



PERFORMANCE REPORT

Rural Credit Guarantee Foundation (RCGF)

Year 2020



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1. OBJECTIVES AND ACTIVITY

This report has been prepared in accordance with Article no. 22 (3) of Law 25/2018 On Accounting and Financial Statements, amended, where non-profit organizations in Albania are required to prepare and publish, together with their annual financial statements, a performance report. This report is prepared by those non-profit organizations that in their financial statements, the amount of assets or income exceeds the value of 30 million ALL. Rural Credit Guarantee Foundation meets this condition. The main purpose of the performance report is to ensure that a non-profit organization is publicly accountable to stakeholders in presenting its performance.

The Rural Credit Guarantee Foundation ("RCGF" and "Foundation") was established in July 2015 under the laws of the Republic of Albania. The idea was conceived as part of the EU framework of IPA to finance a program "Program for Rural Credit Guarantee" in Albania with the goal of increasing household incomes in Albania's rural areas. The activities were co-financed by the EU and the Government of Albania for a total value of EUR 5.5 million, out of which EUR 5 million were from EU and EUR 0.5 million were from the Government of Albania. The initial project running from November 2014 through March 2016 was implemented by KfW Development Bank. The Foundation's capital was increased by an additional EUR 30 million in December, 2018 and by EUR 6,76 million in December 2020 from the German Government through KfW Development Bank, which continues to support the Foundation through technical assistance and studies.

RCGF mission is to provide access to finance, with the purpose to broaden the credit access in an underserved MSME segment in agriculture, rural markets as well as other sectors of the economy due to lack or insufficient collateral, to enable them to either survive or regain some lost capacity, resulting in job retention, recreation or creation.

The objective of the Foundation is to encourage banks and non-bank financial institutions ("NBFI") to provide financial services to micro, small and medium enterprises in various economic sectors of the economy including agriculture, agro-allied and rural businesses on a sustainable basis to enable them to create new jobs, grow and become more competitive.

To achieve this objective, RCGF partners with financial institutions and provides partial credit guarantees covering the credit risk associated with underlying, newly extended bank loans to:

- Micro, small and medium enterprises ("MSME") in the agro-sector specifically and rural areas in general, and MSME in other sectors of the economy.
- NBFI for on-lending to MSME in the agro-sector specifically and rural areas in general.

RCGF pursues its mission through a risk sharing guarantee mechanism for:

- a) bank loans to MSME businesses in agricultural sector specifically, in rural areas in general, and other sectors of the economy.
- b) commercial borrowings of non-banking financial institutions for on lending to MSME businesses in the agriculture sector specifically and in rural areas in general.

RCGF is a foundation that operates directly and independently in Albania, has no subsidiaries and is not affiliated with any other foundation.



2. ACHIEVEMENT AND PERFORMANCE

As at December 31, 2020, RCGF through its guarantee instrument, has supported more than 7529 Agricultural and SME borrowers for a total of EUR 33.3 million (out of which EUR 15.8 million was for NBFIs), resulting in approximately 4327 new jobs being created, and 7017 jobs maintained in the Agricultural and SME sector, as presented in the table no.1 below. Calculations are made by RCGF based on the data provided by the partner financial institutions (banks and NBFIs).

| Number of Jobs | | |
|------------------------|--------------|--------------|
| Jobs Created | Banks | 1,169 |
| | MFIs | 3,158 |
| | Total | 4,327 |
| Jobs Maintained | Banks | 1,754 |
| | MFIs | 5,263 |
| | Total | 7,017 |

Table no.1: Jobs created and jobs maintained since the foundation started providing guarantees
Source: RCGF calculations

RCGF is not limited to any geographic area or business activity in Albania, as long as these sectors are not in the exclusion list. Furthermore, there are loan ceilings in the financing agreements.

In December 2019, an outbreak of a new strain of coronavirus, Covid-19, emerged in Wuhan, China. Within weeks, despite efforts to contain the virus in China that included widespread shutdowns of cities and businesses, the number of those infected grew significantly, and beyond China's borders including Albania. On 11 March 2020, the World Health Organization announced a pandemic situation due to the global emergency caused by the outbreak of Covid-19. The coronavirus outbreak is still evolving and its effects remain unknown.

As at April 6, 2020 the Foundation's Board of Directors has approved a new product (a new window) launched by the Foundation, for companies affected by the current crisis caused by Covid-19, which it is implementing through a new window aiming to sustainably provide access to finance to MSME business activities impacted by this crisis and collateral enforced measures.

Initially, the funds allocated by RCGF for this product from the existing capital funds were EUR 10 million. Further, RCGF received also EUR 6,76 million in December 2020 from KfW Development Bank exclusively for Covid-19 window. The purpose is to contribute to the revival of the Albanian economy and generation or retention of employment in productive sectors through intermediation with financial instruments. The facility is a temporary one for both existing and new clients, foreseen to be available up to the end of the year with the possibility of extension, should this be deemed necessary.



3. FINANCIAL REPORTING

At the end of 2015, RCGF received EUR 3.57 million from EU. These funds were transferred from KfW to RCGF, based on the financial agreement that RCGF and KfW had signed for the guarantee activity.

Moreover, during 2015 and 2016, RCGF received a grant of EUR 0.5 million from the Ministry of Agriculture and Rural Development according to IPA 2012 Program. The purpose of this grant was to compensate the Foundation for operating expenses incurred.

