fi compass
EAFRD

Debt finance and use of credit guarantee instruments for agricultural enterprises in the EU

European Commission

European Investment Bank
The EU bank

DISCLAIMER

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Glossary and definitions

Abbreviation	Full name
AECM	European Association of Guarantee Institutions
BLS	Bank Lending Survey
CAP	Common Agricultural Policy
CESEE	Central, Eastern and South-Eastern Europe
CGS	Credit Guarantee Scheme
CRR	Capital Requirements Regulation
EAFRD	European Agricultural Fund for Rural Development
ECB	European Central Bank
EIB	European Investment Bank
EIF	European Investment Fund
EIB Group	European Investment Bank and the European Investment Fund
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FLPG	First Loss Portfolio Guarantee
OECD	Organisation for Economic Co-operation and Development
RDP	Rural Development Programme
SMEs	Small and medium-sized enterprises

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Executive summary

This study reviews activities of EU financial intermediaries and guarantee institutions in the agricultural sector, using information from direct interviews in a sample of EU Member States. It assesses interest in a potential public credit guarantee scheme (including counter-guarantees) that could improve access to finance for farmers and agricultural enterprises.

The analysis in this report is the first to focus on the use and potential benefits of financial instruments designed to mitigate risk in providing finance for agriculture. In the EU there are several analytical tools to assess the financial gap and needs of enterprises (SMEs in particular), though none focuses on agriculture. Guarantee instruments are already widely used across the EU at local, national, and European level. Moreover, demand for finance from the agricultural sector is expected to increase in the coming years, driven by modernisation and transformation needs as well as implementation of 2014-2020 Rural Development Programmes (RDPs). Since the agriculture sector has both specific characteristics and financial requirements compared to enterprises in other sectors, analysing the contribution of these financial products for agriculture is of particular importance.

The first part of this report investigates the literature on the key advantages of guarantee instruments. Guarantee instruments are widely used to alleviate market failures and improve the ability of SMEs to access credit with lower interest rates and reduced collateral requirements. Guarantee instruments, especially when supported by the public sector, bring several advantages for both SMEs and financial counterparties. However, agricultural enterprises are more exposed than other sectors to risks from external factors, such as the weather, which can simultaneously affect many farmers in a given area. Agricultural activities are subject to seasonality and gestation periods, which often leads to a slow pay back on invested capital along with irregular cash flows for rural entrepreneurs. Longer loan maturities and irregular repayment schedules can be therefore more risky and present additional challenges for liquidity management. At the same time, direct payments under the Common Agricultural Policy (CAP) may act partially as a stabiliser for farmers' income. The literature often notes that guarantees are preferred to other financial instruments for improving the access of farmers and small agribusinesses to finance.

The additional, more focused, information collected through interviews with financial intermediaries and guarantee institutions highlighted the key characteristics of working with agricultural enterprises. The sample interviewed includes representatives from public and commercial banks, regional, promotional and development banks, as well as from cooperatives. Financial institutions already offer a wide range of financial products tailored to the needs of farmers, so specificities of the sector are already considered to some extent.

The interviews revealed also the expanding financial market for agricultural enterprises whose needs appear to be concentrated in two extremes, long-term investment loans and short-term loans for working capital. However, a more comprehensive understanding and analysis of farmers' future needs is necessary, especially in the light of a potential expansion of European resources allocated to agricultural financial instruments. A gap assessment considering both supply and demand for finance would give more precise indications for potential guarantee products.

In the frame of this study the interviews investigated the use of guarantee instruments by financial intermediaries and guarantee institutions. The results show that agricultural enterprises have similar default and restructuring rates to other enterprises, SMEs in particular. However, the large majority of interviewed financial intermediaries use credit guarantees (especially from public national and regional institutions) for loans to agriculture to lower interest rates and collateral requirements. For guarantee institutions these should also enable finance for risker projects, an advantage that is not noted by financial intermediaries. There is a similar disparity for guarantees enabling increased loan amounts or longer maturities, indicating that current guarantee schemes might not be effective in achieving these objectives.

There are other slight differences between financial intermediaries and guarantee institutions. For example, financial intermediaries rely substantially on credit history even though some enterprises might be less familiar with the banking system, particularly young farmers and start-ups. For banks, turnover and collateral are normally far more important than the quality of the business plan. Guarantee institutions, instead, give the highest importance to the business plan. In this sense, guarantee instruments may help financial intermediaries to take additional risk so helping improve access to credit for young farmers and start-ups.

This leads to the final part of the report, which reviews potential interest for a new EU guarantee instrument. Most financial intermediaries can benefit from at least one credit guarantee scheme for agriculture in their country. They feel this is satisfactory, though there is significant room to improve the offering, especially through a specific scheme for agriculture at EU or national level. Public support to mitigate the risk should help financial institutions provide finance to more farmers and offer better conditions. An EU funded guarantee should help improve the current supply of investment loans, but also short-term working capital loans by offering more attractive risk-sharing arrangements, increased competition and consequently lower interest rates and collateral requirements. Since there is already a broad selection of guarantee products in most Member States, the design of an EU-level intervention and its introduction in a given programme area should identify and provide specific conditions that add value to the existing offering.

Results also show that half the financial intermediaries consider that public support through counter-guarantees could help improve existing credit guarantee schemes. As expected, there is more interest in counter-guarantee instruments among guarantee institutions. Counter-guarantees appear to be an important risk management technique for them, in particular those provided by the Member State or region, the EU or international financial institutions. Most respondents believe that a counter-guarantee scheme for agriculture funded by the EU (at EU/national level) would increase resources for issuing guarantees in the agriculture sector. This would increase portfolio volumes, reduce risk and increase the attractiveness of guarantees for banks through capital relief. Most of the interviewees from the guarantee intuitions also noted the possibility to act as a co-guarantor in an EU supported instrument.

The analysis highlights the following recommendations:

- Further support through credit guarantee financial instruments could play an important role with growing demand for financing in the agricultural sector.
- Such financial instruments should improve access to finance for disadvantaged farmers. According to this study these include farmers that lack credit history (i.e. young farmers, new entrants), full accounting records (i.e. small agricultural enterprises and natural persons), or have higher risk profiles.
- The main focus of support should be on long-term investment loans and short-term loans for working capital.
- Guarantee instruments are already widely used in the EU but with very different conditions and efficiency. So, new public guarantee schemes should be based on precise parameters to ensure added-value and avoid overlaps with the existing schemes. In this respect, counter-guarantee products in addition to direct guarantees might provide better integration and complementarity with existing instruments. They could also lead to greater volumes, better risk management and even increased capital relief.
- Instruments should be designed to ensure real advantages for borrowers, so the lending conditions of banks benefitting from the guarantee should reflect the beneficial risk profile of the agricultural sector.
- Current low interest rates and reduced margins for banks mean the guarantee should be provided at a favourable price (including a component of public support), to ensure the advantages of risk coverage are not offset by the cost of the guarantee. For the European Agricultural Fund for Rural Development (EAFRD) this would also mean providing such guarantees for free as in the period 2014-2020.

1. INTRODUCTION

This study investigates the activity of financial intermediaries and guarantee institutions in the agricultural sector in the EU, using information from direct interviews in a selected sample of EU Member States. It assesses how credit guarantee instruments (including counter-guarantees) could improve access to finance for farmers and agricultural enterprises by reducing interest rates and collateral requirements. The study assesses financial intermediary interest in the agricultural sector and their perception of the potential benefit of public support in the form of guarantee or counter-guarantee instruments.

Financial intermediaries in rural areas financing rural economic activities have to tackle additional challenges[1] related to seasonality, covariant risks , and low population densities. They may require more instruments to manage the various risks[2], to lower operational costs and to avoid excessive credit rationing or an overreliance on collateral. Guarantee instruments might offer solutions to these kinds of constraints.

Although credit guarantee instruments in the EU are widely used at national and European levels, there is no analysis of their current use and potential need in agricultural finance. The EU has set up several tools to assess key features of the European financial market, but none specifically focuses on the use of guarantee instruments for farmers and agricultural enterprises. This report intends to provide a first deeper insight into the functioning of credit guarantee instruments for agriculture. It provides information on the financial intermediaries that use them, analyses the key advantages for farmers and agricultural enterprises, and investigates the interest for a potential credit guarantee scheme, set-up at national or European level and funded through EAFRD to improve access to agricultural finance. In addition to direct guarantees, this study analyses the interest of financial intermediaries for public counter-guarantee instruments.

Following this introduction, this report has the following structure:

- Chapter 2 describes the main methodological tools used to collect information;
- Chapter 3 is based on the literature and illustrates the key advantages of guarantee instruments, guarantee schemes at European level, and surveys conducted by European institutions to assess the financial market, including guarantee instruments;
- Chapter 4 describes the key characteristics of the financial market for agriculture including financial intermediaries and guarantee institutions as well as their products; it also reviews the current and potential guarantee instruments, key advantages, how public support can help mitigate risk, and the potential interest for public guarantee and counter-guarantee schemes funded by the EU;
- Chapter 5 includes some conclusions;
- Annex I describes the methodological tools and questions used for the interviews;
- Annex II lists the interviews;
- Annex III briefly illustrates the use of guarantees in the EU, detailing the main European schemes for SMEs (in particular innovative SMEs) and agricultural enterprises.

1 International Finance Cooperation, World Bank Group, (2011), Scaling Up Access to Finance for Agricultural SMEs Policy Review and Recommendations, p.18.

2 Covariant risk arises when many farms/households in one area are adversely affected by a single phenomenon such as a natural disaster, epidemic, unexpected change in world prices, macroeconomic crisis or civil conflict. This is distinct from individual risks, which randomly affect individual households.

2. METHODOLOGY

The analysis is based on information collected through two tasks:

- Task A: Questionnaire submitted to financial intermediaries providing loans or similar products[3] to farmers in different EU Member States;
- Task B: Questionnaire submitted to credit guarantee institutions, i.e. with providers of risk coverage for products offered by financial intermediaries to farmers.

Annex I lists all the questions used in both tasks, while Annex II describes the financial intermediaries and guarantee institutions interviewed.

Task A) was a **questionnaire** submitted to **financial intermediaries** in 17 EU Member States: Austria, Bulgaria, Croatia, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Lithuania, the Netherlands, Romania, Spain, Sweden, Poland and Portugal. The sample was selected through the analysis of financial intermediary websites made for the *fi-compass* study (2018)[4] which reviews financial products with flexible repayment schedules for agricultural enterprises.

The first part of the questionnaire contains generic questions on financial intermediary activity and interest in the agricultural sector, including loan applications. The second part focuses on guarantee and counter-guarantee instruments and enquires about risks in the agricultural sector and how the guarantee instruments can mitigate these risks, as well as about current credit guarantee schemes and public support for risk mitigation. Some questions took inspiration from the Credit Guarantee Schemes Survey and Bank Survey conducted by the European Investment Bank (EIB) and European Investment Fund (EIF) Group[5], which are detailed in section 3.3. This enabled comparison of the results obtained in this report and presented in Chapters 4, with the two surveys.

Task B) was a **questionnaire** submitted to **guarantee institutions**. Interviewees included members of the European Association of Guarantee Institutions (AECM). Questions asked about institution activity, products, use and key advantages of guarantee and counter-guarantee schemes. A **focus group with AECM representatives** validated the questionnaires and the results. It also collected additional information through a debate on the key financial needs of the agricultural sector as well as on the current use of and interest in risk mitigation instruments.

In total 44 financial intermediaries and 13 credit guarantee institutions were interviewed and completed the questionnaire (see Table 2.1).

3 The financial products covered by the questionnaire (see Annex I) are: short term/working capital loans (<12-24 months); credit lines; medium-term/investment loans (2-5 years); long-term/investment loans (>5 years); leasing.

4 *fi-compass* (2018), Flexible financial products for the agricultural sector in the EU. See Box 4.1 in this report for key results of the study.

5 EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42.

Table 2.1: List of financial intermediaries and guarantee institutions interviewed

Member States	Financial intermediaries (Task A)	Guarantee institutions (Task B)
Bulgaria	3	1
Croatia	2	1
Estonia	3	-
Finland	1	-
France	3	1
Germany	6	1
Hungary	3	2
Ireland	4	1
Italy	2	1
Latvia	-	1
Lithuania	4	1
The Netherlands	2	-
Poland	2	-
Portugal	1	1
Romania	1	1
Spain	3	1
Sweden	4	-
Total	44*	13

** Questions from Q.9 (Risk and guarantee, see Annex I for detail) were answered by 42 financial intermediaries out of the 44 interviewed (one intermediary instead of two from Croatia and none from Romania).*

To provide background information on the use of guarantee instruments, a **desk research of the literature** was carried out prior to the interviews. This covered European documentation and reports, academic research and analysis from international institutions such as the Food and Agriculture Organisation of the United Nations (FAO) and the Organisation of Economic Co-operation and Development (OECD) on guarantee instruments.

The main outcome of the desk research is presented in the next Chapter, while Chapter 4 focus on the results from Task A and Task B.

3. GUARANTEE INSTRUMENTS IN THE EU: A GLANCE INTO THE LITERATURE

Based on the available literature, this chapter describes the key advantages and concerns of guarantee instruments. Most publications focus on the use of these instruments for SMEs while less attention is paid to the agriculture sector. The main advantages of guarantee instruments for SMEs may be considered also valid for agricultural enterprises, which can experience similar difficulties in accessing finance. However, there is a specific section on additional aspects of credit guarantee schemes for agriculture. In the final part, the chapter introduces the key features and results of the Credit Guarantee Schemes survey.

Box 3.1 - Credit guarantee instruments for SMEs: key elements[6]

I. Rationale of public guarantee instruments for SMEs

Public guarantee instruments are widely used as a policy tool to alleviate constraints faced by SMEs, including agricultural enterprises, in accessing finance.

SMEs are more affected by credit rationing[7] than larger companies as **information asymmetries**[8] are more pronounced for small firms and the cost of monitoring is higher. Large companies have formal business decision making processes, transparency rules, legal standards, formal reporting requirements, etc. These are normally less defined for SMEs. Although collateral can eliminate the asymmetric information problem, SMEs often **lack suitable assets** and may struggle to obtain finance for financially viable projects. Public guarantee schemes do not alleviate information asymmetries directly, though they can substitute collateral. This could increase the incentives for lenders to supply credit to SMEs and help to reduce credit rationing.

II. Advantages for SMEs

Credit guarantee instruments are expected to **increase lending** to targeted enterprises (i.e. additional lending that banks would not provide without the guarantee support). This includes additional credit for existing SME customers, as well as new clients, such as those originally considered too risky due to asymmetric information.

Public guarantees are often provided at lower-than-market rates, or even zero fees in some cases. This benefit is expected to be entirely transferred to the SMEs and **banks should not charge for the guarantee**.

SMEs who benefit from a credit guarantee can expect more favourable lending conditions, inter alia:

- **Reduced collateral requirements**: since the bank benefits from risk coverage by a highly creditworthy third party, the value of borrower collateral should be significantly reduced. External guarantees and collateral are not perfect substitutes, but they are often used together in a single loan operation, as collateral can reduce moral hazard and the risk of default. Collateral also protects the guarantor, since resources recovered from the borrower in the event of default are shared between the bank and the guarantor according to the risk sharing agreement (see below) in the guarantee.

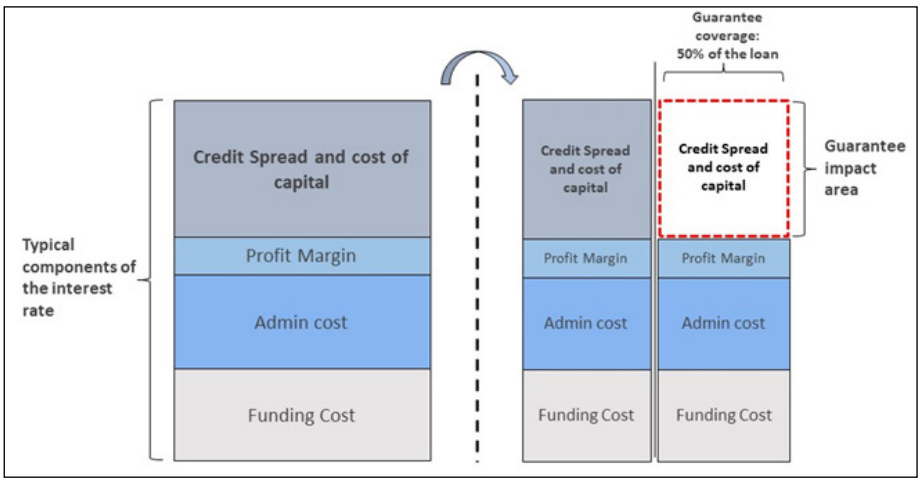
6 Part of the text is based on EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42.

7 Credit rationing is when lenders are unwilling to provide additional funds to a borrower or an entire category of borrowers, even at a higher interest rate.

8 Asymmetric information refers to situations when one agent possesses information while other agents in the same trade do not. With SMEs, a bank might lack sufficient information to assess the creditworthiness of the enterprise (e.g. SMEs have fewer obligations in terms of legal standards, formal reporting requirements, etc. compared to larger enterprises) and decide to limit lending to SMEs (credit rationing). In this context, even SMEs with viable investment projects might experience difficulties in accessing finance.

- **Interest rate reduction**: since the guarantee reduces losses for the bank in the event of default, the guarantee is expected to lead to a lower overall interest rate. It is important to consider that the overall interest rate has various components, which are not all affected by the guarantee. The guarantee only impacts the credit spread (see Figure 3.1), which should be lower than the bank's standard practice for the specific SME.

Figure 3.1: Impact of the guarantee on the interest rate[9]



These advantages should be measured against a baseline which the guarantor does not normally know in advance. For example, the level of collateral required and the interest rate components can vary between banks in different countries and for different sectors.

There are normally two ways to ensure advantages are transferred to the borrower:

- The first is that the guarantor selects banks through an open procedure, with proposed pricing and collateral policy included in the award criteria. This ensures that borrowers obtain the best conditions from the guarantee, dependant on sector and geography specificities.
- The second possibility is to open the guarantee instrument to all banks (subject to signing a standard agreement). The rationale of this strategy is to maximise bank participation, stimulating competition. So, a borrower can consult several banks and apply to the one offering the best conditions.

Although there are no specific evaluation studies available on the approaches above, the first option may be more effective in ensuring the transfer of benefits, particularly when a potential borrower lacks financial knowledge and is not familiar with the banking system. It might be difficult for such a borrower to compare the offers of different banks and negotiate better conditions.

Other measures can be taken to monitor the transfer of benefit to SMEs. For example, banks might be asked to report on the interest rate difference between loans covered by the guarantee and similar loans not covered by the guarantee. Monitoring visits to the bank can also be foreseen in the guarantee agreement between the guarantor and the bank.

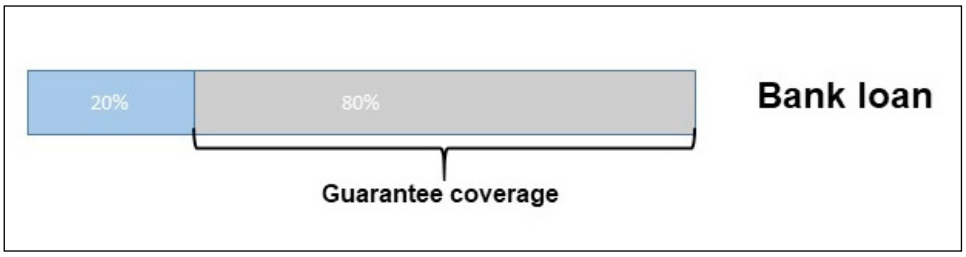
9 The example is based on the assumption that the guarantee is provided free of charge and the bank has full capital relief.

III. Risk sharing agreement

An important aspect of guarantees relates to the arrangements that distribute losses in the event of default. Risk sharing arrangements are crucial to maximising the interest of lenders to minimise losses for all parties. These arrangements can be made at the level of individual loans, or alternatively, at the level of the portfolio.

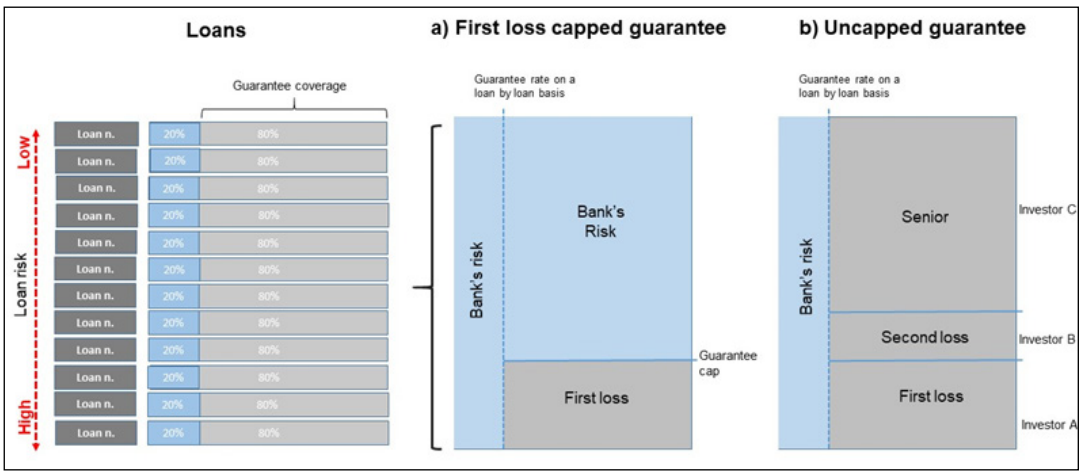
At the **individual loan level**, guarantees are often based on a pari passu basis: the guarantor assumes a fixed share of the loss on each loan (e.g. 80%) and if the guaranteed amount is paid to the bank in the event of a default, any subsequent debt recoveries are shared according to the agreed risk sharing ratio.

