



The added value of guarantees for the agricultural sector

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AGENDA



AECM - facts, figures & role

Guarantee institutions for agriculture: example of AVHGA / Hungary

Annexe: Guarantee institutions in general: advantages for parties involved



AECM - FACTS, FIGURES & ROLE



Founded in 1992 by 5 members from

- Belgium, France, Germany, Italy & Spain

In 2015

- 40 members in 24 European countries

Total volume of outstanding guarantees (end of 2014)

- approximately 79.2 billion EUR

Number of outstanding guarantees (end of 2014)

- about 2.9 million active guarantees



Legal background:

- Registered office: in Brussels
- Statute: International non-profit association (AISBL) - open, democratic, independent association
- Structure:
 - Members : full + associates
 - General Assembly
 - Board of Directors
 - Technical Working Groups
 - Secretariat General



AECM mission consists of:



**Representation of
interests of
member
organizations**



**Platform to exchange
best practices /
knowledge /
experience among the
members**



**Promotion of the
guarantee
instruments at all
levels**





AECM's members working in the agricultural sector:



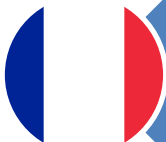
Guarantee Fund of the
Republic of Srpska /
Bosnia-Herzegovina



National Guarantee Fund
/ Bulgaria



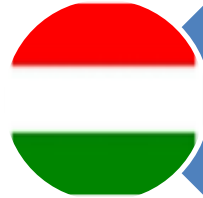
HAMAG-BICRO / Croatia



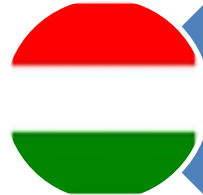
SIAGI / France



VDB / Germany



AVHGA /
Hungary



Garantiqa /
Hungary



ISMEA / Italy



ALTUM /
Latvia



AECM's members working in the agricultural sector:



Garfondas / Lithuania



FRC / Romania



The Netherlands Enterprise Agency /The Netherlands



Fund of Small Enterprise Credit Assistance of Moscow / Russia



Agrogarante / Portugal



Guarantee Fund of the Autonomous Province of Vojvodina / Serbia



FGCR / Romania



CESGAR / Spain



FNGCIMM / Romania



KGF / Turkey



AECM's members working in the agricultural sector:

Special situation:



