European Union

WORKSHOP ON
CREDIT GUARANTEE FUNDS

European Agency for Reconstruction

Government of the Republic of Montenegro

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Secretary General
European Association of Guarantee Funds

Credit Guarantee Funds in EU Countries Overview

Advisory Support for Transformation of the Development Fund
An EU funded project managed by the European Agency for Reconstruction18

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FOUNDED IN 1992 AS A NON-PROFIT INTERNATIONAL ASSOCIATION
EU PARTNER.
INDEPENDENT ASSOCIATION, WITHOUT POLITICAL OR PHILOSOPHICAL ANCHORAGE

AECM IS THE ONLY EUROPEAN BUSINESS ASSOCIATION CONCERNED WITH THE GUARANTEE BUSINESS.

- **CURRENTLY: 32 MEMBERS IN 17 COUNTRIES :**
  Austria, Belgium, Czech Republic, Estonia, France, Germany, Greece, Hungary, Lithuania, Italy, Portugal, Romania, Slovenia, Slovak Republic, Spain, Sweden, Turkey

AECM 2005

AECM ACTIVITIES

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1. Service to members

- Information (AECM Flash News, studies…)
- Seminars (2007: Athens 14, 15 June 2007)
- Technical issues and problem solving
- Club
- Dissemination

2. EU lobbies

- MULTIANNUAL PROGRAMME 2007-2013
- EIF GUARANTEE WINDOW in CIP
- STRUCTURAL FUNDS AND JEREMIE
- BASEL 2 and European Capital Requirement Directive)
- COMPETITION AND STATE AIDS : 2006- 2007
- EU Assistance Programme to Guarantee Schemes in new countries.

AECM Scoreboard 2004.

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DATA IN € MILLION.

- **Equity and responsible own funds : 4.062**
- **Outstanding Guarantee Portfolio : 38.968**
- **Underlying Loans portfolio : +/- 55.000**
- **Guarantees issued in 2004 : 15.618**

EU SCHEMES COMMON FEATURES

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According to the Douette- Pombo definition…

*The European guarantee activity is based on a broad national **consensus** between authorities, SME lenders and borrowers.*

*It is exercised by **specialised institutions** . CGO's are a part of the financial industry, subject to **legal regulation and financial supervision** which creates the conditions of their sustainability and trust with lending partners.*

*Working in a global economy, **respecting competition and market rules,** they propose a better access to credit for sustainable projects of viable SMEs in the private sector.*

EU SCHEMES COMMON FEATURES

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*Guarantee schemes are formed of a **mix of private and / or public initiatives** and tend to involve entrepreneurs directly or indirectly in the shareholding, decision and management (mutuality).*

***Public support** provides equity and protection in order to reach higher leverage and efficiency.*

*A special feature is the existence of **national counter-guarantees and of a platform of supra-national counter-guarantee** organised and funded by the EU Commission and managed by the European Investment Fund.*

EU SCHEMES
GUARANTEE SCHEMES TYPES

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Generally speaking, apart from other governmental programmes, there are:

GUARANTEE FUNDS

- Initiative taken by Public Authorities (State, Region..)
- Mainly public shareholding
- Directory Board elected with public prevalence
- Mission of SME support.
- Solvency : scheme's respon-sibility with public umbrella.
- Administration or Ltd Cy
- Other goals : subsidies…

MUTUAL GUARANTEES

- Initiative from SMEs and representative organisations
- Mainly private shareholding
- Directory Board composed of SMEs, bankers,
- Mutuality principles
- Self protected solvency, with public support
- Coop. Ltd Cy or Ltd Cy.
- Other missions : no

GUARANTEE SOCIETIES: A MARKET DRIVEN APPROACH TO SME FINANCE

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- Focuses on reducing the risks and transaction costs associated with lending to SMEs
  - → Risk sharing techniques
  - → Limited fee associated to a non-profit function
  - → Accompaniement and follow-up of the business

- Strengthens the capacity of financial institutions to serve smaller clients, promotes sustainable lending to SMEs
  - → Learning process : what is a SME? how is it managed?
  - → Less bureaucratic procedures, simplified credit file, easier decision making, accessible language…