Figure 3.2: Risk sharing at loan level



Losses on individual loans can be limited (capped) at portfolio level (a capped portfolio guarantee instrument). In this case (Figure 3.3, a), losses on individual loans are paid to the bank according to the agreed loss share, but within a total limit (normally a set percentage of the total portfolio).

Figure 3.3: Risk sharing at portfolio level

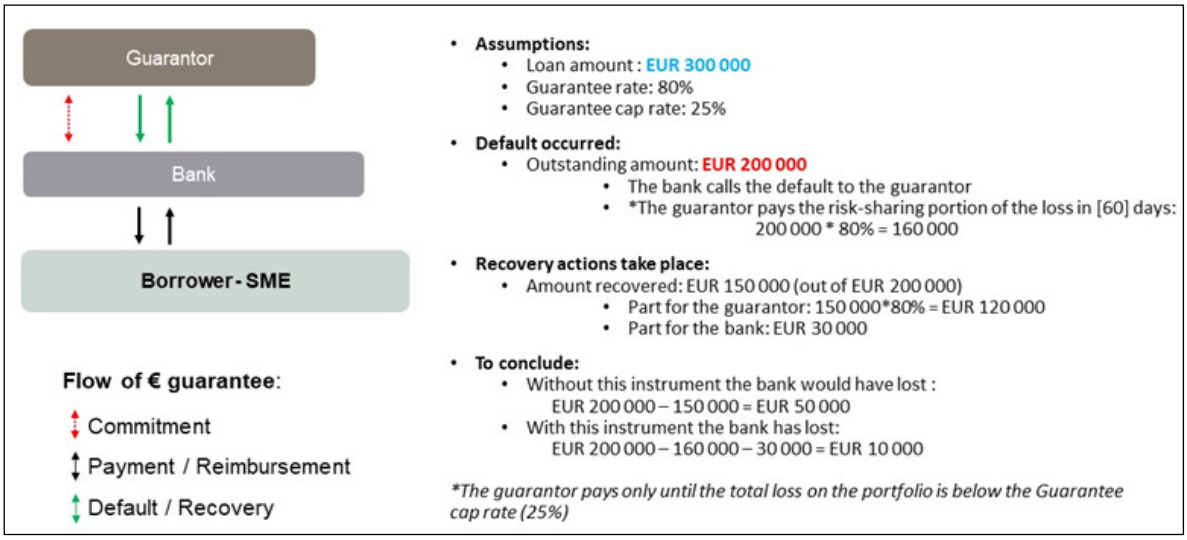


In an uncapped portfolio guarantee (Figure 3.3, b), losses on individual loans are paid according to the agreed loss share with no limits at portfolio level.

More efficient risk management at portfolio level involves dividing the guaranteed part of the portfolio into tranches with different risks and different levels of seniority. The risk in each tranche is normally born by different investors. So losses from defaulted loans are first absorbed under the first loss tranche, any additional losses are covered using the second loss tranche and so on.

Default on an individual loan covered under the public guarantee scheme triggers a guarantee call from the lender. The bank calls for payment of the guarantee at the rate agreed. With a capped portfolio guarantee this must also be within the guarantee cap. The bank is expected to enforce recovery actions to collect the unpaid amount from the borrower. Recovered amounts are distributed between the bank and the guarantor as per the risk sharing arrangements. Figure 3.4 below provides an example of how the guarantee scheme works in practice, from the guarantee call through guarantee payment to the recovery procedures.

Figure 3.4: Example: a guarantee payment and subsequent recovery procedures



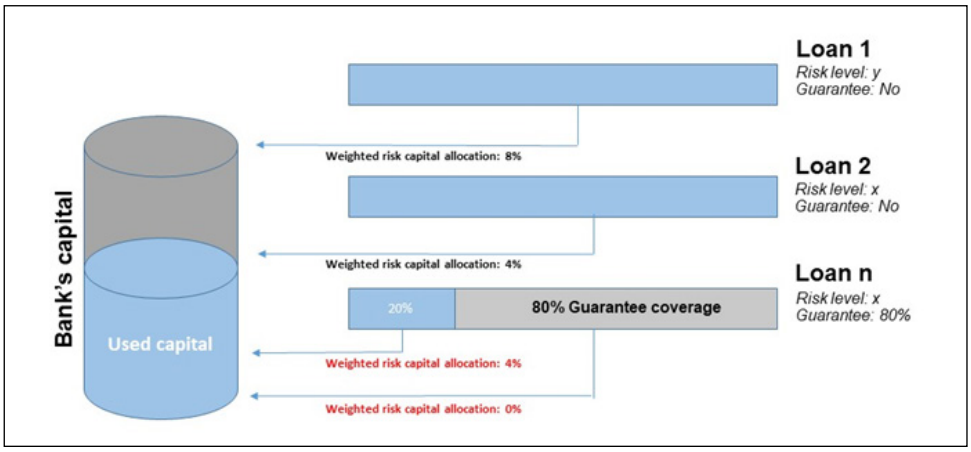
IV. Capital relief

Since banks play a strategic role in economic systems, they are subject to a complex regulatory environment to prevent them from taking excessive risks and to reduce systemic risk from multiple or major bank failures.

Among other rules, banks must have **regulatory capital**. Loans must be supported by capital (in the form of specific categories of assets) corresponding to the weighted risk of each transaction. Loans covered by a credit guarantee have lower weighted risk. Depending on the characteristics and nature of the guarantor and the method used by the bank to allocate capital, the **weighted risk of the guaranteed part of a loan could even be zero**.

A reduction in capital to be allocated against an exposure (so called **capital relief**) is expected to produce additional advantages for potential borrowers. Banks subject to regulatory capital constraints could increase their lending, in addition, since capital has a cost for the bank, the need for less capital should positively affect the cost of lending.

Figure 3.5: Capital relief



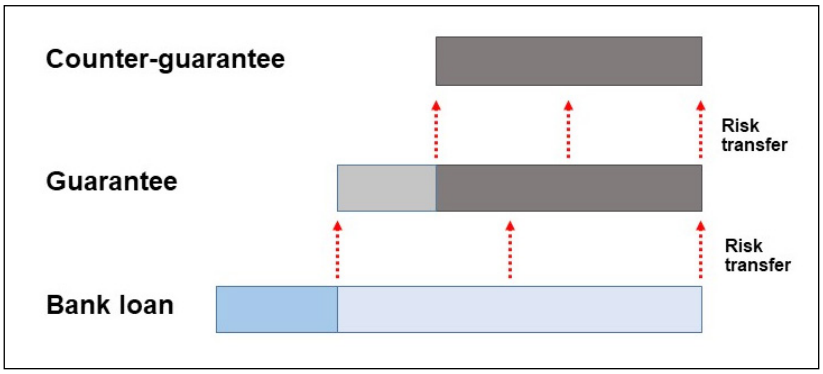
V. Counter-guarantee

Guarantees directly provide risk protection for banks. **Counter-guarantees provides risk protection to a guarantor who in turn provides guarantees to banks on loans to eligible borrowers.**

Although a counter-guarantee involves an additional layer between the instrument and the borrower, the key mechanisms described above are also valid for this type of instrument.

In particular, **the same advantages of easier access to finance and better financing conditions are expected to be transferred to eligible borrowers. The same mechanism regarding capital relief also applies**.

Figure 3.6: Risk transfer in case of counter-guarantee schemes



3.1 Main aspects of guarantee instruments

3.1.1 Key advantages and disadvantages of guarantee instruments

Credit guarantees continue to be the most widely adopted policy instrument to ease SME access to finance in OECD countries.[10] They were the main instrument for governments to mitigate the financial crisis and volumes usually remain well above pre-crisis levels.[11]

This tendency seems to be valid also in the EU, where credit guarantee schemes remain a widely used instrument to alleviate failures in the credit market for SMEs, improving their ability to access credit, with lower interest rates and collateral requested by banks.[12] SMEs are generally more affected than larger companies by credit rationing due to greater information asymmetry and the relatively higher costs of lending to small firms.[13] While collateral could help alleviate credit rationing, it is not always available. The borrower may, for example, have insufficient collateral of suitable size or quality and there may be asymmetric information regarding its value. Collateral can also affect transaction costs if it involves legal and other administrative procedures. Under such circumstances well-designed and well-priced guarantee instruments[14] can help close the financing gap by substituting collateral with credit protection to financial intermediaries provided by an external guarantor.

10 OECD (2018), Enhancing SME access to diversified financing instruments.
11 OECD (2018), Financing SMEs and entrepreneurship 2018 – An OECD Scoreboard.
12 AECM (2016), The importance of Financial Intermediaries in SME financing and assessment of different economic effects especially of EU Financial Instruments in light of Direct Guarantees vs. Counter-guarantee contracts, AECM Study Project, October 2016.
13 EIB (2014), Unlocking lending in Europe. See also Vienna Initiative Working Group on Credit Guarantee Schemes (2014), Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe.
14 Vienna Initiative Working Group on Credit Guarantee Schemes (2014), Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe, p.10.

Financial institutions providing guarantee schemes play different roles for SMEs and for financial counterparties.[15]
For the SMEs, guarantee institutions:

- facilitate access to financial resources without diminishing the responsibilities of the borrower;
- ensure a sound and comprehensive analysis of quantitative and qualitative risks using experience and training;
- depending on the procedural set-up, can use their proximity to SMEs to enrich risk analysis with knowledge about local competition, or developments in technology or marketing;
- depending on the procedural set-up, can support SMEs by giving advice and by supervising financial management.

For the financial institutions, guarantee institutions:

- build an individualised financial file for each institution, using simplified and standardised procedures;
- take on counterparty risk, generally for a low premium, which reduces bank capital requirements;
- frequently supplement bank financial and quantitative analysis with a more qualitative approach;
- encourage new clients for the bank who later 'graduate' to borrowing without guarantees.[16]

When supported by the public sector, **credit guarantee schemes can provide several additional advantages**[17]:

- They can contribute to resolve coordination failures between private-sector entities, which prevents them from pooling their resources.[18]
- They generate macroeconomic effects via the increased finance they facilitate, such as employment, which should outweigh the cost of defaults from a public policy point of view.
- From a budgetary point of view, they have much lower initial cash flow requirements than direct lending programmes. The multiplier effect[19] implies a more efficient use of public money which is especially important when fiscal constraints are tight.
- The lending decision remains with a market based, private-sector entity, the financial intermediary, ensuring a more efficient selection of borrowers than if done like in case of subsidies by a public authority.

Box 3.2 - The impact of credit guarantee schemes: the financial additionality[20]

Any assessment of the causal impact of public credit guarantee schemes generally evaluates the existence of any financial additionality.

This concept of financial additionality captures the incremental credit flow to eligible SMEs that is attributable to the credit guarantee scheme. Financial additionality is the amount of lending that would not have happened without the guarantee. Establishing the counterfactual baseline is a prerequisite of proper measurement, but hard in practice.

The empirical evidence shows that the financial additionality of credit guarantee schemes is typically through better credit conditions for SMEs, such as more loans, lower interest rates or longer loan maturities.

15 European Commission (2006), Guarantees and mutual guarantees, Best Reports N°3, pp.13-14. See also AECM (2016), The importance of Financial Intermediaries in SME financing and assessment of different economic effects especially of EU Financial Instruments in light of Direct Guarantees vs. Counter-guarantee contracts, AECM Study Project, October 2016, p.6.

16 Hancock, D, Peek, J. and Wilcox, J. A (2007), The Repercussions on Small Banks and Small Businesses of Procyclical Bank Capital and Countercyclical Loan Guarantees, AFA 2008 New Orleans Meetings Paper.

17 EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, pp.11-12.

18 When lenders are risk averse, collective action problems may prevent private sector guarantees, i.e. although stakeholders are all aware of the problem, private interests are not aligned with those of society (see Vienna Initiative Working Group on Credit Guarantee Schemes (2014), Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe, p.11).

19 The leverage or multiplier effect of Union funds shall be equal to the amount of finance to eligible final recipients divided by the amount of the Union contribution. In the ESIF context the leverage is the sum of the amount of ESIF funding and of the additional public and private resources raised divided by the nominal amount of the ESI Funds contribution. See European Commission (2015), Guidance for Member States on Financial Instruments - Glossary, p.4.

20 EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, pp.12-13, and OECD (2013), SME and Entrepreneurship Financing: The Role of Credit Guarantee Schemes and Mutual Guarantee Societies in supporting finance for small and medium-sized enterprises, pp.51-54.

On the other hand, the evidence is less conclusive for any increase in the number of loan beneficiaries and, especially, greater access to finance for new entrepreneurs or firms in innovative sectors, though targeted mechanisms have been increasingly implemented over the last decade.

In addition, in many countries, early evidence about the financial crisis and the uncertain recovery suggests that, at times of tighter credit markets, credit guarantee schemes can be an effective countercyclical tool to support lending and to restore a sustainable level of financing for credit-constrained SMEs.

Studies on the impact of mutual schemes during the crisis also show that they helped reduce SME financial tensions. Mutual schemes also play an important role in developing a trust-based relationship between the lender and the borrower, easing access to more loans at lower cost, but also attracting many riskier firms.

Evidence for the impact of guarantee instruments on lenders' overall behaviour towards the SME sector is scarce. Research found significant variability in lenders' attitudes and highlighted that credit guarantee schemes on their own are unlikely to deepen the financial sector without support from governments or donors. Such support would ensure that initiatives are coordinated and that below-market products and services, such as subsidised credit, do not crowd out market-driven initiatives.

This means that credit guarantee schemes can be accelerators rather than drivers of more developed financial markets for agriculture. The key enabling role of some macroeconomic conditions, including a competitive banking environment, a monetary and regulatory environment conducive to SME lending and a dynamic business sector, play a decisive role.

Further, research points to the importance of active interest and participation by lenders in credit guarantee schemes, based on the perception of clear and significant benefits, such as new markets, as opposed to coercive approaches or non-transparent benefits unrelated to the financial sector.

There are also notable concerns related to the credit guarantee schemes[21]**:**

- There could be moral hazards for both the borrower and the financial service provider, i.e. guarantee schemes may reduce the willingness of borrowers to service their loan obligations and may reduce the lender's efforts to supervise and enforce loan repayments.[22]
- For those who entirely refuse public interventions in the economy in the form of aid schemes, it is thought that by offering guarantees, farm and business development is not left to market forces. So, subsidies in the form of credit guarantees may distort markets with less than optimal allocations of financial institution funds. Moreover, a credit guarantee is sometimes seen as a hidden interest rate subsidy to SMEs for political purposes and not a true component of a market economy.[23] However, for public guarantee schemes in general, the actual financial benefit of lower interest rates for final recipients must be quantified and consistent with State aid rules (aiming at preventing market distortion).
- Further concerns about such guarantee funds are related to very limited performance data and evaluations of rural or agricultural guarantee schemes.[24]
- To make credit guarantees sustainable requires adequate regulation and legal processes. Success is also facilitated by 'a generally healthy banking sector with generally low levels of impaired assets, transparent accounting accompanied by supervision and evaluations, and professional management that is independent and free from political interference'.[25]

21 Zander, R., Miller, C., & Mhlanga, N. (2013), Credit guarantee systems for agriculture and rural enterprise development, FAO, Rome.
22 Beck, T., Klapper, L.F. & Mendoza, J.C. (2008), The typology of partial credit guarantee funds around the World. Policy Research Working Paper No. 4771, World Bank, Washington DC. See also von Pischke, J.D., Yaron, J. & Zander, R. (1998), Why Project Credit Performance Declines, Savings and Development, 22(2), pp. 149–179.
23 Gudger, M. (1998), Credit guarantees: an assessment of the state of knowledge and new avenues for research, Agricultural Services Bulletin No. 129. FAO, Rome.
24 Zander, R., Miller, C., & Mhlanga, N. (2013), Credit guarantee systems for agriculture and rural enterprise development, FAO, Rome.
25 Ibid, p.viii.

- Finally, there is the 'deadweight effect'[26] if guarantees are used by banks even when unnecessary. When the guarantee is free (i.e. the bank does not pay fees) or quasi-free (i.e. fees are very low) the bank can benefit from a guarantee on a loan it could have accepted even without the guarantee, so there is no additionality. Strictly related to the deadweight effect (and limitations on additionality), is the assumption of the 'rich-get-richer and poor-get-poorer' from an SME perspective. This may happen when a bank grants guaranteed loans to firms that already have relationships with the bank, and which would have been financed by the bank anyway. There may be distortionary selection with 'disadvantaged SMEs' such as micro enterprises, single entrepreneurs, start-ups or innovation companies being left out.

3.1.2 Key aspects of guarantee instruments in agriculture

Agricultural enterprises are more exposed to risks from external factors, such as the weather, which may simultaneously affect many farmers in a given area.[27] Rural activities are subject to seasonality and gestation periods, often involving a slow return of the invested capital, which is reflected in the cash flows of rural entrepreneurs. Longer loan maturities and irregular repayment schedules can be more risky and present additional challenges for liquidity management. The profitability of agricultural enterprises depends to a significant extent on factors largely beyond the control of farmers such as the weather, pests, diseases and price fluctuations of inputs and outputs. Financial institutions working with agriculture in the EU already offer a wide variety of tailored and flexible financial products to match farmers' needs.[28]

From a financial provider's point of view, guarantees are preferred to other financial instruments for improving the access of farmers and small agribusiness to financial resources[29] because:

- reduced collateral requirements lower administrative costs, particularly for rural small enterprise loans;
- they encourage new clients and products directed to specific segments of a potential market that can act as a catalyst to the wider sector;
- financial resources are leveraged by unlocking excess liquidity in the domestic banking sector;
- they can help banks to reduce their excessive deposit-to-credit ratios in rural areas.

Agricultural finance institutions and commercial banks consistently produce excess liquidity from small agricultural depositors which is used for money market placements or urban investments rather than investing it back in the rural economy. This is an opportunity for guarantee funds to focus on rural and agricultural borrowers[30] especially if 'guarantee subsidies accelerate learning, so lenders improve their credit analysis and are encouraged to lend liquid funds rather than investing in government securities or lending only to highly collateralised borrowers'.[31]

26 AECM (2016), The importance of Financial Intermediaries in SME financing and assessment of different economic effects especially of EU Financial Instruments in light of Direct Guarantees vs. Counter-guarantee contracts, AECM Study Project, October 2016, p.7.

27 International Finance Cooperation, World Bank Group, (2011), Scaling Up Access to Finance for Agricultural SMEs Policy Review and Recommendations, p.18.

28 See the recent study by *fi-compass* (2018), Flexible financial products for the agricultural sector in the EU.

29 See for example Pozzolo, A. F. (2001), Secured lending and borrowers' riskiness, Banca d'Italia, Rome and Zander, R., Miller, C., & Mhlanga, N. (2013), Credit guarantee systems for agriculture and rural enterprise development, FAO, Rome.

30 Meyer, R. (2011), Subsidies as an instrument in agriculture finance: a review. CABFIN Joint Discussion Paper, World Bank, Washington DC; Zander, R., Miller, C., & Mhlanga, N. (2013), Credit guarantee systems for agriculture and rural enterprise development, FAO, Rome, p.13.

31 Meyer, R. (2011), p.33.

3.1.3 Key aspects of counter-guarantees

The use of counter-guarantees in publicly funded instruments, especially when established at EU or national level, offers specific advantages[32]:

- In the EU the 'multiplier effect' of counter-guarantees is much higher than for direct guarantees.[33] Together with the 'catalytic effect' of subsequent SME investments, this can translate into greater economic additionality.
- Counter-guarantees imply additional institutions assuming risk, enabling more guarantees, more lending and, possibly, increased capital relief for banks[34] (see also Box 3.3).
- Counter-guarantees increase the capital of guarantee institutions, which can lead to more guarantees.
- Guarantee providers benefiting from a counter-guarantee might provide a selection and a short-list of 'more deserving' SMEs, leveraging on their knowledge of the local market, easing the operational burden for the bank and speeding up the process.
- Guarantee providers benefiting from a counter-guarantee might ease other operational activities (e.g. paperwork, applications, guarantee issuance).
- Guarantee providers benefiting from a counter-guarantee might offer targeted assistance and support to SMEs in addition to the risk coverage. [35]

Box 3.3 - Guarantees and capital relief in the EU[35]

In the EU, the capacity of guarantees to provide capital relief is regulated by the Capital Requirements Directive IV (CRDIV) and the Capital Requirements Regulation. EU Member States are subject to Directive 2013/36 (CRD IV) and Regulation 275/2013 (CRR) which determines the way capital is allocated towards each exposure. In line with the idea of a single rulebook, CRDIV/CRR rules are unified, and the scope for discretionary local regulations is strictly limited. The capital calculation rules – including the treatment of guarantees – are described in a regulation that is directly applicable in all EU countries, resulting in a consistent interpretation across European jurisdictions. The European Banking Authority provides useful guidance on the interpretation of CRD/CRR related provisions, contributing to a consistent interpretation of this legislation across the EU.