Assoconfidi / Italy



Bpifrance / France

Total = 19 +2 members



II

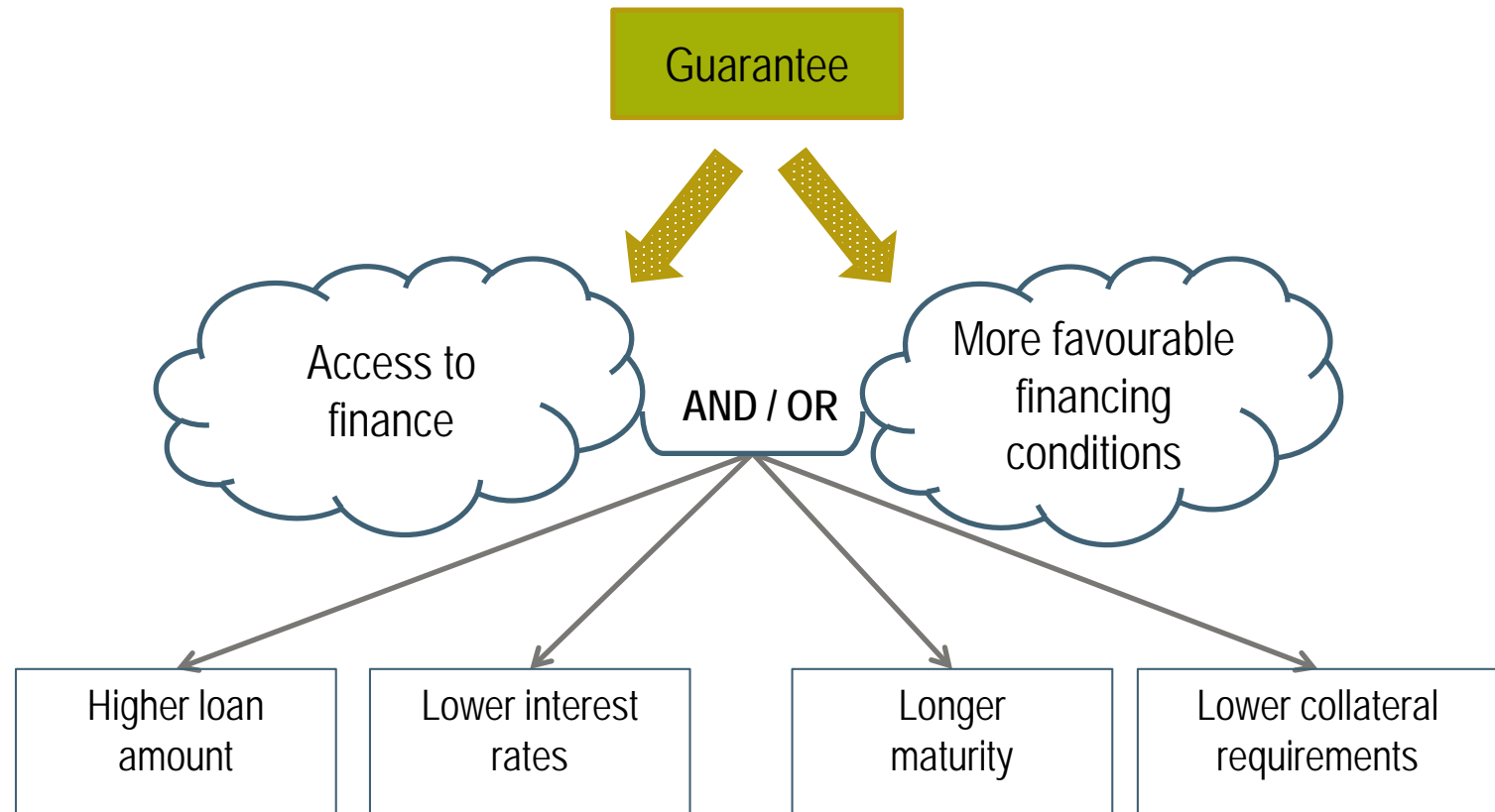
GUARANTEE INSTITUTIONS FOR AGRICULTURE: EXAMPLE OF AVHGA / HUNGARY



- Established **in 1991**
- Founders: PHARE programme + Hungarian Ministry of Agriculture + 5 commercial banks
- Legal form: **foundation, not-for-profit**
- Operating as a **financial enterprise equivalent to banks** (Basel 3 – CRD IV/CRR – Prudential supervision)
- In **partnership with 141 financial institutions** (banks, saving cooperatives, leasing and factoring companies)
- Covering **loans, bank guarantees, factoring and leasing**
- Role of state
 - **85% counter-guarantee by the Hungarian state budget** on each transaction
 - Guarantee fee subsidy



What is guarantee good for? – The Added Value



Features of AVHGA's guarantee

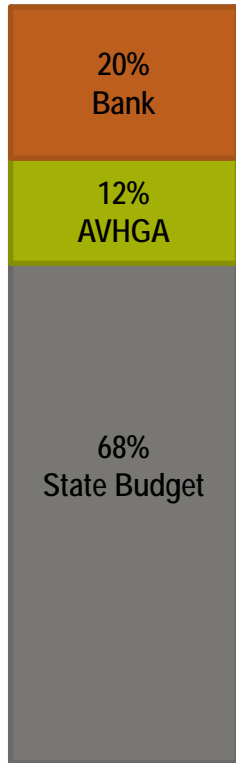


- **Max. 80% guarantee rate** - average rate is 66.5%
- Duration: **maximum 25 years** - 50% of portfolio <3 years
- **Collateral** requirement: **minimum 10-30%**, depending on debtor rating
- Guarantee assessment process: **1-3-5-8 working days** depending on loan amount and risk
- **Maximum guarantee amount** per company: **€2.5 million** – average of guaranteed loan amount €53,000
- Default rates: among guarantees issued between 2007-2010, the default rate **within 5 years is 8.71%** in general and **2.14% in primary agriculture**
- Guarantee fee: **preferential fees – 0.3-0.5% p.a.** on loan amount (contains state aid element)

