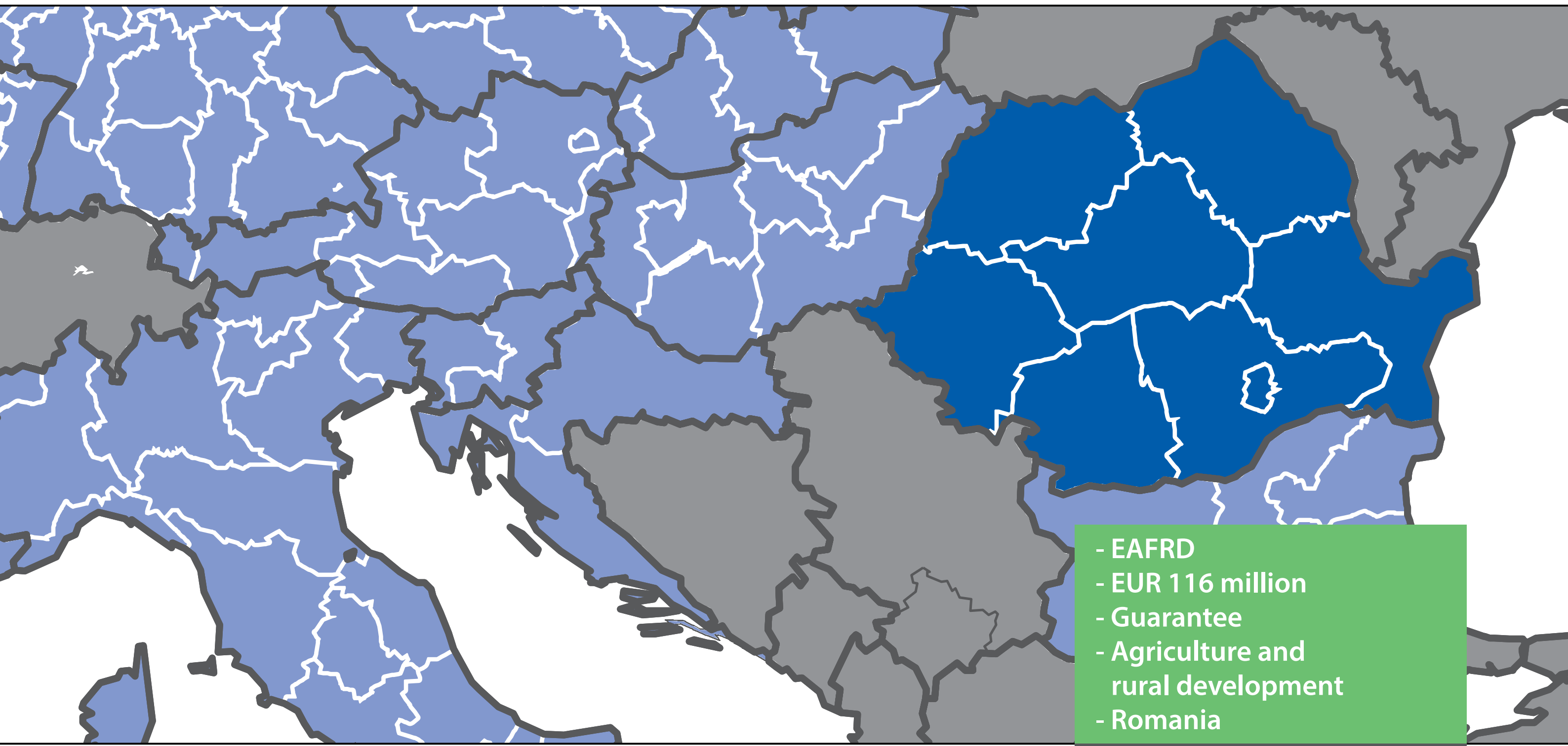

- EAFRD
- EUR 116 million
- Guarantee
- Agriculture and rural development
- Romania

… addressing the market gap in rural financing …

Rural Credit Guarantee Fund

Case Study

European Commission

European Investment Bank
The EU bank

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The case projects can in no way be taken to reflect projects that will actually be financed using financial instruments. Neither the European Investment Bank nor the European Commission gives any undertaking to provide any additional information on this document or correct any inaccuracies contained therein.

The authors of this study are a consortium of three companies: t33 (lead), University of Strathclyde – EPRC and Spatial Foresight.

Abbreviations

EAFRD	European Agricultural Fund for Rural Development
JEREMIE	Joint European Resources for Micro to Medium Enterprises
LEADER	Liaison Entre Actions de Développement de l'Économie Rurale (Links between the rural economy and development actions)
MARD	Ministry of Agriculture and Rural Development (or managing authority)
NRDP	National Rural Development Programme
OP	Operational Programme
PA	Paying Agency (Agency for Financing Rural Investments)
RCGF	Rural Credit Guarantee Fund
SAPARD	Special Accession Programme for Agriculture and Rural Development
SME	Small and Medium Enterprise

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1 Summary

This case study describes the successful implementation of a Romanian EAFRD-funded financial instrument whose two guarantee schemes support farmers and rural SMEs. Using this instrument, Alexander Graffius, a young Romanian rural entrepreneur, managed to secure funding to build a modern egg-producing poultry farm that thrived when much larger Romanian egg producers were incurring losses. He obtained an EAFRD financed guarantee for 80% of a loan to start the project. Without this financial instrument, he openly admits his project, employing 27 workers, would not have been realised.

This example shows how EAFRD funds were successfully invested in agriculture and rural businesses in the 2007-2013 period. By allocating EUR 116.03 million from NRDP funds to this instrument, the managing authority helped generate loans of EUR 425.53 million for rural development projects. The funds are still available and will continue to be invested for the same purposes. There were 31 banks in Romania that, alongside the Rural Credit Guarantee Fund (RCGF), spread the word about this opportunity. More and more banks are adapting their offers to accommodate rural needs.

From 2010 until the end of 2014, this financial instrument closed an important financial gap and helped over 740 projects from 694 beneficiaries by guaranteeing loans for rural development and agricultural projects. In a market that typically asks for guarantees of 120 – 140% of the loan value, farmers and entrepreneurs can rarely find such collateral, and banks are reluctant to invest. The value of this financial instrument is significant. Agriculture is a highly important but challenging sector in Romania. One third of the Romanian workforce is employed in agriculture, but the sector has long been in need of restructuring. Equally, developing Romania's rural areas is of vital importance since 70% of Romania's poor live in the countryside.

These guarantee schemes would not have been possible without a clear strategy and a clear governance structure to coordinate the many private and public partners involved. The managing authority allocated funds through the RCGF and 31 banks acted as financial intermediaries. This vast network penetrated Romania's rural heartland and promoted EAFRD assistance through farmers' associations, rural TV programmes and ministerial county offices. Public and private entities worked together effectively and gained both in financial and social terms. More importantly, Romanian farmers and rural SMEs were empowered to implement their ideas, create jobs and help their communities through EAFRD-guaranteed loans. An estimated 10,200 jobs have so far been created or maintained through this financial instrument.

