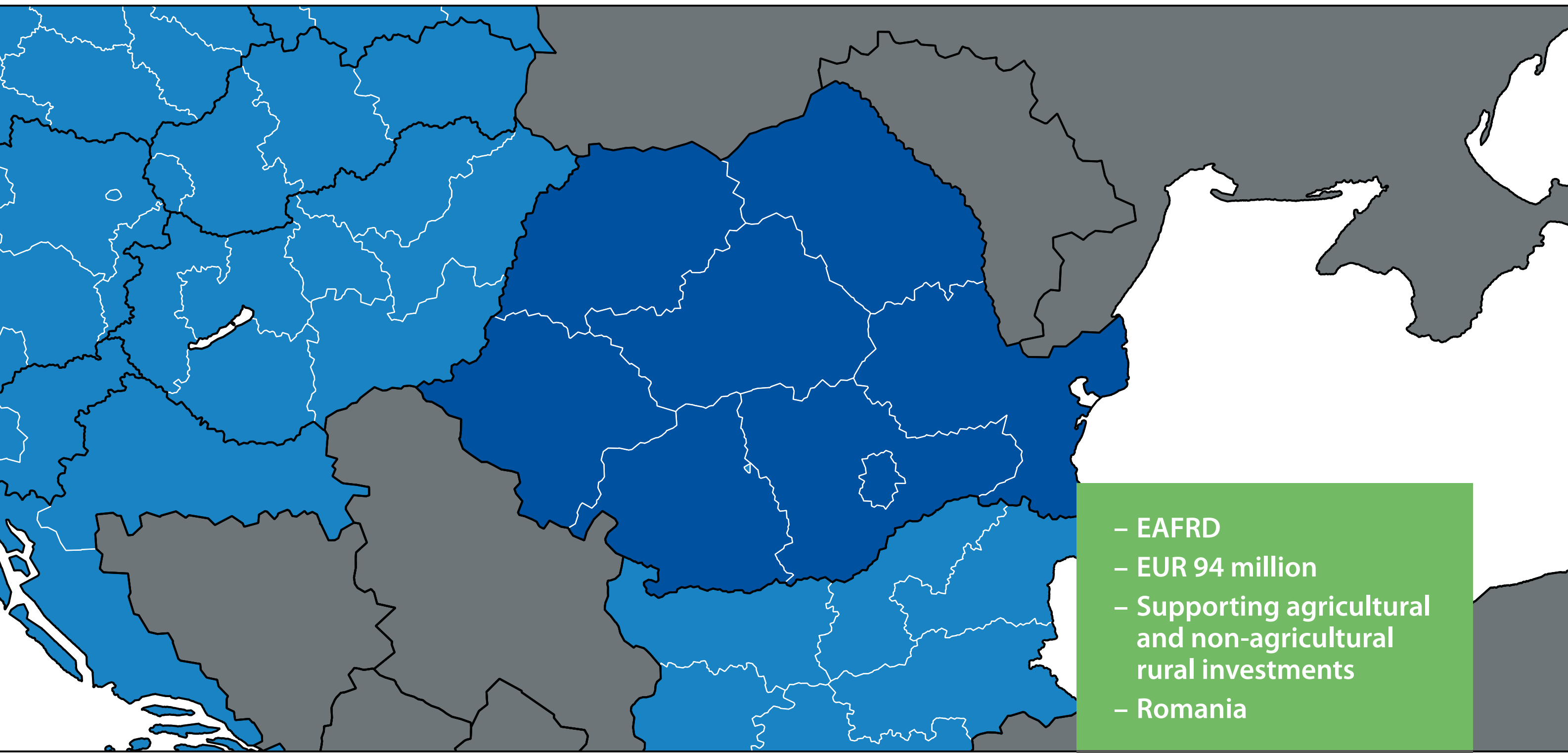

- EAFRD
- EUR 94 million
- Supporting agricultural and non-agricultural rural investments
- Romania

... addressing the market gap in financing farmers and rural entrepreneurs ...

EAFRD Risk Sharing Loan 2014-2020, Romania

Case Study

European Commission

European Investment Bank

The EU bank

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Abbreviations

Abbreviation	Full name
CoEI	Call for expression of interest to select financial intermediaries under the financial instrument
CPR	Common Provision Regulation
EAFRD	European Agricultural Fund for Rural Development
EIF	European Investment Fund
GGE	Gross Grant Equivalent
MARD	Ministry of Agriculture and Rural Development of Romania
NRDP	National Rural Development Programme
PRSL	Portfolio Risk Sharing Loan
RDP	Rural Development Programme
SME	Small and medium-sized enterprises

Table of contents

1. Summary

The European Agricultural Fund for Rural Development (EAFRD) Portfolio Risk Sharing Loan (PRSL) in Romania has been set-up under the National Rural Development Programme (NRDP) 2014-2020.

The ex-ante assessment approved by the Ministry of Agriculture and Rural Development of Romania (MARD) in September 2016 highlighted a market failure in the provision of finance to farmers, agricultural and non-agricultural enterprises with a gap between supply and demand of around EUR 2.4 billion. The MARD has entrusted the European Investment Fund (EIF) to set-up a fund of funds in cooperation with selected financial intermediaries to improve funding for local farmers and rural entrepreneurs through a PRSL instrument.

The PRSL co-finances new loan portfolios established by five financial intermediaries selected by the EIF at a risk-sharing rate of up to 70%. The loans can be stand-alone or can co-finance grants. The EUR 94 million fund of funds is financed with approximately EUR 87.8 million from the EAFRD and EUR 6.1 million from the national budget. The expected leverage effect of 1.8 times should result in up to EUR 160 million of resources for some 1 300 final recipients. The fund of funds structure was chosen as it allows a high degree of flexibility, so resources can switch between financial intermediaries on the basis of performance.