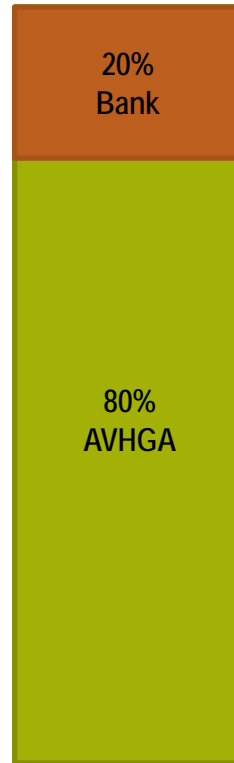
Risk sharing model



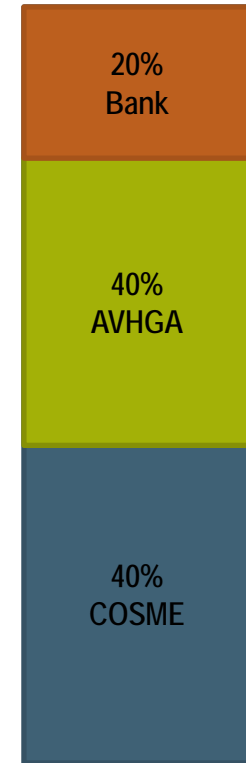
Risk actually taken in case of **80% guarantee rate**