Name

Rural Credit Guarantee Fund (Romania)

Funding source

EAFRD and national contribution

Type of FI

Guarantees

Financial size

EUR 116.03 million (80% EAFRD + 20% National contribution)

Absorption rate

190% of initial EAFRD funds (at the end of 2013) due to the re-use of funds

EU leverage

4.58 times (leverage effect of EAFRD funds)

ESIF programme Multiplier

3.6 times (multiplier effect of EAFRD and national co-financing)

Re-investment rate

90% of the RDP initially allocated resources were re-invested and reached final recipients, leading to a total absorption rate of 190%. The NRDP allocation of EUR 116.03 million was used to offer guarantees worth 2.49 times more, that is EUR 289.39 million.

Thematic focus

Modernisation of agricultural farms, greater added value to agricultural and forest production, SME creation and development support, support for tourist activities and support for SMEs processing agricultural products, wood and non-wood forestry products

Partners involved

Ministry of Agriculture and Rural Development (managing authority),
RCGF (Guarantee fund),
Agency for Financing Rural Investments (Paying Agency)
31 banks as financial intermediaries

Timing

First quarter 2010 – December 2015 (expected)

Main results

Over 1,000 guarantees, triggering EUR 425.53m in loans from EUR 289.35 worth of guarantees. 694 beneficiaries and 10,200 jobs created or maintained at November 2014.

2 Objectives

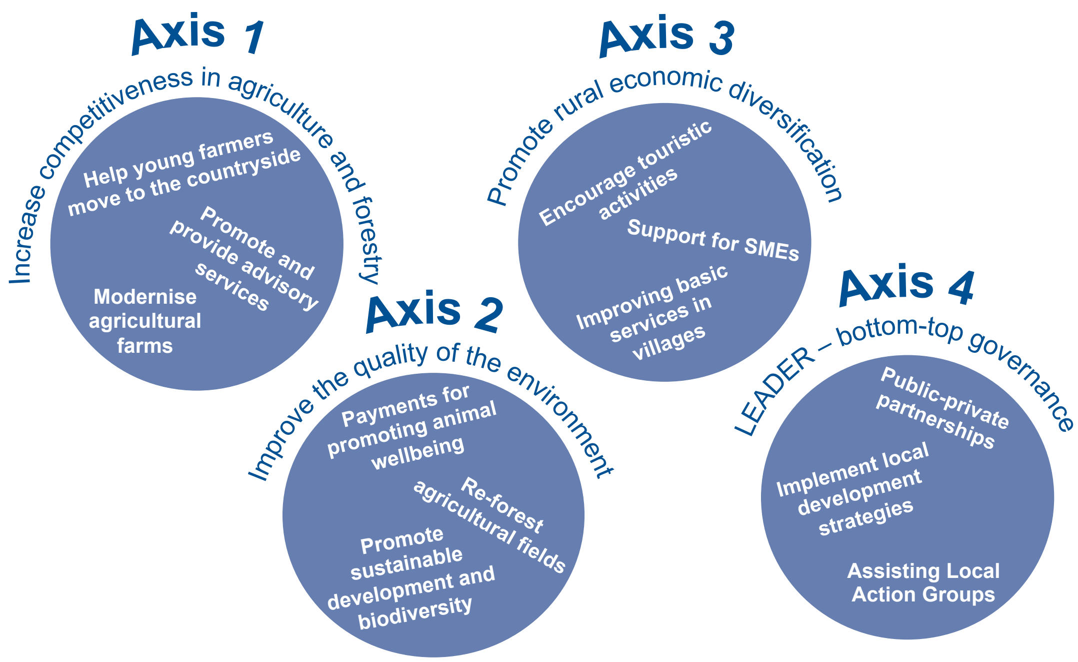
Upon joining the EU in 2007, Romania's rural sector was in need of modernisation. In 2005, rural areas constituted 87% of its territory and about 45% of its population, with 70% of Romania's poor living in rural areas in 2006. Only 25% of rural workers were employed in non-agricultural activities and farming households earned 70% of non-farmer rural household income. Agriculture is dominant in rural Romania and indeed in the whole country, employing 32% of the country's workforce. SMEs are also a backbone of rural Romania, but only accounted for 13% of all SMEs in the country in 2006. Over 50% deal with trade, indicating a need for diversification in activities that can have a greater impact on local economies. While at national-level there were 20 SMEs per 1,000 inhabitants, around one third the EU average, in rural areas there are only 6.4 SMEs per 1,000 inhabitants.

The low productivity of the sector, combined with an aging, declining and low-income population in rural areas called for a restructuring of the sector to positively and significantly impact rural communities. This was the task set out by the managing authority in the NRDP 2007-2013. The NRDP focused on **three key aspects**:

- helping transform and modernise the agricultural and forestry sectors, as well as their corresponding processing sectors in order to make them more competitive;
- improving environmental conditions in rural areas;
- increasing diversification in the rural workforce, moving away from agriculture towards other sectors.

The fourth priority axis is the 'LEADER' programme, which enables rural communities to coordinate parts of rural development programmes.

Figure 1: Graphic representation of measures in the NRDP 2007-2013's priority axes



Source: National Rural Development Programme 2007-2013

The managing authority's analysis in 2008 found that banks were reluctant to lend to farmers or rural SMEs although resources were available. Banks perceived such NRDP recipients to be risky since most could not prove a solid financial record, did not possess sufficient material guarantees, lacked expertise and qualified personnel, or had lower profitability than other sectors. In addition, the administrative costs for offering these loans were too high. Many NRDP recipients could not secure the private co-financing required by the programme and were often forced to abandon their projects.

To address this need for support and given the unfavourable market conditions for farmers and rural SMEs, the managing authority decided to implement a guarantee scheme. This decision was also based on the positive results of the 'Farmer' programme. This was a series of measures, including financial instruments, improving access to credit for farmers and was implemented from 2005 to 2009 using SAPARD funds. The new scheme's objective is to improve the business environment and to, inter alia, improve access to credit for farmers and rural SMEs. It also aims to increase the interest, confidence and investments of banks in the rural economy by raising additional private funds.

In the 2007-2013 period, other financial assistance measures were available such as family farm guarantees and microloans for buying land (from 2013). The JEREMIE initiative offered loans, guarantees and equity investments to SMEs under the ERDF, while the 'Kogălniceanu' SME programme offered credit lines, interest rate subsidies or guarantees to cover short-term liquidity needs.

OVOSIB Farms – egg producer supported by the financial instrument

Alexander Graffius is a young Romanian graduate who recently built and now manages an egg-producing poultry farm called OVOSIB Farms in the Sibiu region (Transylvania). He wanted to apply his knowledge of economics to agriculture, having seen several poultry farms in the country and concluding that he could streamline the production process and take advantage of opportunities in the sector.