A MARKET DRIVEN APPROACH TO SME FINANCE

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- Serve specific target groups:
  - → Always: viable SMEs and sustainable projects
  - → SMEs lacking adequate collaterals
  - → SMEs without reliable track records (start-ups, "frog jumps" linked with technology, markets or simply fast growth)

- Serve different financial needs:
  - → Investment: term loans, micro-credits
  - → Working capital and liquidity: current accounts, …
  - → Technical guarantees (performance bonds, guarantee to bank guarantees…)

MANAGEMENT PARAMETERS

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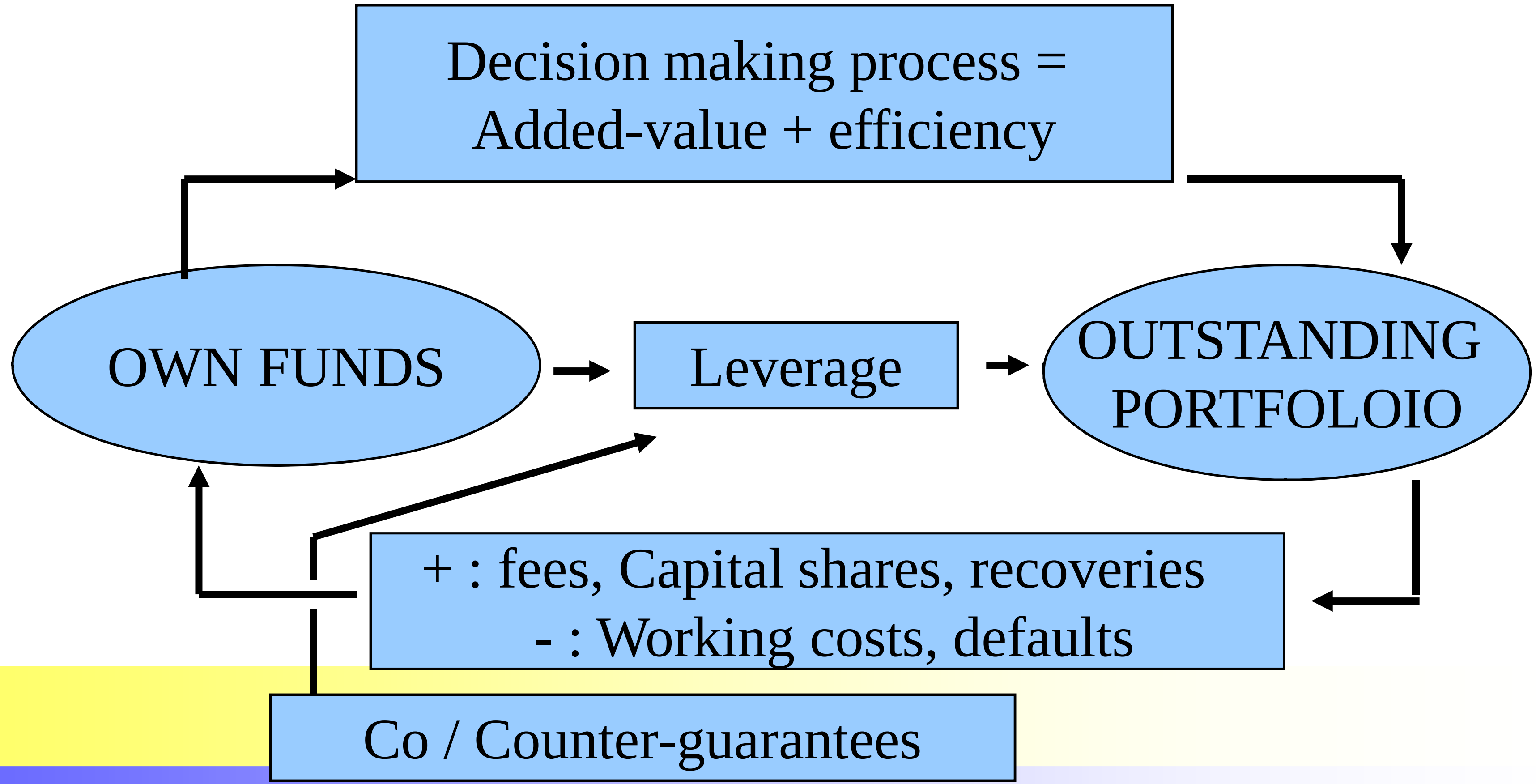


