

# Financial Engineering under Lithuanian RDP 2007-2013. Loan Fund

***Mindaugas Palionis***

*Deputy Director of Rural Development Department*

*Ministry of Agriculture*

*Lithuania*

28-09-2010

# Legal Base

- Article 71(5) of Council Regulation (EC) No. 1698/2005.
- Articles 50-52 of Commission Regulation (EC) No. 1974/2006.

The essence:

- *by implementing Rural Development Programme (RDP), European Agricultural Fund for Rural Development (EAFRD) may co-finance measures of financial engineering (venture capital funds, guarantee funds and loan funds).*
- Approved modification of Lithuanian RDP on 18-09-2009 (official submission on 15-04-2009)

# Preconditions for the Establishment of Loan Fund

- Reduction in loan accessibility for applicants of agriculture and food sector.
- Danger for take-up of RDP funds.

# Purpose of Loan Fund

- To increase loan accessibility
- To improve economical situation of applicants
- To up-take RDP funds more rapidly and effectively
- To increase flow of support (including small producers)

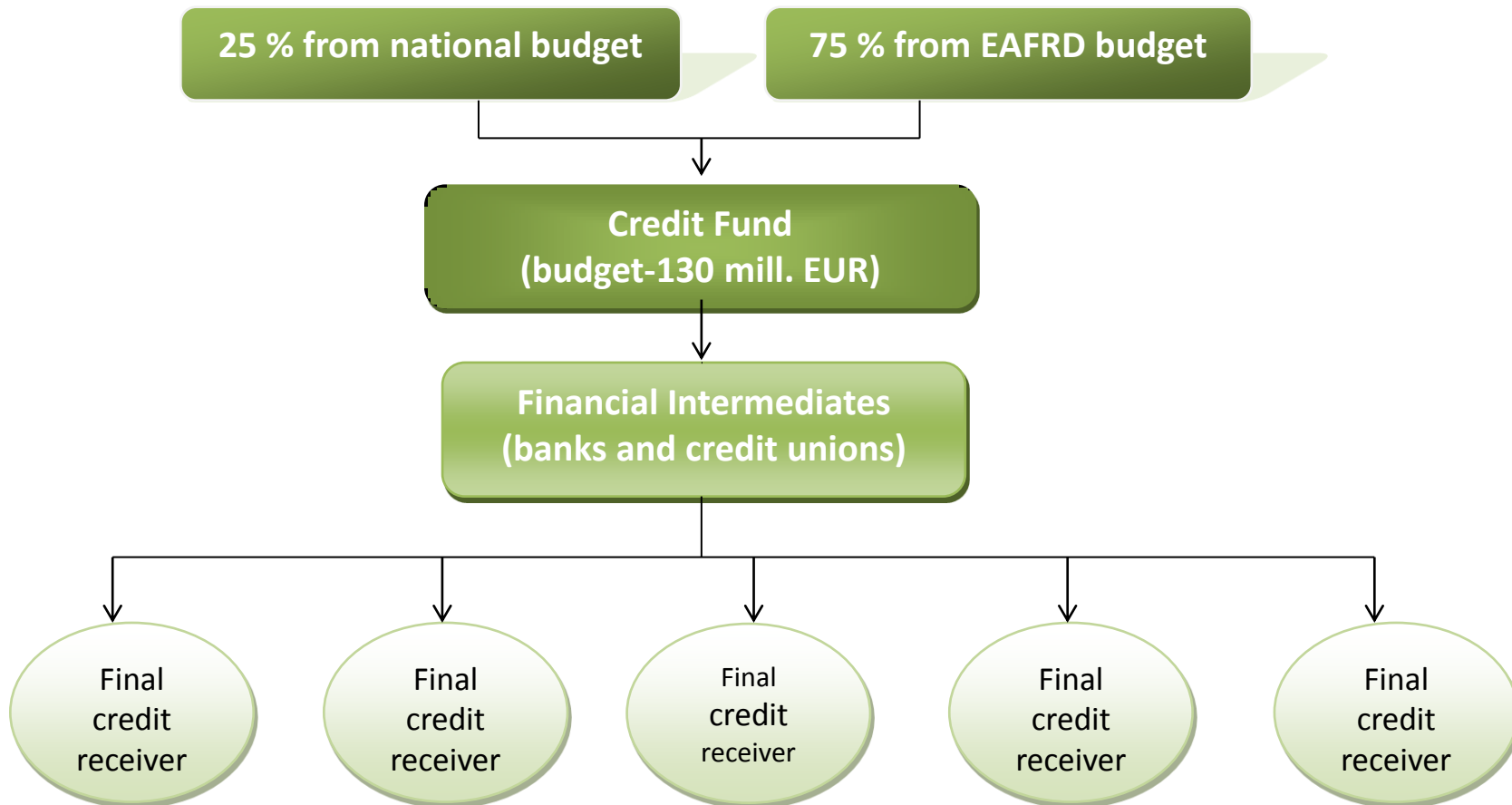
# Establishment of Loan Fund (1)