The project of around EUR 1.6 million, received EUR 1 million as a grant from the NRDP, while the rest is the recipient's contribution. In order to start the project, the firm used an EAFRD-funded guarantee to obtain a loan and begin work. As the grant contribution would only arrive at a later stage, and since OVISIB Farms' collateral was far from sufficient, the guarantee was of great help in securing financing (pre-financing grants with guarantees from a financial instrument is no longer allowed in the 2014-2020 programming period). Completed in 2011, the farm building uses the latest technology to produce eggs, automating the entire production process up to the packaging. Although the firm, OVOSIB Farms, has only been doing business since 2008, it is relatively well known in the area and managed to stay afloat even though the top two Romanian egg-producing firms declared bankruptcy in 2013.

3 Set up of the financial instrument

The 2007-2013 EAFRD guarantee instrument was split into two schemes: one for agriculture and one for SMEs. Taking advantage of the experience gained through the guarantees offered until 2009 under the SAPARD-funded 'Farmer' Programme, the managing authority set up the instrument using a similar organisation.

3.1 Preceding events

The EAFRD guarantee instrument replaced the previous guarantee scheme under the 'Farmer' Programme. The latter used national funds to guarantee 100% of the credit for SAPARD recipients. It was implemented through the RCGF and the National Fund for SME Credit Guarantees. In parallel, loans from national funds were offered together with free technical assistance such as help in preparing technical documentation for the project application and during implementation of SAPARD co-financed projects and other private investments in the agricultural sector. The benefits of the previous scheme for the implementation of the SAPARD programme were evident in the absorption rates. In 2008 about 93% was committed and 80% disbursed, due to a better understanding of the programme as a result of free technical assistance, and an increase in banks' confidence given the state guarantees.

This signalled a market gap in rural financing due to a lack of guarantees, weak capitalisation of farms and their lack of profitability. Banks required guarantees of 120-140% of the credit, as well as a valuation of the assets put up as guarantees, which were usually undervalued. This market gap was a major reason for introducing an EAFRD financial instrument once the 'Farmer' Programme was scheduled to end. Following the managing authority's analysis, experience and consultations with representatives of the Romanian banking sector, the 2007-2013 EAFRD guarantee instrument was designed to fill such gaps through four measures:

- **Measure 121:** Modernisation of agricultural holdings;
- **Measure 123:** Adding value to agricultural and forestry products – including the corresponding State aid schemes;
- **Measure 312:** Support for the creation and development of micro-enterprises;
- **Measure 313:** Encouragement of tourism activities.

Two guarantee schemes were created: an **agricultural scheme** for Measures 121 and 123 and an **SME scheme** for Measures 312, 313 and Measure 123 (for non-agricultural investments). These were intended to produce more economic viability and create economies of scale in the extremely divided and generally small-scale farming sector. Furthermore, they would reduce the concerns of banks such as lack of credit history and insufficient guarantees.

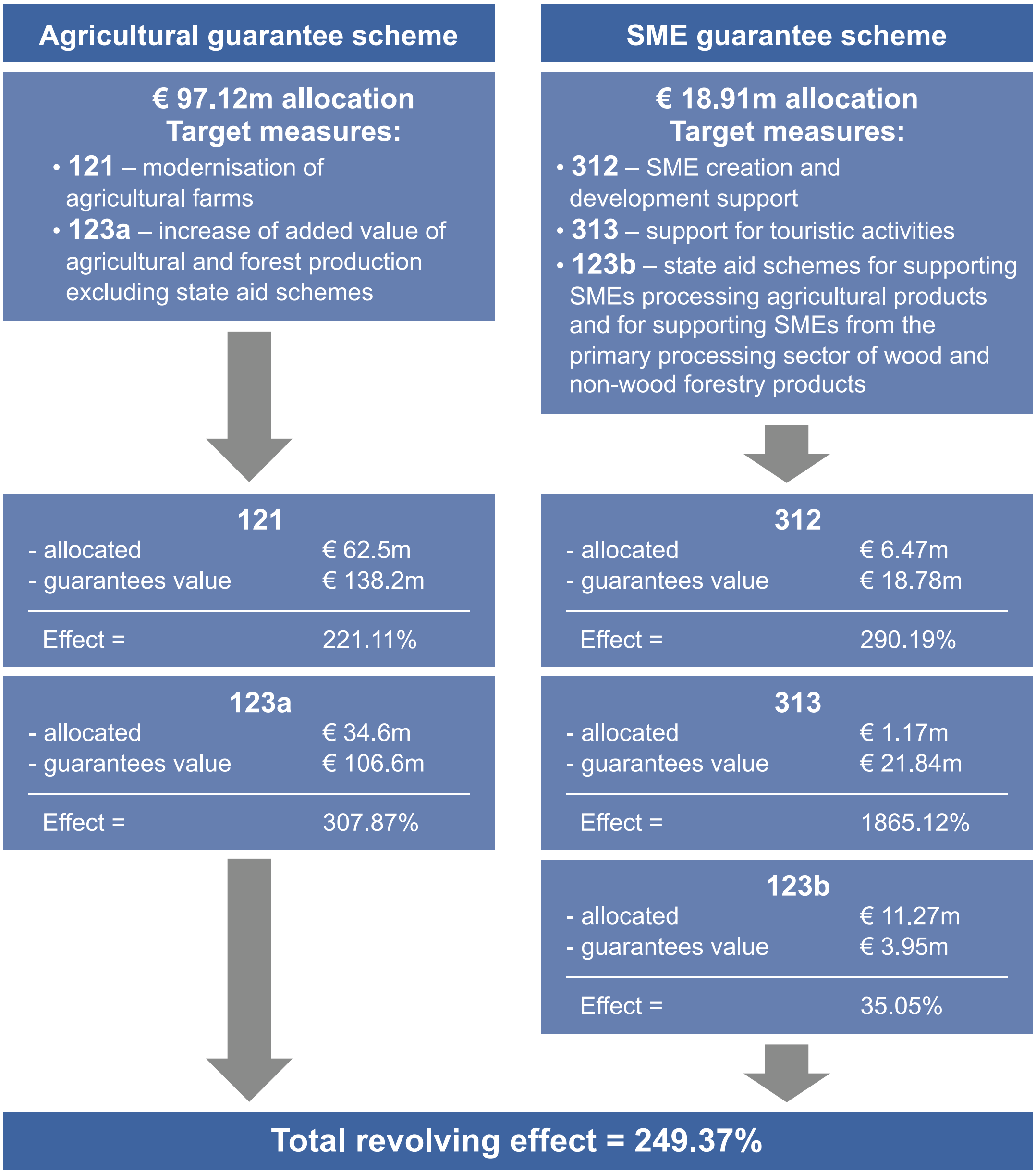
3.2 Funding and partners

The key partners in this financial instrument are the **managing authority** (Ministry of Agriculture and Rural Development) including the **paying agency** (Agency for Financing Rural Investments), the **guarantee fund** (RCGF), and **financial intermediaries** (31 banks).

