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Italy

Agricultural Situation

Public Sector Credits & Guarantees for Italian Agriculture - A Summary

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Report Highlights: Italy's farm service agency ISMEA has engaged Moody's KMV, credit risk management experts, to develop a risk assessment model for Italian agricultural entities. Post provides a short summary of this program and Italian farm credit and credit guarantee programs.

Includes PSD Changes: No
Includes Trade Matrix: No
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Background

Until 1993, loans to Italian farms could only be granted by specialized Italian banks (Istituti di Credito Agrario), which made loans at preferential rates thanks to GOI subsidies. With banking reform in 1993 (Testo Unico in Materia Bancaria) all banks became eligible to offer credit to the agricultural sector. At the same time, preferential-rate loans underwent a dramatic reduction because of constraints on public intervention imposed by EU internal competition regulations. As a result, the value of bank loans to the Italian agricultural and fishery sector has declined steadily over the last 15 years.

Italy also has a farm loan guarantee system that covers most loans to the agricultural sector with a fund – Fondo Interbancario di Garanzia (FIG) – co-financed by loan recipients and banks. If a farm cannot repay a loan and the collateral is not sufficient to payback bank losses, the banks can use FIG money to cover part of their losses.

ISMEA

ISMEA - Istituto di servizi per il mercato agricolo-alimentare [Institute for services for the agro-food market] - is a farm service agency under the control of the Ministry of Agriculture. It was originally created to provide agricultural market information to the agricultural sector and other GOI institutions. In 2000, ISMEA merged with an old fund for land reform (Cassa per la Formazione della Proprieta' Contadina), and it now undertakes, or plans to undertake, the management of the following additional activities:

- a €50 million equity fund for investment in agribusiness enterprises and other sector-specific investment funds;
- a fund (amount not available) to provide bank guarantees to assist farms to obtain credit;
- a project to develop an internal credit risk rating model specific for entities in the agricultural sector, and designed to help these entities gain access to credit while adhering to the Basel II Agreement on Capital.

The first two initiatives have been notified to the EU Commission as state aid under the internal market rules. The first was authorized with some modifications, but is not yet operational; the second has not yet been approved. The third project is just getting off the ground and involves the U.S. based credit risk and management company, Moody's KMV.

ISMEA and Moody's KMV Collaborate

On February 2005 ISMEA and Moody's KMV announced a partnership for the development of a credit risk rating system for Italian agricultural companies. The system is designed to take advantage of ISMEA's large quantity of agriculture sector data, and Moody's KMV's analysis and default prediction technology.

The rating system is designed for use by the Italian government to monitor the credit worthiness or default risk of entities within the Italian agricultural sector, and it will also serve as an objective guide for granting public funding in the form of loans and other financial aid. The ratings will also complement the internal evaluation process of financial institutions, supporting Basel II compliance.

The model was presented to the general public in Rome on January 31, 2006 by the president of ISMEA Arturo Semerari, the general director of ISMEA Ezio Castiglione and the President of Moody's KMV Andrew Huddart. The two partners have developed three different rating models for assessing the credit worthiness of the following types of private companies:

- Companies with publicly available financial reports;
- Small and medium-sized firms that are not required to provide financial statements;
- Agricultural Cooperatives.

Comments

Bank managers who attended the presentation made it clear that they are unlikely to adopt the ISMEA/Moody's KMV model for their internal rating process and that they will probably continue to use their own proprietary models when making loan decisions to in the agricultural sector. They will probably be happy to use the information to augment their own analyses. The agreement between ISMEA and Moody's, however, is an excellent example of U.S. penetration in the very closed field of Italian farm services, and it makes available the financial services of a leading US company to Italian farmers and agricultural leaders. The ISMEA/Moody's KMV contract is undoubtedly a lucrative one, and the agreement could prepare the ground for similar initiatives on services such as farm insurance, market analysis and agricultural training.