- The Loan Fund is established a separate block of finance within financial institution “Rural Credit Guarantee Fund” (RCGF)
- Ministry of Agriculture nominated RCGF as the manager of Loan Fund
- RCFG submitted business plan to the National Paying Agency (NPA)
- Trilateral funding agreement was signed (between Ministry of Agriculture, NPA, RCGF)

# Establishment of Loan Fund (2)

- RCGF performs the selection and supervision of Financial intermediates
- Loan Fund will be operating at least until December 31th, 2015 (it can be liquidated earlier under the necessity)

# Operating Scheme



# Transfers to Loan Fund

- Resources to the Loan Fund shall be transferred in several installments (based on the effectiveness of activity)



# Measures of Loan Fund

- Loans are provided through to 2 RDP measures:
  - “Modernization of Agricultural Holdings”,
  - “Processing of Agricultural Products and Increasing of Added Value”
- The same eligibility criteria and requirements provided for these RDP measures are applied for all applicants.
- Loans can be provided for applicants without any economical difficulties only.

# Duration and Volume of Loans

- The amount of loan according the measure “Modernization of Agricultural Holdings” – from 3 thousand EUR to 300 thousand EUR. Duration – up to 7 years.
- The amount of loan according the measure “Processing of Agricultural Products and Increasing of Added Value” – up to 4 million EUR (in case of promotion of cooperation in milk sector – up to 10 million EUR). Duration – up to 7 years, in case of promotion of cooperation in milk sector – up to 10 years.

# Interest Rates for Final Loan Receivers

For loans in LTL

6 months VILIBOR  
minus **4 percentage  
points**, yet not less  
than 2 percent and  
not more than 7  
percent interest rate  
**plus bank's margin**

Loan market's rates ~ 7%  
In this instance ~ 4,5%

For loans in EUR

6 months EURIBOR  
minus **1 percentage  
point**, yet not less  
than 1 percent and  
not more than 3  
percent interest rate  
**plus bank's margin**

Loan market's rates ~ 5%  
In this instance ~ 3,5%

# Interest Rates

## for Financial Intermediates

### For not lent out allocation

For credits in LTL:  
6 months VILIBOR **plus**  
**0,1 percentage points**, yet  
not less than 2 percent  
interest rate

For credits in EUR:  
6 months EURIBOR **plus**  
**0,1 percentage point**, yet  
not less than 1 percent  
interest rate

### For lent out allocation

For credits in LTL:  
6 months VILIBOR **minus** **4**  
**percentage points**, yet not  
less than 2 percent and not  
more than 7 percent interest  
rate

For credits in EUR:  
6 months EURIBOR **minus**  
**1 percentage point**, yet not  
less than 1 percent and not  
more than 3 percent  
interest rate

# Opportunities of Applicants and Loan Risk

- Applications for investment support or loan only
- Applications for both investment support and loan. In the latter case, the Gross Grant Equivalent is calculated that is deducted from the investment support.
- Banks can receive 70% guarantee from RCGF.
- Banks take the responsibility for loans provided.

# Limitation

- Loans can be provided for investment projects only. There is no possibility to provide loans for increase of working capital.

# Reuse of returned resources

Regulation says:

- *Resources returned [...] shall be reused [...] for the benefit of individual undertaking.*



LIETUVOS RESPUBLIKOS  
ŽEMĖS ŪKIO MINISTERIJA

# Loan Fund Indicators (01-09-2010)

- 43,2 million EUR are lent to Financial intermediates;
- 259 loan contracts signed (20,7 mill EUR);
- ~ 2 million EUR already returned to Loan Fund.





LIETUVOS RESPUBLIKOS  
ŽEMĖS ŪKIO MINISTERIJA



***Thank You for Your  
Attention!***

***mpalionis@zum.lt***