The CRR describes two types of credit protection: funded and unfunded. Under unfunded credit protection, the reduction of credit risk for the guarantee claim is based on the obligation of a third party to pay an amount in the case of default by the borrower. The rationale for unfunded credit protection is based on the assumption that the credit protection provider faces a lower risk exposure than the borrower, so transferring credit risk from the borrower to the provider of protection diminishes the lender's risk.

To be eligible as credit protection under the CRR, the credit guarantee should fulfil certain conditions which in principle relate to the nature of the issuer and the terms of the relevant guarantee.

The CRR specifies who may be a recognised guarantee (or counter-guarantee) provider of credit protection. These may be governments, central banks, local authorities, multilateral development banks (like the EIB and EIF), international organisations, public sector entities, institutions, or rated corporate entities, among others.

Other conditions specified in the CRR relate to the features of the guarantee. In principle, guarantees should fulfil conditions for unfunded credit protection and be legally effective and enforceable in all relevant jurisdictions. The protection has to be direct, clearly defined and incontrovertible.

The CRR describes two approaches to computing the capital allocated against credit risk: standardised and internal ratings based. In both methods guarantees may be used to mitigate credit risk, thus allowing regulatory capital relief for a bank.

32 Ibid, p.41.
33 Ibid, p.46.
34 Ibid, p.8.
35 EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.33.

Banks can modify risk-weighted exposure amounts for credit risk by assigning the risk weighting of the protection to the secured part of the underlying exposure. The reduction can differ by country and instrument. When guarantees are applied as credit risk mitigation, the exposure is typically divided into the guaranteed and unguaranteed portions. The risk weight of the former will be equal the risk weight of the guarantor.

According to article 117 of the CRR, multilateral development banks confer a 0% risk weight to the guaranteed portion. In other words, if a multilateral development bank was to provide an eligible guarantee on an exposure, the bank would no longer need to keep any capital against that guaranteed exposure. The risk weight for the unguaranteed portion will depend on the asset type and the approach (standardised or internal ratings based) employed by the bank.

The regulatory capital treatment of some guarantee products – such as first loss, capped, guarantees – is not fully homogeneous across Europe. First loss portfolio guarantees provide credit risk coverage up to a certain amount of the reference portfolio (cap amount), typically comprising the portfolio expected loss. The risk transfer benefit of heterogeneous products is assessed by regulated banks, making sure the guarantee complies with articles 194 and 213 of the CRR.

3.2 The Credit Guarantee Schemes Surveys

Credit guarantee schemes for SME lending in Western Europe have been analysed in an EIF and EIB report.[36] This includes a **Credit Guarantee Schemes Survey** of guarantee institutions accompanied by analysis of guarantee schemes used by financial intermediaries (**Bank Survey**). These surveys conducted by the EIB Group between October 2015 and May 2016, cover 18 credit guarantee organisations in 13 countries and 33 banks in 17 countries. The aim was to provide a deeper insight into the features and operational mechanisms of credit guarantee schemes, and the financial intermediaries that use them. The current publication follows an earlier report (see box 3.4 for detail) which provides a comprehensive overview of credit guarantee schemes for SME lending in Central, Eastern and South-Eastern Europe (CESEE).

The **Credit Guarantee Schemes Survey** was sent to 21 institutions across Western Europe[37] in September 2015 and completed by 18 institutes from 13 countries between October 2015 and May 2016. Most interviewees were AECM members. The Credit Guarantee Schemes Survey contained 49 questions under 8 topics.[38] The **Bank Survey** contained 18 questions and was sent out in June 2015 to large banking groups in Western European countries. Only half the 63 banks returned the questionnaire (responses were received between June and September 2015). This resulted in a sample of 33 banks operating in 17 different countries.

The two surveys highlighted the following results[39]:

- **The Western European credit guarantee sector is well developed, but activity is unevenly distributed across countries**. The survey results highlight the absence of cross-border credit guarantee schemes, leaving room for **supranational financial institutions to improve the efficiency of SME financing in general, and credit guarantee products in particular**.

36 EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42.

37 The survey includes the EU15 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom), and some new members states not covered by the Vienna Initiative study (Cyprus and Malta). Slovenia was only partially covered by the earlier study; therefore we included it in the current survey, too.

38 Part I: general information about the institute and objectives; Part II: characteristics of the guarantee products; Part III: appraisal practices; Part IV: claim procedures; Part V: key performance measures; Part VI: operating constraints; Part VII: regulatory issues; Part VIII: operational and financial reporting indicators.

39 EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42., pp. 50-51.

- **Credit guarantee schemes in Western Europe are typically publicly owned, non-profit, and active only in their home country. They manage their risks through government and EU counter-guarantees**, often facing a complex regulatory environment. Moreover, the guarantee coverage of banks' SME portfolios varies greatly between institutions. **Most demand for credit guarantees in Western Europe is satisfied by local guarantors.**
- Although the banks themselves show a strong interest in guarantee products, several factors have limited credit guarantee usage. Credit guarantee scheme providers and banks both agree that the most important factor is weak demand for loans by SMEs in the survey period (June 2015 – May 2016). However, **EU State aid regulations are also a major constraint. For banks, administrative procedures and the cost of guarantees are additional factors.**
- Reduced **collateral was indicated as the primary driving force for most credit guarantee scheme respondents**. SMEs receiving a guaranteed loan did not receive full collateral relief. Moreover, credit guarantee scheme institutes indicated that a complete lack of collateral was an important limitation to possible access to credit. This implies that although credit guarantee schemes might reduce collateral constraints, which would also enable SMEs to obtain larger loans for the same collateral, the guarantee is not a perfect substitute for collateral. So banks cannot increase lending in proportion to the guarantee which limits the impact of the guarantee schemes. Consequently, **external guarantees and collateral are often both used in the same loan**.

Box 3.4 - Guarantee schemes for SME lending in CESEE

This report summarises the discussions in the Working Group on Credit Guarantee Schemes in CESEE, established under the European Bank Coordination Initiative (Vienna Initiative 2[40]). Members of the Vienna Initiative 2 highlighted the existence of significant constraints on lending in CESEE, stemming from both the demand and the supply sides. In particular, banks noted that they have little information on the 'true' risk of SME lending in the region, as many of these economies have not actually been through a full, proper credit cycle in the post-transition period. One possible way to help the banks to absorb more risk, the report concludes, is via credit guarantees issued by credit guarantee schemes. The report highlights the following conclusions and recommendations[41]:

- There is a strong demand for SME credit guarantees in the CESEE region and further development of the infrastructure that provides such products is needed.
- Credit guarantee schemes can be an effective way to deliver public support for SME access to finance. EU funds and international financial institutions could play a key role in supporting guarantee schemes when there are fiscal constraints at national level.
- A number of guarantee schemes operating in CESEE have room for improvement in defining their objectives, measuring performance and additionality, and evaluating long-term sustainability. Smaller, regional guarantee providers may benefit from counter-guarantees, and from a standardisation of their product lines.
- The ability of credit guarantees to substantially alleviate the need for collateral should be strengthened through appropriate contractual parameters and pricing.
- Credit guarantee schemes should refrain from excessive administrative requirements and narrow definitions of eligible clients, as these often discourage lenders from using credit guarantees.
- A uniform treatment by national authorities of the credit risk mitigation provided by financial guarantees and the associated regulatory capital relief may facilitate more widespread use of these instruments.

40 In October 2013 members of the Full Forum of Vienna Initiative 2 decided to establish a working group on credit guarantee schemes (CGSs). The Vienna Initiative was originally established at the height of the global financial crisis of 2008/09 as a private-public sector platform to secure adequate capital and liquidity support by international banking groups for their affiliates in CESEE. The initiative was re-launched as 'Vienna 2' in January 2012 in response to renewed risks for the region from the Eurozone crisis. Its focus is now on fostering home and host authority coordination in support of stable cross-border banking and guarding against disorderly deleveraging. International. See EBCI (2014), Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe - Report by the Vienna Initiative Working Group on Credit Guarantee Schemes, p.7.

41 Summarised from EBCI (2014), Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe - Report by the Vienna Initiative Working Group on Credit Guarantee Schemes, p.6.

4 GUARANTEE AND COUNTER-GUARANTEE INSTRUMENTS NEED AND INTEREST: RESULTS FROM THE QUESTIONNAIRES

This chapter provides information on the characteristics of bank finance for agricultural enterprises and on the need and interest for guarantee and counter-guarantee instruments. It uses information from interviews with financial intermediaries (Task A) and credit guarantee institutions (Task B).

Firstly, it reviews characteristics of financial intermediaries and guarantee institutions, their sectoral market share and the demand for finance from agricultural enterprises. It then analyses their activity, focusing on assessment criteria for agricultural enterprise applications. Each section distinguishes financial intermediaries from guarantee institutions.

The chapter is then divided into three sections. The first analyses the use of guarantee instruments and is split into a sub-section analysing answers from the questionnaire of financial intermediaries (Task A) and another analysing answers from the questionnaire of guarantee institutions (Task B). This includes analysing the default and restructuring rates of agricultural enterprises, in particular compared to generic SMEs, as well as the key advantages of using guarantees. The guarantee institutions offer a clearer picture of their activity, through their key objectives, how they limit lender collateral requirements and their risk management techniques. The second section investigates the interest in publicly supported guarantee instruments and is entirely based on answers from the financial intermediaries (Task A). The last section looks into the interest in publicly supported counter-guarantee instruments and is mainly based on interviews with guarantee institutions (Task B).

Key findings

Key aspects of the financial market for agriculture (section 4.1)

From the questionnaire of financial intermediaries (Task A):

- For nearly 85% of the financial intermediaries, **lending to the sector increased in the last three years**; a similar pattern is expected for the next three years, especially driven by 2014-2020 RDPs;
- For **farmers, the most important products are long-term investment loans** (>5 years) and short-term working capital loans (<12-24 months);
- The **most important factors for financial intermediaries** are turnover and income performance, **credit history and collateral or other guarantees**;
- The rejection rate for applications in agriculture is the same or even lower than for SMEs in the other sectors; a **lack of economic viability is the main reason for rejecting applications**;
- For the great majority **interest rates are lower or the same compared to those for other SMEs**.

From the questionnaire of guarantee institutions (Task B):

- The **demand for guarantees has increased or remained stable in recent years** for most respondents; **demand is forecast to increase in the coming years**, mainly boosted by EAFRD projects;
- **Loan guarantees are the main activity** for more than half the **guarantee institutions**;
- **Direct guarantees to banks are the most used** financial product;
- The type of **products guaranteed are primarily long-term loans**, followed by credit lines, short-term loans and medium-term loans; **guarantees provided by most interviewees are on a loan-by-loan basis**;
- In assessing the agricultural enterprise risk profile, the **most important factor is the quality of the business plan, followed by the turnover/income of the enterprise and the credit history**;

Use of guarantee instruments (section 4.2)

From the questionnaire of financial intermediaries (Task A):

- **The risk profile of agricultural enterprises is not seen as worse than other SMEs**; on average, **loans for famers are restructured less or at a similar rate to other enterprises**;
- **The collateral cover for individual agricultural loans is similar to other enterprises**, especially SMEs; guarantees or collateral are particularly required for long-term/investment loans (>5 years), followed by medium-term/investment loans;
- For the majority of interviewees, however, **there is difference in collateral requirements applied to enterprises depending on their credit history**;
- **Most of the financial intermediaries use credit guarantees under schemes for agricultural loans**, especially from public national/regional institutions;
- The **key advantages of credit guarantee instruments for farmers are reduced collateral requirements** followed by **lower interest rates**.

From the questionnaire of guarantee institutions (Task B):

- For most guarantee institutions **the default rate of agricultural enterprises is lower or the same** as for other enterprises, SMEs in particular;
- **Reduced collateral is seen as the biggest advantage of guarantees**, followed by the possibility to finance risker projects;
- **More than half the guarantee institutions do not monitor if these advantages are passed on to borrowers;**
- **The impact on collateral requirements is reported to be effective even though more than half the schemes do not limit lenders from asking for collateral.**

Public support for risk mitigation (section 4.3)

Interest in guarantee instruments:

- The main challenge for financial intermediaries is in achieving **sufficient margins and profitability**;
- According to most respondents, **there is a specific credit guarantee scheme for agriculture** in their respective country, which is rated as satisfactory though there is wide room for improvement;
- A large majority of the financial intermediaries believe that developing a **specific credit guarantee scheme for agriculture at EU/national level would be helpful**; public support to mitigate the risk may **help financial institutions to provide finance or allow better conditions (interest rate/collateral) for more farmers**;
- Specific agricultural financial products, **especially long-term/investment loans (>5 years) should benefit most from public support to mitigate risk.**

Interest in counter-guarantee instruments:

- **Counter-guarantees seem to be an important risk management technique** for guarantee institutions, especially those from the State/region, EU institutions or other international financial institutions;
- Most guarantee institutions believe that **a public scheme for agriculture funded by the EU (at EU/national level) providing counter-guarantees would be helpful;** almost half of the financial intermediaries agree;
- Such a public scheme **would increase resources for guarantees in the agriculture sector** (increase overall portfolio volume), **enable better risk management** and **make guarantees more attractive** to banks with their capital relief effects;
- With an EU direct guarantee instrument, **most of the interviewees could also co-guarantee**.

4.1 Key aspects of the financial market for agriculture

4.1.1 The questionnaire of financial intermediaries (Task A)

The financial intermediaries interviewed (see Table 2.1 in Chapter 2) included public and commercial banks, regional promotional and development banks, big banking groups with EU-wide coverage, as well as small local banks and cooperatives providing loans or similar products to farmers. Interviewees were selected from a preliminary screening of financial intermediary websites made for the study *fi-compass* (2018)[42] and focused on market share in the agricultural sector or particularly targeted (i.e. offering financial products specifically designed for agriculture). The screening was not to create an exhaustive sample but to provide a comprehensive overview of the financial market for agriculture in these Member States.

Interviewees have a significant share of agricultural lending, for nearly 43% of the sample agricultural financing has more than 10% of their total portfolio.[43] The sample includes commercial banks with a long track record in agricultural financing or which have supported major investment programmes to develop agriculture and related sectors in their respective countries. There are also public financial institutions such as national and regional promotional and development banks, as well as specialised public funds and associations. Other financial institution interviewees were specialised funds targeting agriculture and related sectors. Some of these have a dominant share in agriculture financing at the national level.

For most financial intermediaries interviewed (86%)[44], lending volume has increased in the last three years. They expect a similar pattern for the next three years with 73% anticipating an increase in demand for agricultural finance with only 8% expecting a decrease and the remaining 19% no change.[45] Interviewees gave various reasons for such predictions, but the most often mentioned are strong political support for local agricultural sector development and the availability of EU funds (through RDPs) in the coming years. The demand for bank finance is considered to be correlated with the availability of EU/ preferential financing programmes. So, when funds are available the demand for bank financing, particularly for investment loans, is higher. At the same time, when the programmes are over, demand falls.

For other financial intermediaries, internal policy is to expand activities and support additional loans to farmers, for both working capital and investments. Furthermore, the expected increase in demand for agriculture financing is also linked to recent developments in certain sub-sectors of agriculture. For instance, organic farming is evolving rapidly with increased demand along the whole chain.

Financial intermediaries see major demand from farmers for long-term/ investment loans (>5 years) and short-term/working capital loans (<12-24 months)[46], indicated by 73% and 64% of respondents respectively.

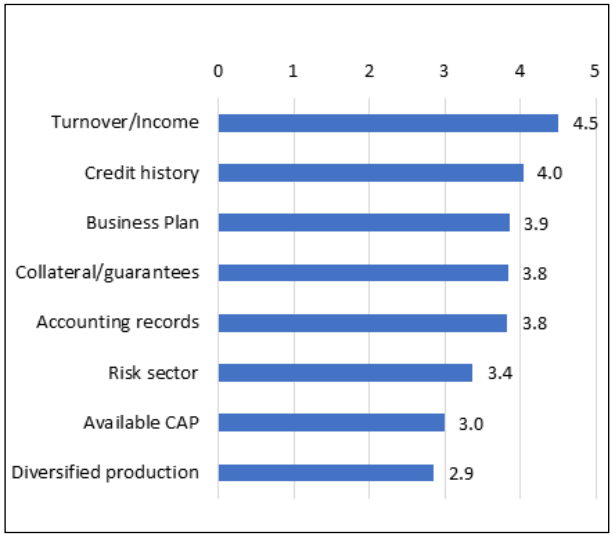
The most important factor for financial intermediaries when assessing applications for finance (Figure 4.1) is the economic performance of the enterprise in terms of turnover and income, followed by their credit history. It is interesting to note how, although still considered important, the business plan is less important than these criteria. Specific risks related to agriculture and its sub-sectors (e.g. price volatility), CAP support or other forms of grant funding are considered less important. Lastly, when it comes to assessing agricultural enterprises, financial institutions give the least importance to diversified production. **The importance given to credit history can be critical in a sector where enterprises might be less familiar with the banking system. This could be problematic, in particular**

42 Summarised from EBCI (2014), Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe - Report by the Vienna Initiative Working Group on Credit Guarantee Schemes, p.6.
43 Elaboration based on Annex I, Task A, Q.1. N/A answers, corresponding to 4.5% of interviewees (2 intermediaries), are excluded.
44 Elaboration based on Annex I, Task A, Q.2. Those reporting a decrease are in Croatia (1), Estonia (2), France (1), Italy (2) and the Netherlands (1).
45 Elaboration based on Annex I, Task A, Q.3. N/A answers, corresponding to 16% of interviewees (7 intermediaries), are excluded. A 'negative' outlook was reported by one financial intermediary in Germany, one in Lithuania and one in Sweden.
46 Elaboration based on Annex I, Task A, Q.4

for young farmers and start-ups, when turnover is considered more important than the business plan. In addition, having an accounting system in place is considered important by banks, though small agricultural enterprises are normally not legally obliged to keep such records.

Furthermore, financial intermediaries tend to offer specific services and different products to farmers (in particular compared to SMEs).[47] In most cases, these include repayments scheduled according to production seasonality, as well as specialised staff to assess loan applications. Longer maturities are also offered, but longer grace periods are rare.

Figure 4.1: Importance of factors when assessing agricultural enterprise applications for finance (1=low, 5=very high)



Source: Elaboration based on Annex I, Task A, Q.5.

In addition, the recent study 'Flexible financial products for the agricultural sector in the EU' by *fi-compass* (2018) investigated the current offering of financial products with flexible repayment schedules for the EU agricultural sector. Most of the financial intermediaries analysed and interviewed already offer products tailored to match characteristics of the borrowers (see Box 4.1 for further detail).

Box 4.1 – Flexible products from EU financial intermediaries

The study analyses current financial products with flexible repayment schedules ('flexi' products) for the agricultural sector across 16 Member States, identifying and understanding their key characteristics, targets, objectives, rationale and mechanism, as well as investigating the need and interest of EU financial intermediaries for these products.

In order to categorise the current offering of these products, the study distinguishes bespoke products (i.e. with repayment conditions designed for individual farmer characteristics), from those where changes in the repayment schedule can be activated on a farmer's request or automatically. This second category can be further divided into on-demand or self-adjusting flexible products. On-demand flexible products have conditions and criteria agreed ex-ante by the financial intermediary and the borrower and can be activated on demand by the farmer. Here the flexibility does not operate automatically and is based on the type of agreement defined between the lender and the borrower. Self-adjusting flexible products have repayment automatically linked to market indicators, such as price fluctuations.

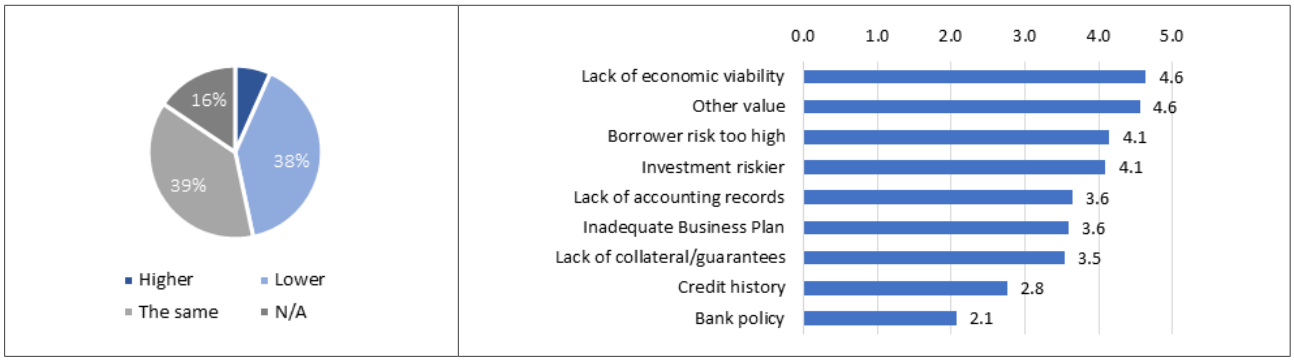
Flexible and tailor-made solutions are offered by a wide range of financial institutions. Most of the financial intermediaries see the need for flexible financial products designed for agricultural enterprises. Widespread interest and experience of such products, backed by public support, could also stimulate more financial intermediaries to offer them and at the same time improve conditions on existing products.

