



22<sup>ND</sup> MFC  
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**DEMYSTIFYING DIGITAL  
IN MICROFINANCE**  
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# PRACTICAL GUIDE TO EIF FINANCIAL INSTRUMENTS FOR MICROFINANCE

Case study: Implementation of EaSI project in Albania  
Fondi BESA j.s.c.



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# BACKGROUND

- On December 11th, 2013, Regulation No **1296/2013/EU** of the European Parliament and the Council on a European Union Programme for Employment and Social Innovation (“EaSI”) and amending Decision No 283/2010/EU establishing a European EaSI Social Entrepreneurship Guarantee for employment and social inclusion was adopted.
- EaSI establishes, *inter alia*, the EaSI Guarantee which is funded by the European Union and is operated by the European Investment Fund (“EIF”).
- The objective of the Guarantee Facility is to increase the availability and accessibility of microfinance for:
  - i. vulnerable people who wish to start-up or develop their own micro-enterprise;
  - ii. existing micro-enterprises, in both the start-up and development phase, in particular micro-enterprises which employ persons.
- The Guarantee is provided by the EIF and covers a part of the risk of the institution relating to the portfolio.

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# OBJECTIVE

- The objective of the Guarantee Facility is to increase the availability and accessibility of microfinance for:
  - i. vulnerable people who wish to start-up or develop their own micro-enterprise; and**
  - ii. existing micro-enterprises, in both the start-up and development phase, in particular micro-enterprises which employ people.**
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# ORIGINATION

- In December 2014, representatives of Fondi BESA attended a meeting in Brussels, where the strategy for microfinance was presented.
- Fondi Besa contacted the respective ministries that would make possible the participation of Albania in this program: *Ministry of Integration and Ministry of Labor and Social Welfare*.
- We received their support to continue with the application for this project, specifically for second axis: **The micro-financial and social enterprise axis**.

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# SPECIFIC GOAL

- **The micro-financial and social enterprise axis** supports actions in two thematic sections: micro-credit for vulnerable groups as well as micro-enterprises and social enterprise, with the following objectives:
  - a) Increase access and availability of microfinance for vulnerable groups wishing to set up or develop their business and micro-enterprises;
  - b) Institutional capacity building of microcredit providers;
  - c) Supporting the development of social enterprises, in particular by facilitating access to finance.

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# STEPS UNDERTAKEN

- Further to meetings with respective government authorities responsible for the integration of Albania in the EU and participation into this program as part of the EU, Fondi BESA contacted with the EIF as the implementing authority of this project and expressed its interest to be part of this program.
- On July 2015 the Parliament of Albania approved the Law no. 75/2015 ***“On the ratification of the agreement between the Republic of Albania and the European Union for participation of Albania in the European Union Program for employment and social innovation (EaSI)”***.
- *Access to EaSI was intended to provide a useful preparation for rationalizing and simplifying interventions, supporting government initiatives and strategies for modernizing labor markets and social security systems, and increasing employment rates, in particular among young people, supporting job creation, promoting a highly skilled workforce, enhancing geographical mobility and promoting social innovation.*

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# APPLICATION, SELECTION, AGREEMENT

- On **July 20, 2015** Fondi BESA sent its application for the EaSI program to the European Investment Fund as the institution that would implement the program.
- The pre-selection stage was followed by the due diligence process. As a next step, in line with the Call for Expression of Interest (the “Call”) provisions, representatives of EIF performed a Due Diligence assessment based on the information received and the additional information collected during the pre-selection process, including policies, regulations, products, MIS, etc.
- The successful due diligence process was followed by the signing of agreement: ***Employment and Social Innovation – Guarantee Facility for Microfinance*** and launching of the project during MFC Conference held in Albania in **June 2016**.
- This was the first agreement for Employment and Social Innovation in Albania, from which was expected to benefit 5,000 small enterprises.