During 2018, KfW and RCGF entered an agreement for a new funding up to the amount of 5 million EUR, divided in 2 tranches of 4.35 million EUR and 0.65 million EUR. The agreement was signed on September 12, 2018. Later on the year, on December 5, 2018, KfW and RCGF signed a new agreement for a new funding in the amount 25 million EUR. As at December 20, 2018 there were disbursed the first tranche of the first agreement, and all the funding from the second agreement. The total amount received in 2018 is 29.35 million EUR. The purpose of this financial contribution was to increase the guarantee capital of RCGF used for issuing guarantees to the benefit of micro, small and medium enterprises in the Regular Window and Green Window.

During 2020, KfW and RCGF signed another agreement for a new funding of the amount 6.76 million Euro, for increasing the guarantee capital of RCGF in response to the Covid-19 pandemic.

The funds are used to provide guarantees for customers through banking institutions on 50/50 risk sharing basis and with maximum ceiling of Eur 500,000 for Regular Window and Eur 250,000 for Green Window and also guarantees for the commercial borrowings of NBFIs from local banks under separate guarantees.

As at December 31, 2020 the guarantees provided are as follows:

| | <i>Outstanding Balance (ALL)</i> | <i>Disbursed amount guaranteed (ALL)</i> |
|--|----------------------------------|--|
| Guarantees to NOA | 461,448,810 | 552,700,000 |
| Guarantees to FedInvest | 256,665,000 | 375,800,000 |
| Guarantees to Fondi Besa | 417,939,000 | 582,625,800 |
| Guarantees to Credins Bank's customers | 153,424,488 | 308,348,407 |
| Guarantees to BKT's customers | 67,471,149 | 157,614,849 |
| Guarantees to Union Bank's customers | 144,526,207 | 185,811,860 |
| Guarantees to Fibank's customers | 24,376,086 | 26,461,950 |
| Guarantees to OTP Bank's customers | 370,171,903 | 421,755,370 |
| Total in ALL | 1,896,022,643 | 2,629,118,236 |

Outstanding balance is related with the outstanding balance of the loans guaranteed by the RCGF. Disbursed amount guaranteed is related with the guaranteed amount of the disbursed loans, which is 50% of the total amount disbursed for banking institutions, and 100% of the amounts disbursed for micro financing institutions.



The Foundation has invested the capital funds in securities (Treasury bills, Bonds, Eurobonds) issued by the Government of Albania and these investments are used as collateral for the financial guarantee contracts that are given to banks and NFBI's.

RCGF continuously looks for new partner institutions to achieve its mission. As at December 31, 2020, the partner Banks and NBFIs of RCGF are as follows:

Banks:

- 1) National Commercial Bank (BKT)
- 2) Credins Bank
- 3) Union Bank
- 4) First Investment Bank (FiBank)
- 5) OTP Bank

Non-banks Financial Institutions (NBFIs):

- 1) NOA
- 2) Fedinvest
- 3) Fondi BESA

The Foundation operates on the going concern principle, which is the assumption that the Foundation will remain in business for the foreseeable future based on its objectives for issuance of financial guarantees. Based on the approved budget, the Foundation plans to increase its operational activity and positive results is foreseen in the coming year.



3. STRUCTURE, MANAGEMENT AND REPORTING

Rural Credit Guarantee Foundation is a Foundation registered under the laws of the Republic of Albania, known as 'RCGF', with NIPT number L52004452B, with the Court Decision for Foundation Establishment no. 518 dated 08 July 2015, located at street 'Abdi Toptani', Torre Drin, 9th Floor, No 93, 1001, Tirana, Albania.

RCGF's day to day management is run by the Executive Director and reports to a Supervisory Board. The Board of Directors is the highest level of governance, with 3 members, respectively Ms. Bahrije Dibra representing KfW Development Bank, Ms. Lauresha Grezda representing the Ministry of Agriculture and Rural Development and Mr. John Houry, who currently chairs the Board, is nominated by KfW and the Ministry of Agriculture and Rural Development.

The organizational structure of RCGF is presented in the figure no.1 below:



Figure 1. Organization Structure of RCGF

Regarding the financial guarantees, the Executive Director can contractually commit the Foundation for a value up to EUR 500.000 (or respective equivalent in ALL). The financial guarantee contracts with value exceeding the amount of EUR 500.000 are subject to the preliminary approval of the Board of Directors.

The Donors of RCGF are: KfW, European Union and the Ministry of Agriculture and Rural Development.

One of the objectives of KfW as a development bank and of EU as a unique economic and political union, is to provide financing to governments, public enterprises and commercial banks engaged in microfinance and SME promotion in developing countries to help MSME to either survive or regain some lost capacity, retaining and creating jobs. This objective constitutes the mission and the purpose of RCGF.



This report of the Foundation as at and for the year ended December 31, 2020 was prepared by the Management of Rural Credit Guarantee Foundation on June 15, 2021, and approved by the Chairman of the RCGF Board of Directors:

Prepared by:

Bajram Korsita

Mr. Bajram Korsita
Executive Director

Date: June 15, 2021



Approved by:

John P. Khoury

Mr. John P. Khoury
Chairman of the Board

Date: July 07, 2021