Guarantee with **85% state counter-guarantee**



Guarantee **without state counter-guarantee**

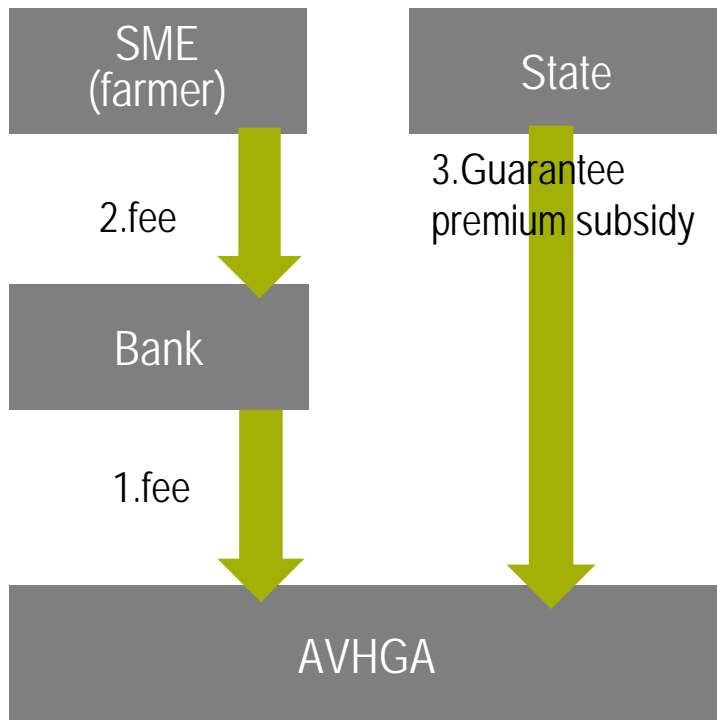


Guarantee with the envisaged **50% COSME counter-guarantee**

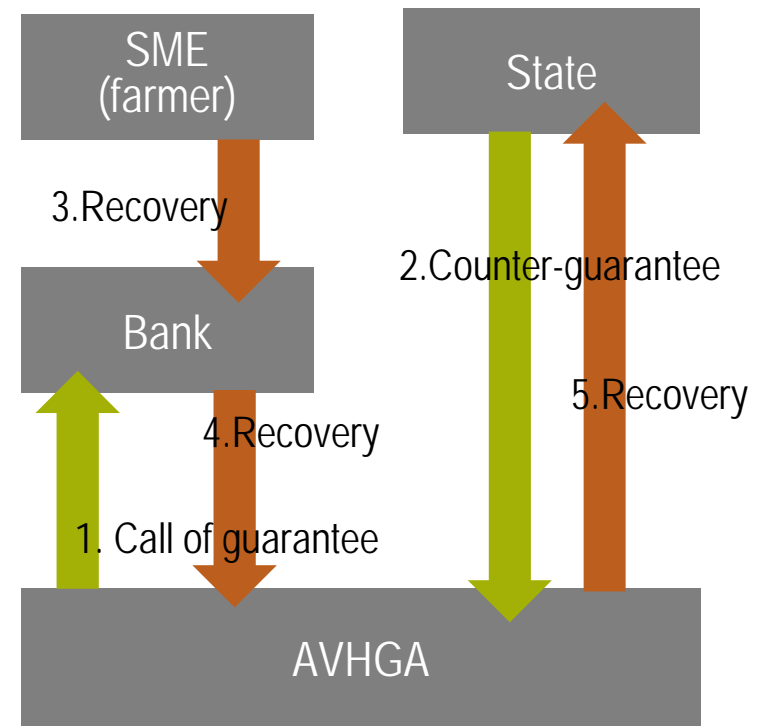
Cash Flows



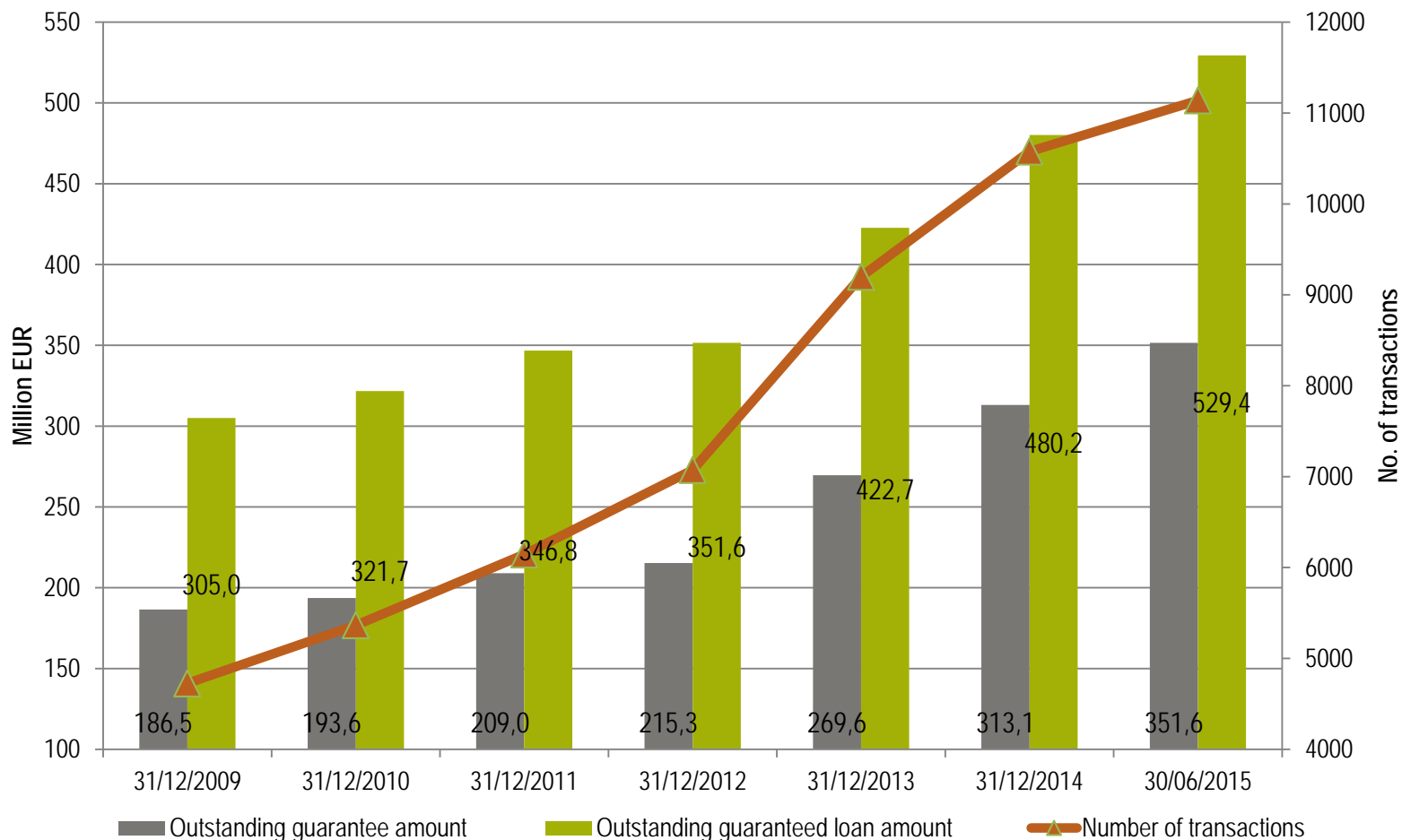
Guarantee fee



In case of defaults



Portfolio of outstanding guarantees



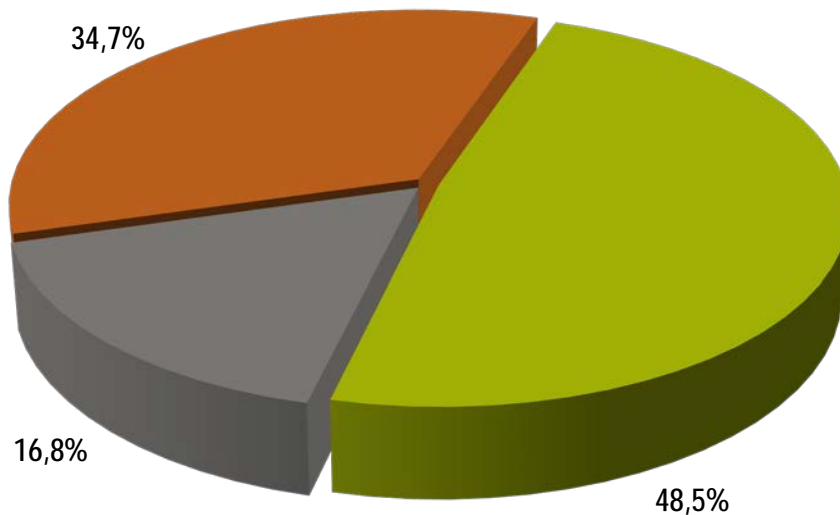
*EUR values are calculated according to exchange rate of 315 HUF/EUR