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# Eligibility criteria and loan terms

- Besa Fund and EIF decided that final recipients shall be established and operating in Albania.
- The final recipients shall be either:
  - a) Final recipients whose business is carried out in the agribusiness segment, i.e. direct rural and livestock activity, food processing and/or selling of agricultural products, or*
  - b) Entrepreneurs below the age of 35 (youth entrepreneurial activity).*

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# Eligibility criteria and loan terms

- Loans up to **25,000 Euro**
- Interest rate up to **20% p.a.**
- **No mortgage** used as collateral
- Guarantee Rate **80%**
- Guarantee Cap Rate **4.1%**
  
- In accordance with this agreement, **22 million Euro** was the total loan portfolio covered with a guarantee scheme, targeting small enterprises in the sector of agri-business and youth enterprises.

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# CHALLENGES

- Designing a specific **loan product**
- Elaborating the necessary **regulations**
- Improvement of **MIS** and **accounting system**
- **Reporting standards**
- **Staff training and capacity building**
- **Promotion** of the Guarantee Facility
- ***Code of Good Conduct*** (an integral part of the whole process)

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# Designing a specific loan product

- In 2015 BESA Fund started designing a specific product for agriculture “BESA Agro”. The specific characteristic of this product was the irregular repayment schedule that made possible to clients to choose to repay the installment according to their cash flow.
- **At the time, BESA Fund believed that designing this specific loan product would have the following advantages and benefits to the Fund’s activity:**
  - Develop and further enhance the range of products;
  - Increase the volume of activity by intervening in new markets;
  - Introduction to new markets and also expansion and diversification of client base;
  - Meet the under-served rural market needs with financial services;
  - Diversify the loan portfolio;
  - Improve its activity indicators;
  - Diversify credit risk;
  - Enable the institution to participate in various projects with the Albanian government or EU projects related to agriculture and agricultural holdings.

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# Designing a specific loan product

- **Agricultural lending is seasonal and agricultural production cycles are irregular.** This means that only in certain periods of the year, agricultural or livestock activity needs funding, while the possibility of repayment is only in the periods when the production goes into the market. *This is the reason that for the repayment of agricultural credit, not only income from the activity financed is to be considered, but all the various income generating activities in the farmer's family are valued.*
- Moreover, these cycles vary within the country for the same agricultural cultures.
- Also, in general, the income of agricultural household in Albania is based mainly on agricultural activity.
- In order to design a good loan product that would easily adapt to the characteristics, risks and opportunities of agriculture as a potential sector in Albania, we performed a detailed analysis of the following elements:

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# Designing a specific loan product

1. The loan repayment is not related only to the use of the loan. Lenders value the borrower's capacity to take into account all sources of family income, not just the proceeds generated by the investment being carried out with the loan. Borrowers have to understand that they are required to pay regardless of whether the investment they made on a loan is successful or not.
2. High risks related to lending to agriculture: Risks and uncertainties in agriculture are more severe than in most non-agricultural economic activities. The type and severity of these risks may vary according to the type of farming systems practiced, individual farm management qualities and capabilities, the physical and economic conditions of the area, as well as the impact of government policies. A detailed analysis of the agribusiness activity mitigates the risk of these kind of loans.

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  4. Meet the underserved rural market needs with financial services;
  5. Diversify the loan portfolio;
  6. Improve its activity indicators;
  7. Diversify credit risk;
  8. To enable the institution to participate in various projects with the Albanian government, or EU projects related to agriculture and agricultural holdings.

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# Designing a specific loan product

- The terms and conditions of the loan are tailored to accommodate cyclic cash flows and large investments. Cash flows are very cyclical in farming activities. A successful financial institution needs to modify the terms and conditions of the loan to follow this cash flow cycle, matching the best cycle of production and sale with that of financing and repaying the loan, without forgetting the underlying principle that repayment of the loan should be regardless of the success or failure of the credit-financed activity. This requires good recognition of the product, investment and production cycles from credit officers.
- Agricultural loan collateral: Small farmers own a small amount of valuable assets that can be pledged as collateral for agricultural loans and this lack of collateral poses specific problems for lenders. For example, the use of agricultural land as collateral is limited due to the problems with ownership titles and the undeveloped land market.
- On these "findings", a well-designed "Agriculture Loan Product" with flexible repayment schedule based on the cycle of the respective agricultural, livestock and agro-processing activities and with soft collateral was considered important for success.