The two guarantee schemes are fully funded, 80% by EAFRD and 20% from national funds. In total, the NRDP allocated EUR 116.03 million for this instrument. No private investors were directly involved, but the re-use of funds and additional private funds increased the effect:

1. **Re-use:** The NRDP allocation of EUR 116.03 million was used to offer guarantees of EUR 289.39 million (at December 2013), i.e. **2.49 times more**. Guarantees for repaid loans were used to guarantee other loans, which demonstrated the **revolving aspect** of the instrument.

Figure 2: The revolving aspect of the guarantees instrument and its benefits



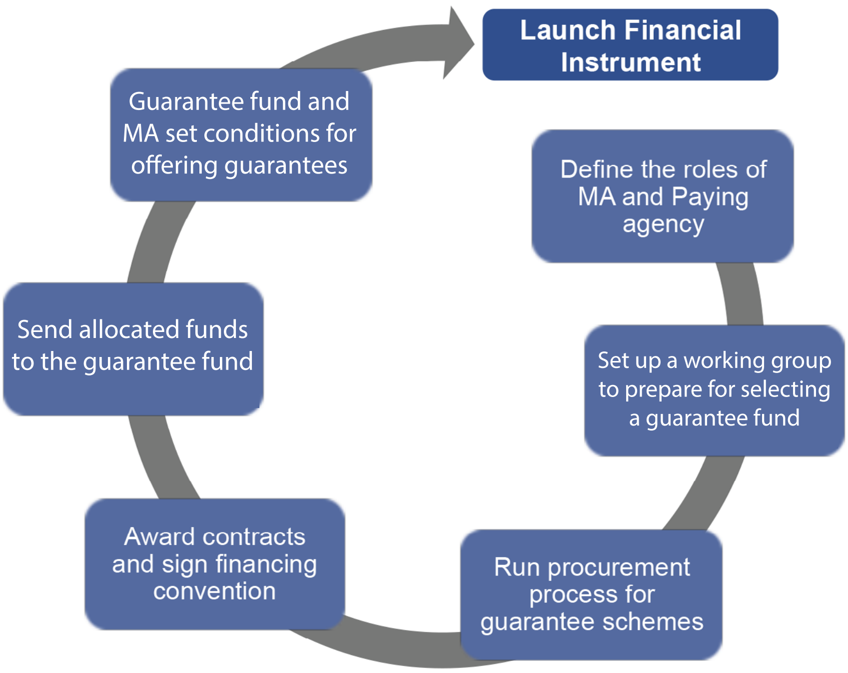
Source: NRDP 2007-2013

2. **Private financing released:** The EUR 116.03 million from the NRDP helped produce loans of EUR 425.53 million for farmers and rural SMEs. Each EAFRD euro from the guarantees for Romanian farmers and SMEs was leveraged to 4.58 euros in loans that they may not have obtained otherwise.

3.3 Implementation

The two guarantee schemes are treated as different financial blocks within the guarantee fund, with the manager holding separate records for the resources allocated under each scheme. The funds are invested according to an investment strategy that the fund manager put forward in its offer during the procurement procedure. The process of setting up the guarantee instrument is illustrated below:

Figure 3: Illustration of the steps taken to implement the financial instrument



Source: Spatial Foresight 2014, based on information from the managing authority

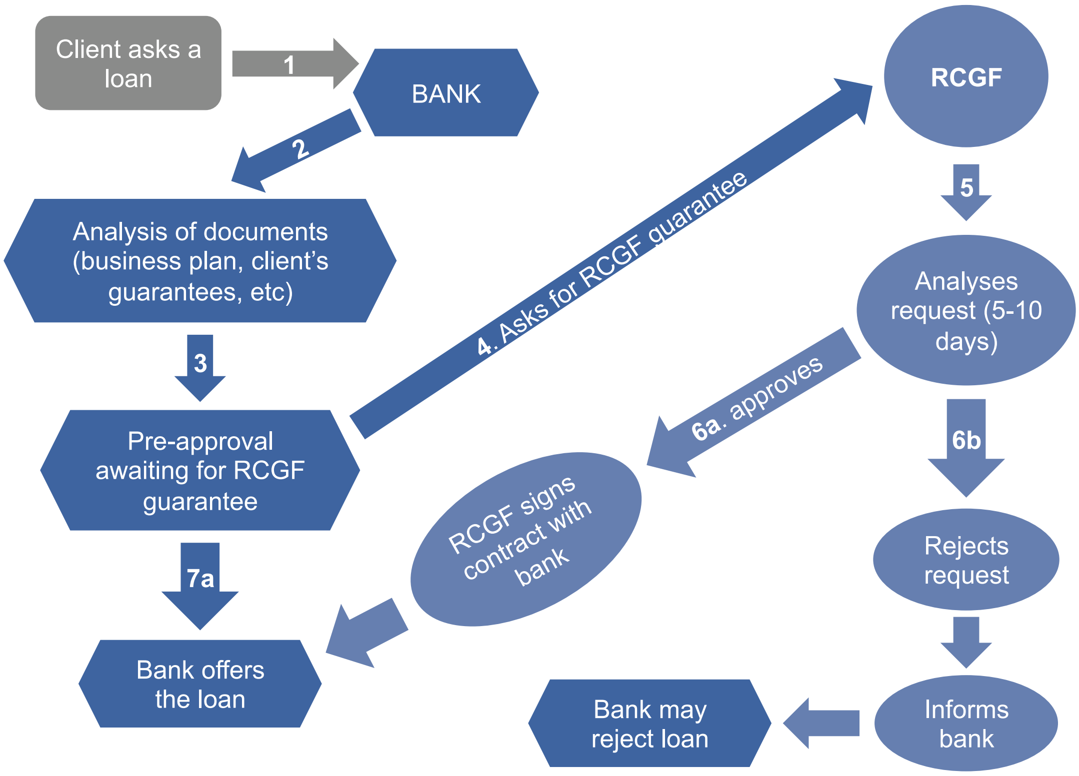
[1] *Vessel construction is not eligible*

The guarantee fund manager, the RCGF, was selected through a public procurement process. Tenderers had to present an offer including an investment strategy for how the programme allocations would be used. The RCGF was the sole tenderer and their offer matched the managing authority's requirements, thus it was appointed as fund manager.

The RCGF is a private entity 99.997% owned by three commercial banks[1], with the Ministry of Agriculture and Rural Development owning the rest. Set up in 1994, it supports agricultural producers by guaranteeing their loans through state funds and it was one of the institutions that managed the guarantee scheme in the 'Farmer' Programme.