Public support would be welcomed, especially **in the form of credit guarantee schemes for agriculture**. Guarantee instruments should reflect flexible clauses in the underlying loan contracts, as changes in the loan contract normally require acceptance by the guarantor. **A funded (public/private) risk sharing instrument could also be considered.**

47 Elaboration based on Annex I, Task A, Q.6.

For most financial intermediaries the rejection rate of financial applications in agriculture (Figure 4.2) is either the same or lower compared to SMEs in other sectors. It is higher for only 7% of the interviewees (one in Croatia, one in Estonia and one in Portugal). Furthermore, **lack of economic viability is the main reason for rejecting such applications, followed by the high investment and borrower risks**. However, very specific reasons ('other value') can account for rejecting an application, including the amount of finance required by the farmer, the sector, the quality of the farmer as a business manager, knowledge of production costs, etc.

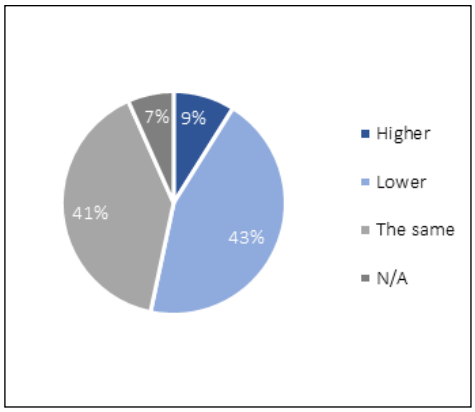
Figure 4.2: Rejection rates and main reasons for rejection (1=low; 5=very high)



Source: Elaboration based on Annex I, Task A, Q.7.

Finally, interviewees were asked whether interest rates on farm loans are higher than for other SMEs (Figure 4.3). **For the great majority[48] interest rates are lower or the same, on average for investment loans between 2.3% and 4.4% with a maximum of 7%. For working capital loans rates are mostly between 3.0% and 5.4%, with a maximum of 12%.** There seems to be no significant difference between interest rates in Euro areas (2.1% minimum and 4.7% maximum) and Non-Euro areas (between 2.5% and 4.8%). For short term loans the range in the Euro area is between 2.3% and 5.2% and for the other countries between 3.1% and 5.5%.

Figure 4.3: Interest rates applied to famers compared to other SMEs



Source: Elaboration based on Annex I, Task A, Q.8.

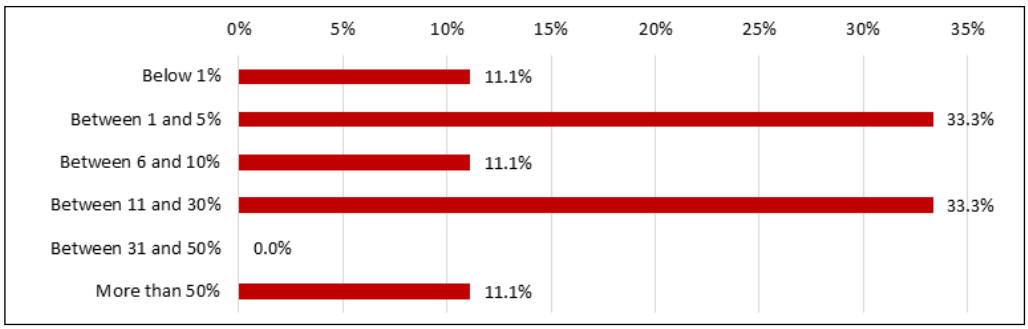
48 Elaboration based on Annex I, Task A, Q.8a and Q.8b.

4.1.2 The questionnaire of guarantee institutions (Task B)

The guarantee institutions interviewed are associates of AECM, founded in 1992. Today AECM has 42 members operating in 26 EU countries, plus Bosnia and Herzegovina, Serbia, Russia and Turkey.[49] Its members are mutual, private sector guarantee schemes as well as public institutions, which are either guarantee funds or development banks with a guarantee division. They all provide loan guarantees for SMEs who have an economically sound project but insufficient collateral. In total 20 AECM members work in the agricultural sector, including the four extra-EU members.

Of the 13 interviewees, 4 specialise in agriculture. For the other 9, the share of agriculture in their overall portfolio varies a lot (Figure 4.4). One has a share below 1%, 3 between 1% and 5%, one between 6% and 10%, 3 from 11% to 30% and one greater than 50%.

Figure 4.4: Share of financing agriculture in the guarantee institution portfolio



Source: Elaboration based on Annex I, Task B, Q.1. N/A answers, corresponding to 31% of interviewees (4 guarantee institutions), are excluded.

Nearly one third of them are government entities (see Figure 4.5), followed by private corporations (23%), public corporations (15%), mutual associations (15%), and other (15%). In terms of ownership, they are predominantly public institutions (54%), while some (38%) have a mixed ownership structure.

Figure 4.5: Ownership and legal structure of guarantee institutions interviewed under Task B

Ownership	Government entity	Public corporation	Private corporation	Mutual association	Other
Private			DE		
Mixed			FR	PT, ES	HU (2)
Public	HR, IT, LT, LV	BG, RO	IE		

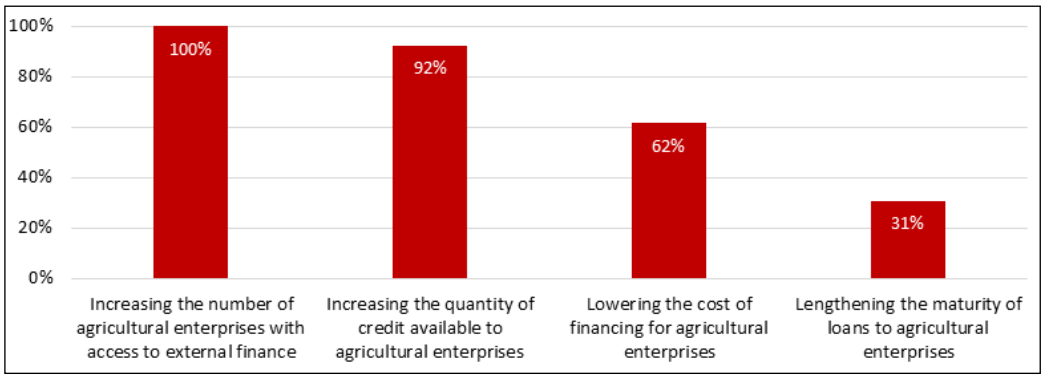
Legal structure

Source: Elaboration based on Annex I, Task B.

49 EU members: Garfondas (Lithuania); The Netherlands Enterprise Agency (the Netherlands); Agrogarante (Portugal); FGCR (Romania); FNGCIMM (Romania); FRC (Romania); CESGAR (Spain); National Guarantee Fund (Bulgaria); HAMAG-BICRO (Croatia); SIAGI (France); Assoconfidi (Italy); ISMEA (Italy); ALTUM (Latvia); VDB (Germany); AVHGA (Hungary); Garantiqa (Hungary). Extra-EU members: Fund of Small Enterprise Credit Assistance of Moscow (Russia); Guarantee Fund of the Autonomous Province of Vojvodina (Serbia); Guarantee Fund of the Republic of Srpska (Bosnia-Herzegovina); KGF (Turkey).

In terms of key objectives for their activity, **most of the guarantee institutions aim to both increase the number of agricultural enterprises with access to external finance, as well as to increase the quantity of credit available to agricultural enterprises** (Figure 4.6). Another goal is lowering the cost of financing for agricultural enterprises. Lengthening the maturity of loans is not usually considered to be a priority. These results are consistent with those in the Credit Guarantee Schemes Survey (see Box 3.4)[50], where the aim to increase the number of their clients with access to external finance is the most important, followed by increasing the quantity of credit available to each SME. Lowering the cost of financing for agricultural enterprises and lengthening the maturity of loans are important only for a smaller group of respondents.

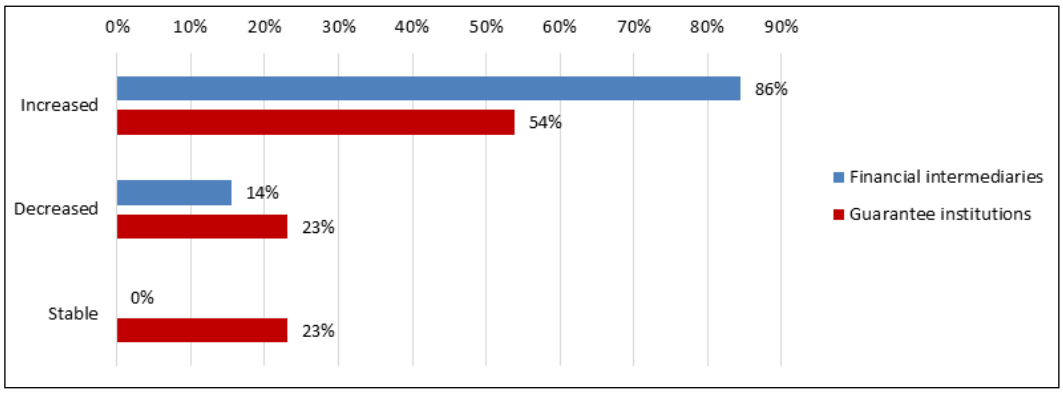
Figure 4.6: Key aims for guarantee institutions (multiple choice allowed)



Source: Elaboration based on Annex I, Task B, Q.9.

Demand for finance by the agriculture sector increased in the last three years for more 54% of the sample, decreased for 23%, and remained stable for the remainder (Figure 4.7). **The forecast for the near future is very close to the picture for financial intermediaries, with an increase for 77% of interviewees and stability expected by the rest** (Figure 4.8).

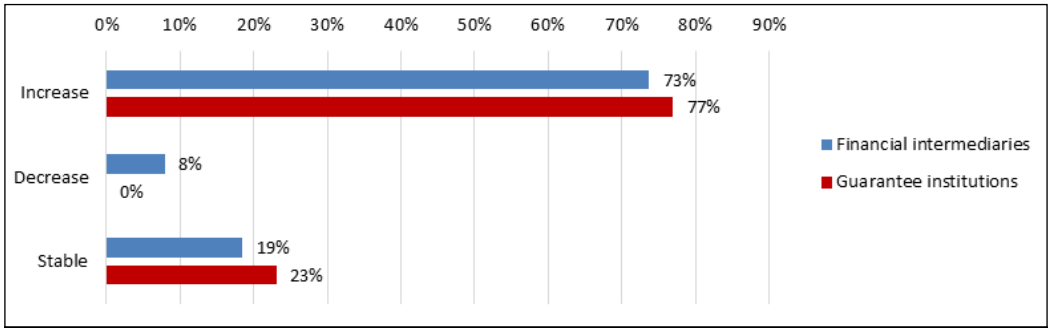
Figure 4.7: Demand for finance in agriculture in the last three years



Source: Elaboration based on Annex I, Task A, Q.2 and Task B, Q.6.

50 See figure 10 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.22.

Figure 4.8: Demand for finance in agriculture in the next three years

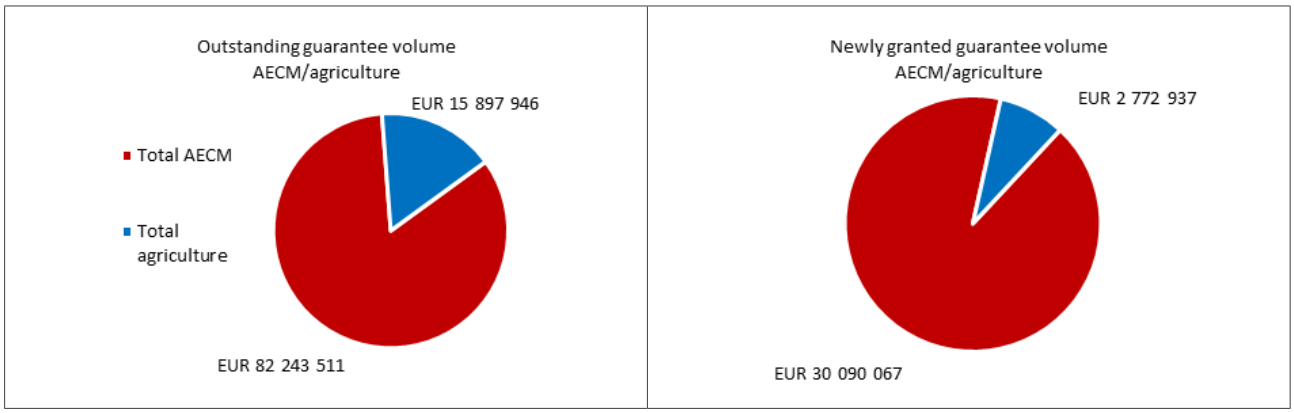


Source: Elaboration based on Annex I, Task A, Q.3 and Task B, Q.7.

Among the reasons for increased demand expected in the next three years is the realisation that EAFRD projects boost lending for agriculture and that additional resources (new loans to be guaranteed) are expected in the current programming period in order to support an expected increase in farm investments (see also the discussion in Section 4.1.1). Other reasons include internal policies of guarantee institutions, such as additional risk sharing products, increasing demand for short-term credit guarantees, as well as the growing need for longer maturities to cover investment projects.

Loan guarantees are the main activity for more than half the 13 **guarantee institutions** interviewed. The total outstanding amount guaranteed for agriculture is EUR 1.69 billion. In the last three years the average amount guaranteed for agriculture is EUR 630 million per year.[51] For AECM associates 20% of outstanding guarantees (Figure 4.9) and 10% of new guarantees in 2016 were for agriculture.

Figure 4.9: AECM guarantees for agriculture

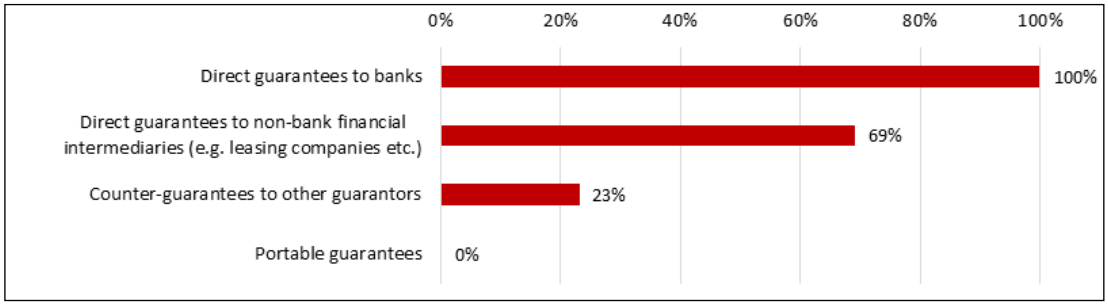


Source: Reproduced from AECM (2017), AECM Facts & Figures – AECM Members Figures 2016, May 2017, p.20.

51 Figures based on own elaboration taking into account the exchange rate (EUR/local currencies for Member States outside the Euro area), see Annex I, Task B, Q.4 and Q.5.

All the guarantee institutions offer direct guarantees to banks (Figure 4.10). Direct guarantees to non-bank financial intermediaries (such as leasing companies) are offered by 69%, while counter-guarantees to other guarantors are provided by 23% of interviewees. None offers portable guarantees.[52] The results are in line with the Credit Guarantee Schemes Survey (see box 3.4)[53], where almost all respondents provide direct guarantees, more than half provide them to financial institutions such as leasing companies.

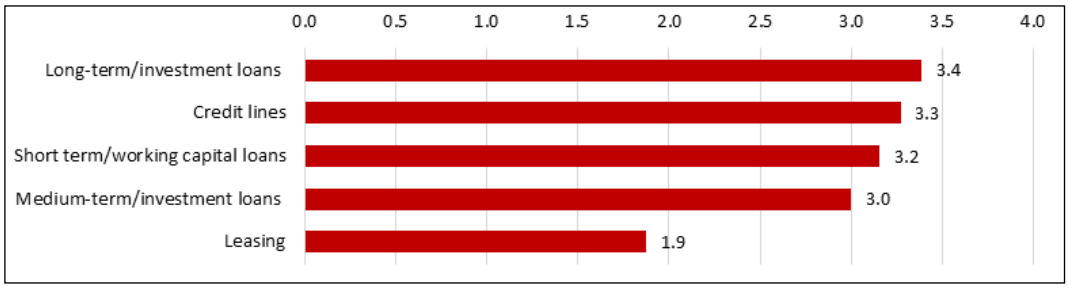
Figure 4.10: Type of guarantees offered (multiple choice allowed)



Source: Elaboration based on Annex I, Task B, Q.10.

The products guaranteed (Figure 4.11) **are primarily long-term loans, followed by credit lines, short-term loans and medium-term loans. It is worth noting that activity tends to concentrate in two extremes: long term investment loans and short-term products for working capital. This is also in line with the feedback from financial intermediaries** and seems consistent with the features of agricultural sub-sectors which have long term investments and long cash flow cycles.

Figure 4.11: Types of financial products guaranteed (1=low; 5=very high)



Source: Elaboration based on Annex I, Task B, Q.11.

Guarantees from interviewees[54] typically cover 70%-80% of individual loans with maturities[55] ranging from a minimum of few months (three or six) to 25 years. In two cases, there is no specific limit and the guarantee maturity is equal to the credit maturity.

52 Slightly different to a loan guarantee, a portable guarantee provides a potential borrower with a guarantee commitment, so the borrower can seek the most advantageous terms. Portable guarantees are appropriate for specific credit enhancement when the borrower is known, but the lender is not yet known. In these cases, a minimum credit rating (e.g., from a rating agency) is established, and the risk calculation and subsidy cost are based on the assumption that the eventual lender will have a rating equal to or above this minimum rating.

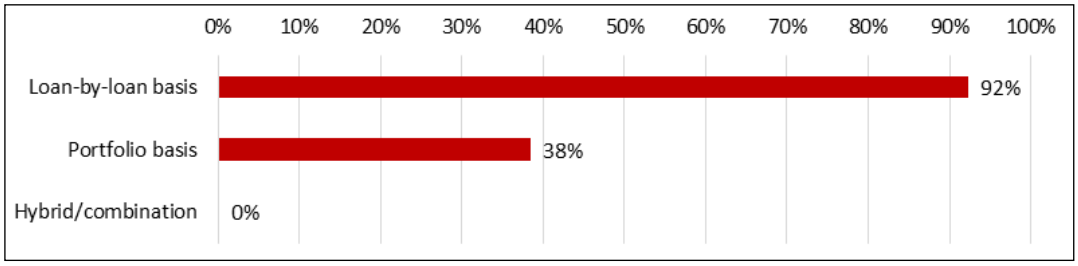
53 See figure 15 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42Europe, p.25.

54 See Annex I, Task B, Q.15.

55 See Annex I, Task B, Q.16.

For agriculture (Figure 4.12), **guarantees provided by most interviewees are on a loan-by-loan basis; guarantees on portfolios are provided by 38% of respondents and none provides hybrid products (i.e. combinations of the previous two)**. This differs from the Credit Guarantee Schemes Survey (see Box 3.4)[56], which reports that 56% of institutions offer guarantees on individual loans against the 92% in this analysis; about 17% of the institutions provide credit guarantees to portfolios of loans versus 38% in this analysis; and 30% of institutions in the Credit Guarantee Schemes Survey offer both (hybrid/combination), compared to none for this report.

Figure 4.12: Type of guarantees for agriculture provided, (multiple choice allowed)



Source: Elaboration based on Annex I, Task B, Q.12.

It is important to note that with most guarantees provided by the institutions (69%), beneficiary banks can obtain regulatory capital relief.[57]

Fees charged to agricultural clients (Figure 4.13) are mainly based on risk analysis and loan size (62% of interviewees). In addition, 15% of respondents charge an application fee, 8% require an initial membership fee, while none charge for unused commitments or annual membership and one does not charge any fee at all. Guarantee institutions can mix fees, so the sum of answers in Figure 4.21 is above 100%. Fees in 10 of the 12 guarantee institutions charging them are paid by the borrower and in two cases by the lender.[58] The results of the Credit Guarantee Schemes Survey (see Box 3.4)[59] differ as more than 80% apply a fee based on loan size, 60% for an application and all of them charge some fee.

