

# FINANCIAL HYBRID MECHANISM FOR SUPPORTING SES

Auleda – Local Economic Development Agency



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Development Agency

*Guarantee Fund*



## Introduction

The Guarantee Fund is a financial instrument proposed as a hybrid financial mechanism for the support for Small and Medium Enterprises for productive investments, modernization and introduction of new technologies for restructuring, for the creation of start-ups with strong social impact in the community, etc.

Priority is given to investments that aim to increase efficiency through restructuring, upgrading and technological transformation of implant and production lines, the use of clean energy sources, encouraging innovation and support to innovative start-ups.

The overall objective of the IDEA project (Investment Development and Empowerment Action) is to “Improve cross border capacity to support entrepreneurship, business survival and competitiveness” through the development of hybrid financial instruments and models of social finance, by improving the capacity of enterprises and social operators.

The IDEA project aims to create an Investment Fund for Social Entrepreneurship and well-defined criteria guides, creating hybrid financial models, funding tools and a strategy for attracting investors, supporting social economy actions, along with all the necessary supporting material that clarifies legal, fiscal, administrative, procedural issues.

Through support to a financial value assigned to each venture will be targeted to increase the access of vulnerable groups to the market, with respective business ideas, which will also be associated with the increase in employment levels of these groups.

This solution, according to the attendees, is because, the banking system is often skeptical of social enterprises, which are not beneficiaries of various funds or credit portfolios owned by banks. Consequently, their access to the banks credit system is quite limited. Despite this, the fund in question, creates opportunities to fill this gap.

For this purpose, it will cooperate with public institutions, businesses, universities, located in the territory where the project is implemented, which will be required to build this hybrid financial scheme, which will serve as a portfolio, a guarantee fund , which will provide technical and financial support to social enterprises with business ideas based on several criteria. According to the attendees, priority will be given to those social enterprises that will create innovative, environmentally friendly and socially-oriented businesses. For this, certain parameters or clear indicators will be defined to measure the social impact of the enterprises to be supported.

Through this project, 12 entrepreneurial models will be established in a given time frame, respectively 6 for each Albanian territory and the Greek Cross border area, coupled with the hybrid financial mechanism (according to technical terminology), which may be a guarantee fund or a "Business Angel Network "where business can be included in a certain financial benefit ratio. This also goes in accordance with the social dimension that has introduced the EU for six years, originally created as a mechanism and economic structure



## **Guarantee Fund for AULEDA**

The Guarantee Fund proposed to be created will be a fund deposited at a Second Level Bank. The operating system with this fund will be determined by a Micro capital Grant Agreement which will be signed with the respective Bank selected on the basis of a competition process. An open call will be addressed to the Second Level Banks operating in the Albanian financial market in order to get the best offer.

This amount will benefit the deposit interest and the loan interest rate for the part of the frozen cash collateral for each loan.

Auleda will benefit from the guarantee fund an annual rate of 4-7%, which is the intention. However, the exact value of the interest rate will be determined in the negotiation process with the bank before the signing of the contract. The gained interest will be passed every month to Auleda's account.

### **How will the GUARANTEE FUND be created?**

Businesses operating in the Albanian territory in the category of large businesses and the VIP category with prominent Social Responsibility will be invited to contribute with a financial value in the creation of the fund.

The Fund will be invited to join international organizations, National and International Development Agency, Public Institutions that focus on their work to promote social enterprises and social businesses in Albania.

The financial benefit for this social investment based on Albanian law will be that of facilitating the fiscal actions for businesses that sponsor or invest in the socio-cultural field. The Founders of the Fund will be the Shareholders' Meeting which will define and approve the criteria of use and benefit from the Guarantee Fund