The RCGF disbursed the funds through 31 banks which signed bilateral agreements that accepted the conditions of the scheme. The banks provided loans for EAFRD co-financed projects and asked RCGF for guarantees. They do not receive any management fees. This is briefly illustrated below:

Figure 4: Illustration of the process of obtaining an EAFRD-financed guarantee

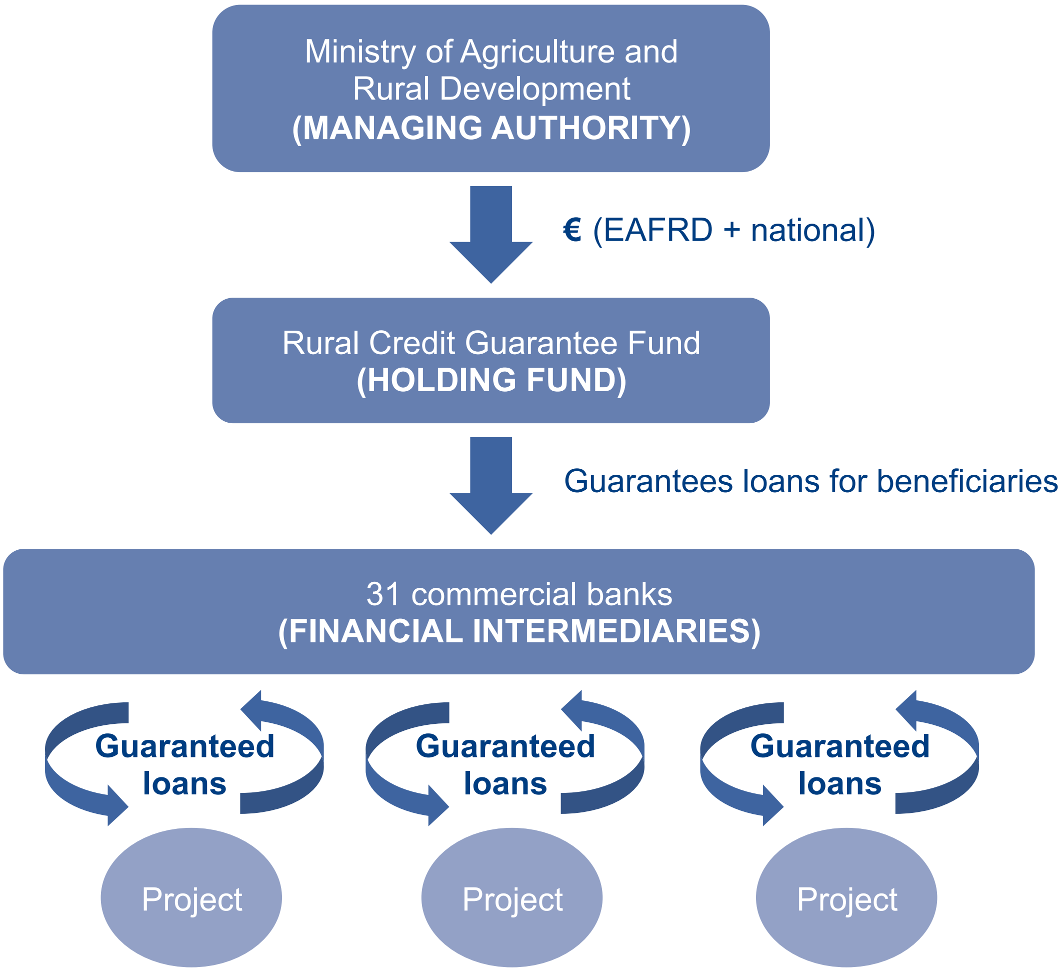


Source: RCGF, 2014

[1] *Raiffeisen Bank, Commercial Bank of Romania and the Romanian Bank for Development*

The structure below was selected because the predecessor of this financial instrument, the guarantee scheme part of the 'Farmer' Programme, was also implemented this way and final recipients appreciated it. Furthermore, given the large network of financial intermediaries needed in order to effectively reach potential recipients in the countryside, centralised efforts were necessary at fund level. RCGF, the guarantee fund, interacted with financial intermediaries.

Figure 5: Structure of the financial instrument and the roles of the partners involved



Source: Spatial Foresight, 2014

3.4 Governance

The managing authority monitors and evaluates implementation of the guarantee fund's strategy. Following a public procurement procedure and the selection of the fund manager, a funding agreement between the managing authority and the RCGF was signed. It regulated how funds are allocated to the guarantee fund, the bilateral relationships as well as the scheme's implementation mechanisms. This convention also set the management fees, monitoring of implementation and use of the re-paid resources.

The RCGF approves guarantees for loans disbursed by the 31 banks participating in the schemes and promotes the financial instrument to potential recipients, along with the banks. RCGF also reports to the managing authority and provides annual accounts for the schemes and information on how repaid funds are used. At the start of the contract and at the end of each fiscal year, the RCGF must present the managing authority with an activity plan, the size of the guarantee portfolio for the next year, the anticipated loan default target for that year, any changes in conditions for offering guarantees and the annual management fees.

The fund's management fees are set by the funding agreement. These fees are valid for the 2010-2015 period and must be less than 2% p.a. of the allocated funds as stated in the EAFRD implementing regulation[2]. Such fees are deducted yearly from the NRDP contribution to the scheme: 80% at the start of the year according to the estimate of the fund manager, and 20% at the end, after approval of the annual report.

The 31 financial intermediaries market and grant loans to NRDP beneficiaries. As described in Figure 4 of Section 4.3, they send a guarantee request to the RCGF every time a new loan is pre-approved. The pre-approval step means that the bank accepts the business plan of the borrower and thus the risk of the loan. They share 20% of the risk of each loan and keep the interest received.

[2] *Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 368, 23.2.2006, p. 15).*

4 Strategy

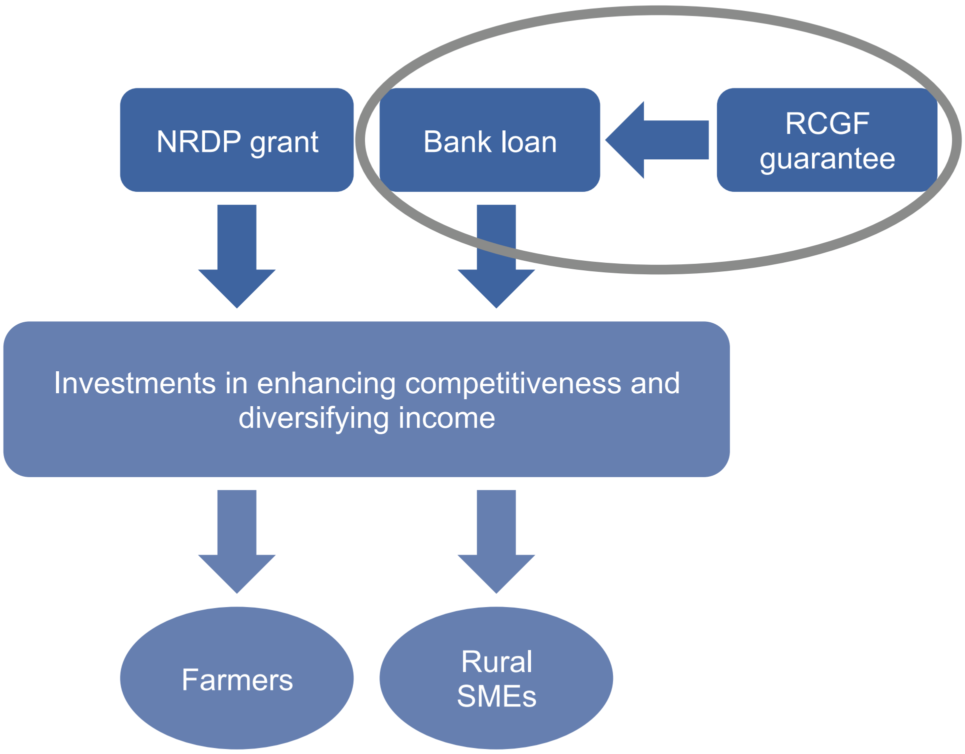
The investment strategy of the schemes follows NRDP objectives such as improving the competitiveness of the farming sector and diversifying the rural economy.

