

PROGRAMME: National Loan Guarantee Fund for SMEs (FNGCIMM)

Originator: Andreea Potinteu, Regional Development Agency Centru, Romania

Web: www.adrcentru.ro **E mail:** office@ardcentru.ro **Tel:** 40 258-818 616; +40 358-401 276

1. SUMMARY OF GOOD PRACTICE

▪ **Overview & Aims**

Introduced in 2001 by the Romanian Government, the aim of the National Loan Guarantee Fund (NLGF) is to help viable SMEs lacking adequate security to access finance by providing commercial banks and other financial institutions with guarantees for a range of different funding instruments.

Set up as a joint-stock non-banking institution, with the Ministry of Economy, Trade and Business Environment appointed as the sole shareholder, the scheme is operated in 22 regions throughout the country with administrative tasks undertaken by 3 subsidiaries, 4 branches and 8 representative organisations.

▪ **Key Resources**

– **Programme Partners.** Key Partners include:

- Commercial Banks
- Non-banking Financial Institutions located in Romania,
- FNGCIMM SA-IFN has 30 Guarantee Agreements with commercial banks and financial institutions operating the scheme. Agreements stipulate the contractual obligations of each party; the value and payment of guarantee commissions and calculation and payment of the guarantee granted.

– **Funding: Funding Body & SME Contribution**

- Operated by the Government through the National Bank of Romania the scheme provides guarantees, (not finance i.e. loans or grants).

▪ **Eligibility Criteria**

With the exception of businesses involved in the arms and ammunition or gambling and betting sectors the scheme is available to all types of SMEs legally registered in Romania.

▪ **Terms & Conditions**

The Fund can only be used to issue guarantees and Guarantee Agreements signed with the commercial banks and non- banking financial institutions approved by the scheme;

The Fund provides guarantees of up to 80% of the amount awarded over the lifetime of a loan, charging a commission of between 1.3% and 3% for the facility.

2. IMPLEMENTATION – How it works

Using a range of instruments; bank guarantee letters, letters of security, personal investment and bridging loans the scheme guarantees:

- **Medium and long term financing;** investment loans including loans for the construction, rehabilitation, consolidation, expansion of industrial and commercial buildings and purchase of equipment
- **Short-term financing** for working capital, bank guarantee letters and any other type of financing, except refinancing of old debt, requiring guarantees.

Key steps for obtaining the guarantee:

STEP 1	The company submits a standard bank application to one of the banks participating in the scheme and requests a guarantee from NLFG
STEP 2	The bank/financial institution assesses the loan documentation and if considered eligible, submits a request to the NGLF to share the risk and issue a guarantee
STEP 3	The Fund undertakes its own analysis, and subject to approval, issues a guarantee and signs the guarantee letter with the bank. Decisions are made in 7 days
STEP 4	The lender informs the company of the outcome of the process and signs the loan contract with the company.

Other types of guarantees provided through the NLGF include:

- i. **Guarantees granted from the businesses own resources/assets, standard warranties and guarantee ceilings/thresholds.** Standard warranties include guarantees for development projects and investment in working capital up to €2.5M covering up to 80% of the loans granted for investments and up to 50% of the loans granted to finance current activity; guarantee ceilings/thresholds of up to 80% irrespective the purpose of the loan, up to a maximum of €364K- €545K, depending on the funding bank.
- ii. **Guarantees granted by regional area administrators** under the umbrella of the national programme. A multiannual programme for the period 2011-2013, which allows SMEs to access credit lines amounting up to €90K per SME per year with the total interest being supported from the state budget. Besides interest subsidy facilities, SMEs unable to provide sufficient security can also benefit from loan guarantees granted through FNGCMM.
- iii. **Guarantees granted by regional area administrators for the agricultural and fishing sector.** Grants based on guarantee agreements signed with the Ministry of Agriculture and Rural Development and its specialised agencies. Guarantees are explicit, irrevocable and unconditional, payable at the first written request of the Funder.

iv. **Sfantu Gheorghe Local Guarantee Fund SA IFN (subsidiary of FNGCIMM SA IFN)**

Established in 2006 and covering 5 of the 6 counties of **Centru Region**: Braşov, Covasna, Harghita, Mureş, Sibiu, the SA IFN promotes guarantee programs and schemes granted by FNGCIMM; with guarantees up to €273K, the scheme provides SME beneficiaries with a variety of guarantee options including bank guarantee letters, letters for security, loans for personal contributions and bridging loans.

▪ **Key Stats - Key Results 2011**

KEY MEASURE	TOTAL	VALUE
Applications submitted at regional level	265	€43.9M
Applications Approved: Sfantu Gheorghe LGF FNGCIMM		€8.7M <u>€28.1M</u>
Total Applications approved at regional level	212	€36.8M
Jobs Supported	4,000	
Commission fees charged on guaranteed amount	1.3-3%	

3. KEY LEARNING POINTS & OPPORTUNITIES

– **Key learning points:**

- What worked well for SMEs
 - ✓ Availability of guarantees granted by the Fund has eliminated the main cause of loan refusals
 - ✓ Establishing a direct relationship with a local agent i.e. Bank enables a faster response to any questions arising from applications, reducing any delays in the application process. Decisions are made in 7 days
 - ✓ The uncertainty of loan/ guarantee letters approval is reduced
 - ✓ Removing the need for personal real estate security reduces the costs for loan/guarantee letters and makes bank financing more flexible.
- What worked well for Banks/Financial Institutions
 - ✓ The provision of ‘irrevocable and unconditional guarantees’ of up to 80% from the FNGCIMM offsets the risk for Banks/Financial Institutions involved
 - ✓ If SMEs default on payments, banks can recover their money from the scheme more quickly; funds guaranteed through the scheme can be recovered within 90 days after the commencement of judicial proceedings. Recovering loans in the form of mortgage securities before the availability of the scheme, would take a minimum of 2 years
 - ✓ Reduction in the number of provisional loans issued.
 - ✓ An increase in the number of loans issued to viable businesses lacking security without the need for additional personal guarantees.

- What worked well for the FNGCIMM SA – IFN
- ✓ Local representation enables banks to offer the right products to the right beneficiaries
- ✓ Demand for guarantees is high. Developing an online application process and setting a maximum ceiling/threshold for funds enabled a significant reduction in assessing applications and issuing guarantees
- ✓ Good cooperation with governments and key partner financial institutions
- ✓ Comparisons of 2011/2012 results show a 12% increase in securing grants with 11,000 SMEs securing grants of €700M, (up by 37% in the previous year).

At present FNGCIMM SA–IFN has proven a good instrument for supporting the development of the SME sector in Romania. ‘The prudent management of the Fund’ against a background of a reduction of non-governmental loans granted during 2012, has seen the number of default payments decrease and the scheme ‘generating a net profit of approx. €6.1M, the highest level of the overall activity of the institution’. (FNGCIMM)

▪ **Transferability**

Transfer opportunities arise from:

- Involving **public, national or regional, administrations**, improving the functionality of national bodies i.e. governments and national banks running **national schemes**
- The ability of the scheme to adapt its approach to the diverse requirements of SMEs, optimising internal structures and processes, flexible funding covering a range of sectors
- Removing the need for personal guarantees from SMEs optimising approval of loans
- The principle of ‘risk sharing’

Threats for the future and transferability:

- Withdrawal of public administration and national support
- Changes in government policy supporting SMEs

FURTHER INFORMATION:

http://www.youtube.com/watch?v=hUN_6r9Hs1I

<http://www.garantare.ro/>

<http://www.adrcentru.ro/>