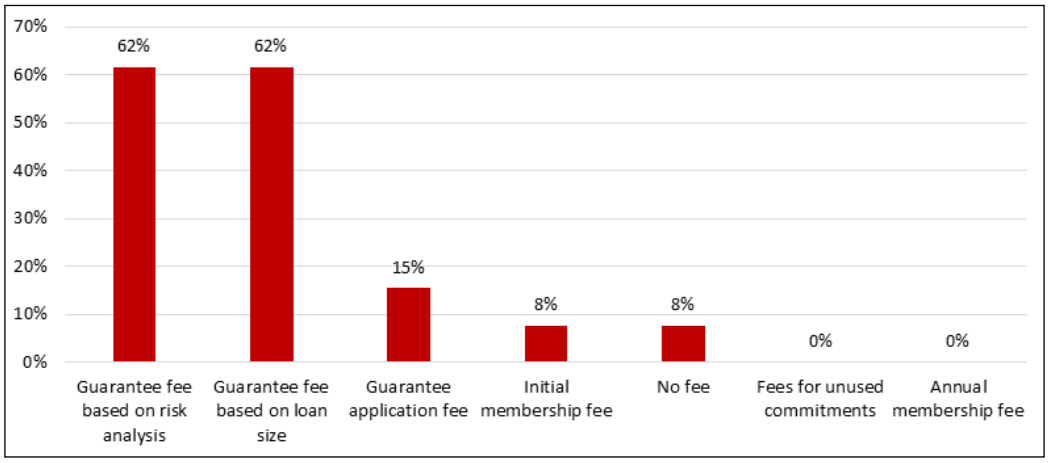
56 See figure 17 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.26.

57 Elaboration based on Annex I, Task B, Q.17. According to the Bank Survey, around half of the surveyed banks also regard the ability to obtain capital relief as another important reason to guarantee their SME loans. For these banks the ability to obtain capital relief can be as important as compensating for the lack of collateral. See figure 30 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.39.

58 Based on Annex I, Task B, Q.14.

59 See figures 20 and 21 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.27.

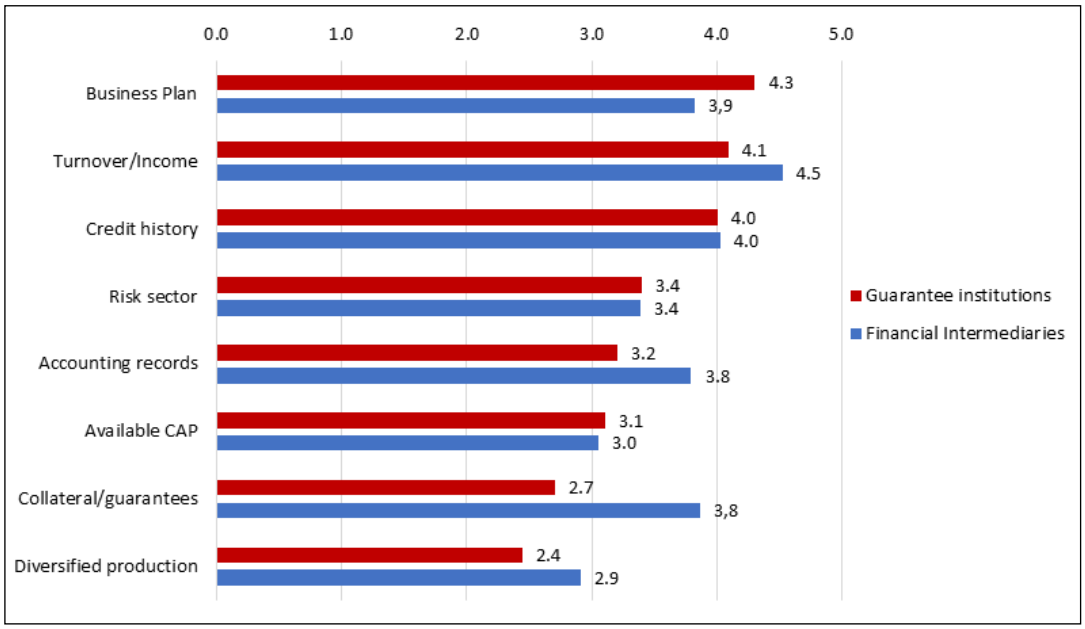
Figure 4.13: Type of fees charged to agricultural clients, (multiple choice allowed)



Source: Elaboration based on Annex I, Task B, Q.13.

In assessing the risk profile of agricultural enterprises, the most important factor for guarantee institutions is the quality of the business plan. This is followed by turnover/income and credit history, then by specific risks for the sub-sector, such as price volatility and support from CAP direct payments or other forms of grant (Figure 4.14). Collateral or diversified production are considered less. **This differs from financial intermediaries, where the business plan quality is considered less, while turnover/income, collateral/guarantees, and accounting records are more important. Given their different focus, guarantee institutions might help access to credit, in particular for young farmers and start-ups.**

Figure 4.14: Agricultural enterprise risk factors



Source: Elaboration based on Annex I, Task A, Q.12 and Task B, Q.19.

4.2 Use of guarantee instruments

4.2.1 Results from the questionnaire of financial intermediaries (Task A)

The risk profile of agricultural enterprises is not seen as worse than other SMEs, with 90% of the financial intermediaries considering the default rate to be either lower or the same as for other sectors (Figure 4.15).

There are many reasons for that, but especially because farmers are natural persons, so it is much more difficult for them to be bankrupted as all personal assets are considered. In addition, the agricultural sector has CAP support and the financial institutions consider that the collateral provided by agricultural enterprises is actually better than from other enterprises. However, there is a difference in defaults for agricultural subsectors. Some intermediaries report crop production to be less risky than animal production.

On average, loans for famers are restructured less or similarly to other enterprises (45% and 29% respectively, see Figure 4.16). Only 26% of financial intermediaries believe that loans to farmers are more likely to be restructured than for other sectors.

Figure 4.15: Default rate of agricultural enterprises compared to other non-agricultural enterprises

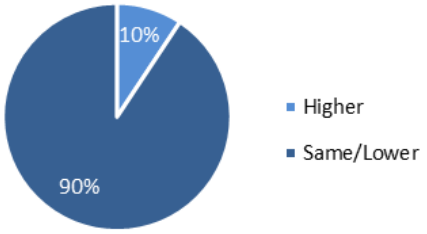
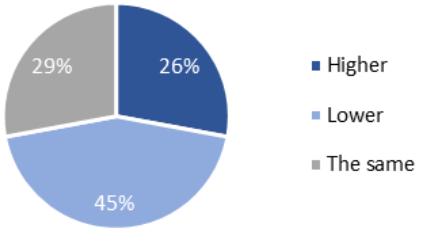


Figure 4.16: Restructuring rate of agricultural enterprises compared to other enterprises



Source: Elaboration based on Annex I, Task A, Q.9 and Q.10.

Collateral requested from agriculture enterprises is generally the same as for other enterprises, in particular SMEs (Figure 4.17). For almost 57% of the financial intermediaries there are no differences in the requirements, while for nearly 19% of them, agriculture enterprises need on average less collateral. The average collateral/ guarantee, for interviewees, ranges from 60% up to 120% of the loan value, though mostly it is 60-70%.

However, for nearly 60% of interviewees (Figure 4.18) t**here are different collateral requirements for enterprises, depending on their credit history** (e.g. for start-ups) and this **may hamper young farmers and start-ups in general from accessing finance**.

Figure 4.17: Difference in guarantee/collateral value compared to other enterprises (in particular SMEs)

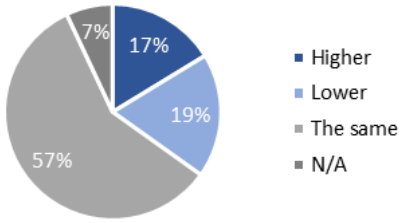
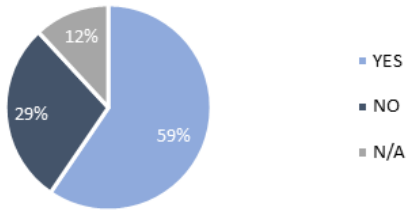


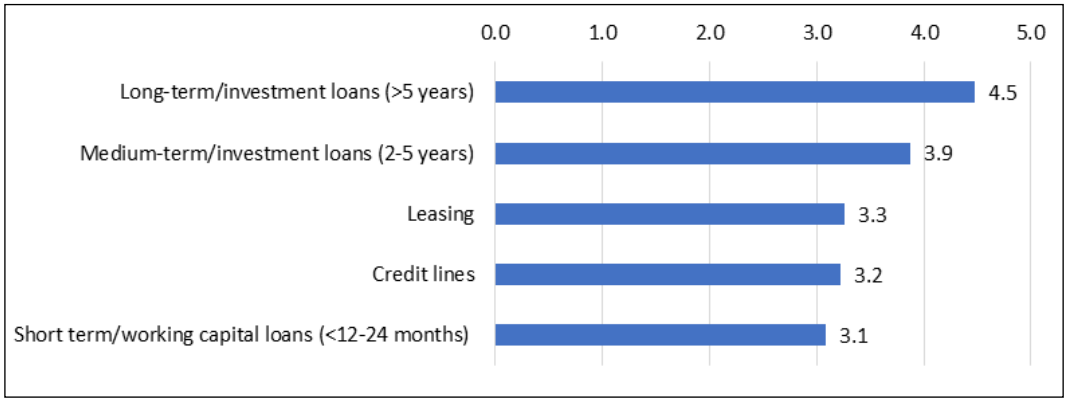
Figure 4.18: Difference in guarantee/collateral depending on availability of credit history (i.e. for start-ups)



Source: Elaboration based on Annex I, Task A, Q.11.

Guarantees and collateral (Figure 4.19) are especially requested for long-term/investment loans (>5 years), followed by medium-term/investment loans (2-5 years), while leasing products, credit lines, and short term/ working capital loans (<12-24 months) require collateral or guarantees, but to a much lesser extent.

Figure 4.19: Products where a guarantee/collateral is required (1=low and 5=very high)



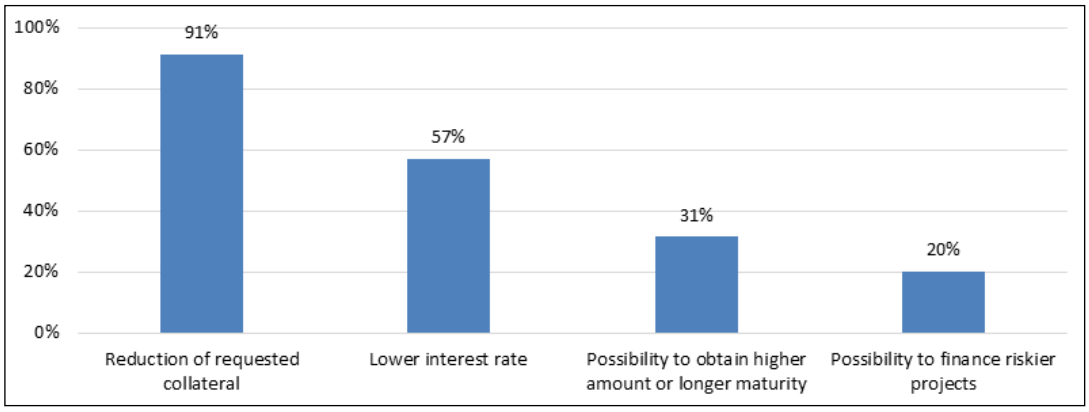
Source: Elaboration based on Annex I, Task A, Q.12.

Furthermore, 83% of the financial intermediaries use credit guarantees provided by credit guarantee schemes for agricultural loans.[60] The most common schemes come from public national/regional institutions and more than 90% of interviewees use these. Likewise, international/multilateral institutions (e.g. EIB Group) provide guarantees to more than half the intermediaries. Credit guarantee schemes from mutual guarantee associations and private (corporate) guarantee providers are used by only 26% and 31% respectively of the financial intermediaries.

Finally, the last question relates to key advantages for farmers when supported through credit guarantee instruments (Figure 4.20). **Reduced collateral requirements** are **most often mentioned as the main advantage**. **Lower interest rates are also seen as an advantage for more than half the interviewed financial intermediaries**. It is worth noting that **only 20% feel that guarantees contribute to financing riskier projects**, although this is a common objective of public guarantee instruments. Also, for most of the intermediaries, guarantees did not result in longer maturities or higher amounts.

60 Elaboration based on Annex I, Task A, Q.13.

Figure 4.20: Key advantages for farmers from credit guarantee schemes, (multiple choice allowed)



Source: Elaboration based on Annex I, Task A, Q.14.

4.2.2 Results from the questionnaire of guarantee institutions (Task B)

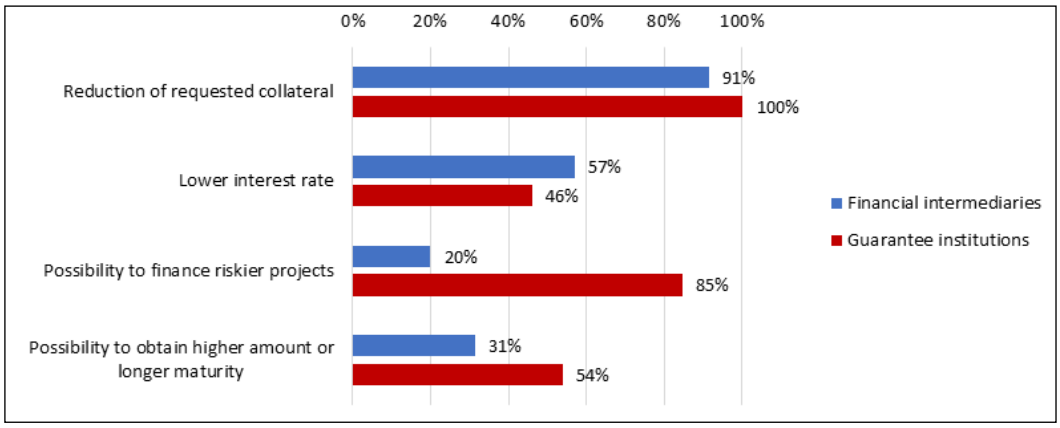
As with the financial intermediaries, for guarantee institutions the agricultural enterprises default rate is no higher than for other enterprises, SMEs in particular.[61] For 85% of interviewees it is lower, or the same.

For guarantee institutions, credit guarantee schemes bring key advantages to farmers (Figure 4.21) especially reduced collateral requirements, in line with financial intermediary opinions. However, the large majority of guarantee institutions (85%) is convinced that such schemes enable financing for riskier projects, against only 20% of financial intermediaries. Also, the possibility to obtain higher amounts or longer maturities is an advantage perceived more by guarantee institutions (54%) than by financial intermediaries (31%). Both groups have similar views on lower interest rates, however more than half the guarantee institutions do not monitor if these advantages are passed on to the borrower.[62] Those that monitor the advantages compare the interest rate charged to the borrower to a market rate for such a loan without the public guarantee. In this case, some guarantee institutions require banks to report on that quarterly.

The different opinions of financial intermediaries and credit guarantee institutions about finance for riskier projects and enabling higher amounts and/or longer maturities are notable. Perhaps the design of current guarantee schemes does not encourage achievement of these two objectives. The fact that more than half the guarantee institutions do not monitor the effect of the guarantees on conditions for the borrower clearly does not help improve the effectiveness of these schemes. At the same time, such schemes seem to be more effective in terms of collateral reduction, and the impact on interest rates for financial intermediaries seems to be higher than guarantee providers expect.

61 Elaboration based on Annex I, Task A, Q.13.
62 Based on Annex I, Task B, Q.20.

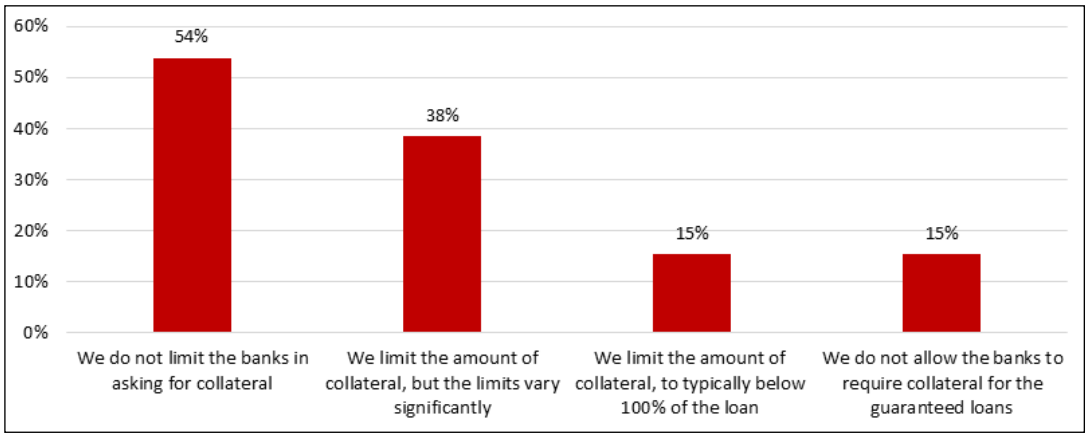
Figure 4.21: Key advantages for farmers when supported through credit guarantee schemes (multiple choice allowed)



Source: Elaboration based on Annex I, Task A, Q.14 and Task B, Q.20.

The impact on collateral requirements is reported to be effective even though more than half the schemes do not limit lenders from asking for collateral (Figure 4.22). Only 38% of the sample limit the amount of collateral, and the limits vary significantly. For 15%, banks are not allowed to require collateral under the guaranteed loans; another 15% limit the collateral that can be requested, which is typically less than 100% of the loan. These are similar shares to the Credit Guarantee Schemes Survey (see Box 3.4).[63]

Figure 4.22: How credit guarantee schemes limit lender collateral requirements (multiple choice allowed)



Source: Elaboration based on Annex I, Task B, Q.18.

4.3 Public support for risk mitigation

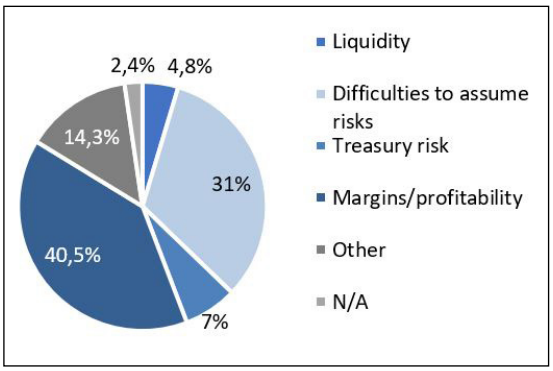
4.3.1 Interest in guarantee instruments

This section is based on the questionnaire of financial intermediaries (Task A). According to the analysis (Figure 4.23), **the main challenge for financial intermediaries is achieving sufficient margins/profitability (more than 40% of interviewees). This is closely followed by difficulties to take risk (31%).** This clearly indicates that providing risk coverage should be the preferred option for public policy aiming at easing the access to credit for enterprises. At the same time, **the cost for risk coverage should be limited to avoid putting additional pressure on limited margins for lending to enterprises**.

63 See figures 45 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.48.

Other specific issues for more than 14% of the interviewees include administrative and regulatory burden (frequently changing regulations), sector knowledge, data availability and projected cash-flow. On the other hand, liquidity and treasury risk rarely seem to pose a challenge for the financial sector.

Figure 4.23: Main challenges faced by the financial sector



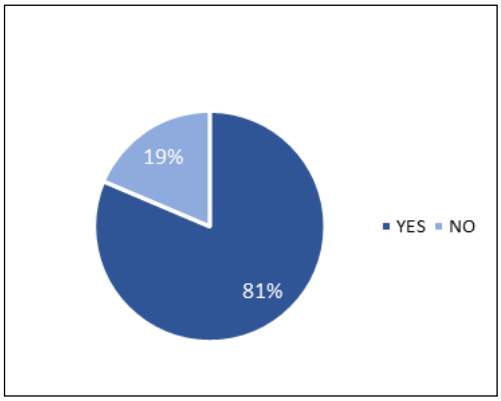
Source: Elaboration based on Annex I, Task A, Q.15.

According to 71% of respondents, there is a credit guarantee scheme specifically for agriculture in their country.[64] In general, the financial intermediaries are satisfied with the current credit guarantee scheme for agriculture in their own country[65], with 57% having a positive opinion. However, **about 30% of the financial intermediaries have a different opinion and are not satisfied with current schemes for various reasons**.[66] These include guarantees often being too complicated and too rigid while also putting a high administrative burden on farmers. The cost of guarantees is also, in general, considered to be high given current market interest rates. Also the Bank Survey[67] underlines that for banks, the administrative procedures related to credit guarantees are key hindrances to the use of credit guarantees. Nearly 40% of the banks in that survey suggested that the cumbersome or costly administrative procedures, which are typically associated with credit guarantees, are the most important constraint after the general lack of credit demand from SMEs. Moreover, some banks believe that guarantee products are too expensive and their high costs hinder development. About 30% of respondents of the Bank Survey claimed the cost of a credit guarantee is a serious impediment to increasing guarantee-based lending.