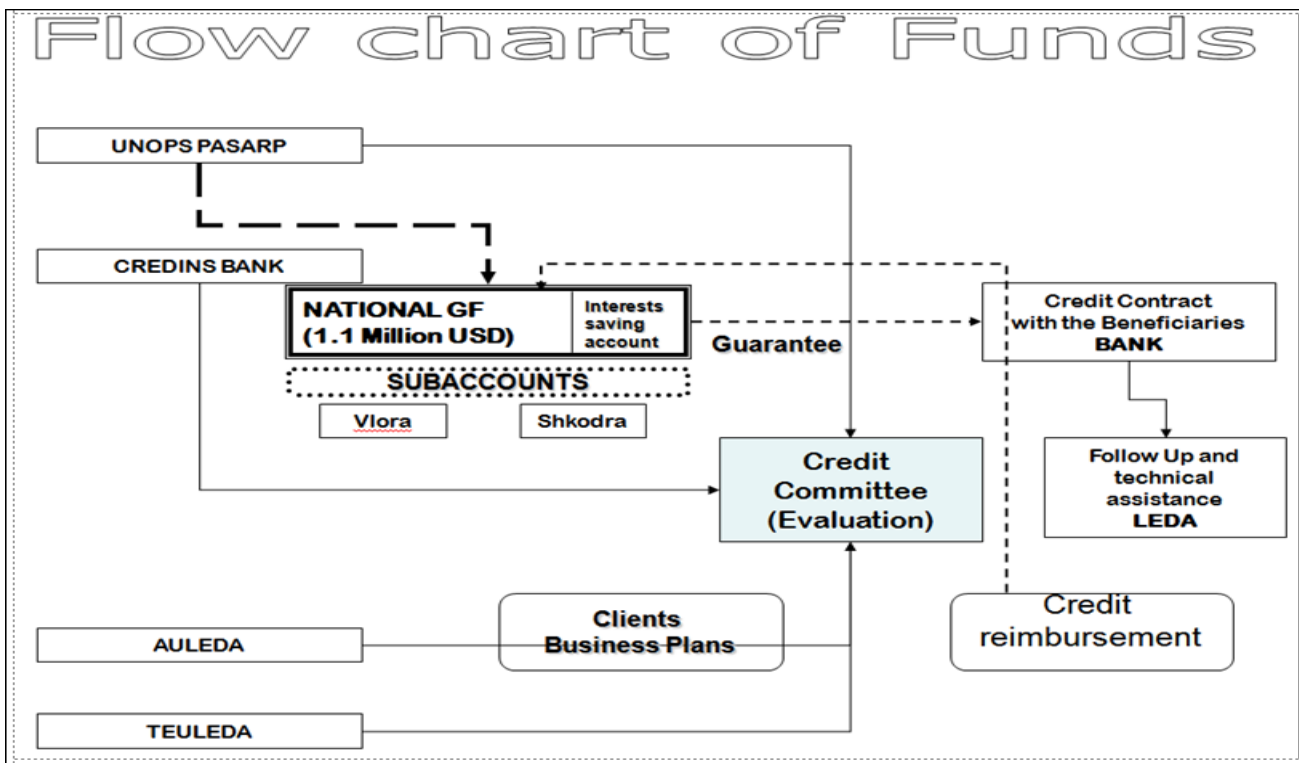
Since the deposited amount will serve as the basis for the financial guarantee of the loans, the amount and the term of the deposit must match the real structure of the loan portfolio. Net interest income of the loan is allocated 75 / 25midis to the Fund and to the Bank.

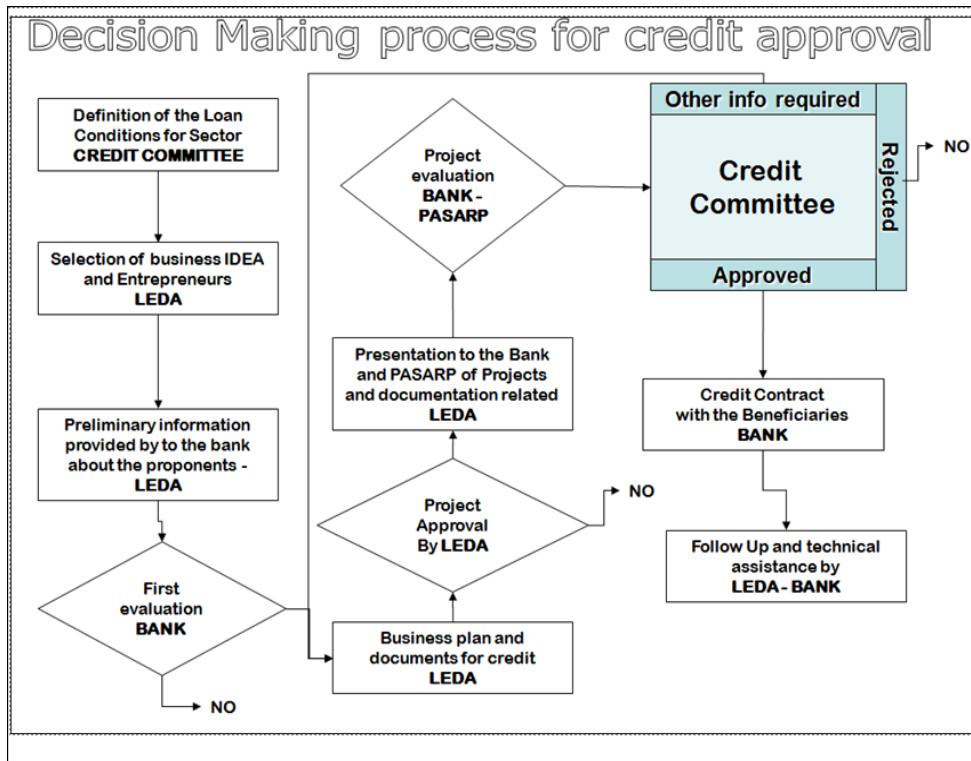
The calculation of the net income from the interest is based as follow:

- NI= interest rate loan – the cost of the fund\*
- The interest rate on the loan in ALL = T Bills + 8.7%.

\* *Fund Cost = Average interest rate of the UNOPS Guarantee Fund + loan costs + mandatory service costs + insurance premiums.*

### Distribution Scheme of the Guarantee Fund:





## Decision-making on credit-giving

With the agreement signed with the selected Bank in support of the Local Economic Development Agencies of Vlora "AULEDA", it will make available the creation of social enterprises and social businesses, the Guarantee Fund as a financial guarantee instrument for investment.