4.1 Investment strategy

Investment strategy for the financial instrument is set according to NRDP guarantee scheme objectives, with no private investors envisaged. Its specific goal is to increase the use of EU funds in the rural economy. It was designed to be State aid-free according to Commission guidelines, and this is seen in the guarantee fees for beneficiaries. Agricultural guarantees have a fixed fee set by the managing authority, while SMEs are charged according to their perceived risk. The schemes target four different sectors and are mainly used by SMEs and start-ups. Recipients also receive grants and the schemes offer guarantees for projects approved by the paying agency under the four measures.

The initial strategy was adjusted in 2013 following changes in EU legislation, as well as in the local market conditions as described in section 5.6.

Figure 6: Illustration of the investment strategy of the financial instrument



Source: Spatial Foresight, 2014

The financial instrument does not target specific development stages in a project's cycle. The schemes are open to any NRDP recipient with a project approved by the paying agency under one of the four measures. Most of the guarantee requests were received in 2011, about one year after the scheme was launched. In following years there was a decrease in requests. Pre-financing grants with guarantees from a financial instrument is no longer allowed in the 2014-2020 programming period.

4.2 State Aid

State aid considerations were taken into account by the managing authority when setting up the financial instrument, specifically the following state aid legal bases:

- Community Guidelines for State Aid in the Agriculture and Forestry Sector 2007 to 2013;
- Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees;

The major principle is that a beneficiary should not receive more than the maximum allowed by EU legislation, including Council Regulation (EC) No 1698/2005[3] defining the scope of EAFRD support for agriculture. State aid rules are also respected by the guarantee fund and by financial intermediaries when accepting guarantee demands from beneficiaries. Thus, they explicitly state on their websites that guarantees will not be offered to SMEs in financial distress or in bankruptcy proceedings in order to prevent contributing to their rescue or providing them with unfair advantages, which would constitute State aid. Furthermore, final beneficiaries pay a market price for the guarantees because the scheme was designed to be State aid free.

3 Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p. 1).

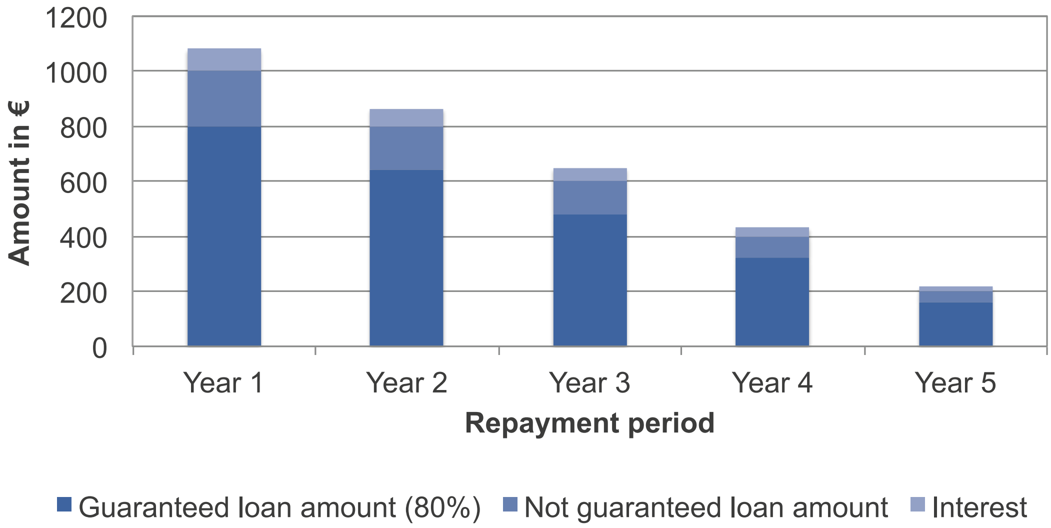
4.3 Financial products and terms

Recipients can access guarantees of up to EUR 2.5 million, which would underpin a loan of EUR 3.12 million. Depending on whether they are farmers or SMEs and their repayment capacity, the fee is between 1.25% and 6.3% of the guarantee amount p.a. In the agricultural scheme, a fee of 1.25% is set every year by the managing authority, while SMEs pay according to their risk. An average-sized SME with adequate payment capacity paid 1.6 – 1.8% p.a. for the guarantee in 2014.

The RCGF offers free information on obtaining guarantees, but no advisory services for preparing documentation. Some banks submit the loan file to the RCGF, and clients can receive assistance in drafting their business plans. Some banks, like BRD Groupe Societe Generale, offered in addition free advisory services before and during the project's implementation at its own initiative and with no support from RDP or EAFRD resources.

The resources returned after guaranteed loans were repaid, i.e. the released guarantees, were used to provide guarantees for new loans. The same applies to income from investing the allocated, but unused NRDP capital in state bonds and to revenues from recovered debts. The guarantee on non-performing loans covers the debt owed. The financial instrument is designed so the guarantee covers 80% of the loan amount while the recipient is repaying it. Therefore, as repayment continues, funds from the initial guarantee are released back into the fund and used to guarantee other loans. The mechanism is shown in the chart below, which shows that the share of up to 80% of the loan amount guaranteed by the RCGF stays the same during the repayment process. Year by year, the amount decreases since the RCGF only needs to guarantee up to 80% of a smaller amount. The difference returns to the RCGF, which uses it to guarantee other loans.

Figure 7: The size of the guarantee decreases while the loan is being repaid[4]



Source: Spatial Foresight 2014, according to information from the NRDP and the RCGF

At December 2013, the vast majority of loans were well on their way to being repaid as shown in the table below. This points to an important advantage financial instruments have over grants, namely that they fund more economically-viable and sustainable projects.

