

The Guarantee Funds in Rural Development

The “National Rural Network 2007-2013” as an enhancing
tool for the Rural Development Plans

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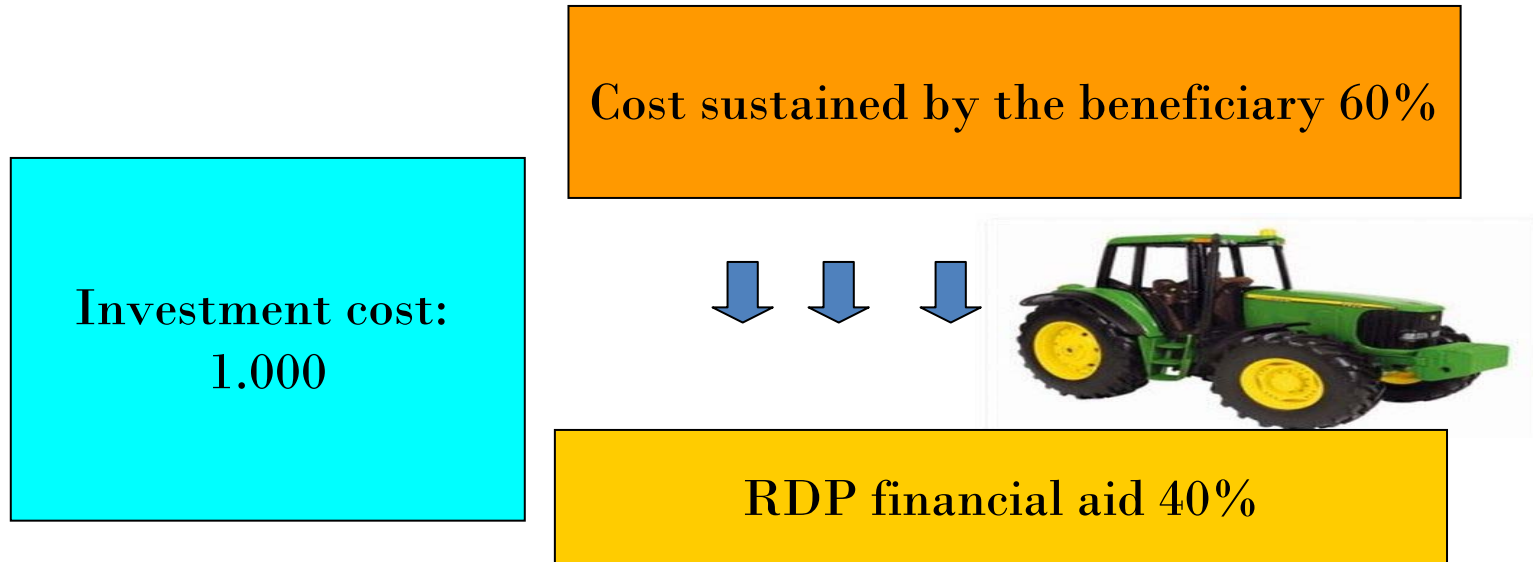
Farm Investments

A major amount of the funds disbursed within the Rural Development Plans is intended to investing in farms, with the aim, among others, to:

- Modernizing facilities
- Decreasing costs
- Improving quality
- Developing the diversification in agriculture

The RDP funds encourage investments, but the availability of resources for the farms is always necessary for their realization

A significant part of the investment costs must be sustained by the recipient. It is often necessary to exploit the private credit market (banks and other dealers)



Poor access to credit for farms can weigh upon the investments despite any state aid

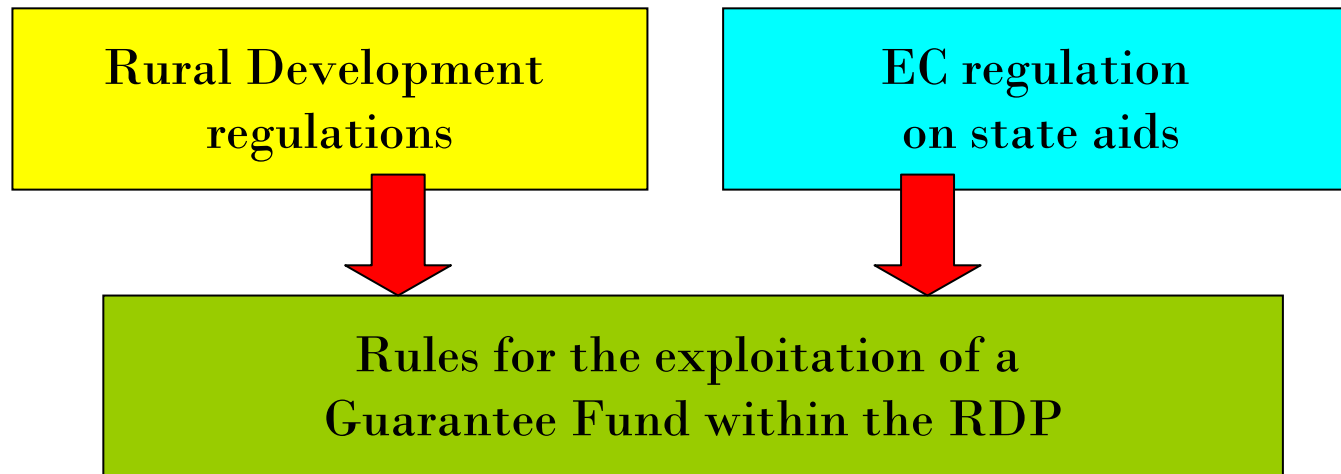
As a result, the effectiveness of the development programs may be jeopardized