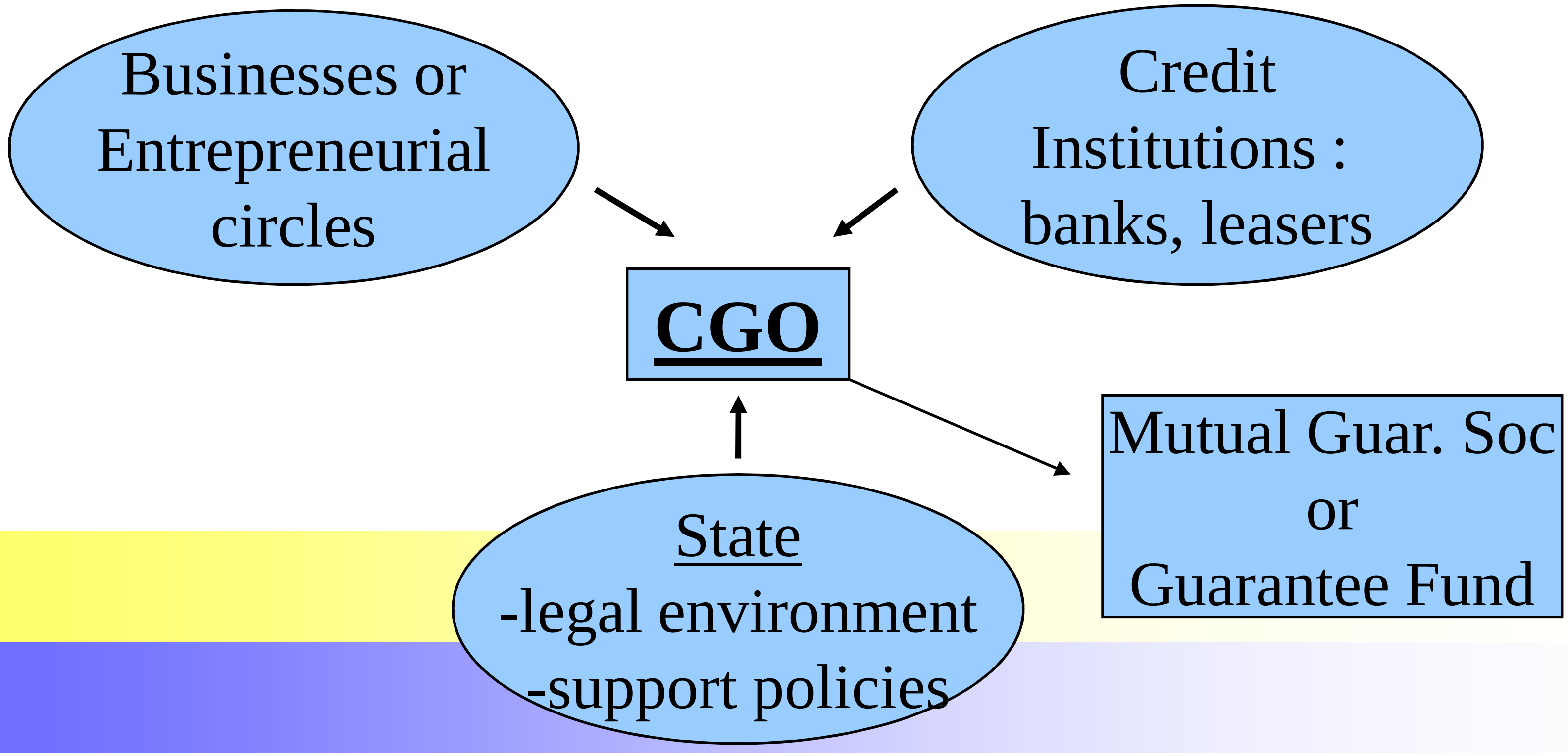
ASSETS OF A GUARANTEE SOCIETY

Position in the finance chain: midway to

→ Lenders: credit risks protection + own funds mitigation

→ SMEs : more credit and better credit conditions

→ State: help achieving virtuous macro objectives



ASSETS OF A GUARANTEE SOCIETY

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- **Flexibility**:

  → Modulated risk coverage (50 to 100%); duration…

  Examples:

  Germany, Hungary, Czech Rep: 80% of the loan

  Italy: fifty- fifty with lender / 10 years

  Belgium, Estonia: 75% / 10 years

  SIAGI France: 40%...

  → Less sensible to a down turn of the economic cycle

  Example: in the 2001- 2002 economic crisis, outstanding of Guarantee schemes continued an up trend.

  → Adaptable to legal situations and banking cultures

ASSETS OF A GUARANTEE SOCIETY

Revolving character (annual rate of portfolio gearing: 20 to 50% according to preference to short / long term loans)

Leverage (ratio: Outstanding guarantees to Own Funds): On average 6 to 7 times, meaning that 1 EUR own funds can lever 6 EUR of guarantees, 10 EUR of loans and 15 EUR of underlying investment.

Examples:

France Socama- France: 20x but liaison with Banques Pop.

Germany Bürgschaftsbanken: 7x in real terms

Italian Confidis: 5 to 7 times.

Hitelgarancia Hungary: 7 x

ASSETS OF A GUARANTEE SOCIETY

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Guarantee fee:

- purpose of risk coverage after considering other supports like a counter-guarantee
- not for profit schemes: earnings go to equity strenghtening
- Modular:
  - Fixed fees, variable fees, profit oriented fee,
  - Paid annually or up-front,
  - Depending on duration, risks, position of the business in the life-cycle curve…

(average 1,2 p.a. // range: 1 to 3% p.a.)

ASSETS OF A GUARANTEE SOCIETY

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- **Added value:**

  The idea is not to make twice the job of the banker: looking into financial hard facts (solvency, working capital, profitability…) but, though considering them, to put the focus on:

  •Proximity with SMEs: ability to understand their projects

  •Specific decision criteria: space to personal elements and soft facts reduces information asymetry and adverse selection.

  •Specific to Mutual Schemes: the decision by peers.

ASSETS OF A GUARANTEE SOCIETY

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A strong contract with a qualified guarantee instrument giving rise to possible mitigation effect.

Direct protection with recognition of State counter-guarantee

Explicit and explicitely documented : clear and uncontrovertible contract

Enforceable under all relevant juridictions

Defaults payable on a timely manner , but recognition of “loss sharing systems”

Unconditional but G.S conditions acceptable if they are under the lender’s control

Covering all types of payments of the main obligor BUT claim for recognition of principal only guarantees

Bank may pursue the guarantor instead of obligor

ASSETS OF A GUARANTEE SOCIETY

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Risk sharing:

The main debtor remains liable for the full amount of its commitments to a lender. The guarantor receives a protection on behalf of a second level of protection