The objective of the PRSL is to overcome the reluctance of the banking system in Romania to lend to farmers, mainly due to a perception of higher risks when lending to the agriculture sector. A lack of credit history and collateral as well as problems in quantifying land ownership increase the perceived risk and are major obstacles to providing finance. In addition, the numerous agricultural undertakings in Romania are typically small, so farmers have difficulties in accessing bank credit and are more grant dependent.

The PRSL reduces the cost of credit for final recipients compared to market rates and helps to generate loans which otherwise would not be approved. The lower cost results from the EAFRD portion being provided by EIF at zero interest and from the less collateral being requested by financial intermediaries.

The PRSL resources, supporting agricultural investments and working capital, are available upfront. The administrative burden for the final recipient is low compared to grant applications and financing. The instrument targets farmers and enterprises, which are not necessarily beneficiaries of NRDP grants, ensuring a broader scope and better performance of the instrument.

Funding agreements between the EIF and the five financial intermediaries were signed at the end of 2018 and by June 2020 the financial instrument already had 357 final beneficiaries supported through loans totalling EUR 57.8 million.

Romania EAFRD Risk Sharing Loan

THE FINANCIAL INSTRUMENT

Funding source

EAFRD National Rural Development Programme 2014-2020

Type of financial products

PRSL (stand-alone loan or loan for grant project co-financing)

Financial size

EUR 94 million (of which 93.5% EAFRD + 6.5% National contribution) + EUR 69.6 million from financial intermediaries (expected).

Thematic focus

To address a market failure in rural Romania by providing finance to farmers and rural entrepreneurs for investments and working capital in agricultural and non-agricultural activities in rural areas.

Timing

From 2017 to 2023

Partners involved

MARD (managing authority)
EIF (fund of funds manager)
Banca Comerciala Romana, Libra Internet Bank, Procredit Bank, Raiffeisen Bank, Unicredit Bank (financial intermediaries)

ACHIEVEMENTS

Absorption rate

36% based on Q2 2020 data

EU leverage[1]

1.82 times

Leverage of public resources[2]

1.7 times

Main achievements

As of June 2020, EUR 57.8 million had been committed and EUR 51.9 million disbursed by the financial intermediaries to 357 final beneficiaries.

1 Estimated EU leverage is calculated as the total amount of finance to eligible final recipients, i.e. EUR 160 million, divided by the total amount of EAFRD allocation to this financial instrument, i.e. EUR 87 769 438 million. It does not include the reuse of resources returned to the instrument.

2 Leverage of public resources is calculated as the total amount of finance to eligible final recipients, i.e. EUR 160 million, divided by the total amount of public resources allocated to the financial instrument, i.e. EUR 94 million. It does not include the reuse of resources returned to the instrument.

2. Objectives

The key objective of the EAFRD PRSL instrument is to improve access to finance for farmers and non-agricultural enterprises in rural areas in Romania. More specifically, in accordance with the NRDP 2014-2020, the financial instrument aims to address the objectives of:

- Sub-measure 4.1: Support for investments in agricultural holdings;
- Sub-measure 4.1a: Support for investments in fruit-growing holdings;
- Sub-measure 4.2: Support for investments in processing and marketing agricultural products;
- Sub-measure 4.2a: Support for investments in processing and marketing fruit sector products;
- Sub-measure 6.4: Support for investments creating and developing non-agricultural activities.

The financial instrument responds to a market gap for financing agriculture and non-agricultural activities in rural areas of around EUR 2.4 billion, as estimated in the ex-ante assessment. The Romanian EAFRD Managing Authority, represented by the MARD, entrusted the EIF to create a fund of funds with nearly EUR 94 million (of which EUR 87.8 million from the EAFRD and EUR 6.1 million national contribution). The financial instrument is expected to achieve a leverage of 1.8 times on the EU resources through additional resources provided by the financial intermediaries. A total of EUR 160 million are expected to support more than 1 300 final recipients over the lifespan of the instrument.

The fund of funds, through five financial intermediaries implements the PRSL in two ways:

- Loans co-financing grants under the National RDP for agricultural, as well as rural non-agricultural investments;
- Stand-alone loans (i.e. without grant co-financing) for farmers and rural entrepreneurs.

The instrument has an economic and financial impact, and also aims at changing the approach towards supporting final recipients by encouraging them to use financial instruments. This helps them become more familiar with the credit system (and vice versa) and invest in a more disciplined way.

3. Design and set-up

The ex-ante assessment for the potential instrument, as required by EU legislation, was finalised on 30 June 2015. It was updated and the revised version was approved by the MARD on 9 September 2016. Based on the assessment recommendations, a financial instrument was established in November 2017. MARD appointed the EIF as the fund of funds manager, in line with the instrument structure. The EIF launched a call for expression of interest to select financial intermediaries in March 2018. Funding agreements were signed with financial intermediaries between September and December of the same year, after which the first loans were disbursed to final recipients.

Table 1: Timeline of the financial instrument

Date	Event
June 2015	Ex-ante assessment for use of EAFRD financial instruments finalised
September 2016	Update and approval of the ex-ante assessment by the MARD
November 2017	EIF appointed as fund of funds manager
March 2018	Call for expression of interest launched by the EIF
September 2018	Closing date for expressions of interest
September-December 2018	Operational agreements signed with five financial intermediaries
December 2018	First loan disbursements to final recipients

3.1 The ex-ante assessment

Completed in June 2015, the ex-ante assessment provided evidence that a financial instrument would address a significant funding gap and persistent financial constraints faced by the agriculture sector and businesses in rural areas in Romania. Addressing the financial gap would contribute to achieving NRDP objectives.

Access to finance was the second most pressing problem for SMEs in Romania, after finding customers[3]. Since its accession to the EU, Romania's financial system emphasised providing financial resources to SMEs by reducing borrowing costs[4]. The volume of loans rose from RON 168.0 billion (EUR 38.2 billion) in 2007 to RON 285.9 billion (EUR 65 billion) in 2013[5]. This significant increase of 70% in 6 years was also reflected in credit provided to the agricultural sector.

