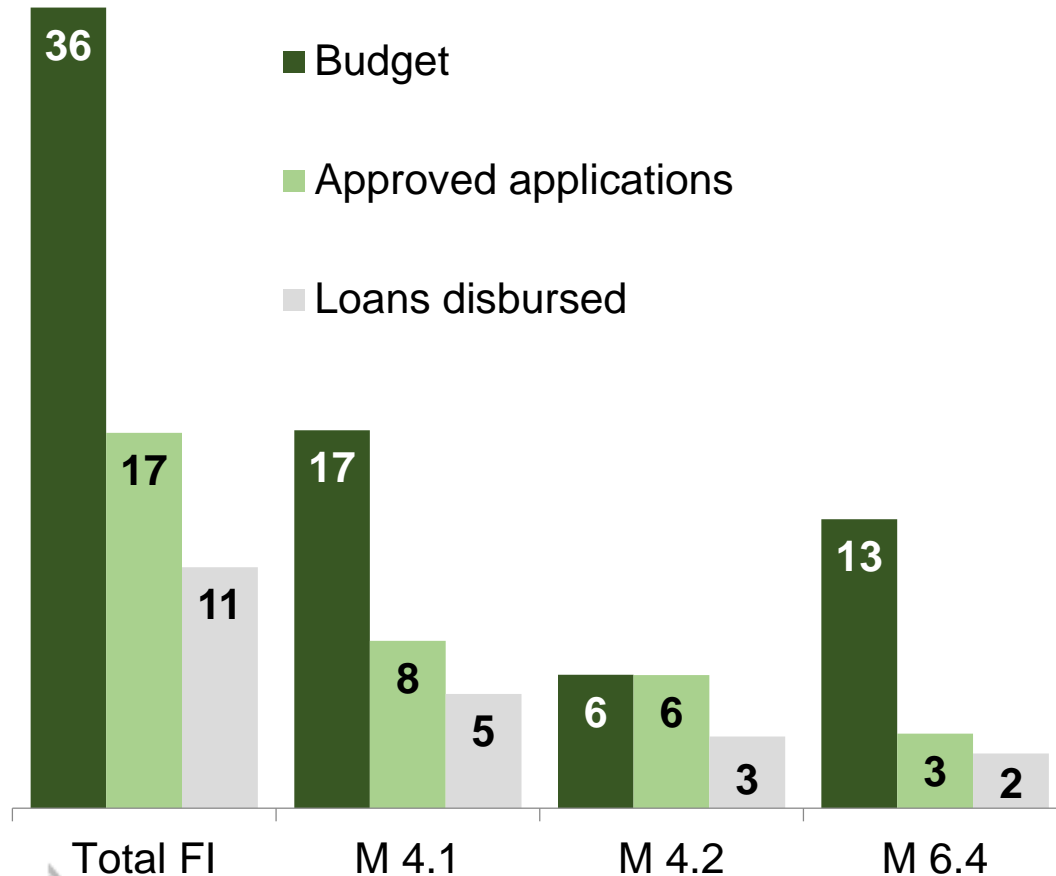


M	Grant	FI
4.1	Only Reg. (EU) No 1305/2013 and RDP restrictions	
4.2	Reg. (EU) No 1305/2013 and RDP restrictions Reg. (EU) No 651/2014 (GBER), Art. 14 Regional investment aid	
6.4	Reg. (EU) No 1305/2013 and RDP restrictions Reg. (EU) No 1407/2013 (de minimis aid)	
	-	Reg. (EU) No 651/2014, (GBER) Art. 14 Regional investment aid, 40 Investment aid for high-efficiency cogeneration, 41 Investment aid for the promotion of energy from renewable sources, 46 Investment aid for energy efficient district heating and cooling, 47 Investment aid for waste recycling and re-utilisation, 53 Aid for culture and heritage conservation, 55 Aid for sport and multifunctional recreational infrastructures

Financial flow and project appraisal



Statistics (30.06.2017)



Applications	Growth loans	Long term loans	total
Received	63 (5M€)	36 (20M€)	99 (25M€)
Approved	49 (4M€)	22 (13M€)	71 (17M€)
Processing	7 (0,5M€)	1 (0,5 M€)	8 (1M€)
Rejected	7 (0,5M€)	10 (5,5 M€)	17 (6M€)
Declined	-	3 (1M€)	3 (1M€)



Data provided by Estonian EAFRD managing authority



Lessons learnt



- Investments financed by loans are **more carefully calculated** than grants
- Loans are able to lead agri businesses to **more economically viable and sound investment decisions** if compared to grants
- Interest rates are important, but **amount of collateral is the key** to tackle access to finance problems
- Interest rates/collateral requirements can be used as **tool for policy making** (young farmers, producer groups)
- **Grace period** is attractive for new businesses

Further info



Check out the *fi-compass* case-study on:

<https://www.fi-compass.eu/publication/case-studies/case-study-loans-rural-development-2014-2020-estonia>

