

## The Role of Guarantee Schemes in access to finance for SMEs

Presentation by

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### AECM Background

- Founded in 1992
- Open, democratic, independent Association
- Statute : international non-profit association
- Based in Brussels

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### Mission of AECM and its Members

- AECM:
  - Represents Members' interest
  - Platform for exchange of best practices
  - Promote guarantee instrument
  - Participates as representative of the industry at the high level discussions of main issues regarding SME financing and the role of guarantees
- Member organisations:
  - Ensure access to finance for economically sound SME through guarantees
  - Non-profit orientation

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### AECM Background

**34 active schemes in 18 countries**

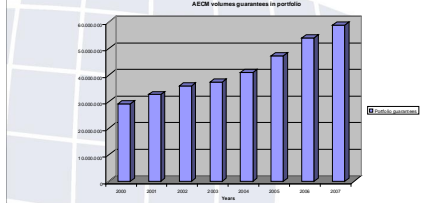
*Key figures (31.12.2006, in €1.000.000)*

- Own Funds € 5.254
- Guarantees issued in 2005 € 23.982
- Outstanding commitments € 54.058
- Leverage Cap / commitments > 10 x
- SMEs beneficiaries > 2,5 Million

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### Evolution of guarantee business

2006: Portfolio progression by € 6,84 billion to 54 billion (+14,5%)



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### Strengths of Guarantee schemes I

Great diversity of guarantee schemes, but some typical features:

- Broad national consensus between national authorities, SME lenders and borrowers
- Financial supervision => Trust and sustainability vis a vis lending partners
- Knowledge of SME customer, proximity relationship, SME involvement in management
- Specialization in guarantee business
- Focus on SME access to financing and service to client SME

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## Strengths of Guarantee schemes II

- Counter-guarantee element (reg., nat., EIF)
  - Individual risk assessment and follow-up
  - Leverage effect of regulatory own funds
- A leverage effect of 10 x €1 with e.g. a 50% coverage allows:
- € 10 of guarantees
  - € 20 of bank loans
  - even higher amount of final investment

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## Typologies of Guarantee schemes

General:

- Great variety of different legal and operational frameworks for guarantee schemes => Reflection of local needs. Three main models:
  - Mutual, fully private sector, guarantee scheme
  - Mixed model of with private mutual guarantee and public counter-guarantee (a sort of PPP)
  - Public guarantee scheme or fund

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## Typologies of Guarantee schemes

Main differences between public and private schemes:

PUBLIC GUARANTEE SOCIETIES	PRIVATE GUARANTEE SOCIETIES
<ul style="list-style-type: none"> <li>• Initiative taken by Public Authorities (State, Region...)</li> <li>• Mainly public shareholding</li> <li>• Directory Board elected or nominated by state authorities</li> <li>• Mission: SME support</li> <li>• Solvency: responsibility through funds + public umbrella</li> <li>• Ltd company with majority from state or endowment</li> <li>• Other goal: subsidies</li> </ul>	<ul style="list-style-type: none"> <li>• Initiative from SMEs and representative organizations</li> <li>• Mainly private shareholding</li> <li>• Directory Board composed of SMEs, bankers, ...</li> <li>• Mutuality principles</li> <li>• Mission: member SME support</li> <li>• Self protected solvency + public support (normally) through counter-guarantee</li> <li>• Cooperative or Ltd Company.</li> <li>• Other goal: no</li> </ul>

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## Example of Guarantee schemes I

Mutual Guarantee Society: SOCAMA, France:

- **Mission:** Guarantees to member SME (mutual)
- **Ownership:** Beneficiary Enterprises (250 000)
- **Statutes:** Cooperative Co. with limited liability
- **Board:** 14 entrepreneurs + 1 Banker (Banque Populaire)
- **Control:** Auditor + Banque de France supervisor
- **Solvency and default coverage:** Own Funds + Risk Provisions + 50% EIF Counter-guarantee (with cap rate) in 1/3 of the operations
- **Guarantee rate:** 80 – 100 %

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## Example of Guarantee schemes I

Mutual Guarantee Society: SOCAMA, France:

- <b>Number of beneficiaries:</b>	250.000
- <b>Number of guarantees issued last period</b>	~ 34 800 p.a.
- <b>Total guarantee portfolio:</b>	€ 2,06 bn
- <b>Guarantees issued last period:</b>	€ 920 mn
- <b>Equity:</b>	€ 77 mn
- <b>Leverage:</b>	26.8 x Equity

(2006 figures)

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## Example of Guarantee schemes II

Mutual Guarantee Society: Confidi, Italy:

- **Mission:** Guarantees to SME member of the Confidi (mutual)
- **Ownership:** Beneficiary Enterprises (> 1.000.000)
- **Statutes:** Cooperative Co. with limited liability
- **Board:** Confidi Management
- **Control:** Auditor + Bank supervisor
- **Solvency and default coverage:** Own Funds + Risk Provisions + 50% EIF Counter-guarantee (with cap rate) in part of the total operations
- **Guarantee rate:** up to 80 %

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### Example of Guarantee schemes II

Mutual Guarantee Society: Confidi, Italy:

- **Number of beneficiaries:** > 1.000.000
- **Number of guarantees issued last period:** > 1.000.000 p.a.
- **Total guarantee portfolio:** € 22 bn
- **Guarantees issued last period:** € 11,1 bn
- **Equity:** € 2,18 bn
- **Leverage:** 11 x Equity

(2006 figures)

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### Example of Guarantee schemes III

PPP Guarantee Society: SPGM/SGM, Portugal:

- **Mission:** Guarantees to member SME (mutual) + advisory
- **Ownership:** mutual SME (majority) + SPGM (public manager of the counter-guarantee) + Banks
- **Statutes:** Legislation SGM, Bank Act, Ltd companies
- **Board:** Mixed board with Independent Experts + SME delegates + Banks + State SME Agencies
- **Control:** Auditors + Portuguese Central Bank supervisor
- **Solvency and default coverage:** Own Funds + Risk Provisions + average 65% Counter-guarantee from public FOGM (this getting 50% EIF Counter-guarantee in approximately 2/3 of the operations)
- **Guarantee rate:** up to 80%

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### Example of Guarantee schemes III

PPP Guarantee Society: SPGM/SGM, Portugal:

- **Number beneficiaries:** 2.500 companies
- **Number of guarantees issued last period:** 2.000
- **Total Guarantee portfolio:** € 350 mn
- **Guarantees issued last period:** € 250 mn
- **Equity:** € 24 mn Equity + € 124 mn counter-guarantee fund
- **Leverage:** 15 x Equity (or 2,4 x own funds + counter-guarantee fund)

(2006 figures)

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### Example of Guarantee schemes IV

Public Guarantee Society: Invega, Lithuania:

- **Mission:** Loan Guarantee + subsidies to SMEs
- **Ownership:** Lithuanian State
- **Statutes:** Ltd Company, 100% public
- **Board:** Committee with 3 Government representatives + 2 independent experts
- **Control:** Auditor + Ministry Economy
- **Solvency and default coverage:** Own funds + Risk Provisions + EIF Counter-guarantee (+ State protection against insolvency)
- **Guarantee rate:** Up to 50%

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### Example of Guarantee schemes IV

Public Guarantee Society: Invega, Lithuania:

- **Number guarantees issued:** 368
- **Total guarantee portfolio:** € 50 mn
- **Guarantees issued last period:** € 38 mn
- **Equity:** € 6,3 mn
- **Leverage:** 8 x Equity

(2006 figures)

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