Financial intermediaries declared themselves to be more open to lending in 2013 compared to 2011. However, despite the slight improvement in the supply of credit by 2013, less than half (46%) of the SMEs that applied for bank loans received the full amount requested. Some 13% were rejected by the bank and 6% by the applicant due to high costs. In 2011-2013, only 41% of SMEs in Romania received a loan bank, down from 2009-2011, when about 60% of SMEs obtained loans.

3 KBMG, GBI Consulting and MARD (2016) *Evaluare Ex-Ante pentru implementarea de Instrument Financiare în PNDR 2014-2020*, June 2015, p.14.
4 Ibid.
5 One EUR was about 4.4 Romanian Lei (RON) in 2013.

Historically, financial intermediaries in Romania had limited experience in lending to agriculture, despite its significant economic value added and large share of the labour force (Romania had the 2nd largest number of agricultural employees in the EU in 2010). However, productivity in the agriculture and agri-food sectors is well below the European average. Accessing loans has been a major problem for most farmers and SMEs in rural areas and the 2007-2008 financial crisis decreased their access to credit. Agricultural and non-agricultural enterprises in rural areas were therefore underinvesting - especially in equipment and machinery - due to a lack of financing, as well as its high cost. Moreover, when there were funds for these investments, the sustainability of projects was not necessarily guaranteed.

The key constraint for financial institutions to open up to agricultural finance was risk aversion, mainly due to information asymmetry. This stemmed, for instance, from a lack of personnel in financial institutions specialised in farming, few specific financial products for agriculture, unclear property rights over agricultural land, high transaction costs and a lack of banking history for many businesses. There was also insufficient loan collateral from farmers and rural enterprises[6]. In addition, few financial institutions were operating in rural areas and only one in 10 lending institutions had a physical presence there (an agency, office or ATM). So, access to finance for agricultural activities was very limited and the cost was high.

The ex-ante assessment estimated that the financing gap amounted to EUR 276 million for non-agricultural SMEs in rural areas and nearly EUR 2.1 billion for agricultural enterprises, leading to a total gap of nearly EUR 2.4 billion.

To address such problems various national programmes were established in the past, including support through grants and guarantees under a specific Guarantee Fund with EAFRD support. Although public financial support for agriculture increased, the coverage remained insufficient. Experience from the NRDP 2007-2013 showed that large agricultural holdings, corporations and large enterprises benefited most from these schemes. Access to bank loans for SMEs and start-ups in the agricultural sector remained, however, a significant problem. Moreover, in 2007-2013, financial instruments could be set up only to support co-financing of grants under the Rural Development Programme (RDP), as stipulated in EU law. This restricted potential use of the instrument.

The ex-ante assessment recommendation was to implement two instruments, a guarantee scheme (continuing the 2007-2013 practice) and a loan instrument with risk sharing, both to be potentially combined with grants. In September 2016, before its approval, the ex-ante assessment was updated to reflect more recent market conditions as well as consultations with the banking sector and farm associations. One result of the consultation with stakeholders was to prioritise implementation of a loan instrument, which the Managing Authority respected.

3.2 Selection of the implementing body

The EAFRD Managing Authority, represented by the MARD, entrusted the EIF with implementation of the instrument through a fund of funds. The funding agreement between the Managing Authority and the EIF was signed in November 2017.

The selection of financial intermediaries was done by the EIF through a call for expression of interest launched in March 2018. The call was open for around six months, with a deadline of 30 September 2018.

6 The unpredictability of crops was another crucial factor in information asymmetry. See KBMG, GBI Consulting and MARD (2016) E*valuare Ex-Ante pentru implementarea de Instrument Financiare în PNDR 2014-2020*, June 2015, p.17.

The EIF assessed applicants in a three-phase selection process. During the pre-selection phase, expressions of interest were formally reviewed[7] with quality criteria for sustainability, quality and maturity. The second phase, due diligence, was carried out in accordance with EIF internal rules and procedures. Here financial and operational matters relating to PRSL implementation were analysed in more detail. In the third phase, selection, the EIF requested approval from its governing bodies for funding agreements with the selected applicants.

There was a good market response with nine applications and five financial intermediaries were selected: Banca Comerciala Romana, Libra Internet Bank, Procredit Bank, Raiffeisen Bank, and Unicredit Bank.

Following completion of the selection process, in December 2018 the EIF organised meetings and training with all parties involved in implementing the financial instrument. These helped clarify the PRSL mechanism, eligibility criteria, State aid rules, including the Gross Grant Equivalent (GGE) calculation and reporting activities.

3.3 Funding and governance

The fund of funds is financed under the NRDP 2014-2020 with EUR 87.8 million from the EAFRD and national budget co-financing of an additional EUR 6.1 million. The expected leverage including private resources from the financial intermediaries is about 1.8 times, which should lead to total resources available for final recipients of some EUR 160 million.