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# Internal steps and procedures

- **Regulations**

Fondi BESA prepared all necessary regulations and guidelines for the new product.

- **MIS and accounting system**

The new product was implemented in the MIS and was integrated into the accounting system.

- **Reporting**

The new agreement required specific reporting standards, so reporting templates and schedules were integrated into the MIS. The collection of statistical and financial data was part of the reporting requirements under EaSI. Fondi BESA regularly provides this specific information, which is processed and analysed by EIF on behalf of the European Commission.

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# Internal steps and procedures

- **Staff training and capacity building**

Mentoring and staff training has been an important element for the successful implementation of the program and the loan product. Training programs were provided to the branch staff all over Albania, related to the new loan product and the implementation of the project. Raising awareness to the final recipients for this program has been a very important issue as well.

- **Promotion of the Guarantee Facility**

Fondi BESA ensured visibility and promotion of the guarantee in its documentation, website, marketing materials, flyers, posters, etc.

- **Code of Good Conduct (an integral part of the whole process)**

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# PROJECT IMPLEMENTATION

- **Coverage**

The new loan product was launched initially in Lushnja and Fier Regional Branches as areas more focused in agriculture lending. After this pilot phase resulted successful, the new loan product was launched in the **28 branches of BESA**, all over Albania.

- **Issues and challenges**

***Informality in agriculture in Albania*** (formalization of business sector is improved, but agriculture remains a sector with many problems in this aspect).

- **Risks**

- Natural risks related with agriculture (flood, draught, etc.);
- Lack of insurance for this sector in Albania;
- Market risk;
- Unfair competition, etc.

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# ACHIEVEMENTS

- Under this program, currently, Fondi BESA has provided **1,387 loans** with about **6 million Euro**.
- Considering the support provided by this guarantee scheme, in **March 2019**, Fondi BESA launched the new loan product **EaSI Youth Loan** targeting **entrepreneurs below the age of 35 (youth entrepreneurial activity), who aim to develop their entrepreneurial activity or start a new business (start-up activities)**.
- This loan product has **lower interest rates** compared to the standard business loan that Fondi BESA provides.
- Currently, for the first two months, we have provided **12 EaSI Youth Loans** with about **60,000 Euro**.

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# Agriculture sector in Albania

2014 - 2016	Albania (Agriculture)
Export	7.5 % of export (0.5% cigarettes)
Import	15% of import
Employment	40% (only agriculture)
Credit share in economy	2 - 4%
Share in GDP	20%

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# Why can't rural borrowers get credit?

- **Lack of collateral** <=> Low Profit/Undefined value/difficult realization
- **Complexity of rural business activities** <=> Lack of reliable data/ Difficult financial analysis/various income resources
- **Geographic dispersion** <=> Increased expenses/lack of control/high interest rates
- **Risk in agri-lending** <=> Seasonality/risk is higher than in other sectors/Potential arrears

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# Risk of Agricultural Lending

- “Business risk” underlines its dimension in Agriculture:
  - *Uncertainty attached with the operations of an entity where the realization of future expected returns is unpredictable;*
  - *Uncertainty or variation in income or returns of an agricultural activity over time due to the nature of its business;*
  - *Over time this risk is reduced, whereas for other business sectors it might increase.*
- Risks related to the Agricultural Sector
  - Production and Yield Risk

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# Opportunities for continuity

1. Fondi BESA believes that the **experience** and the **created model** is a good base for continuity.
2. We believe that this is a **successful model** for NBFIs, since microfinance intervenes to niche market segments, where banks do not penetrate. Since these market segments and sectors are associated with many risks, a guarantee scheme is a **convenient tool** that allows the NBFIs to obtain risk and finance people, who have little or no access to bank services.
3. Microfinance institutions have had **an important role in educating their clients**, so that in the future they could be more involved in the financial market.
4. Agriculture is considered a **potential sector** in Albania, which needs to be developed in order to increase its **role in the economic growth**.

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Fondi BESA wishes success to the Albanian NBFIs that aim to enter into an agreement with EIF for the EaSI program and the guarantee scheme.

Special thanks to **Mr. Simone Uccheddu**,  
who has supported Fondi BESA throughout this process.

**THANK YOU!**

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