On 30th June 2015, the number of outstanding transactions was 11,139 in the total value of 351.6 million euros covering loans in the amount of 529.4 million euros.

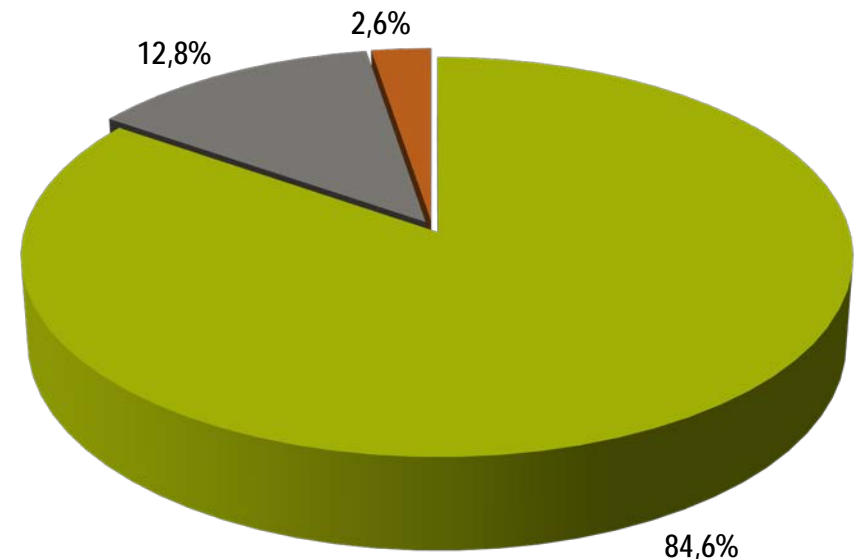
AVHGA promotes agriculture and micro enterprises



2015H1 outstanding portfolio by agricultural orientation



2015H1 outstanding portfolio by SME categories



■ Primary agriculture ■ Agribusiness ■ Rural development

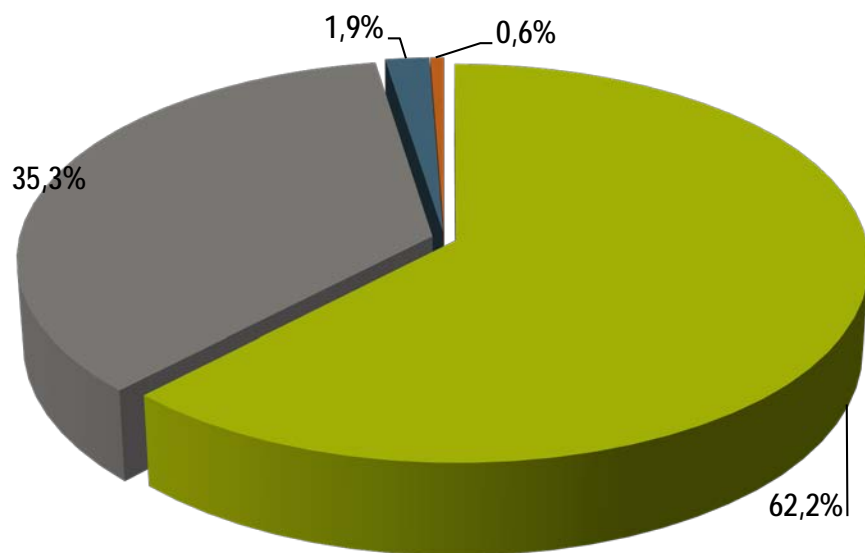
■ Micro enterprises ■ Small enterprises ■ Medium-sized enterprises

The figures are calculated on the basis of number of transactions.