Table 2: Funding sources and amount8

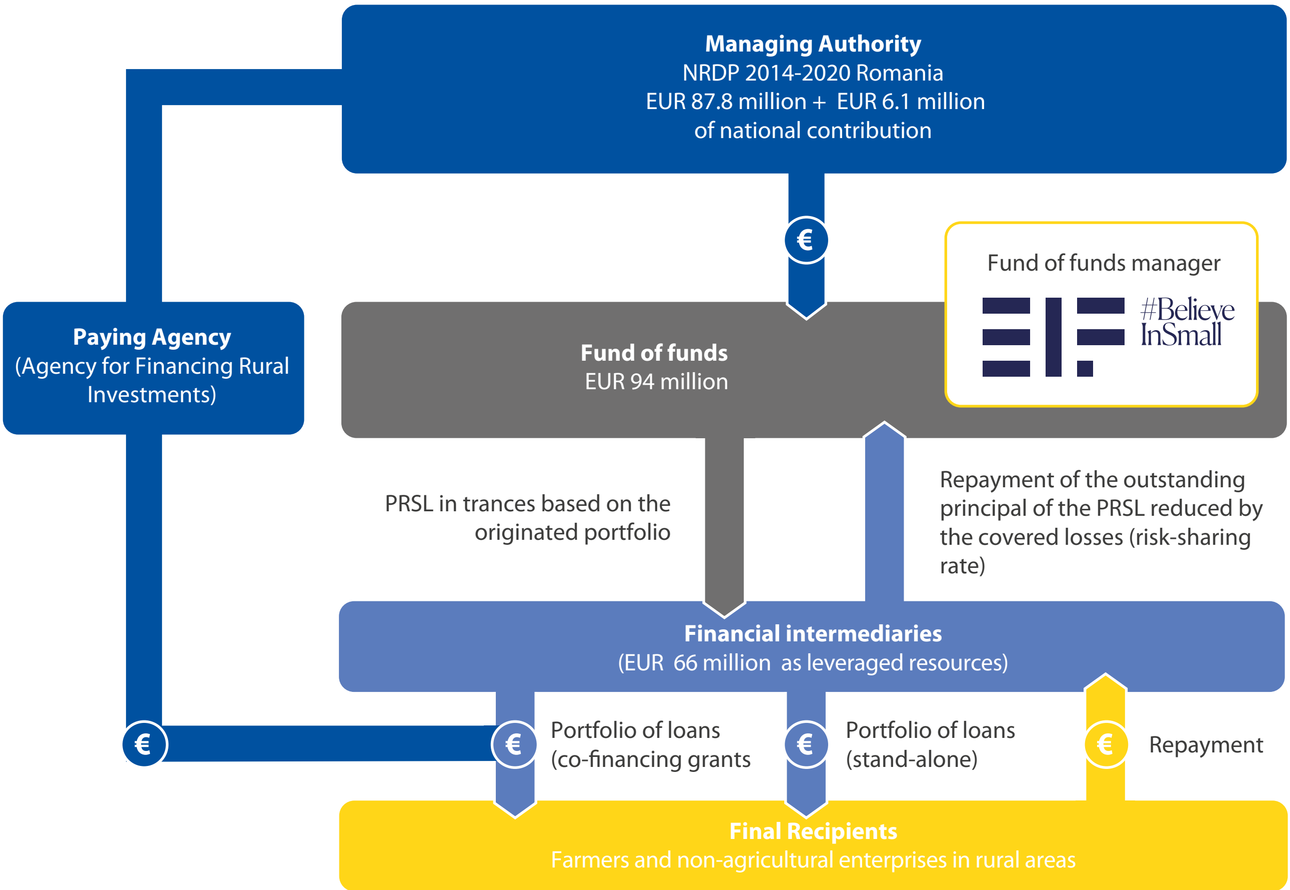
	Funding source	Amount
Financial instrument	EAFRD	EUR 87 769 438
	National budget	EUR 6 106 049
	Total	**EUR 93 875 487**
	Financial intermediaries contributions	Estimated to be nearly EUR 69 571 904[8]
	Total	**EUR 163 447 391**

The financial instrument was set up using the fund of funds implementation option according to Article 2 (27) of the Common Provisions Regulation (CPR). The managing authority appointed the EIF as fund of funds manager for the PRSL instrument pursuant to Article 38(4)(b)(i) of the CPR.

7 The Applicant (and each Participating Entity in a joint Expression of Interest): i. has a significant presence in Romania, with a relevant track record and branch network coverage; ii. has the legal capacity and is authorised to carry out its business in Romania under the applicable regulatory framework; iii. presents a viable economic and financial situation in the Expression of Interest; iv. has adequate capacity to implement the financial instrument, including organisational structure and governance framework; v. has an adequate internal control system; vi. has an adequate reporting/accounting system which provides accurate, complete and reliable information in a timely manner; vii. is not established and does not maintain business relations with entities incorporated in territories whose jurisdictions are Non-Cooperative Jurisdictions.

8 The estimated financial intermediaries contribution is based on funds available for transactions (i.e. net of fees) and the average weighted risk sharing (=co-financing).

Figure 1: Governance structure



Under the funding agreement with the EAFRD Managing Authority, the EIF is authorised to manage the bank account, pursue the investment strategy, select financial intermediaries, perform due diligence, negotiate operational agreements with the financial intermediaries, as well as audit and monitor implementation of the financial instrument. The fund of funds has an investment board composed of five members[9] to monitor and supervise implementation of the financial instrument. The fund of funds provides the NRDP contribution for the PRSL to financial intermediaries in multiple tranches, in line with increases in their portfolio of loans, as defined in the funding agreement.

The financial intermediaries provide loans to final recipients according to operational agreements signed with the fund of funds manager. They evaluate applications from final recipients and, if approved, determine the GGE of each loan. They collect loan repayments, which are returned to the fund of funds on a periodical basis, less covered losses[10] according to the risk-sharing rate. **Financial intermediaries report monthly to the fund of funds manager on implementation progress for their part of the financial instrument.**

9 The members of the investment board include the State secretary of the MARD, two representatives of the NRDP Managing Authority, representatives of the Directorate General for Budget, Finance and European Funds in the MARD and of the Paying Agency, as well as an observer from the EIF.

