

Comments of “The Land for Roma Families” Program

Krassen Stanchev, Managing Director

Andrey Ivanov, Senior Policy Analyst

The short-comings of the proposed scheme

1. The economic segment of the project is incoherent. In many respects project's objectives are defined too optimistic which can create hidden pitfalls. They can undermine and discredit the whole scheme. It is hard to expect that “the agricultural work should be their basic means of living in the future” if a family works up to 3 Acres plot.

2. The project is ambiguous in terminological terms. It deals with providing “financial resources” and with “paying the money back” but it is not clear:

- What is the nature of the financial resource - is it a credit or donation. The word “credit” is mentioned in the project whilst in the attached budget we find “Direct Assistance to the new land owners”. The context of the project however suggests that its authors intend to provide credits.
- If we are talking about credits, who will provide it, who will control its proper allocation, and in-time repayment (for more details on this crucial issue - see point 5)?

3. Assuming that the financial resources will be loans and not donations (according to the project, “paying back of the money will take place in “ROMA - Plovdiv” 30 days after the crop gathering”) , their parameters should be defined clearly:

- What kind of credits will be allocated - for investments (land purchase) or for working capital?
- On what terms will they be allocated - will they bear interest or will they be interest-free?
- What will be the credit servicing costs and how much will they vary from the expected interest?
- Who can serve as the credits' guarantor and how the loans can be guaranteed (collateral, informal inter-group relation etc.)?
- How (in practical terms) the credits will be paid back? What were the economic reasons to choose the mentioned division “10-30-50% in three consecutive years” as a suggested scheme? What about the rest 10%? What about the interest?

4. It is clear from the project that a Fund for financial assistance (presumably credits) will be established. However if the funds remain an integral part of the overall project's budget the general credit scheme will be blurred as well as the responsibilities.

5. Who will allocate the credit is a crucial issue. The project does not answer directly this question. It is assumed that the credits will be allocated by ROMA foundation since the money will be paid back to it. However there are no legal grounds for a foundation's credit activity. According to the law a foundation can donate money and not give loans. Since the money will be paid back, it will be either donated (by the foundation and not paid back) or allocated as a credit (by another institution and paid back).

6. The project mentions that the prevailing majority of the families which have already received land (148 families of total 175) use different forms of collective work. This

could establish retrograde collectivist attitudes propelling the collectivist irresponsibility. The collective forms of work can be efficient in reducing costs establishing large-scale agriculture production. But it is possible only after owners' mentality with its immanent responsibility for the property is already in place i.e. *after* (not before) the families have been working as individual farmers at least for one season and have learnt to respect the yield of their own work.

Possibilities to optimize the scheme

1. The first problem to be definitely solved is the nature of the funds. They should be credits with interest in order to avoid the demoralizing effect of gratis assistance. It would be too optimistic to rely of automatic emergence of credit culture and probably part of the loans will not be paid back. That is why, as Herman Abels suggests, the project should be renamed into a "Credit Preparatory Scheme". It will be essential for the success of the whole scheme to persuade the borrowers that, first, they are obliged to pay the credit back, and, second, that the credit costs money and its cost is the interest. The interest can be equal to the interest on the consumer credits provided by the State Savings Bank.

2. It is obligatory to separate the crediting fund and its management from the general scheme of the project conducted by ROMA foundation. Opening a separate account is not sufficient warrant against blurring of the money flow. It is not enough also to introduce an appealing name of the fund (as the proposed in the attachment to the project "Community Development Working Capital"). For the transparency of the scheme the money should be managed by a separate juridical entity which will not be facing legal obstacles to allocate credits.

3. The only feasible option is to establish a credit co-operative although it should not be labeled a credit one. The general scheme can be the following:

- CEGA foundation plays the role of the bank.
- CEGA and ROMA foundations' representatives, two local experts (an economist and an agronomist) and a representative of the *Institute for Market Economics* establish a credit agency and register it as a co-operative.
- The "bank" (CEGA) donates the agency the direct assistance funds.
- The credit agency (the co-operative) recruits members of the co-operative and allocates the credits. According to the law of co-operatives, a co-operative is allowed to allocate credits for its own members.
- In order to guarantee the expedient spending of the money providing cash to the borrower should be avoided if possible. The credit agency (not the borrower) pays in cash or via bank transfers for services furnished on behalf of the borrower.
- All payments should be authorized by three signatures of the credit agency members.

4. Because of the crucial importance of the adequate economic expertise a competent economist should be authorized to perform supervisory functions inside the agency.

5. The credit agency should have its own budget in order to separate the direct credit costs from the overall project costs. It will make possible to minimize the difference between the credit costs and the interest.

6. The time limits of the project should be put into compliance with the nature of the credits. Since the loans will be for working capital in agriculture production with one year production cycle it would be reasonable to split the three-years project into three one-year sub-projects. Each of the sub-projects should be reported after the agro-economic cycle is concluded. The report should contain an analysis of the economic results, of the reasonability of the allocated credits, assessment of the probability to

receive repayments of delayed loans etc. On the basis of the report changes in the sub-projects for the next year should be introduced (for example the size of the loans can be increased for strict borrowers).

7. The registration of the credit agency as a co-operative means that the second suggestion made by Herman Abels - to separate the money coming from repayments into separate and "visible" fund - will be met. The fund can be used for enhancing the agency's credit activity.

8. The members of the credit agency should be paid regular wages. Their size should correspond to the responsibility taken (for the economic reasonability of the allocated credits and for way the funds are spent). Since some of them could find themselves in a conflict of interest (being engaged in the overall project as project directors or experts and in the credit agency) their main source of income connected with the project should come from the agency.

9. The credit agency should be directed by a competent outsider (also in order to avoid possible conflict of interests).

Possible parameters of the Institute's involvement

1. The *Institute for Market Economics* can participate in the project under four conditions:

- If the project will allocate credits and not donate funds;
- If the credit scheme is in compliance with the existing legislation;
- If sufficient guarantees to prevent intransparent transfusion of funds from the credit agency to other entities exist;
- If the economic reasonability of the credit applications is confirmed by an expert from the credit agency.

2. The *Institute for Market Economics* can participate in the project by:

- Providing current expertise of the project's implementation in general and of its separate segments;
- Delegating its representative in the credit agency who can accomplish supervisory functions;
- Regular on-the-ground inspecting of the way the funds are utilized.

3. The relations between CAGA and IME will be codified in a consultancy agreement. The financial side of the agreement is a matter of farther negotiations and depends on the final version of the project, of the credit agency and the subsequent engagements of the different sides.

Sofia, 23 September 1997