Another issue is that credit guarantees rarely cover all a bank's losses, also due to State aid principles, and individual credit guarantees are often not structured as first call guarantee products, where the guarantor pays on the 'first call' if the guarantee conditions are met. Individual loan guarantees in many cases pay only after the bank realises collateral (non-first call guarantee). Coverage of leasing guarantees is even lower.

Despite the availability and use of credit guarantee schemes, most interviewees (81%) believe that a specific credit guarantee scheme for agriculture at EU/national level would be helpful (Figure 4.24). Interest in a new guarantee scheme is clearly high for intermediaries who feel current guarantees for agriculture are not satisfactory. Other intermediaries may see an EU funded guarantee as an opportunity to increase the current supply, in a market which seems to be expanding. In addition, they may expect an improvement in the current offering, probably in terms of increased competition, lower costs and better coverage (in capital relief for example). The results of the interviews do not allow a more detailed analysis, but the indication is in line with the results of the Bank Survey[68], where almost 80% of the banks reported high interest and intention to expand the use of guarantee instruments for SME

Figure 4.24: Would a specific credit guarantee scheme for agriculture (at EU/National level) be helpful?



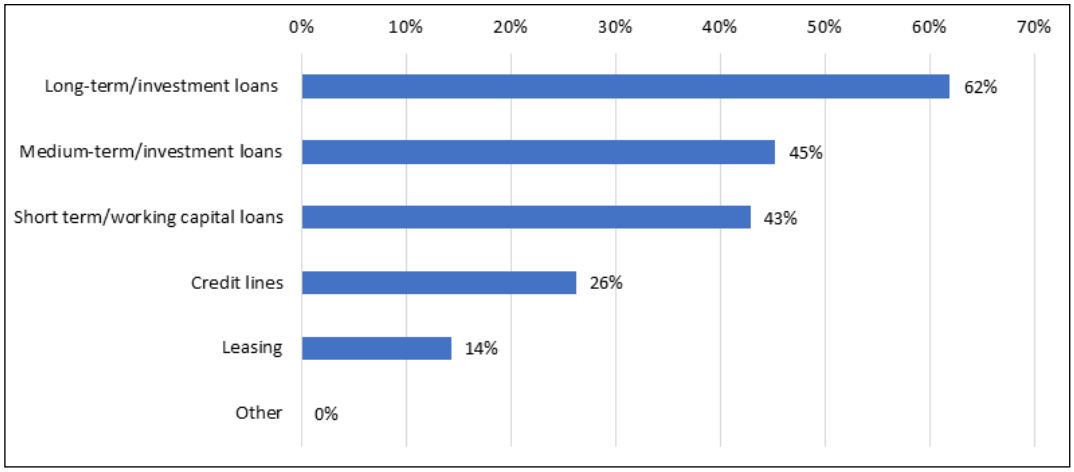
Source: Based on Annex I, Task A, Q.18.

64 Based on Annex I, Task A, Q.16.
65 Based on Annex I, Task A, Q.17.
66 Based on Annex I, Task A, Q.17.
67 See figure 39 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, pp.44-45.
68 See figure 33 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.40.

loans. This is also justified in the same report[69] by the fact that, while the great majority of banks (more than 90%) reported using guarantee instruments over the past 5 years, their usage was often limited to a relatively small share of the SME lending portfolio, which could imply significant growth potential.

Specific agricultural financial products (Figure 4.25), **especially long-term/investment loans (>5 years) should benefit most from public support to mitigate risk (e.g. guarantee instrument)**. This should help financial institutions provide finance to more farmers and enable better conditions (interest rate/collateral). Likewise, **public support through guarantee instruments should also considered be equally important for short term/ working capital loans (<12-24 months) and medium-term/investment loans (2-5 years)**. The importance given to guarantee for short term loans is even more important if considered that such loans are generally reported to require less collateral according to the same financial intermediaries (Figure 4.19). On the contrary, respondents did not see credit lines and leasing products benefitting greatly from public guarantee schemes.

Figure 4.25: Which products would most help you provide better access to finance for farmers if they had public support, e.g. guarantee instrument (multiple choice allowed)



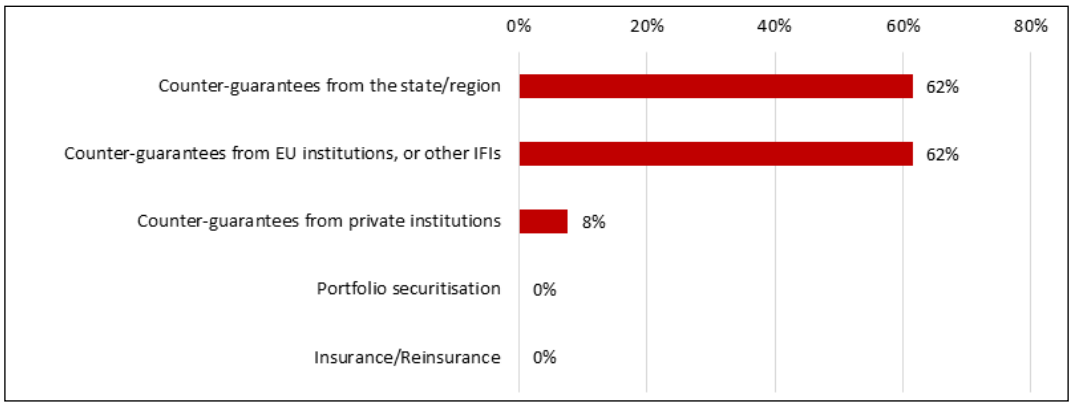
Source: Based on Annex I, Task A, Q.20. N/A answers, corresponding to 17% of interviewees (7 intermediaries), are excluded.

4.3.2 Interest in counter-guarantee instruments

A counter-guarantee is between the provider and the guarantor, so this section is mainly based on the questionnaire of guarantee institutions (Task B). **According to the respondents, counter-guarantees are an important risk management technique** (Figure 4.26). These institutions use either counter-guarantees from the State/region (62%) or from EU institutions or other international financial institutions (62%), while counter-guarantees from private institutions are used much less (8%). **On average, 52% of a portfolio is covered by counter-guarantees (with major differences between institutions and countries)**.[70] Other forms of risk management including insurance/ reinsurance and portfolio securitisation are not used by these institutions. These results are similar to the Credit Guarantee Schemes Survey (see Box 3.3).[71] So, rather than market-based risk diversification instruments, such as portfolio securitisation or counter-guarantee from private institutions, guarantee institutions rely principally on counter-guarantees offered by the State or by EU institutions.

69 See figure 28 in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.38.
70 Elaboration based on Annex I, Task B, Q.21.
71 See figures 26 in in EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42, p.30.

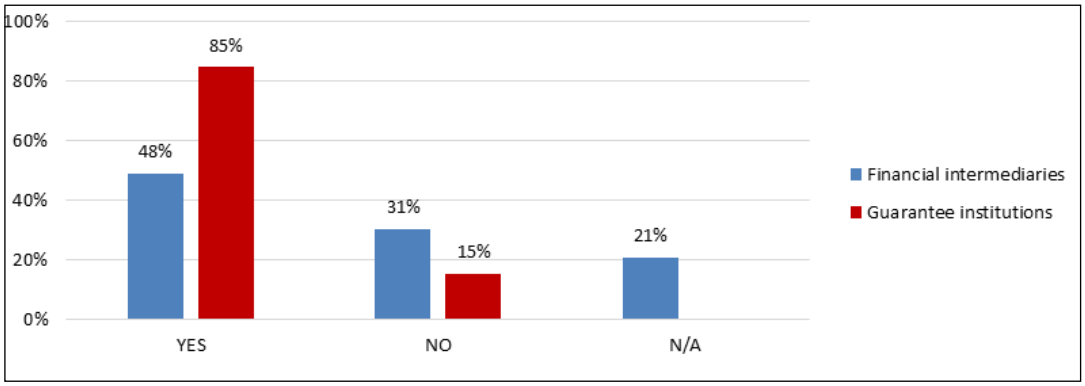
Figure 4.26: Use of risk management techniques (multiple choice allowed)



Source: Elaboration based on Annex I, Task B, Q.21.

A public counter-guarantee scheme for agriculture funded by the EU (at EU/national level) would be helpful for 85%, or 9 of 13 institutions (Figure 4.27). This compares to almost half (48%) the financial intermediaries who feel this would help existing credit guarantee schemes (e.g. Mutual Guarantee Associations), while almost one third does not see any real benefit in such schemes.

Figure 4.27: Would a public counter-guarantees scheme for agriculture funded by the EU (at EU/national level) be helpful?



Source: Based on Annex I, Task A, Q.19 and Task B, Q.22.

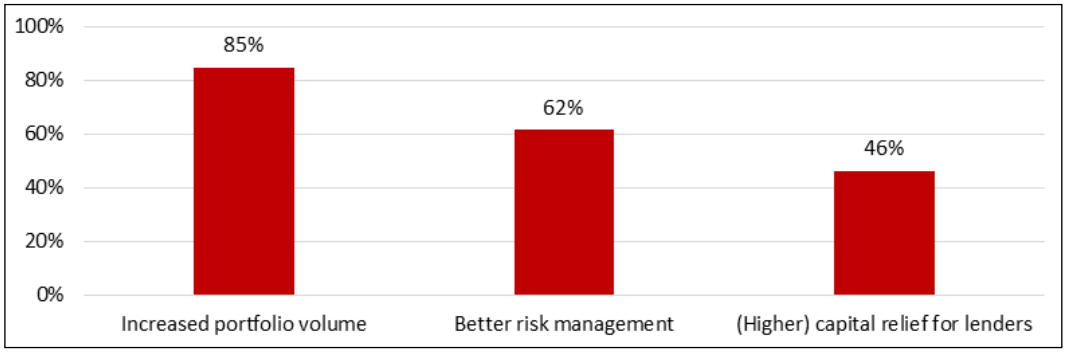
According to the guarantee institutions, counter-guarantee schemes can support more agricultural enterprises with access to finance, increase the quantity of credit for them, lower their cost of financing and lengthen the maturity of their loans. They could also help access for SMEs with less collateral and for riskier investments. Such support may also reduce the need for support in the form of grants.

Respondents who see a positive contribution from a public counter-guarantee scheme funded by the EU (at EU/national level), feel that nearly 60% of annual guarantees could be covered by such a scheme[72] (between EUR 10 million and EUR 200 million being counter-guaranteed annually[73]).

In more detail (Figure 4.28), **it is widely believed among guarantee institutions that a public counter-guarantee scheme would increase resources to issue guarantees for the agriculture sector (increase portfolio volume), while enabling better risk management and making guarantees more attractive to banks through capital relief**. In addition, 69% or 9 of the 13 guarantee institutions could also co-guarantee an EU direct guarantee instrument (Figure 4.29).

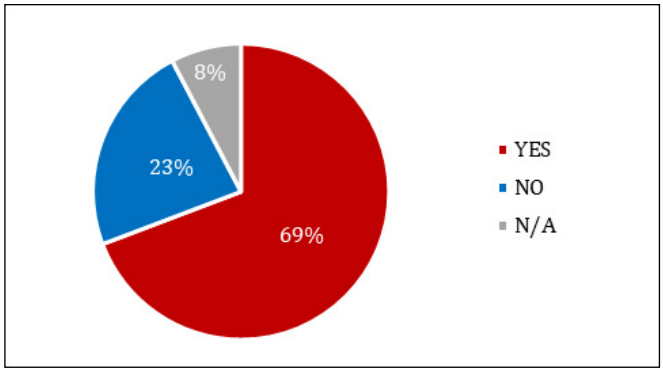
72 Based on Annex I, Task B, Q.23.
73 Based on Annex I, Task B, Q.24.

Figure 4.28: What advantages would an EU funded counter-guarantee instrument offer to guarantee institutions? (multiple choice allowed)



Source: Based on Annex I, Task B, Q.25.

Figure 4.29: With an EU direct guarantee instrument, could you co-guarantee?



Source: Based on Annex I, Task B, Q.26.

5. CONCLUSIONS AND RECOMMENDATIONS

This study looks at the supply side of the financial market, reviewing and analysing the activities of financial intermediaries and guarantee institutions financing the EU agricultural sector.

The report covers the EU as a whole and the results generally represent average conditions, although the market differs widely. Conditions and financing gaps differ between countries, regions and even within a country, between different sub-sectors or sizes of enterprises.

Supply side view of demand for finance in the sector

According to financial intermediaries and guarantee institutions, the financial market for agricultural enterprises is expanding. A large majority of interviewees report growth in the last three years (84% of financial intermediaries and 54% of guarantee institutions) and expect more growth in the next three years (74% and 77%, respectively). This growth may partially be explained by the implementation of 2014-2020 RDPs / EAFRD, since investment in agriculture seems to be highly correlated with the availability of public support.

Recent and expected lending growth do not exclude the existence of a market gap for the agriculture sector in the EU. The willingness of intermediaries to provide finance to the sector may not be enough to completely satisfy agricultural enterprise demand for financing. Based on the survey, financial needs in the agricultural sector appear to be concentrated at two extremes:

- long-term investment loans; and
- short-term loans for working capital.

This seems consistent with agricultural sub-sectors, which have long term investments and long cash flow cycles.

Conditions for access to credit and risk profile of agricultural enterprises

Intermediaries report a rejection rate for loan applications that is lower than for other SMEs (40%) or the same (38%). However, criteria used to assess applications, as highlighted below, signal potential problems for specific categories of agricultural enterprises.

In particular, credit history seems particularly critical in a sector where enterprises can be unfamiliar with the banking system. Young farmers and start-ups may be affected also because banks consider turnover and collateral more important than the quality of the business plan. Financial intermediaries also consider an accounting system as equally important, though small agricultural enterprises are normally not legally obliged to keep such records.

Notably, guarantee institutions seem to have different criteria, with business plans being the most important. So, guarantee institutions may help improve access to credit for young farmers and start-ups.

This study highlights that most financial intermediaries request more collateral from enterprises without a credit history. Generally, however, interest rates and collateral requirements for farmers are similar to other SMEs because the risk profile of agricultural enterprises seems to be very close to other SMEs. Almost all financial intermediaries (91%) and guarantee institutions (85%) report lower or the same default rates as for other enterprises.

Current use of guarantees from credit guarantee institutions

About 82% of the intermediaries financing agriculture benefit from credit guarantee schemes. Most of the guarantee providers are national public bodies, but half the intermediaries also use international or multilateral organisations (e.g. EIB Group). Mutual organisations are used by 26% of the respondents.

Guarantees seem to improve credit conditions for borrowers, with 91% of financial intermediaries reporting reduced collateral requirements and almost 60% signalling lower interest rates. These answers are very similar for the guarantee institutions. However, while guarantee institutions largely expect easier access to credit for riskier projects (85% of respondents), this opinion is not shared by financial intermediaries where a credit guarantee scheme leads to only 20% of them financing riskier projects. A less extreme misalignment concerns the impact of guarantees on increased loan amounts or longer maturities. The significant discrepancy in perceptions between the financial intermediaries and guarantee institutions implies that current guarantee schemes may not be achieving some of their objectives.

Interest for specific credit guarantee schemes established at EU or national level

More than 80% of the financial intermediaries say that a specific credit guarantee scheme established at EU or national level would be helpful even though 70% of them have a credit guarantee scheme covering agriculture in their country and 56% are satisfied with current guarantees.

Interest in a new scheme is high for 30% of intermediaries, which feel that current guarantees for agriculture are not satisfactory. Some report cumbersome procedures, high costs and a lack of first call guarantees. Generally, intermediaries see EU / RDP funded guarantees as an improvement, probably expecting increased competition, lower costs and more capital relief. However, any potential intervention should be evaluated to ensure it adds value, without simply crowding out existing schemes.

Guarantee instruments may help the one third of financial intermediaries who see new risk as the main challenge currently faced by the financial sector. About 40% of the intermediaries indicate problems related to margins and profitability, while less than 5% mention liquidity as an issue. This implies that any new guarantee instrument should cover risk without reducing margins in the banking sector and indeed expectations for reduced cost may explain the high interest in an EU funded guarantee instrument.

A guarantee instrument is needed mostly for investment loans (60% of respondents). Interestingly, 45% of the respondents see a benefit also for short term working capital loans, which is surprising as collateral for such loans is generally reported to be less relevant than for other financial products. However, subsidised guarantees for working capital loans are currently subject to restrictions in ESI Funds and State aid legislation so any new instrument that avoided such restrictions would encourage lending for working capital.

Interest in counter-guarantees

A new instrument for agriculture could also operate through counter-guarantees. This would allow better integration and complementarity with existing instruments at national and local level. Interest in a counter-guarantee instrument is, as expected, very high among guarantee institutions (85%). In addition, this option is also considered useful by half the financial intermediaries, which may see an opportunity to keep relationships with their current (often local) guarantee providers, while benefitting from an EU funded instrument (for example with reduced guarantee costs or increased capital relief). Guarantee institutions (85%) report that a counter-guarantee could help them increase their portfolio volume and enable better risk management. Half of the guarantee providers could also offer increased capital relief to banks.

Recommendations

These findings suggest the following recommendations:

- Further support through financial instruments featuring credit guarantees could play an important role especially when demand for finance in the agricultural sector is growing.
- Such financial instruments should improve access to finance for farmers lacking credit history (i.e. young farmers, new entrants), improve accounting records (i.e. small agricultural enterprises and natural persons) and support those with higher risk profiles which, according to this study, are in a more disadvantaged position.
- The main focus of support should be on long-term investment loans and short-term loans for working capital.
- Since guarantee instruments are already widely used in the EU but with very different conditions and efficiency, new public guarantee schemes should be based on precise parameters, to ensure added-value and avoid overlaps with the existing schemes. In this respect, counter-guarantee products along with direct guarantees might provide better integration and complementarity with existing instruments. They could also lead to greater volumes, better risk management, and possibly increased capital relief.
- The design of the instruments should ensure the advantages are passed on to borrowers, so bank lending conditions reflect the benefits from the guarantee.
- Current low interest rates and reduced margins for banks mean the guarantee should be provided at a favourable price (including a component of public support), to ensure the advantages of risk coverage are not offset by the cost of the guarantee. For the EAFRD this would also mean providing the support for free as in the period 2014-2020.

ANNEX I – METHODOLOGICAL TOOLS FOR COLLECTING INFORMATION

TASK A. QUESTIONNAIRE OF FINANCIAL INTERMEDIARIES

Bank:
Name:
Position:

ACTIVITY AND INTEREST IN THE SECTOR

Q.1. How large is the share of financing agriculture in the overall banks' portfolio (or the one of the branch)

a. Below 1%
b. Between 1 and 5 %
c. Between 6 and 10%
d. Between 11 and 30%
e. Between 31 and 50 %
f. More than 50%

Q.2. In the last 3 years, has your lending volume in agriculture:

a. Increased
b. Decreased

Q.3. Looking at the next 3 years, do you see and increase/decrease of demand for finance in the sector? Increase/Stable/Decrease

Please explain_____

LOAN APPLICATIONS

Q.4. Which are the most important products according to farmers' needs?

a. Short term/working capital loans (<12-24 months)
b. Credit lines
c. Medium-term/investment loans (2-5 years)
d. Long-term/investment loans (>5 years)
e. Leasing
f. Others. Please explain_____

Q.5. What are the most important factors you consider to assess agriculture enterprises in order to provide finance? (1=low and 5=very high)

	1	2	3	4	5
a. Credit history					
b. Available collateral or other guarantees					

c. Economic viability of the enterprise (turnover/income increase in the last years)					
d. Quality of the business plan					
e. Specific risk of the sub sector (e.g. price volatility of the specific sub-sectors)					
f. Production diversification					
g. Availability of accounting records by farmers (i.e. track record of production)					
h. Availability of CAP[74] support in the form of direct payments or other forms of grant					

Q.6. Are there any specificities in your offerings to farmers as compared to other enterprises (in particular SME) as regard:

a. Specialised staff for the assessment of the loan applications
b. Longer maturity. Please indicate the maximum maturity_____
c. Longer grace period. Please indicate the maximum race period_____
d. Repayment schedule set according to the seasonality of some agricultural production.

Please can you give us some examples?_____

Q.7. Is the rejection rate for application in agriculture compared to other sectors? Higher/Lower/the same
Which are the main reasons for rejection?