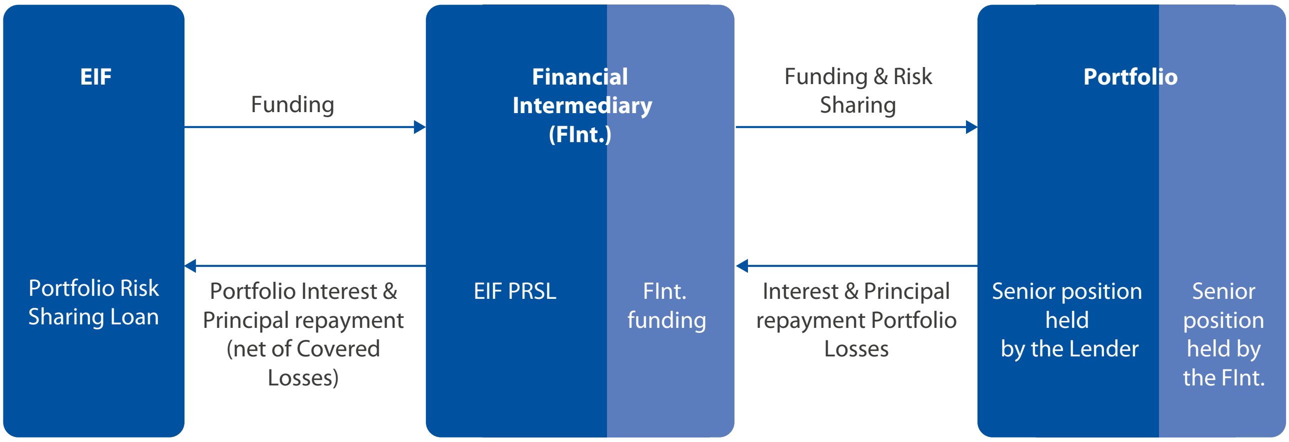
10 Covered losses are the defaulted amounts times the risk-sharing rate, which could occur with a final recipient default, transaction acceleration or restructuring.

For loans to co-finance grants, the Paying Agency evaluates and selects grant requests, informing applicants if they can co-finance their projects through the PRSL. Moreover, it revises each project's funding structure and, before signing a grant contract, may reduce the value of the grant to ensure that the maximum for cumulative support is respected. In order to ensure an audit trail, the Paying Agency and the financial intermediaries keep separate records for expenditure under each component of the support provided under the PRSL and the grant.

4. Implementation

The PRSL is a loan instrument available to financial intermediaries to (i) co-finance (at the risk-sharing rate) a new portfolio of loans and (ii) share credit risk related to the underlying portfolio at the risk-sharing rate (i.e. covered losses), up to the pre-set PRSL maximum.

Figure 2: The PRSL mechanism



Source: Reproduced from Annex III to the Open Call for Expression of Interest to select Financial Intermediaries under the Romania EAFRD Fund of Funds.

The financial intermediaries started disbursing new loans to final recipients in December 2018. To raise awareness of the advantages of the financial instrument, the EAFRD managing authority and the participating financial intermediaries organised workshops leveraging on activities of the rural network. These informed farmers about the PRSL programme and its added value compared to traditional grants.

4.1 Financial products and terms

The PRSL can be delivered to final recipients through two products:

- Loans co-financing grants for agricultural and rural non-agricultural investments. This includes investment projects selected under Leader;
- Stand-alone loans (without grant co-financing) for these final recipients, namely farmers and rural entrepreneurs.

The loans finance investments and working capital and cannot be used for refinancing or restructuring existing loans. More specifically the support is for:

- Investments in agricultural holdings / acquisition of physical assets and investments in fruit-growing holdings;
- Investments in processing and marketing agricultural products and investment in processing and marketing products in the fruit-growing sector;
- Development of non-agricultural business activities in rural areas.

Financing VAT is eligible only for the investment part financed through the PRSL. If the PRSL is used to co-finance a grant project, then only VAT related to the part financed through the PRSL is eligible.

Final recipients are farmers under all sub-measures, agricultural SMEs and larger enterprises under sub-measures 4.2 and 4.2a, and non-agricultural SMEs under sub-measure 6.4 including farmers or members of the farm household diversifying their basic agricultural activity. The maximum loan amount is EUR 1 million. In addition to supporting investments, loans can also cover working capital (as part of an investment project and limited by the share of working capital[11]), livestock and annual plant purchases, investments in farm irrigation systems and land purchases[12].

In line with the NRDP criteria, the financial instrument focuses on supporting small agricultural enterprises and farmers, young farmers and final recipients in mountainous regions. The financial intermediaries are incentivised through additional management fees to support investments related to these categories. Moreover, the product aims on a best effort basis at allocating 20% of the PRSL to micro transactions, i.e. transactions up to EUR 50 000.

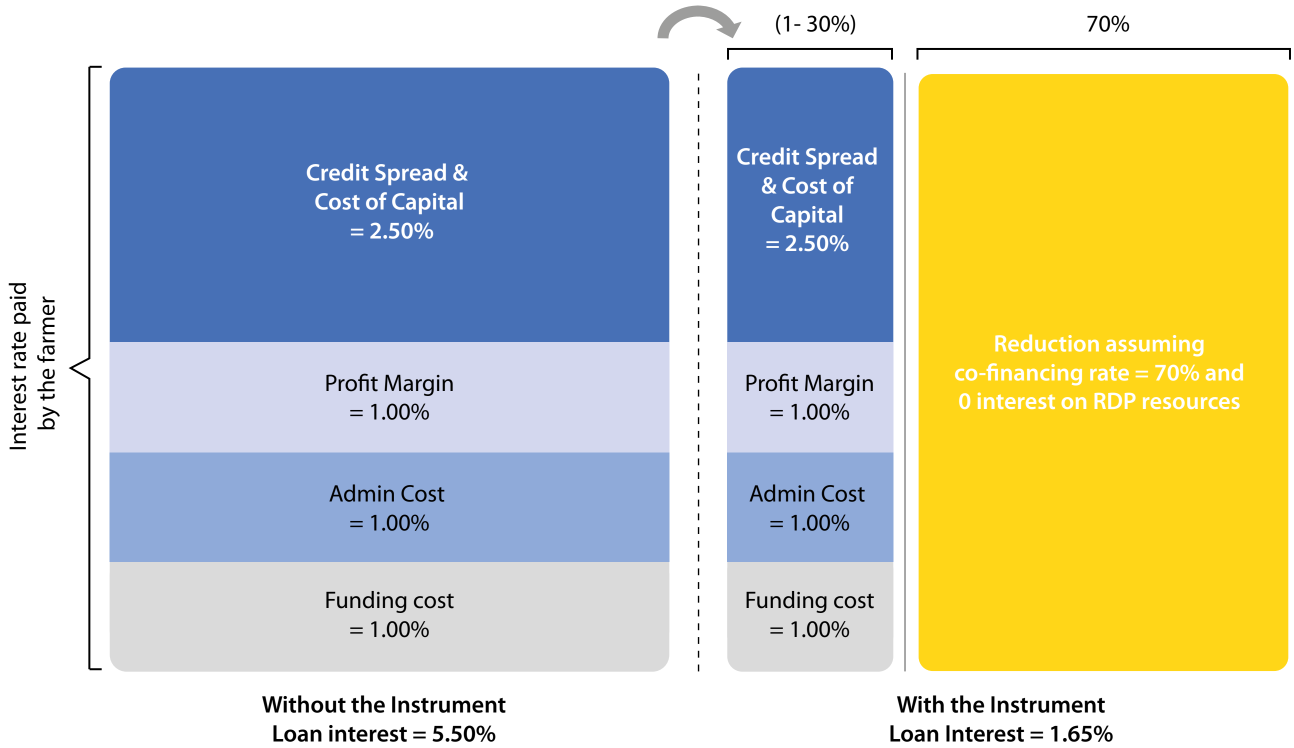
Table 3: Financial products key characteristics

