

Mobilizing New Sources of Finance for Serbian Agri-Businesses

It is no secret that Serbia's agriculture industry is a key strategic sector with a huge potential to grow. It already accounts for approximately eight percent of the country's GDP. However, even two decades following the country's political and economic transition process, it is still not growing at a pace one would expect from a nation geographically located close to large European markets, and given Serbia's inherent competitive advantages in the production and processing of fruits, vegetables, grains and livestock. Additionally, a lack of financial awareness and education, food entrepreneurship, finance and business management skills, as well as burdensome bureaucratic and administrative barriers all play a role in the slower-than-expected growth and development of the agricultural scene.

A key factor for the agricultural sector to achieve sustainable economic growth requires readily available and accessible financing for small and large agri-businesses. A lack of financing options has traditionally been a major problem for SMEs in Serbia. Even following the extensive reform measures introduced in the financial sector during the early 2000s, many agribusinesses still find it hard to access financing sources. In general, food companies and SMEs operating in the agricultural industry are primarily financed by private funds, commercial banks and/or government loans and subsidies. While the country's financial market maintains a high level of liquidity, financial loan products are primarily provided to large SMEs, with limited financial sources available to small enterprises and start-ups. This is mainly due to the fact that micro, small and medium agribusinesses frequently lack credit histories, financial skills to prepare business and investment plans in line with bank standards and expectations, and/or are unable to provide adequate collateral, predominantly in the form of real-estate. And SMEs that obtain bank loans from commercial institutions, usually receive short duration working capital loans, while long-term loans intended for new investments and growth are seldom provided to smaller food producers and enterprises.

In an effort to address these shortcomings, USAID Serbia and the Serbian Ministry of Agriculture, Forestry and Water Management, launched a loan portfolio guarantee with three local partner banks - ProCredit Bank, Addiko Bank, and Banca Intesa - in December 2019. Originally dubbed "DCA Guarantee" (after USAID's Development Credit Authority, which initiated and oversaw the process), it has since been implemented as the "USAID guarantee scheme". The scheme leverages joint financial resources provided from USAID and the Serbian Government, through the MoA, to cover potential loan losses made by commercial lending institutions.



Figure 1: Press conference organised by Ministry of Agriculture, USAID Serbia and USAID Competitive Economy Project announcing loan portfolio guarantee.

Specifically, the USAID guarantee scheme covers 60% of loan principal losses and incentivizes banks to provide up to \$90 million in new loans to food processors and individual farmers over a 12-year period.



The purpose of the guarantee is to mobilize partner banks to expand lending through an efficient and streamlined risk-sharing mechanism. It aims to support new investments, acquisition of modern equipment and innovative business ventures, particularly for small and medium enterprises. This flexible financial product supports long-term lending with up to a 10-year maturity for a range of agribusinesses, including micro, small and medium-sized enterprises (MSMEs), food start-ups and entrepreneurs, agricultural associations and cooperatives, and registered small-scale growers and producers. The scheme is extended to all segments of the agricultural industry, including the F&V sector, and places special emphasis on loans for start-ups operating for less than 3 years, as well a legal entities based in underdeveloped Southern and South-Eastern regions of the country.

The scheme couldn't have come at a better time given the fact that the country's agriculture industry is undergoing a multi-year overhaul led by the Serbian government to strengthen the sector's competitiveness and economic development. The MoA increased the level of financial support and designed subsidized lending programs in coordination with private commercial banks and financial institutions. Additionally, the EU-subsidized IPARD program continues to be a major source of financing for large scale investments projects in the agricultural industry. In this context, the USAID guarantee scheme complements this program by providing financial loans to investment-ready clients lacking sufficient collateral for traditional bank loans.

In January 2020, two partner banks - Addiko and ProCredit Bank – commenced approving loans backed by the DCA guarantee. Ever since, both banks have reported that the scheme is an important new financial product for bank clients and represents a significant opportunity for the entire agricultural industry. Addiko and ProCredit Bank also praised the USAID guarantee scheme for its streamlined loan approval process. Most importantly, the scheme can be used in conjunction with other loan programs offered by international institutions, such as IPARD, and/or state loan programs in substitute for lack of collateral.

Market interest and demand for this innovative product has been extensive, and exceeded initial expectations of both banks, particularly among clients with new investment projects in a range of 300k to 2 million USD. Up until March 16, when the Serbian government imposed restrictive measures in response to the Covid-19 pandemic, both banks had already allocated over 80% of the first \$10 million tranche. Interestingly, the economic uncertainty resulting from the coronavirus further generated interest for the scheme. By September 2020, partner banks disbursed and approved around \$20 million in loans, and pre-selected or pre-approved over \$10 million in new loans, which will be disbursed from the second tranche of the DCA guarantee.



Figure 2: Info and mentoring session in Uzice

ProCredit and Addiko Bank, in part, attribute the quick utilization of the scheme to a large number of positive referrals through USAID's Competitive Economy Project (Project) partner organizations, and the scheme's ability to lower risk and exposure for commercial banks. To date, approximately 60% of total distributed loans supported SMEs operating in the F&V sector. Thus far, the main purpose of the scheme has predominantly served to limit long-term investment losses for commercial banks, and facilitate large loans for IPARD-supported investment projects.

To increase market utilization of the loan guarantee scheme, the Project developed a complimentary Technical Assistance (TA) program to support local SMEs to finance major new investment projects. The TA comprised tailored mentoring sessions and provision of technical assistance in business plan development for food processing companies operating in the F&V sector. Since inception of the DCA guarantee, the Project provided technical assistance to 11 SMEs to develop business and investment plans needed to apply for loans backed by the USAID Guarantee in total value of 8.7 million USD.



Figure 3: Installment of the frozen berry processing line in Arilje (investment aided by the Project)

To date, several large-scale investment projects involving acquisition of new modern equipment and machinery for food processing industry have been financed through the program. Some examples include: a state-of-the-art aseptic packaging machine for one of the largest juice producers in the country; a modern tea-bag packaging line in accordance to food standards and consumer requirements; and, build-out of a large greenhouse pepper production facility for the largest producers in the Vojvodina

region. Other investments related to improving fruit processing with laser sorting machines, modern cold storage facilities, green energy projects involving solar panels, and cost-saving machinery for large cold storages.



The close collaboration and partnership between USAID, the Ministry of Agriculture and commercial lending institutions complement the Project's work and strategic efforts to facilitate new access to finance for Serbian agri-businesses. In short time, the USAID guarantee scheme enabled these companies to tap into new financing sources to further grow, innovate, create new jobs and ultimately strengthen the competitiveness of the Serbian food processing industry. Going forward, this mutual collaboration that successfully brought to market new innovative financing solutions will help pave the way for more and more Serbian companies to access finance to take their businesses to the next level.