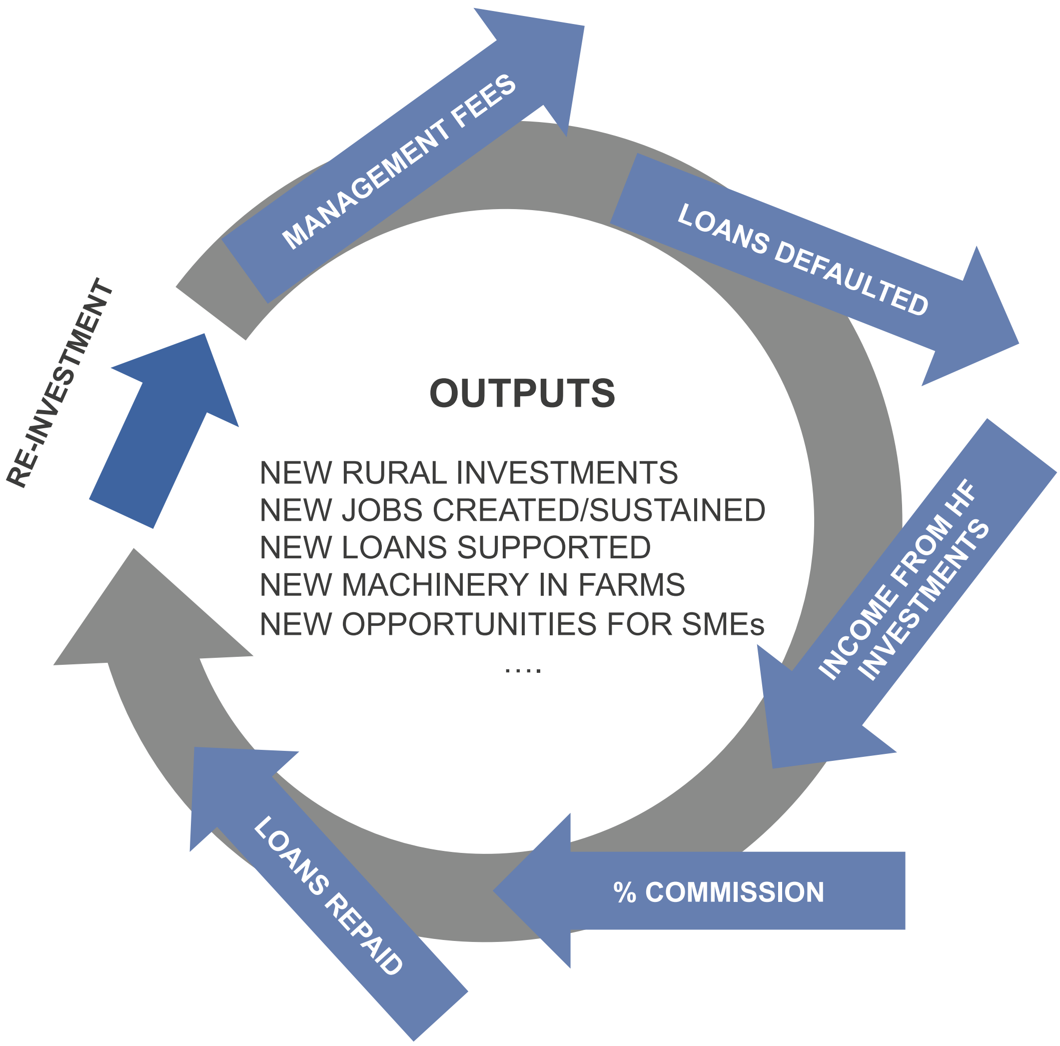
Measure / Loan repayment	Agricultural guarantee scheme		SME guarantee scheme		
	121	123a	123b	312	313
Min. 1 instalment paid	97%	92%	97%	93%	93%
Min 70% paid back	84%	60%	81%	86%	64%
Paid back in full	42%	25%	56%	68%	21%

As shown in the table above, over 90% of loans guaranteed from both measures had at least one instalment paid in December 2013. Over 60% of them had repaid more than two-thirds of their loans. There were more full repayments under measures 123b and 312 of the SME guarantee scheme, while full repayment figures for the agricultural guarantee scheme were a bit lower.

4 *The financial conditions of the loan illustrated are hypothetical and for illustrative purposes only, to show the mechanism through which the guarantee amount decreases over the duration of the loan repayment.*

The revolving aspect of the financial instrument, i.e. the way the funds are re-used throughout the programming period, is displayed in figure 8. Of the total RDP allocation, up to 2% goes to the RCGF as management fees for handling the guarantee fund. Some funds cover the guaranteed part of loans which defaulted. As mentioned, approximately 10.6% of guaranteed loans default, compared to a predicted 19%. On the other hand, money comes into the fund from several sources. First, according to good fund management practices, the RCGF invests unused capital in state bonds which earn interest, which is added to the total amount of funds available for guarantees. Second, the RCGF earns a commission from final recipients of between 1.25% and 6.3% of the guarantee amount yearly. This money also goes to guaranteeing other loans. Finally, while guaranteed loans are being repaid, resources are slowly released back into the fund.

Figure 8: Revolving aspect of the financial instrument



Source: Spatial Foresight, 2014

4.4 Final recipients targeted

The scheme's main target groups are farmers and rural SMEs carrying out projects financed by the four EAFRD measures listed in section 3.1. The Paying Agency's website[5] offers detailed guidance for all measures covered by the guarantee schemes. The agency also launches marketing campaigns throughout the country. In MARD's county-level offices, general information flyers are available, and the ministry's website[6] offers information on NRDP measures, inviting people to call or email for more details. The managing authority also organises and participates in conferences about the NRDP.

The RCGF, responsible for promoting the financial instrument, provides information on its website[7] about the two guarantee schemes, i.e. one for agriculture and one for SMEs. It also creates and distributes flyers and guides on the guarantees and how to obtain them. It participates in regular meetings with banks in order to create products that would fill current market gaps and regularly meets with farmers associations and other EAFRD stakeholders. A popular initiative is to broadcast good practice examples on national TV in a popular programme, Viata Satului,' in rural areas. It also participates in fairs, exhibitions and radio shows targeted at rural audiences. On the other hand, banks promote the financial instrument online and through their offices.

4.5 Project types

The financial instrument supports projects approved by the paying agency for financing under the four measures. These include projects for farm modernisation, productivity improvements in agricultural production, processing agricultural and forestry products, tourism activities or SME creation and development for non-agricultural activities in rural areas.

5 *www.apdrp.ro.*

6 *www.madr.ro.*

7 *www.fgcr.ro.*

Thus, the scheme finances projects that comply with the conditions set in the NRDP and in the final recipient's guide on beneficiaries and the type and value of investments. Typically, the beneficiaries who take most advantage of the guarantee schemes are SMEs that also made use of EU grant co-financing for their projects. In most cases these SMEs are rural start-ups with up to 10 employees and less than EUR 1 million in turnover. Although these beneficiaries had their projects approved by the paying agency, which meant that they would receive an EU-funded grant, they needed financing to start the project. The vast majority of them lacked sufficient guarantees to obtain such financing, and found the solution in the EAFRD guarantee instrument. The practice of pre-financing grants with guarantees from a financial instrument is no longer allowed in the 2014-2020 programming period.