Loan amount	Up to EUR 1 million for a stand-alone loan Up to EUR 4.6 million for loans co-financing grants
Risk sharing rate	Up to 70% of the loan
Financial intermediary risk retention	Minimum 20% of each transaction
Maturity	Between 1 and 10 years
Interest rate	0% for the PRSL risk-shared portion of the transaction
Repayment	Depending on the loan agreement

The PRSL is offered to financial intermediaries at a zero interest rate allowing financial intermediaries to reduce funding costs and credit risks for the loans. Such a process contributes to the financial intermediary sharing risk on final recipient transactions aligned with the risk-sharing rate of up to 70%. For final recipients this means lower costs, as they do not pay interest or commissions or a guarantee fee on up to 70% of the loan.

11 Article 45(5) of Regulation 1305/2013.
12 Under the conditions of Regulation 1305/2013 and Regulation 480/2014.

Figure 3: Example illustrating the transfer of benefit mechanism: lower interest rate



Source: Reproduced from EIF (2019), 'EAFRD RO FoF – Portfolio Risk Sharing Loan', fi-compass 'Fifth annual EU conference on EAFRD financial instruments for agriculture and rural development in 2014-2020', Bucharest, June 2019.

Note: All numbers included in the example are indicative and for illustrative purpose.

Expanded financing possibilities in light of the COVID-19 crisis

In relation to the COVID-19 outbreak, the EU regulatory framework has been amended to provide additional flexibility to respond to the current unprecedented situation. In order to support businesses impacted by the pandemic, EU legislation allowed stand-alone working capital finance under all EAFRD financial instruments for SMEs of up to EUR 200 000. Until that change, working capital was provided only if linked to an investment, with a limit based on the eligible expenditure.

As a follow up to this legal change, the Managing Authority considered introducing certain flexibility measures under the PRSL, such as:

i. working capital support on a stand-alone basis,
ii. support provided to undertakings in difficulty, and
iii. the possibility of re-financing.

In addition, to better address the financing needs of final recipients, and building on a national moratorium allowing companies to request banks for a maturity extension of their loans, the Managing Authority and the EIF are discussing decreasing the minimum maturity from 12 to 6 months and increasing the maximum maturity from 10 to 12 years.

4.2 State aid

For agricultural activities supported by the EAFRD, support is exempted from State aid rules under Article 108 (3) of the Treaty, in compliance with EAFRD regulations. Support provided through financial instruments for investment in the creation and modernisation of agricultural holdings under sub-measure 4.1 and sub-measure 4.1a and for processing products[13] must comply with aid intensities set out in Annex II of Regulation 1305/2013. When combined with a grant, aid cumulation must also comply with the limits described above. In this respect, the financial intermediary should calculate the GGE of the eligible expenditure covered by the loan for each final recipient transaction and ensure it does not exceed the threshold. In Romania, for a stand-alone loan this is 50% of the total eligible expenditure, while for a co-financing loan, the cumulated support must comply with the aid intensity requirement of the NRDP, which varies by final recipient category and type of investment.

For non-agricultural activities, financial instruments are designed to comply with *de minimis* rules set out in Commission Regulation (EU) No 1407/2013, and should not exceed the maximum threshold for the supported project. This means that the total GGE (i.e. GGE of the loan and other *de minimis* support received by a final recipient over three fiscal years) can be up to EUR 200 000 over three fiscal years. In addition the maximum aid under the relevant measure should be respected. For stand-alone loans in Romania, the maximum rate of 50% applies to all agri-food activities with a non-Annex I product as a final outcome. For grant co-financing, the aid intensity set out in the NRDP applies to all agri-food activities and rural business development.

With a co-financing loan, the GGE calculated by the financial intermediary is communicated to the final recipient, who communicates this to the authority providing the grant (the Agency for Financing Rural Investments). This ensures that the sum of all support (grant and GGE) are within the maximum allowed for the investment.

4.3 Financial flow and appraisal process

The EAFRD Managing Authority provides funding to the fund of funds in line with the funding agreement and article 41(c) of the CPR. The Managing Authority submits phased applications for interim payments to reimburse the EAFRD part of the funding.

In turn, the maximum amount of PRSL (i.e. maximum commitment) available to a financial intermediary is also in tranches. Except for the first tranche, the EIF delivers extension notices unlocking further amounts of the PRSL based on disbursements to final recipients.

The financial intermediaries must originate portfolio loans normally within 24 to 36 months (i.e. the inclusion period), which may be extended in justified circumstances. During this period, upon notification by the EIF, principal repayments from borrowers may be used by financial intermediaries to co-finance new transactions to be included in their portfolios.