	1	2	3	4	5
a. Lack of credit history					
b. Lack of collateral					
c. Investment risks too high					
d. Borrower risk too high					
e. Banking policy (e.g. limits on lending to farmers)					
f. Lack of economic viability					
g. Inadequate business plan					
h. Lack of accounting records					
i. Other. Please explain_____					

Q.8. Is the interest rate applied to famers compared to other SMEs: Higher/Lower/The same

a. Can you indicate the range of the interest rate for investment loans? Max/Min:---
b. Can you indicate the range of the interest rate for working capital loans? Max/Min:---

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RISK AND GUARANTEE

Q.9. In your experience, do the agricultural enterprises have a higher default rate than other enterprises (in particular SMEs)? Yes/No
Can you indicate this rate?_____ Please elaborate_____

Q.10. Is restructuration of loans for famers compared to other enterprises (in particular SMEs) on average? Higher/Lower/The same

Q.11. Please indicate the average percentage of collateral/ guarantee requested on loan by loan basis_____

a. Is there a difference in the request for guarantee/collateral depending on availability of credit history (e.g. in case of start-up)? Yes/No

b. Is this value as compared to other enterprises (in particular SME): Higher/Lower/The same

Q.12. For what types of products in particular do you require guarantee/collateral?
(1=low and 5=very high)

	1	2	3	4	5
a. Short term/working capital loans (<12-24 months)					
b. Credit lines					
c. Medium-term/investment loans (2-5 years)					
d. Long-term/investment loans (>5 years)					
e. Leasing					
If other, please indicate_____					

Q.13. Do you use credit guarantees provided by Credit Guarantee Schemes for loans in agriculture? Yes/No
If yes what types of institutions? (more than one answer)

a. Public national/regional

b. International/Multilateral (e.g. EIB Group)

c. Mutual guarantee association

d. Private (corporate) guarantee providers

Q.14. What are the advantages for farmers when supported through credit guarantee instruments

a. Reduction of requested collateral

b. Lower interest rate

c. Possibility to finance riskier projects/enterprises

d. Possibility to obtain higher amount or longer maturity

PUBLIC SUPPORT FOR RISK MITIGATION

Q.15. What is the main challenge the financial sector currently faces?

a. Liquidity
b. Treasury risk
c. Difficulties to assume risks (e.g. regulatory capital constrains)
d. Margins/profitability
e. Other: _____

Q.16. Is there a specific Credit Guarantee Scheme for agriculture in your country?
If yes, please elaborate about the product_____

Q.17. Is the current offering of Credit Guarantee Schemes for the sector satisfactory for you?

a. Yes
b. No. Why?_____

Q.18. Would a specific Credit Guarantee Scheme for agriculture (at EU/National level) be helpful? Yes/No

Q.19. Would it be helpful to provide public support through counter-guarantee in order to help existing Credit Guarantee Schemes (e.g. Mutual Guarantee Associations)?Yes/No

Q.20. For which product a public support to mitigate the risk (e.g. guarantee instrument) might in particular help you provide finance to more farmers or allow better conditions (interest rate/collateral)

a. Short term/working capital loans (<12-24 months)
b. Credit lines
c. Medium-term/investment loans (2-5 years)
d. Long-term/investment loans (>5 years)
e. Leasing Other, please explain

TASK B. QUESTIONNAIRE OF GUARANTEE INSTITUTIONS

GUARANTEE INSTITUTION NAME_____

COUNTRY_____

LEGAL STRUCTURE

Government entity	
Public corporation	
Private corporation	
Mutual association	
Other_____	

OWNERSHIP

Public	
Private	
Mixed	

POSITION _____

EMAIL_____

Q.1. Does your organisation specialise in the agricultural sector? (insert 'x')

Yes	
No	

If not, what share is agricultural finance in your portfolio? (insert 'x')

Below 1%	
1 - 5 %	
11 - 30%	
31 - 50 %	
Above 50%	

Q.2. What type of borrowers do you guarantee? (insert 'x', multiple choice allowed)

Farmers	
Food/agriculture products processing enterprises	
Agri cooperatives	

Q.3. In your experience, do agricultural enterprises have a higher default rate than other sectors? (insert 'x')

Yes	
No	

Please indicate this rate _____

Q.4. Please indicate the outstanding amount guaranteed for agriculture in your portfolio?

_____

Q.5. Please indicate average annual amount guaranteed for agriculture in the last three years?

_____

Q.6. In the last 3 years, has your activity with agriculture (insert 'x'):

Increased	
Decreased	
Stable	

Q.7. For the next 3 years, how do you see demand for agricultural finance? (insert 'x')

Increased	
Decreased	
Stable	

Please explain_____

Q.8. Are loan guarantees the main activity of your institution? (insert 'x')

Yes	
No, guaranteeing loans is only one of the activities we carry out	

Q.9. What are you aiming to achieve through your activity? (insert 'x', multiple choice allowed)

Increasing the number of agricultural enterprises with access to external finance	
Increasing the quantity of credit available to agricultural enterprises	
Lowering the cost of financing for agricultural enterprises	
Lengthening the maturity of loans to agricultural enterprises	

Q.10. Does your institution offer the following types of guarantees? (insert 'x', multiple choice allowed)

Direct guarantees to banks	
Direct guarantees to non-bank financial intermediaries (e.g. leasing companies etc.)	
Counter-guarantees to other guarantors	
Portable guarantees	

Q.11. What types of financial products do you guarantee? (1=low and 5=very high) (insert 'x', multiple choice allowed)

	1	2	3	4	5
a. Short term/working capital loans (<12-24 months)					
b. Credit lines					
c. Medium-term/investment loans (2-5 years)					
d. Long-term/investment loans (>5 years)					
e. Leasing					
If other, please indicate_____					

Q.12. What type of guarantees for agriculture do your institution provide? (insert 'x', multiple choice allowed)

Portfolio basis	
Loan-by-loan basis	
Hybrid/combination	

Q.13. What fees does your institution charge to agricultural clients? (insert 'x', multiple choice allowed)

Guarantee fee based on loan size	
Guarantee fee based on risk analysis	
Guarantee application fee	
Fees for unused commitments	
Initial membership fee	
Annual membership fee	
No fees	

Q.14. Who pays the fees? (insert 'x')

Both lender and borrower	
Lender	
Borrower	

Q.15. What is the minimum and maximum covered by your guarantees for agriculture?

Min_____
Max_____

Q.16. What is the minimum and maximum maturity of loans that you guarantee for agriculture?

Min_____
Max_____

Q.17. Do your institution's guarantees qualify for regulatory capital relief for the beneficiary banks? (insert 'x')

Yes	
No	

Q.18. Does your Credit Guarantee Scheme limit lenders in asking for collateral from borrowers for the guaranteed loan? (insert 'x')

We do not allow the banks to require collateral for the guaranteed loans	
We limit the amount of collateral, to typically below 100% of the loan	
We limit the amount of collateral, but the limits vary significantly	
We do not limit the banks in asking for collateral	

Q.19. What are the most important factors you consider when assessing agricultural enterprise risk before providing a guarantee? (1=low and 5=very high; insert 'x')

	1	2	3	4	5
a. Credit history					
b. Collateral					
c. Economic viability (turnover/income increase in the last years)					
d. Quality of the business plan					
e. Specific risk of the sub sector (e.g. price volatility)					
f. Production diversification					
g. Accounting records (i.e. track record of production)					
h. CAP[75] support from direct payments or other forms of grant					

Q.20. What are the advantages of credit guarantee instruments for farmers? (insert 'x', multiple choice allowed)

Reduction of collateral	
Lower interest rate	
Finance for riskier projects/enterprises	
Higher amount or longer maturity	
If other, please indicate_____	

Do you monitor if these advantages are passed on to the borrower? (insert 'x')

Yes	
No	

If yes, how? _____

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Q.21. Does your institution use any of these risk management techniques listed? (insert 'x', multiple choice allowed)

Counter-guarantees from EU institutions, or other IFIs	
Counter-guarantees from the state/region	
Counter-guarantees from private institutions	
Portfolio securitisation	
Insurance/Reinsurance	

Please indicate what percentage of your portfolio is covered by counter-guarantees?

_____

Q.22. Would a public scheme for agriculture funded by the EU (at EU/National level) providing counter-guarantees be helpful? (insert 'x')

Yes	
No	

If yes, why?_____
If no, why?_____

Q.23. What percentage of your annual guarantees could be covered by an EU funded counter-guarantee scheme?

_____

Q.24. How much could be counter-guaranteed annually?

_____

Q.25. What advantages would an EU funded counter-guarantee instrument offer you? (insert 'x', multiple choice allowed):

Increased portfolio volume	
Better risk management	
(Higher) capital relief for lenders	

Q.26. With an EU direct guarantee instrument, could you co-guarantee? (insert 'x')

Yes	
No	

ANNEX II – LIST OF INTERVIEWS

Financial intermediary name	Member State	Description
Eurobank Bulgaria AD	Bulgaria	Eurobank Bulgaria AD, operating under the Postbank brand, is a Bulgarian universal commercial bank, offering products to individuals and companies. The bank was registered in 1991 and is currently owned by ERB New Europe Holding BV, Netherlands (44%), Eurobank Ergasias SA, Greece (47%) and others 9%. The Bulgarian National Bank ranked it fourth in the country in terms of total assets as of 30 September 2017. In September 2016, Eurobank Bulgaria AD signed an agreement with the National Guarantee Fund (NGF) under the second Guarantee Programme for farmers, with financial support from the Ministry of Agriculture and Foods. By the end of 2016 the bank reported 25% growth in loans to the agricultural sector.
Piraeus Bank Bulgaria	Bulgaria	Piraeus Bank Bulgaria AD is a Bulgarian universal commercial bank. The bank is also active in financial transactions, investment banking, money market trading, strategic investing and risk management. Piraeus Bank AD - Sofia Branch was established as the Bulgarian branch of the Greek Piraeus Bank S.A. in 1993. In 2006 Piraeus Bank AD - Sofia Branch merged into Piraeus Eurobank AD (formerly owned by a Slovak investment company and acquired by Piraeus Bank S.A.) and renamed Piraeus Bank Bulgaria AD.
United Bulgarian Bank AD / Cibank	Bulgaria	United Bulgarian Bank AD is a Bulgarian universal commercial bank. It ranked 5th in the country in terms of total assets as of 31 September 2017, according to the Bulgarian National Bank (BNB). United Bulgarian Bank (UBB) AD was established through the merger of 22 local commercial banks in 1992. In June 2017 - KBC Group acquired a 99.9% stake in the bank. In October 2017 - CIBANK EAD, another Bulgarian commercial bank, wholly owned by KBC Bank N.V., Belgium merged into United Bulgarian Bank AD. Both companies - CIBANK and UBB currently continue to operate separately. Following the merger of CIBANK and UBB at the beginning of 2018 both banks offer uniform services and products to clients under a common name – UBB, bearing the trademark of KBC Group.
Hrvatska Banka za Obnovu i Razvitak (HBOR)	Croatia	Croatian Bank for Reconstruction and Development (HBOR) was established on 12 June 1992 as the Croatian Credit Bank for Reconstruction (Hrvatska kreditna banka za obnovu – HKBO). In December 1995, the Bank was renamed Hrvatska banka za obnovu i razvitak (Croatian Bank for Reconstruction and Development). The main activities of HBOR are: financing the reconstruction and development of Croatia, financing infrastructure, promoting exports, supporting the development of SMEs, promoting environmental protection, insuring the exports of Croatian goods, and services from non-marketable risks.

KentBank d. d.	Croatia	KentBank is a modern, universal bank focused on retail, corporate and SME operations, with 15 branches throughout Croatia. The Bank has assets worth HRK 2 billion with a high capital adequacy ratio, 200 employees and around 20 000 customers. For the first half of 2016, KentBank was confirmed as the fastest growing bank in Croatia. A major advantage is fast and flexible service along with a complete focus on customer needs, offering tailor-made products and services.
Danske Bank A/S Estonia branch	Estonia	Danske Bank AS Estonia branch has about 7% of the market share in Estonia (by asset value) and provides a wide range of financial services as loans, leasing, guarantees and investments. Since 2016, the bank has concentrated on business clients.
Luminor Bank AS	Estonia	Luminor is the 3rd largest financial services provider In Estonia (about 18% market share by asset value) and was established by combining the operations of Nordea Bank and DNB Bank in 2016. A wide variety of financial products for private and business customers include loans, leasing, guarantees and pension funds. For loans, it is possible to apply for an additional guarantee from the Rural Development Foundation (RDF), or through the state-established fund KredEx.
Swedbank AS	Estonia	Swedbank is the largest bank in Estonia with more than 800 000 private and 139 000 business customers, offering a wide variety of financial services to private and business customers, including loans, mortgages, insurance, pensions, investments, leasing and factoring. Swedbank is one of the EIF intermediaries in Estonia (COSME). Swedbank offers financial products to all types of customers, some of them are targeted to farmers with special conditions. (e.g. an investment loan for buying agricultural land has a longer contract duration than for a standard investment loan). For guarantees, Swedbank also accepts RDF, EIF and state established fund KredEx guarantees.
Nordea Bank	Finland	Nordea bank is a full-service universal bank with an operating income of EUR 9.5 billion and assets of EUR 581.6 billion in 2017. It is the third largest corporation in the Nordic region and one of the top 10 financial services companies in Europe based on market capitalisation. It is present in 17 countries, including four Nordic home markets – Denmark, Finland, Norway and Sweden.
Banques Populaires Caisse d'Epargne	France	The bank has different networks: Banques Populaires, Caisse d'Epargne, Natixis bank, Crédit Coopératif, Crédit Maritime and Palatine Bank. The products for agricultural markets are mainly from Banques Populaires (BP) whose 12 regional banks offer multi-products independently with products and conditions which can vary from one bank to another. All the regional banks have customers in agriculture, except BP in Northern France. It reaches 70 000 farmers and is active in all types of sector, without any real segmentation.
Crédit Agricole	France	The leading agricultural bank with a market share of 75 to 80% and 27 million retail customers in France. It is an international full-service banking group with 9.3 million members and 138 000 employees.

Crédit Mutuel Confédération Nationale du Crédit Mutuel	France	Mutual bank with two main networks: Crédit Mutuel and its subsidiary CIC (Crédit Industriel et Commercial). Crédit Mutuel is a national bank, CIC has regional coverage. They mainly operate in the West of France.
DZ Bank	Germany	DZ BANK AG, Deutsche Zentral-Genossenschaftsbank (German Central Cooperative Bank) is majority owned by the approximately 1 000 cooperative banks in Germany. As a central bank and leading institution, it supports the operations of many independent local cooperative banks, strengthening their competitive position.
Landwirtschaftliche Rentenbank	Germany	The Landwirtschaftliche Rentenbank implements promotional measures for agriculture and rural areas in particular through financial instruments. In principle, the Bank provides loans through other banks (for example federal state promotional banks). In addition to standard promotional loans for agriculture and rural areas, the bank grants special and programme loans for specific promotional purposes and assistance measures.
NordLB	Germany	One of the leading banks for agriculture in Germany, offering products such as loans and guarantees.
Volks- und Raiffeisenbank Niebüll	Germany	VR Bank eG in its present form was created on January 1, 2001 from the merger of Raiffeisenbank Südtondern / Bredstedt-land eG and Volksbank eG Niebüll, both of which had their headquarters in Niebüll. VR Bank eG covers the northern part of Nordfriesland without the offshore islands Amrum, Föhr and Sylt. VR Bank eG has 12 branches, including 10 personal offices, one paying agency and two self-service offices.
Volksbank Hallerthauer	Germany	A regional bank of Volksbankgroup in Bavaria offering loans and credit lines for agriculture.
Zevener Volksbank	Germany	A regional bank of Volksbankgroup in Schleswig-Holstein with a high share of financing agriculture and offering loans and credit lines.
K&H Bank	Hungary	K&H Group is a leading financial service provider in Hungary, offering banking and insurance solutions. Its product range includes premium banking services, investment fund management, leasing, life insurance, property and liability insurance as well as securities trading.
OTP Bank	Hungary	OTP is the largest bank in Hungary and is important in the financial instruments market for agricultural producers.
UniCredit Bank	Hungary	UniCredit Bank belongs to the UniCredit Group, and it is one of the major banks in Hungary.

Allied Irish Bank	Ireland	One of the three large Irish banks that provide loans to farmers, accounting for over 40% of the total Irish farm loan market.
Bank of Ireland	Ireland	One of the three large Irish banks that provide loans to farmers, accounting for over 40% of the total Irish farm loan market.
Strategic Banking Corporation of Ireland	Ireland	The Strategic Banking Corporation of Ireland (SBCI) is a state-owned bank that was established in 2015, in the wake of the Irish banking crisis of the late 2000s, to provide finance for SMEs. At the time it was set up, many of Ireland's main banks were unable or unwilling to fund businesses. The Strategic Banking Corporation of Ireland does not provide loans directly to businesses themselves, but instead provides finance to the main banks at low cost, with the idea that the money is then loaned on to business. As of 2016, the bank had provided EUR 347 million for small business.
Ulster Bank	Ireland	One of the three large Irish banks that provide loans to farmers, accounting for about 10% of the total Irish farm loan market.
Monte dei Paschi di Siena	Italy	Founded in 1472, Monte dei Paschi di Siena is the oldest bank in the world still in operation. Today it is the head of one of the main Italian banking groups, with significant market shares in all business areas in which it operates. The Montepaschi Group operates throughout Italy and in the main international markets, with operations focused on traditional retail and commercial banking services and a particular vocation for families and SMEs. The Group operates through its own specialised companies, in leasing, factoring, corporate finance and investment banking.
UBI Banca	Italy	On 1 April 2007 UBI Banca – the Union of Italian Banks was born, from the merger of BPU - Banche Popolari Unite- and Banca Lombarda e Piemontese. This banking group is listed on the Milan Stock Exchange. This essentially domestic Group boasts multi-regional coverage, with 1 881 branches in Italy, of which about 680 are in Lombardy and over 160 in Piedmont. It has a significant presence in the most dynamic regions of Central and Southern Italy and boasts an international presence essentially focused on customer needs.
Citadele bankas	Lithuania	AS Citadele bankas is a Latvian bank and financial and asset manager. The principal market for the Citadele Group is the Baltic states. Citadele banka is the parent company of a Group offering banking, financial and private capital management services in its home market and through its international presence primarily in the Nordic states. Citadele is one of two institutions created in 2010 from a state administered split of Parex Bank into viable and distressed banking assets. Ripplewood Advisors LLC together with 12 reputable investors own 75% plus one of Citadele banka's shares after its re-privatisation by the Latvian government. The European Bank for Reconstruction and Development (EBRD) continues to own 25% minus one of the bank's shares.

Luminor Bank	Lithuania	Luminor Bank AB is the third largest bank in the Baltic States, with a 16% market share of deposits and 23% of lending. It serves about 1.3 million customers. In 2017 DNB merged with Nordea Bank, becoming Luminor.
Šiaulių bankas	Lithuania	Šiaulių bankas AB was founded in 1992 and offers daily financial services, credit, savings and individual investment solutions Šiaulių bankas focus on SMEs. It is the 4th largest bank in Lithuania for loans and deposits. The bank has 68 customer service outlets and more than 700 employees.
Swedbank	Lithuania	Swedbank AB is a Nordic-Baltic banking group based in Stockholm. Swedbank is one of the 3 leading commercial banks in Lithuania. The bank provides a full range of banking services to many private individuals and companies. The loan portfolio of Swedbank in Lithuania was EUR 4.7 billion (mid 2017). Swedbank Lithuania operates through its subsidiaries: Swedbank lizingas UAB and Swedbank valda UAB.
De Coöperatieve Rabobank U.A.	Netherlands	Rabobank was created in 1898 by farmers to serve as a cooperative bank to support farmers and agriculture. Today, Rabobank is a global financial leader in the agri and food sector and ranked as second in the Netherlands in terms of assets and accounts.
Triodos Bank	Netherlands	Triodos Bank was created in 1980 in the Netherlands with branches in Germany, Belgium, Spain and the UK. It finances companies with positive societal, cultural and environmental impacts and also supports microfinance in the developing world. It has been ranked as one of the most sustainable banks worldwide.
BGZ BNP Paribas	Poland	BGŻ BNP Paribas, with assets as at Q3 2017 of PLN 69 bn, is the 7th bank in Poland by asset size. It is a universal bank listed on the Warsaw Stock Exchange and offers savings and investments products as well as a wide range of loans (including mortgage and consumer) to individual clients. It is one of the largest credit card issuers in Poland and provides businesses (micro, SMEs and corporates) with solutions to fund their operations on the Polish and international markets. The bank also attracts food and agri sector companies, specialising in financing agribusiness, food economy and regional infrastructure. The bank has a comprehensive offering for its private banking clients. The products are available through multiple channels. The bank is a member of leading international banking group BNP Paribas.
GBS Bank	Poland	GBS Bank - Gospodarczy Bank Spoldzielczy [Economic Cooperative Bank] in Barlinek serves people who live and work in the Lubuskie and West Pomeranian Regions. The bank operates as a cooperative, and at end December 2015 had total capital of PLN 74.8 million. In 2016, the bank had 19 branches. The bank is a member of the SGB Bank group.
EuroBic	Portugal	This Portuguese bank serves the Portuguese market and collaborates in the development of economic relations between Portugal and Angola, relying largely on the support of Banco BIC S.A. (Angola). Thus, and within this scope, target companies and entrepreneurs export services and goods with investment strategies in Angola or are in the process of internationalisation towards this country.