Effects

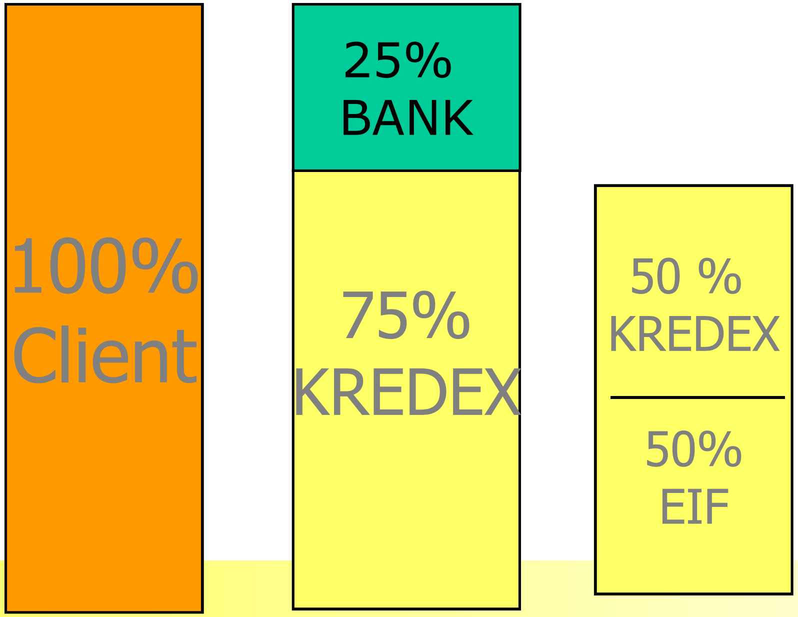
- On risk taking: Upwards risk sharing mechanisms are an incentive to take sharper risks : more additionality
- On the leverage: a counter-guarantee of 50% allows to double the outstanding commitments… or
- On the capital adequacy: a counter-guarantee of 50% allows a two-fold smaller capitalisation

COUNTER-GUARANTEE EXAMPLES

- ESTONIA : contract of 22,2 m Euro.

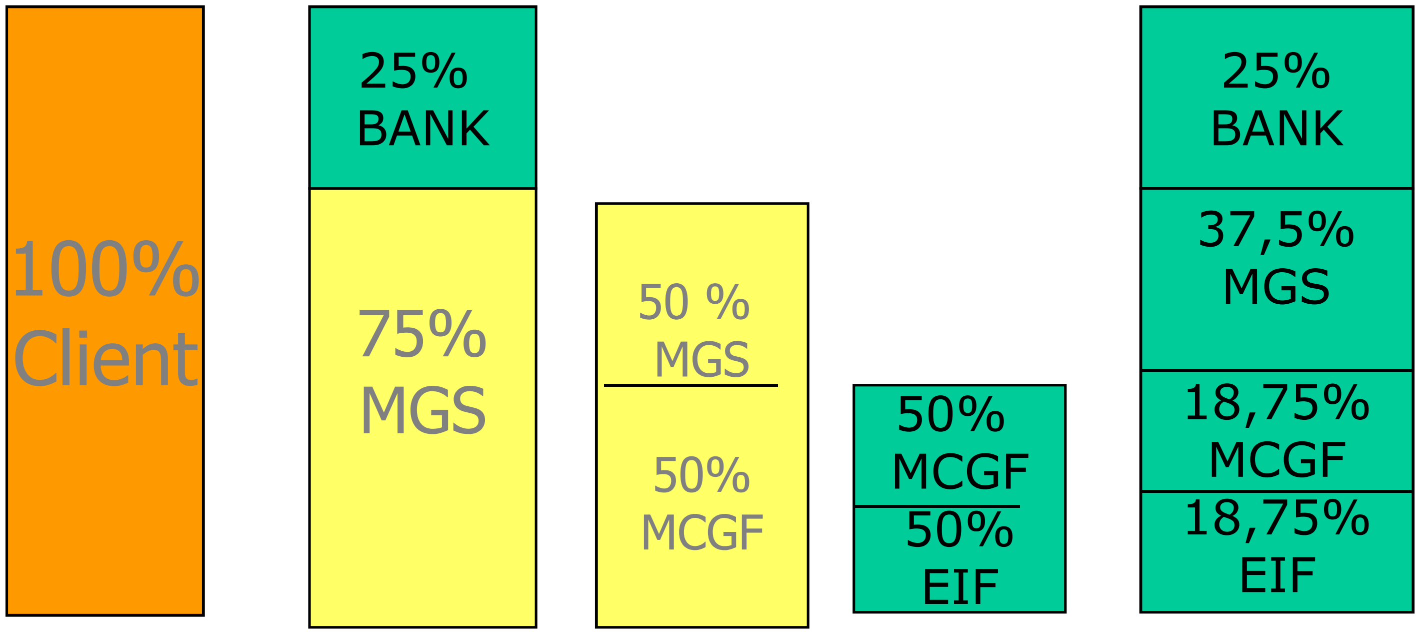
-individual guarantee: 900.000 Euro instead of 450.000