4.6 Changes in Strategy

There were changes in the financial instrument's strategy during implementation through an amendment of the NRDP in 2013. Resources allocated to the guarantee fund were reduced from EUR 220 million to EUR 116.03 million, due to:

(a) an analysis showing a decreasing number of projects and guarantees in 2013, a nation-wide increase in non-performing loans and in factors such as the indebtedness of firms using such guarantees, with debt being up to 70% of the total capital, or their sectorial concentration, i.e. over 70% of recipient firms operating in the animal breeding or plant cultivation sectors'

(b) EU rules which, following the amendment to the EAFRD implementing regulation, added a requirement for an ex-ante risk assessment of expected losses for guarantee-based financial instruments. This triggered an evaluation of the guarantee fund in 2012. Following this and in view of the amendments in the EU legislation, the total amount allocated to the guarantee fund was adjusted.

OVOSIB Farms – egg producer supported by the financial instrument

Mr Graffius claims the project would not have been possible without the help of the 80% guarantee from the RCGF. Mr Graffius says that without this scheme he would have had to provide guarantees of some EUR 600,000, since banks typically ask for 120-140% guarantees for rural projects. There were no issues considering State Aid since OVOSIB had to pay a yearly commission in order to obtain the guarantee, thus complying with State Aid regulation.

5 Achievements

The financial instrument helped reduce the gap in rural financing, especially for projects approved through the NRDP. It supported the use of EU resources by creating 4.58 times more in loans than the EAFRD allocation, and by granting over 1,100 guarantees to some 694 beneficiaries. The RCGF estimates that the guarantees have created or helped maintain 10,200 jobs so far.

5.1 Output

The instrument came at a difficult time for farmers and rural SMEs, but its effects are evident today. Banks started to adapt their offers to match the needs of rural projects. Farmers and rural SMEs can now find more divergent types of rural credit, and this is largely due to these guarantee schemes. Around 13% out of the 8,800 projects financed under the four measures used the scheme at the end of 2014. At December 2013, the guarantees enabled EUR 425.53 million in loans. EUR 219.95 million was disbursed, of which EUR 176.06 million was guaranteed by EAFRD funds.

According to the RCGF at November 2014, the EAFRD guarantees financed 694 beneficiaries and 745 projects. EAFRD-guaranteed loans averaged EUR 425,000 and thus most projects were large. This is especially the case for the agricultural guarantees scheme. The instrument performed better than initially anticipated and the RCGF reports losses of only 10.6% as of November 2014, compared to an initially expected 19%.

OVOSIB Farms – egg producer supported by the financial instrument

The farm produces around 48,000 eggs daily and its products are sold through two brands in many large retail chains throughout the country. The eggs are also used by bakeries and pastries in their products. Due to its product quality, the firm's brands are already well known and its success story was also the subject of local newspaper articles.

Mr Graffius appreciates the assistance he received through the EAFRD guarantees, without which his project would not have been possible. Furthermore, he points out that the efficient cooperation between OVOSIB Farms, the bank and the RCGF is always very important, especially in periods when sales are slow. This is normally during the summer, when egg production from household subsistence farms, i.e. rural households tending animals and poultry, drive down market prices. Mr Graffius estimates that subsistence production is four times larger than mass production, severely impacting market prices. Bank funding comes in very handy at such times. In order to increase sales and avoid reliance on external financing, however, OVOSIB Farms installed six automatic egg vending machines in Sibiu, with a capacity of 96 egg cartons each. These are restocked on a daily basis.

6 Lessons learned

The financial instrument is achieving its goals, but not without hitches. The experience gained by the managing authority, RCGF and participating banks from the previous guarantee programmes facilitated smooth cooperation and the implementation of the financial instrument. However, public procurement regulations, as well as EU-level regulatory changes affected the schemes, impeding their adaptability. Changing market conditions also had an impact.

6.1 Main success factors

The previous experience gained by the managing authority and the RCGF in implementing the national agricultural guarantee scheme under the 'Farmer' Programme was helpful in setting up and monitoring the EAFRD guarantee scheme. In particular, RCGF's popularity and credibility among banks and rural businesses made the process go smoothly.

The right interpretation of market tendencies over different sectors was an important factor in ensuring the achievements of the financial instrument. The market signals received from the previous guarantee instrument, as well as consultations with the banks indicated that a guarantee scheme was the best option to address the existing market gap in the sectors targeted by the NRDP. These two schemes were created in line with the NRDP's objectives.

The correct alignment with State aid rules is considered extremely important, since the previous guarantee model did not follow EU State aid rules because Romania was not yet part of the EU. The fact that State aid rules were correctly interpreted and taken into account when setting up the financial instrument ensured procedural stability for both beneficiaries and banks during implementation.

The willingness of banks to participate in the scheme was important. Without receiving any management fees, 31 banks accepted the conditions of the guarantee schemes and awarded loans with EAFRD guarantees. They gained from the lower risk due to the guarantees and from the fact that the projects were already approved by the managing authority and thus were eligible to receive EU grants, reducing their risk.

The broad **applicability of the instrument** also proved to be an important factor in increasing its impact. Individual and cooperative farms, both private and public, could access guarantees.

6.2 Main challenges

One challenge identified by the managing authority was from the procedures implied by **national and EU-level public procurement legislation**, which made the financial instrument less flexible. The guarantee fund manager was selected following a public procurement process and a financing agreement between it and the managing authority was signed. However, when market conditions changed the financial instrument's strategy could not be easily adjusted since this was already agreed.

Change in EU legislation was also perceived as a challenge, since the bilateral agreement between the managing authority and the guarantee fund, concluded in 2010, had to be adjusted.

A challenge identified by financial intermediaries was that the two guarantee schemes under this financial instrument were not treated any differently from existing funding agreements between the RCGF and commercial banks. The **lack of a personalised approach** for these schemes implied that most of the existing administrative requirements between banks and the RCGF could not be avoided, even though they were not strictly necessary.

6.3 Outlook

The 2007-2013 EAFRD guarantee schemes, which initially were planned to end in 2013, were extended until the end of 2015. For the period 2014-2020, the managing authority sees a need to combine grants with financial instruments in NRDP co-financed projects for fixed capital investments, SME support and investments under LEADER. The managing authority is currently analysing two financial instruments: loans and guarantees, and is undertaking the ex ante assessment required by the new legislation. The aim is to introduce the financial instruments with adoption of the first programme, so they can be operational from the start of the programme. Their design and implementation has to respect the new legislation, which has been considerably elaborated and which has brought EAFRD support for financial instruments to a new, more attractive level. This means that the model used by the managing authority in 2007-2013 needs to be re-designed to comply with the new rules on financial instruments for 2014-2020 (the practice of pre-financing grants with guarantees from a financial instrument is no longer allowed).

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