

CASE STUDY: IDF REDUCED INTEREST RATES FOR LOAN BENEFICIARIES IN ELECTORAL PERIOD

I: INTRODUCTION: Only a month before the parliamentary election in Montenegro¹ the Investment and Development Fund (IDF) decided to amend 11 financial assistance programs for 2016,² by stimulating further program beneficiaries in terms of reducing interest rates and loan processing fees for approved loans.



One of the presentations on IDF's loan conditions

II: MORE FAVORABLE LOAN CONDITIONS IN ELECTORAL 2016: Data on the IDF's loan terms in 2016³ show that they are much more favorable compared to those from 2015,⁴ which was a non-election year. Thus, in 2016 loan beneficiaries could obtain loans of maximum three million, with a repayment period of up to 12 years, grace period of four years, an interest rate of 5.5 percent per annum and a loan processing fee of up to one percent of the approved loan. A year earlier, loans were also approved for a period of three years with a loan processing fee of one percent of the approved loan, but the repayment period was shorter, i.e. 10 years with a grace period of two years, while the interest rate of seven percent was significantly less favorable.

III: LOWER INTEREST RATES FOR PROJECTS BEFORE ELECTION: In September 2016, i.e. a month before the parliamentary election in the country, the IDF amended its earlier decision on financing 23 support programs for the following year,⁵ by providing better loan conditions for as many as 11 programs.⁶

Thus, the initial interest rate of 5 percent per year in the crediting programs for projects in the field of infrastructure, environmental protection and renewable energy, decreased to 4.5 percent, while for the projects implemented in the north and in less developed municipalities (Cetinje, Niksic and Ulcinj) the interest rate was further cut by 0.5 percent. Furthermore, the fee is reduced by 0.6

¹ Parliamentary election in Montenegro was announced on 11 July, and held on 16 October 2016.

² Decision on the Amendments to the Financial Assistance Program of the Investment and Development Fund of Montenegro for 2016 (Official Gazette 58/2016, 7 September 2016), link:

<http://www.sluzbenilist.me/PravniAktDetalji.aspx?tag={5BE3B3FD-729D-4FAD-A03D-A38303FB5186}>

³ Annual Work Plan for business year 2016 of the Investment and Development Fund; link:

http://www.irfcg.me/images/documents/DokumentaDesniMeni/Dokumenta2016/Godisnji_plan_za_2016_godinu.pdf

⁴ In 2015 the IDF approved maximum loans of €3 million, with a loan repayment period of up to 10 years, grace period up to two years, interest rate of up to seven percent and a loan processing fee of one percent of the loan amount, with a mandatory participation of investors in a project; Annual Work Plan for business year 2015 of the Investment and Development Fund; link:

http://www.irfcg.me/images/documents/DokumentaDesniMeni/Godisnji_plan_rada_za_2015_godinu.pdf

⁵ Decision on adopting the financial support program of the Investment and Development Fund of Montenegro for 2016 (Official Gazette 076/15, 28 December 2015); link: <http://www.sluzbenilist.me/PravniAktDetalji.aspx?tag={7E116ACD-4B9C-4159-A66C-A6EA6AB998C7}>

⁶ Decision on adopting amendments to the financial support program of the Investment and Development Fund of Montenegro for 2016 (Official Gazette 58/2016, 7 September 2016), link:

<http://www.sluzbenilist.me/PravniAktDetalji.aspx?tag={5BE3B3FD-729D-4FAD-A03D-A38303FB5186}>

percent for the approved loans from these programs amounting from €1.5 to €3 million, compared to the beginning of 2016 when this fee was 0.75 percent.

When it comes to the support programs in the hotel industry, permanent working capital, construction of new hotel capacities, then support to primary wood processing companies and support to service sector companies, production support program, as well as the improvement of existing apartment and hotel capacities. At the beginning of 2016 the loan condition implied the interest rate 5 percent per year, then interest rate reduced by 1 percent for direct loans in the north of the country and in less developed municipalities, 0.5 percent fees for loans in the north and less developed municipalities, or 1 percent in other municipalities. However, one month before the election, the IDF changed the above conditions by reducing the interest rate to 4.5 percent, and the interest rates for direct loans in the north and Cetinje, Niksic and Ulcinj for the additional 0.5 percent. Also, loan processing fees for approved loans were reduced to 0.4 percent in the north and 0.6 percent in other municipalities.

In addition, the IDF has decided to grant a lower interest rate of 4 percent per year to the agricultural support programs as part of direct lending, as well as lower fees of 0.4 percent for approved loans in the north of Montenegro and 0.6 percent in other municipalities. The previous year's interest rate was 4.5 percent, while the fee for direct loans in the north and in less developed municipalities was 0.5 percent, or 1 percent in other municipalities.

Financial Assistance Programs	Loan terms at the beginning of 2016	Loan terms in September 2016
Loans for projects in the field of infrastructure, environmental protection and energy efficacy	Interest rate 5 percent; Reduced interest rate for direct loans in the north and in less developed municipalities by 1 percent; Fee for direct loans amounting from €1.5 to €3 million is 0.75 percent;	Interest rate 4.5 percent; Reduced interest rate for direct loans in the north and in less developed municipalities by 0.5 percent; Fee for direct loans amounting from €1.5 to €3 million is 0.6 percent;
Support to Agriculture and Food Production Program	Interest rate 4.5 percent; Reduced interest rate for direct loans in the north and in less developed municipalities by 1 percent; Fee for direct loans in the north and in less developed municipalities 0.5 percent; Fee for direct loans in other municipalities 1 percent;	Interest rate 4 percent; Reduced interest rate for direct loans in the north and in less developed municipalities by 0.5 percent; Fee for direct loans in the north and in less developed municipalities 0.4 percent; Fee for direct loans in other municipalities 0.6 percent;
Permanent Working Capital Financing Program, Hospitality Support Program, Support to Construction of New Hotel Capacities Program, Support to Primary Wood Processing Companies Program , Companies Providing Services Support Program Production Support Program and Support to Improvement of Existing Apartment and Hotel Capacities Program	Interest rate 5 percent; Reduced interest rate for direct loans in the north and in less developed municipalities by 1 percent; Fee for direct loans in the north and in less developed municipalities 0.5 percent; Fee for direct loans in other municipalities 1 percent;	Interest rate 4.5 percent; Reduced interest rate for direct loans in the north and in less developed municipalities by 0.5 percent; Fee for direct loans in the north and in less developed municipalities 0.4 percent; Fee for direct loans in other municipalities 0.6 percent;

Table 1: IDF's Loan arrangement conditions at the beginning of 2016 and one month before the election

IV: DIRECT LENDING FOR CURRENT LOANS: At the beginning of 2016, the IDF envisaged granting loans financed by the European Investment Bank to refinance the current loans of companies engaged in production, tourism, hospitality industry, trade and agriculture, but on the eve of the election it adopted a decision on direct lending.

Thus, the loan terms include loans of maximum €1 million, repayment period of up to 10 years (including grace period), an interest rate of 4.5 percent per year and 0.4 percent for projects in the north of Montenegro and less developed municipalities, whereas the interest rate in other municipalities is 0.6 percent.

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