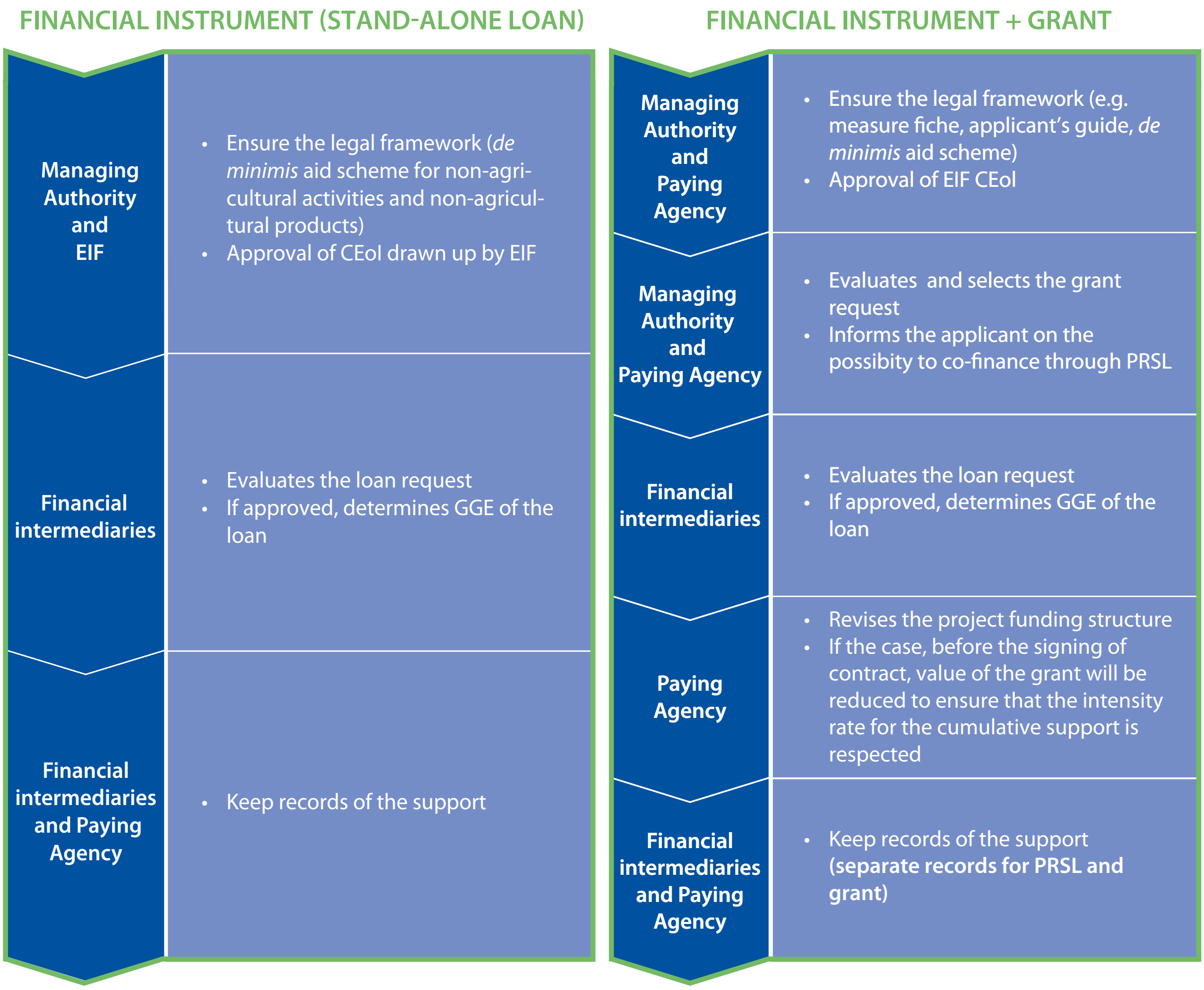
Outstanding principal is repaid to the fund of funds on a periodic basis (typically quarterly), with principal repayments from final recipients. As a result of the risk sharing element, outstanding principal in the PRSL is reduced by covered losses (i.e. defaults multiplied by the risk-sharing rate). The deadline for financial intermediaries to draw down from the PRSL is the end of the inclusion period, or a date determined by the EIF.

13 As in Annex 1 TFEU when resulting in a product included in Annex 1 TFEU.

The financial intermediary has a sole direct client relationship with each final recipient. Origination, due diligence, documentation and servicing the loans are in accordance with the financial intermediary's standard origination and servicing procedures. Loans are included in the portfolio by submitting inclusion notices, which must meet pre-defined criteria. In evaluating the eligibility of projects under the PRSL, the financial intermediaries must therefore verify that State aid criteria are met. Moreover, they must assess the economic viability of projects according to their internal norms and procedures. Finally, they have to promote the financial instrument to customers as well as train their employees and customers in understanding the financial instrument mechanism.

If support through PRSL is combined with a grant, the project should first be submitted for evaluation and financing to the Paying Agency[14]. The financial intermediary should decide on financing any project independently of the grant financing. So, if a grant application is unsuccessful this would not automatically lead to ineligibility of the transaction as long as the final recipient fulfils the financial instrument conditions.

Figure 4: PRSL Flow



Source: Reproduced from EIF (2019), 'EAFRD RO FoF – Portfolio Risk Sharing Loan', fi-compass 'Fifth annual EU conference on EAFRD financial instruments for agriculture and rural development in 2014-2020', Bucharest, June 2019.

14 Access to the grant co-financing loan is possible after the application is submitted to the Paying Agency and before signing the grant contract.

5. Output

The financial instrument has been implemented for just two years and still has several years to go before being closed down or continued in the new period. Due to the characteristics of this agri-specific financial instrument, financial intermediaries had to set-up and fine-tune their internal systems and procedures to cater for the eligibility criteria. Training the sales network and ensuring a smooth roll-out of the product was time intensive. At the time of the preparation of the case study and based on Q2 2020 data as reported by the financial intermediaries, 357 final recipients received EUR 57.8 million in loans, of which the national contribution was EUR 3.8 million. It is expected that new loans will increase as the product and its benefits become better known in the market. The COVID-19 health crisis also had an impact on implementation of the instrument.