Raiffeisen Bank Romania	Romania	A top universal bank offering a complete range of products and services for physical persons, SMEs, and large corporations through multiple channels including branches, ATM and EPOS network, phone banking, mobile banking and internet.
Caixabank	Spain	CaixaBank is the leading retail bank in Spain, with the largest customer base and a robust balance sheet. CaixaBank is diversifying its revenue base towards more profitable segments thanks to its commercial strength and its leadership in fee-generating services.
Cajamar	Spain	Grupo Cooperativo Cajamar is a consolidated group of credit institutions authorised and qualified as an institutional protection system (SIP) by the Bank of Spain. It is currently made up of 20 entities. Banco de Crédito Cooperativo is the main entity and Cajamar the main brand.
Sabadell	Spain	Banco Sabadell is Spain's fourth largest private banking group and is comprised of banks, brands, subsidiaries and part-owned companies covering all areas of finance under a common denominator: professional performance and quality.
Danske Bank	Sweden	Danske Bank is a Danish bank also operating in Sweden, where it is the fifth largest bank. It has bought several regional banks and operates in different parts of Sweden. Forest and agriculture is a target market.
Landshypotek Bank	Sweden	The fundamental mission is to finance investments of farmers and foresters. It is one of Sweden's ten largest banks, with nearly EUR 6 billion lent to farming and forestry entrepreneurs. The bank is owned by its members. Profits are invested back into the agricultural and farming industry. The bank offers loans, insurance, savings, investment opportunities and payments.
Länsförsäkringar Bank	Sweden	Länsförsäkringar Bank is a Swedish banking company, wholly owned by subsidiary of Länsförsäkringar AB, which in turn is jointly owned by the 23 local Länsförsäkringar companies. The bank is today Sweden's fifth largest private bank with 378 000 customers and a market share of close to 5%. Wasa Kredit is a finance company that offers leasing and instalment financing. It is wholly owned by Länsförsäkringar Bank.
Sparbanken i Enköping	Sweden	Sparbanken i Enköping is a local savings bank that is the dominant bank in three Swedish municipalities: Enköping, Håbo and Upplands-Bro. It has many agricultural customers. The bank is independent, like other savings banks in Sweden. These cooperate with Swedbank, one of the largest banks in Sweden, and offer many of their products. Sparbanken i Enköping's lending to the general public was EUR 600 million.

Guarantee institution name	Member States	Guarantee institution description
National Guarantee Fund EAD	Bulgaria	Bulgarian Development Bank (BDB) is a financial institution 99.9%-owned by the Bulgarian state. It is the successor of Encouragement Bank established in 1999. Its focus is to support small and medium-sized enterprises. BDB is among the top four Bulgarian banks in terms of credit rating, rated BBB- by Fitch Ratings, the global credit rating agency. It is the only Bulgarian bank to provide financing via other credit institutions as well as direct financing. BDB is the best-positioned local bank to raise funds from international partners. Its subsidiary, the National Guarantee Fund, issues guarantees for bank loans to the non-financial sector.
Croatian Agency for SMEs, Innovations and Investments	Croatia	The Croatian Agency for SMEs, Innovations and Investments (HAMAG-BICRO) was founded to support the development of SMEs, innovation and investments. The Agency's activities are within the competence of the Ministry of Entrepreneurship and Crafts. During its 20 years of operation, HAMAG-BICRO has been committed to the growth and development of SMEs and crafts in Croatia by facilitating their access to finance. The Agency's main objective is in the strategic creation of a unique system that provides support to entrepreneurs through all development stages – starting from research and development of an idea to commercialisation and placement on the market. Its services include: grants, micro loans and guarantee issuing. The Agency also provides financial support to innovative and technology-oriented enterprises.
SIAGI	France	SIAGI, established in 1966 by the Chambers of crafts is the only multi-bank guarantee company. Due to its pivotal position and its place as a leader, it is able to solve the difficult question of financing an attractive but complicated target for its banking partners, that is, very small businesses. The capital is held by the founding organisations, APCM and Chambers of craft (60%), seven banks hold 25% and Bpifrance holds 15%. SIAGI, has 5 regional directions and 21 representative offices. Its head office is located in Paris, with a total of 86 staff members.
Verband Deutscher Bürgschaftsbanken (VDB)	Germany	The association of German guarantee banks (Verband Deutscher Bürgschaftsbanken, VDB) represents 17 guarantee banks (Bürgschaftsbanken) and 15 SME-oriented investment companies (Mittelständische Beteiligungsgesellschaften or MBGs) in Germany. VBD represents their interests (in case of the MBGs together with the association of private equity and venture capital companies (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften, BVK)) towards government, politicians, industry and the general public. Guarantee banks are not profit-oriented. They support SMEs as well as start-ups in their respective federal state. SME-oriented investment companies work closely with the guarantee banks. In their position as regional societies they support commercial SMEs in their respective federal state.

Garantiqa Creditguarantee Closed Co. Ltd	Hungary	In order to promote SME development and competitiveness by improving their access to finance, the government of Hungary and major representatives of the financial community, including commercial banks, savings co-operatives and professional interest representation organisations established a joint-stock company under the name Creditguarantee Ltd. in 1992. The company's primary function is to provide guarantees for loans granted to SMEs. These guarantees help to reduce the lending risks of credit institutions, which in turn, can grant loans under better terms and conditions and at lower collateral requirements. The objective of the founders of the company is to utilise its share capital for the above purposes. The company expanded its operations in 2006 by providing guarantees to support the access of SMEs to factoring and financial leasing services provided by credit institutions and financial companies for production equipment purchases. Garantiqa Hitelgarancia was the first guarantee institution in Hungary to receive the Hungarian Financial Supervisory Authority's Resolution of Equivalence, in December 2007. Pursuant to this, Garantiqa Hitelgarancia's risk management practices are considered equivalent to the risk management requirements applied to banks. In 2008, the company's name was changed to Garantiqa Hitelgarancia and the company adopted a new corporate identity. The shareholders of Garantiqa Hitelgarancia increased the share capital by HUF 3,028 million so the equity was increased up to HUF 7,840 million. In order to transfer the benefits from the capital increase Garantiqa Hitelgarancia reduced the fees of guarantees counter-guaranteed by State. Based on the Budget Act and an authorisation from the shareholders, the company may provide guarantees for non-subsidised transactions at its own risk.
AVHGA-Rural Credit Guarantee Foundation	Hungary	The Agrarian Enterprise Credit Guarantee Foundation (AVHGA) was established as the first loan guarantee institution in Hungary in 1991 under the PHARE program. Since 1993, many banks, savings co-operatives and other financial institutions have joined the Foundation. AVHGA has operated as a financial enterprise since 1 January 2008. The Financial Supervisory Authority has been authorised by the Hungarian Financial Supervisory Authority since 2011 to operate as an 'equivalent financial institution'. It provides comprehensive guarantees to microbusinesses and SMEs active in agriculture or with activities related to the rural area.

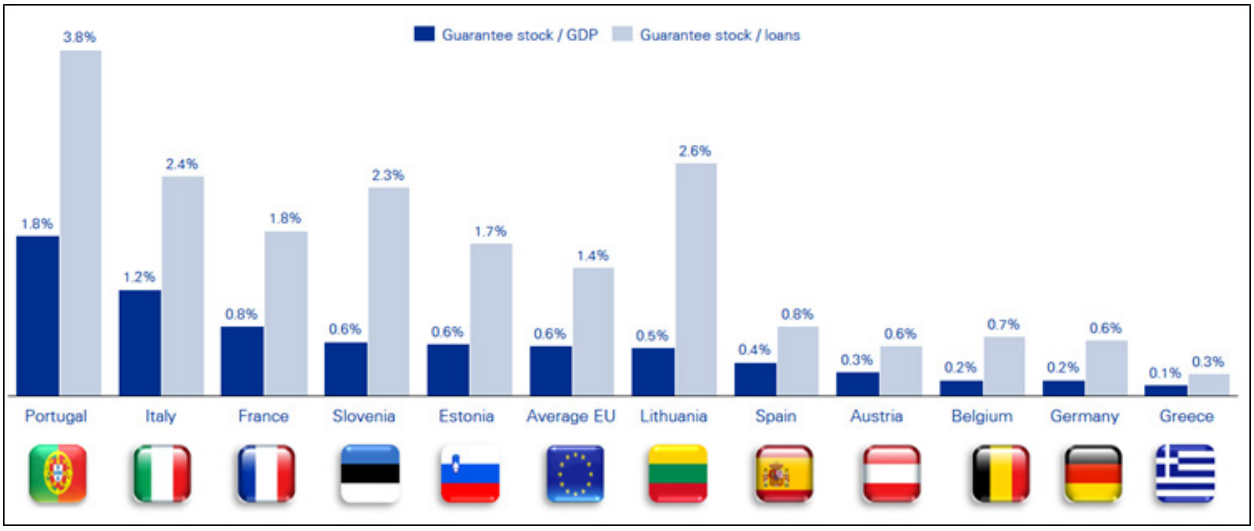
ISMEA, Istituto di Servizi per il Mercato Agricolo Alimentare	Italy	ISMEA is an economic public body that combines the Institute for Studies, Researches and Information on the Agricultural Market (formerly ISMEA) and the Small Farmer Training Fund. As part of its institutional actions, ISMEA carries out information, insurance and financial services as well as providing credit and guarantees for companies and their associated forms, to promote information and market transparency, facilitate the relationship with the banking and insurance system, fostering company competitiveness and reducing the risks inherent in production and market activities. ISMEA supports the Regions in rural fund reorganisation activities, through the formation and expansion of agricultural property, and favours the generational change in agriculture on the basis of a specific aid scheme approved by the European Commission. In carrying out its institutional activities, ISMEA operates solely and exclusively through its own officers and executives. In no case and under no circumstances does ISMEA use external intermediaries.
Strategic Banking Corporation of Ireland	Ireland	The Strategic Banking Corporation of Ireland (SBCI) is a state-owned bank that was established in 2015, and in the wake of the Irish banking crisis of the late 2000s, to provide finance for SMEs. At the time it was set up, many of Ireland's main banks were unable or unwilling to provide finance to businesses. The Strategic Banking Corporation of Ireland does not provide loans directly to companies themselves, but to the main banks at low cost, with the idea that the money is then loaned on to business. As of 2016, the bank had provided €347m to support loans to SMEs.
JSC Development Finance Institution Altum	Latvia	Development financial institution ALTUM is a specialised Latvian development finance institution providing state support through a full range of financial instruments: loans, credit guarantees and mezzanine loans, and co-invests in venture capital funds. Support for companies is available during all stages of growth, starting from the idea and commencing operation until there is stable growth. Started in April 2015, ALTUM is the successor of Latvian Guarantee Agency and has taken over all rights and liabilities of LGA.
Agricultural Credit Guarantee Fund	Lithuania	Agricultural Credit Guarantee Fund (Garfondas) is a financial institution. The Ministry of Agriculture of the Republic of Lithuania holds the shares owned by the State under the right of trust and supervises the Company. Garfondas helps economic entities which do not have sufficient collateral and financial resources to develop and establish businesses, modernise farms and companies, and produce competitive products by providing favourable borrowing conditions. Agricultural Credit Guarantee Fund issues guarantees to credit institutions and financial leasing companies, administrates State aid and other financial instruments.
AGROGARANTE - MGS	Portugal	Agrogarante was established in 2006 by Portuguese Mutual Guarantee System (MGS) allowing its activity to extend to agri-forestry. MGS has a network of agencies across Portugal, including in Porto, Lisbon, Santarém and Coimbra Braga, Vila Real, Aveiro, Viseu, Albufeira, Leiria, Funchal and Ponta Delgada.

National Credit Guarantee Fund for SMEs (FNGCIMM - NCGFSME)	Romania	The National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM SA-IFN) is a non-bank, venture capital fund, set up to facilitate SME access to finance by providing guarantees for financing instruments from commercial banks or other sources. FNGCIMM manages government programs aimed at economic recovery, development of the business environment, and the creation and sustaining of jobs, functioning as a joint-stock company with a single shareholder, the Romanian state, under the prudential supervision of the National Bank of Romania.
CESGAR - Confederation of Spanish Mutual Guarantee Societies	Spain	CESGAR is the Association of financial entities that provide guarantees to facilitate access to finance for SMEs and self-employed workers. CESGAR is a national umbrella organisation of 18 Mutual Guarantee Societies, the first of which was created in 1979. The usual guarantee covers 100% of the bank loan. CESGAR plays a central role in the activity of Sociedades de Garantía Recíproca (SGR, Mutual Guarantee Societies) as their central negotiator with the Government, the Central Bank and competition authorities. The system of public support is based on limited tax exemptions and mainly on counter-guarantees granted by CERSA at a rate (30 to 75%) that depends on political priorities such as innovation and types of operations such as investments.

ANNEX III - THE USE OF GUARANTEE AND COUNTER-GUARANTEE SCHEMES IN THE EU

Credit guarantee instruments and schemes, including counter-guarantees, are widely used in Europe. All major economies have a guarantee system directly or indirectly supported by the public sector.[76] As shown in Figure A.1, guarantees made up about 0.6% of EU GDP in 2015, with peaks in Portugal and Italy (1.8% and 1.2% respectively).

Figure A.1: Guarantees/GDP and guarantees/loans for some European countries, 2015



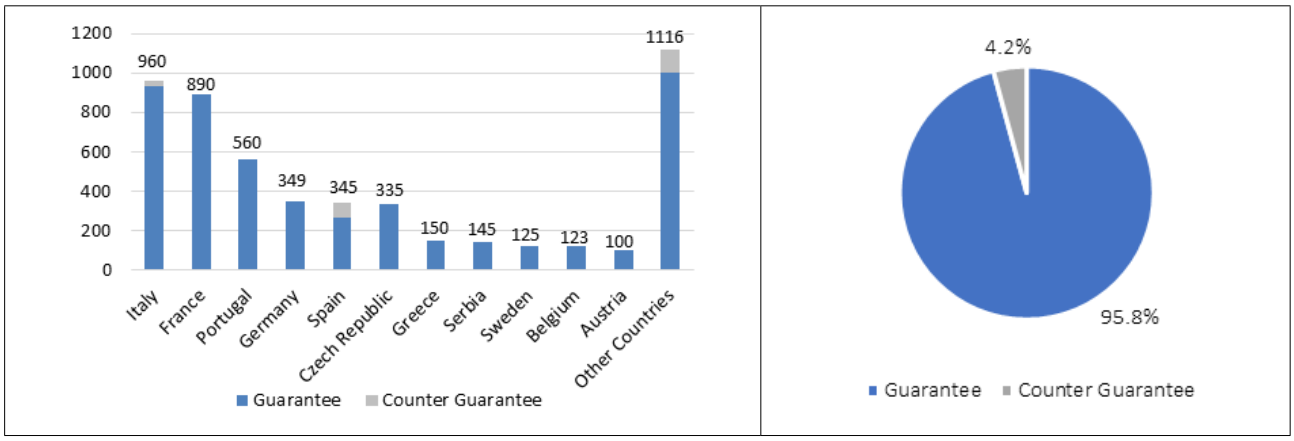
Source: Reproduced from AECM (2016), The importance of Financial Intermediaries in SME financing and assessment of different economic effects especially of EU Financial Instruments in light of Direct Guarantees vs. Counter-guarantee contracts, AECM Study Project, October 2016.

The European Commission has developed several guarantee and counter-guarantee schemes to improve the funding available to enterprises – in particular, innovative SMEs - by stimulating debt products through financial instruments. The two more significant current instruments are the InnovFin SME Guarantee Facility and the COSME Loan Guarantee Facility.

The **InnovFin SME Guarantee Facility** is, in addition to InnovFin Equity, part of 'InnovFin – EU Finance for Innovators', an initiative launched by the European Commission and the EIB Group in the framework of Horizon 2020. This facility, managed by the EIF as the implementing body, can be deployed by local banks, leasing companies, guarantee institutions, etc., selected following the launch of a Call for Expression of Interest. Once selected by the EIF, these partners act as financial intermediaries. The EIF covers a portion of the portfolio losses incurred by the financial intermediaries on products provided under the InnovFin SME Guarantee Facility such as loans, leases and guarantees between EUR 25 000 and EUR 7.5 million. In this way, the EU and EIF enable more debt financing to innovative SMEs and Small Mid-caps (up to 499 employees). The guarantee - up to EUR 200 million per intermediary and up to EUR 500 million for an intermediary group - covers up to 50% of the loss on each new eligible loan, bond or lease that is originated typically during a two-year period. This means a portfolio of up to EUR 400 million of financing per intermediary, and up to EUR 1 billion for an intermediary group.[77] The programme has a total budget of EUR 1.06 billion for the 2014-2020 period. Direct guarantees account for nearly 96% of the support worth EUR 5.2 billion (see Figure A.2, right side).

76 EIB and EIF (2017), Credit Guarantee Schemes for SME lending in Western Europe, EIF Research & Market Analysis, Working Paper 2017/42.
77 EIF and EC (2014), InnovFin SME Guarantee.

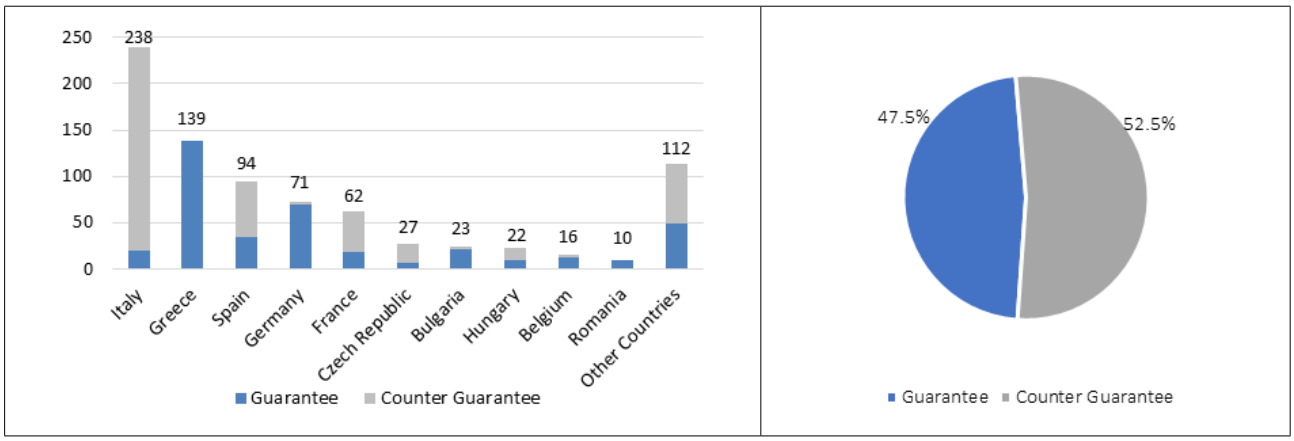
Figure A.2: Direct and counter-guarantees in the InnovFin SME Guarantee Facility, (EUR million, 2018)



Source: Elaboration based on EIF data, InnovFin Guarantee signatures as of 28 February 2018.

The **Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) Loan Guarantee Facility** is a window of the Single EU Debt Financial Instrument which supports European enterprise growth, research and innovation. InnovFin focuses on research-based and innovative SMEs, while the COSME Loan Guarantee Facility supports SMEs in general who may have difficulties in accessing the traditional banking system. It offers capped portfolio guarantees and counter-guarantees, including securitisation of SME debt finance portfolios, to selected financial intermediaries (e.g. guarantee institutions, banks, leasing companies) to enable them to provide more loans and leases to SMEs. By sharing the risk, COSME guarantees that are capped at the level of the expected losses of the portfolio allow financial intermediaries to expand the range of SMEs they can finance. The COSME Loan Guarantee Facility has a budget of EUR 811 million for the 2014-2020 period. Counter-guarantees make up 53% of the support.

Figure A.3: Direct and counter-guarantees in COSME Loan Guarantee Facility, (EUR million, 2018)



Source: Elaboration based on EIF data, COSME LGF signatures as of 28/02/2018.

To help overcome the current investment gap in the EU, the EIB Group and the EC have launched the **European Fund for Strategic Investments** (EFSI). Being one of the three pillars of the Investment Plan for Europe, it aims to revive investment in strategic projects across the continent to ensure that money reaches the real economy.

EFSI had an initial budget of EUR 16 billion guaranteed from the EU budget, complemented by a EUR 5 billion allocation from the EIB's own capital. The total of EUR 21 billion aimed to unlock additional investment of at least EUR 315 billion by the end of 2018, focusing on key sectors for the European economy such as strategic digital, transport and energy infrastructure; education, research, development and innovation; renewable energy and resource efficiency; and support for SMEs. In September 2017, the Commission proposed an extension of the duration of EFSI until end-2020, increasing the EU budget guarantee from EUR 16 billion to EUR 26 billion, and the EIB contribution from EUR 5 billion to EUR 7.5 billion. EFSI 2.0, adopted at the end of 2017, should mobilise private and public investment of EUR 500 billion by the end of 2020. EFSI can help to unleash innovation in rural areas, contributing to funding rural business opportunities related to agriculture and forestry products as well as by-products in the circular economy and bio-economy. EFSI can provide additional finance to projects receiving support under EAFRD. EAFRD can finance the project (through a grant or a financial instrument), but an EFSI-backed loan may also cover any expenditure which was not financed by the schemes under EAFRD.

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