-guarantee duration extended to 10 years



COUNTER-GUARANTEE EXAMPLES

- PORTUGAL



COUNTER-GUARANTEE EXAMPLES

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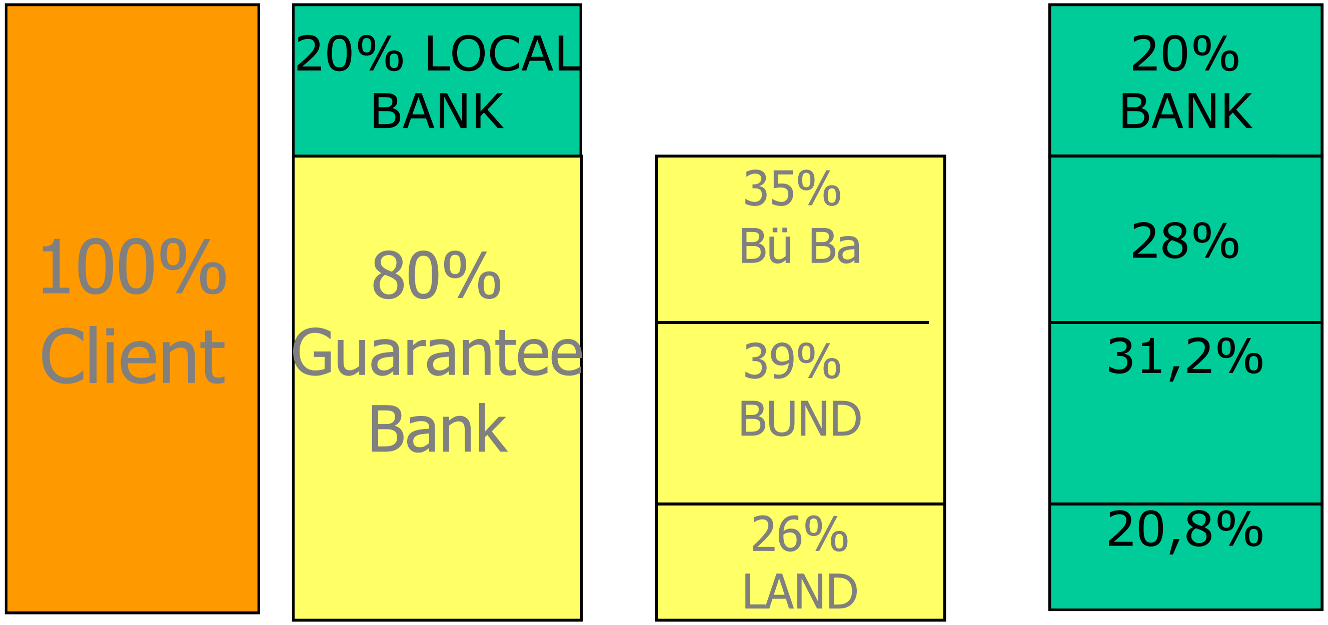
- GERMANY



EFFECTS OF THE GUARANTEE PERFORMANCE INDICATORS

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- Market relevance ***= Capacity of the instrument to fill / reduce market gaps in SME lending***
- Economic additionally ***Macro-economic benefits of an efficient Credit Guarantee Organization well integrated in the finance chain***
- Financial additionally ***Access to credit for applicants that would otherwise be rejected*** *(+/- 15% credit rejections in EU)* ***+ Access to better credit terms***

EFFECTS OF THE GUARANTEE PERFORMANCE INDICATORS

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- Leverage ***= Capacity to develop a much larger portfolio of commitments than the own funds at the disposal of the G.S.***

- Cost / Effectiveness ***= A function of the difference between default cost and guarantee premium in a given supportive environment***

- Efficiency ***= Productivity, quality of the service, of the management***

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THANK YOU FOR YOUR ATTENTION

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