“AULEDA” through this fund, offer support to SEs even though it is not a financial institution or bank. This fund is available for:

- People that doesn't have sufficient guarantee of capital assets
- Start up (new enterprises) and for more in rural areas
- People who have a feasible entrepreneurial idea in one of the aforementioned sectors.
- People or organizations that work with vulnerable groups and providing support services to them.
- People who have innovative and sustainable ideas with the environment

“AULEDA” offers all the necessary technical assistance for the opportunities of start –up business, for the preparation of business plans, business management, market research, trainings, contracts and cooperation agreements, launch of new products, certifications, etc

According to the contract the financing value varies from 500,000 ALL min – 10,000,000 ALL max for a maxi period up to 5 years, equal installments and monthly payment.

### ► Credit direction law

Credit grant directions are in full compliance with the Value Chain Study as well as the Strategic Development Scenarios of Vlora Region.

## Loans to Organizations Providing Social Services

Our objective is to improve the living conditions of the population for the vulnerable groups including the social categories of paraplegics, tetraplegics, autistic children, down syndrome, raped women accommodated in social centers, ethnic minorities and the elderly. Entrepreneurial economic activities will be activities that will generate sustainable incomes for organizations operating in the field of social services to guarantee the provision of these services with qualified staff and European standards. The interest rate for this loan portfolio will be softened and negotiated with the bank.

## Loans for organizations that provide environmental services

The idea is the support of the Environmental Sector and Environmental Organizations working to protect the environment and provide environmental services to the benefit of the community. The entrepreneurial economic activities will be activities that will generate sustainable revenues for organizations operating in the field of environmental services to guarantee the provision of these services with qualified personnel and European standards. The economic activities supported, will be those that promote green economy, the use of renewable energy sources, sustainable waste treatment, recycling and reuse, treatment of wastewater

Innovation and innovative ideas will be a priority in using the fund.

The interest rate for this loan portfolio will be softened and negotiated with the bank.

## Craft Loan

Funding aims to support the craft sector through the development and reinforcement of artisanal manufacturing activities as; carpets, ceramic products, junk, etc. The promotion of the preservation of traditions and national values at local and international level through marketing initiatives is one of the main objectives of this promotion.

## Tourism Loans

Support the tourism sector through the development and strengthening the existing services, the creation of a wider offer of tourist services such as: transport, accommodation, entertainment and sports services. - Restructuring, strengthening and modernizing the local tourist offer service. - Creation of new services and activities. - Promotion of local tourist resources as a territorial value in the national and international market.



## Cultural Loans

Support the cultural sector through the development and strengthening the existing services. Creation of new services and activities. - Promotion of local cultural resources as a territorial value in the national and international market. All this process will be also within the framework of tourism sector.

### *Acceptable investments:*

- Investments for the purchase of plants, machinery and accessories for the production activity;
- For the restructuring and adjustment of real estate destined for production. The fund created finances only 30% of the estimated investment value for these rehabilitations;
- Investments to improve quality and commercial products
- Purchase of raw materials and processed

### *Selection Criteria:*

The investment projects to be selected will be evaluated according to the following criteria:

- Credibility for the self sustainability of the entrepreneurial project;
- Contemporary investment level;
- Management capability;
- Accuracy and completeness of submitted documents;

## MANAGEMENT OF GUARANTEE FUND FROM AULEDA

- **Assembly** draws up and approves the priorities of using the Guarantee Fund in accordance with development priorities and based on an argumentative analysis of the supply request for the creation of for the creation of social business and social ventures.
- **The Board of Shareholders** elected by the Assembly approves all loan cases that are required by the Guarantee Fund before they are presented and protected in the Credit Committee
- **The Credit Committee** is the body that reviews and approves the loan after its presentation and argumentation. The Credit Committee consists of three voting and

signing members, one representative from the Shareholders' Board, one representative from the Bank and one representative from the Local Economic Development Agency Auleda

- **Auleda** is the Authority that uses the Guarantee Fund, makes a careful analysis of the selection of the beneficiaries. In order to minimize losses stemming from bad credit while guaranteeing the risk of failure of entrepreneurial activities, follow up for SEs and SBs created by including them as beneficiaries in European projects.

## **FOLLOW UP OF CREDITORS**

AULEDA follows a continuous monitoring plan for all credit cases both during the credit phase and after its completion. All credit applicants are seen as partners and they are assisted in many ways like: finding market, promotion, studies, business plan preparation, loan applications or support.

During the loan duration, monitoring is carried out with bank employees.

All the while, Auleda maintains a periodic and continuous communication with all creditors, in any case where Auleda has an opportunity for their involvement as beneficiaries in the projects that are being implemented, concrete steps are being taken to incorporate them.

Auleda provides its assistance in the compilation of Business Plans if it is required by creditors to assess and evaluate their financial situation or to apply to different funding schemes.