The portfolio by loan purpose & maturity

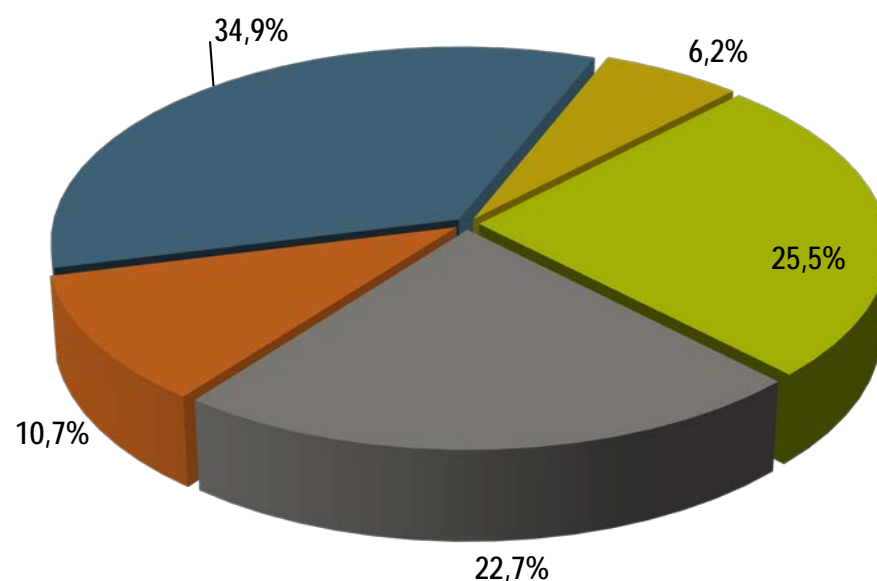


2015H1 outstanding portfolio by loan purpose



■ Working capital loans ■ Investment loans
■ Financial institution's guarantee ■ Factoring

2015H1 outstanding portfolio by loan maturity



■ Within 1 year ■ Between 1-3 years ■ Between 3-5 years
■ Between 5-10 years ■ Over 10 years

The figures are calculated on the basis of loan amount.

Key elements of success



- AVHGA plays a **key role in financing** agricultural SMEs.
- Institutional credit-default guarantee is a **well-established instrument** for bridging debt market failures.
- **Many years of experience** helps to evaluate the performance and risk of micro enterprises / SMEs and assess their potential.
- Long-time, well-working **cooperation with** almost all **financial institutions** operating in Hungary, which is an essential element of reaching SMEs all over the country.
- **Expertise** in the field of agriculture combined with deep experience in financing the agricultural sector is crucial to understand and satisfy SMEs' needs.





Thank you

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Annexe:

GUARANTEE INSTITUTIONS IN GENERAL: ADVANTAGES FOR PARTIES INVOLVED



Guarantee institutions in general: advantages for SMEs

Getting access to finance at all for economically sound projects



Getting access to finance at better conditions



Provision of expertise: Support services

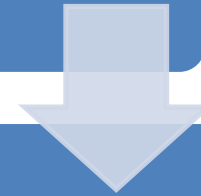


Provision of expertise: Recognition of qualitative factors in risk analysis

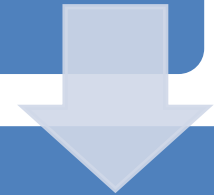


Guarantee institutions in general: advantages for SMEs

Non-profit orientation of
guarantee scheme



In mutual schemes participation
in management of the scheme



Geographic coverage of all SMEs



Guarantee institutions in general: advantages for banks

Reduction of bank's risk exposure



Bank can increase lending activity



Positive effect of guarantees on the capital requirements



Guarantee institutions in general: advantages for banks

No competition between guarantee institution and bank



High level of liquidity of guarantee



Guarantee institutions in general: advantages for public authorities

Cost efficient due to risk sharing



High leverage effect



☐ **Costs are outweighed by benefits:**

Example for studies proving this result: Study of the Institut für Mittelstandsökonomie of the university of Trier/ Germany

http://www.vdb-info.de/media/file/66.VDB_inmit-studie_EN.pdf

☐ **Efficient way to implement policy objectives**