Thanks to the revolving effect of the financial instrument, resources repaid by final recipients could potentially be used for further investments under the current instrument or for new products. This will depend on assessment of the market at that time and be subject to approvals, as required by the EU legislation.

SC Sanlacta SA

SC Sanlacta SA was founded in 1996 in Târgu Mureş, initially under the name of Raifform S.A, a mixed capital company with both Romanian and German shareholders. After changes and restructuring, the entire business was taken over by the Romanian partners. The company also changed its name and registered office, as well as its main activity and invested around EUR 2.13 million in a modern milk processing unit, with a capacity of 25 000 litres per shift of 8/10 hours. Currently, the company has various investments financed from both internal and external resources (EU funds). These extend and modernise its activity through new technologies and increased processing capacity.

Previously, Sanlacta implemented two projects financed with grants from EAFRD through the NRDP. One grant under sub-measure 4.2 ('Support for investments in the processing / marketing of agricultural products', programming period 2014-2020) to purchase a water/ice installation, two milk storage tanks and one PET packing machine was finalised in 2019. Another was in 2017, under measure 123 ('Increasing the added value of agricultural and forestry products', programming period 2007-2013).

In recent years, the turnover has increased continuously due to new equipment, which improved production capacity, more sales and improved product quality. Sanlacta SA produces fresh dairy products such as cottage cheese, cream cheese, yogurt, drinking yogurt, milk, cream, etc. Products are distributed nationally and are sold in hypermarkets such as Kaufland and Auchan.

In 2020, the company contracted a stand-alone loan from Libra Internet Bank from the Romanian EAFRD fund of funds PRSL. The loan of RON 900 000 (nearly EUR 185 000) was at a 3-month ROBOR rate of 4.58%, for 3 years. For the company, the loan had important advantages, especially lower collateral requirements thanks to the EAFRD risk share coverage. However, the bank interest rate is considered relatively high. The loan was used to buy a milk pasteuriser and milk homogeniser, which increase production capacity from 2 000 to 5 000 litres / hour.

The investment is in early implementation, as the equipment was purchased at the end of summer 2020 and is currently not fully operational. However, the investment should significantly increase productivity and efficiency (with more products in less time and at lower cost). Without the loan supported by EAFRD, a similar investment would probably have been made through alternative financial resources from a national operational programme, according to the final recipient. The relationship with Libra Internet Bank is regarded as very positive with close collaboration and partnership.

The final recipient found out from the press about the PRSL and additional information on eligibility and contracting terms were provided by the bank. The loan process was deemed easy, with less documentation and a more simplified procedure compared to previous grants financed by EAFRD. Some steps have been completely digitised with no need to physically go to the bank. The entire process (submission and assessment of the loan application) was smooth and lasted approximatively one month allowing for fast roll out of the investment.

6. Lessons learned

Thanks to the PRSL, financial intermediaries can provide financing to farmers and rural entrepreneurs at a lower interest rate and, potentially, with reduced collateral requirements. They may also opt to support riskier projects that would not otherwise have been financed.

As a general rule, final recipients obtain the funding upfront which increases the effectiveness and efficiency of their investments. The instrument is suitable for financially viable projects that are expected to generate income or savings to repay the support.

Final recipients are also learning to be more financially disciplined as they need to reimburse the loan, unlike a grant, and in this context their knowledge of accountancy and financial management increases. Overall, the PRSL is helping to reduce the gap in access to finance by offering more reasonable market conditions to interested businesses.

However, some financial intermediaries have noticed that final recipients with combined projects, i.e. part funded as a grant under the NRDP and part co-financed by the financial instrument, are still reluctant to accept or understand a decrease in the non-repayable component of the GGE attributable to the loan, as required by State aid rules. Financial intermediaries sometimes also find it challenging to explain to their clients that this financial instrument is not a non-refundable type of support (i.e. grant), but a risk-sharing guarantee, and they have to repay the loan.

An additional benefit is that the financial instrument enables financial intermediaries to increase their business volumes, acquire new clients and strengthen their market position, all linked to agriculture and the rural economy.

Access to finance is considered simplified due to the fully delegated model of the PRSL, with financial intermediaries able to originate, manage and monitor the new loans in accordance with their standard policies and procedures. However, for some financial intermediaries calculating the GGE and the maximum aid, as well as checking eligibility criteria under the NRDP for stand-alone loans, is considered costly and challenging. Financial intermediary employees often do not have the experience to perform such assessments. Despite these difficulties, the financial instrument is perceived as a way to gain experience in evaluating investment projects eligible under the NDRP and therefore to expand market opportunities.

Some potential challenges have been identified related to the PRSL payments mechanism. As set out in the CPR, funding for the fund of funds is in multiple tranches. The first tranche is paid upfront and subsequent tranches are paid once a percentage of the previous tranche has been disbursed to final recipients. Under certain circumstances, this structure could lead to financial intermediaries that perform very well having to stop loan origination as the NRDP commitment provided through the EIF is fully committed. For example, total disbursements at fund of funds level are insufficient to receive the next tranche. However, this aspect has been simplified for the next programming period.

Intensive knowledge sharing is necessary due to the complex eligibility requirements of the NRDP. These mean that it is crucial to clarify the eligibility checks for final recipients, transactions and expenditure. Clear eligibility criteria from the outset of the financial instrument is fundamental for smooth and successful implementation by the financial intermediaries.

The EIF has been working closely with the financial intermediaries since inception to ensure that the financial instrument operational mechanism is clearly understood. Guidance is provided on a continuous basis as the agricultural sector involves greater complexity compared to more general products implemented by the EIF in Romania. In their efforts to ensure effective deployment of the PRSL, financial intermediaries have also been particularly active, organising marketing events such as conferences and workshops for farmers and agricultural companies to increase awareness of the PRSL mechanism and its benefits.

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