The art. 49 of the EC Reg. 1974/2006 provides that the aid may be conceded as a free-grant direct payment and as:

- Average interest subsidy
- Guarantee on loans

The total value of the contribution (gross aid equivalent) may not exceed the maximum rates provided by the Rural Development regulations.

Therefore, the EAFRD funds enable the setting up of a guarantee fund in compliance with the rural development and the state aid rules.:



The “National Rural Network” goals are

- Disseminating, and sharing with the Management Authorities of RDPs, the ability to use the financial engineering tools
- Defining the more suitable procedures and instruments for the different local needs

In Italy, 18 regions out of 21 intend to use the National Guarantee Fund managed by ISMEA as an additional tool for supporting the investments financed under the RDPs

- **National Guarantee Fund for farms for agricultural and related activities**
- **In accordance with the Rural Development rules**
- **In accordance with the state aid rules**

How it works:

- The Region identifies a specific amount to be paid in the ISMEA Fund within the cash available of each RDPs measure
- This kind of payment is managed by ISMEA with a separate accountancy compared to the other fund resources
- On the basis of these resources, ISMEA provides guarantees in the Region concerned

RDP Financial Plan X Region

Measure 111	1.000
Measure 121	1.000
Measure 123	1.000
Measure 214	1.000
Measure 311	1.000

Ismea Fund

Meas. 111	150
Meas. 121	50
.....	
.....	

**Separate Accountancy
of X Region**

Patrimonio
separato
della Regione Y

Patrimonio
del
Fondo nazionale

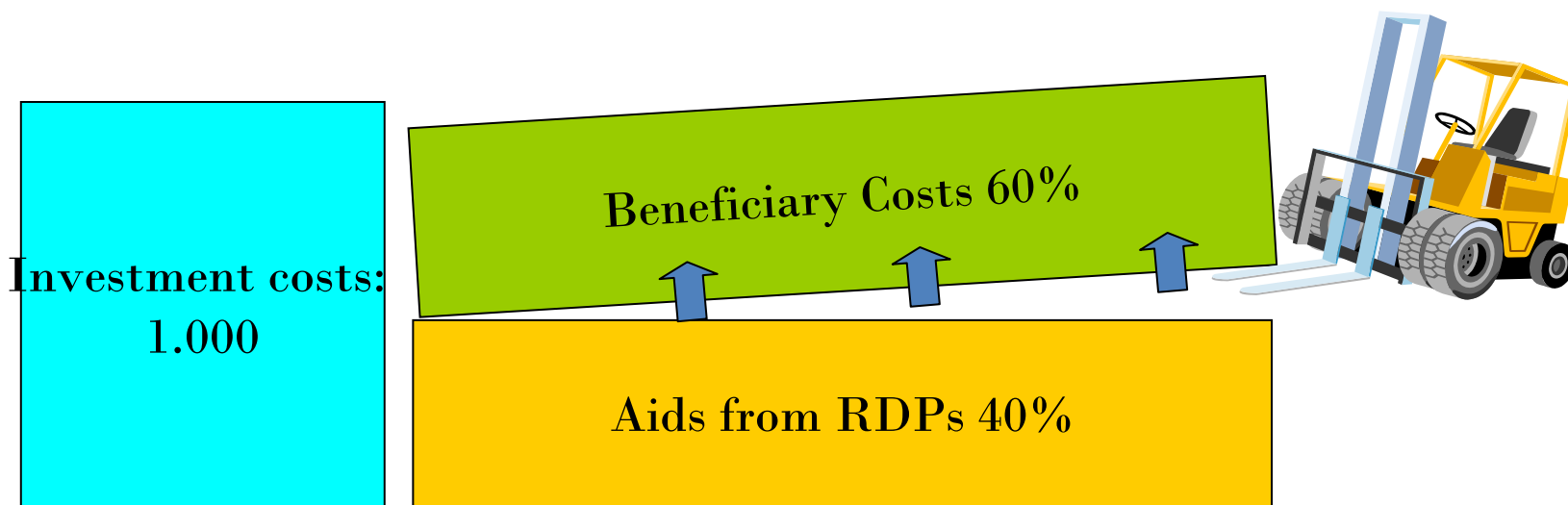
The guarantees can be provided only for loans of eligible investments to one or more RDPs measures. In order to make this possible:

- ✓ The beneficiaries have to submit related application to the Region concerned in order to obtain the benefits of one or more different measures
- ✓ Once their application is approved, they can submit related guarantee request to ISMEA through the bank
- ✓ ISMEA will provide the guarantee after an investigation according to its own internal regulations

It is approved by the European Commission as “non aid” scheme

- ✓ The beneficiaries pay the usual market price for this guarantee
- ✓ The guarantee is not considered as affecting the aid ceiling provided for the investment within RDPs

- ✓ It supports the beneficiary for a RDPs investment aid in collecting the necessary resources covering its own related rate



ISMEA guarantee fund is compliant with BASILEA 2 requirements, thus providing benefits not only for credit access but also for the cost of debt

ISMEA First call guarantee (FCG) fund

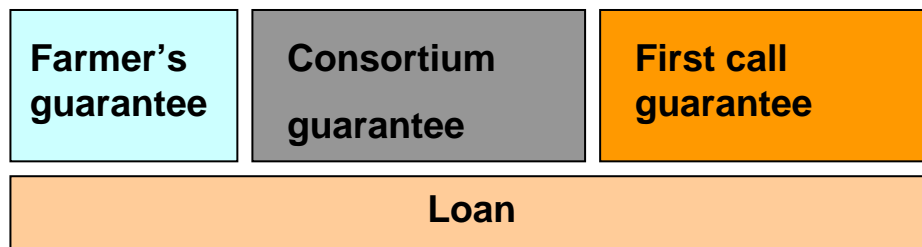
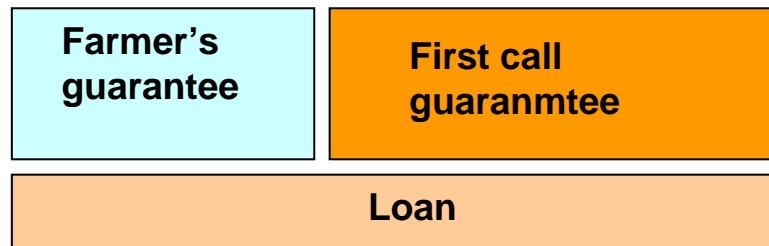
- **Established in 2006**
- **In activity since 2008**

Issues different types:

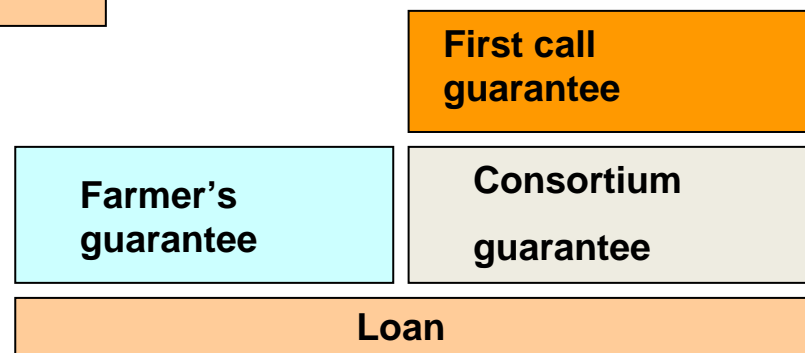
- First call guarantee
- Direct coguarantee
- Indirect coguarantee

First call guarantee fund

In case farmer default



In case farmer and guarantee consortium default



First call guarantee fund

- Basle II fully compliant
- State counterguarantee

✓ As a result, a zero risk weight is applied which implies a reduction of the capital requirement for the guaranteed loan

First call guarantee fund

- Public resources
- Market guarantee scheme, which implies:
 - State capital remuneration
 - Self-financing scheme (fees and other revenues must balance losses and other expenses)
 - The guarantee fee depends on the guarantee risk
 - Risk rating models in order to quantify farmers' probability of default

First call guarantee fund

- For each issued guarantee, the guarantor:
 - Applies a capital reduction (10% of the
– guarantee amount)
 - Is paid a guarantee fee:
 - A share ensures the remuneration of the 10% capital reduction
 - A share covers the administrative costs (0.08% of the outstanding guaranteed principal)
 - A share covers the risk (allowances)

First call guarantee fund

- The ceilings:
 - • Up to 70% of the loan amount
 - • Up to 80% of the loan amount in case of young
– entrepreneurs
 - • Up to 1 million euros (micro and small
– enterprises – up to 49 employees)
 - • Up to 2 millions euros (medium enterprises –
– between 50 and 249 employees)

First call guarantee fund

- ✓ The FCG can be issued for all medium (from 18 months) or long-term rural credit loans whose purposes are:
 - **Land buying**
 - **Real estate renovation**
 - **Fixed assets investments**
 - **Debt consolidation**