



The Role of Guarantee Schemes in access to finance for SMEs

Presentation by

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Why guarantees ?

- SMEs are key actors in the EU economy:
 - They represent an important part of employment and GDP and are generally important for maintaining the economic and social fabric throughout the territory.
- Credit finance is important to SMEs in the EU, as they:
 - have no or little access to venture capital, mezzanine capital, bond issues, etc.
 - Have weak own funds positions => limited capability to auto-finance investment or working capital needs
 - Rely predominantly on loan finance
 - Usually have a relative lack of bankable collateral
- Due to the relative lack of collateral, loan finance is more difficult to obtain than for larger companies

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Why guarantees ?

- Guarantee schemes facilitate access to finance by providing credit default guarantees for SMEs that :
 - Are economically healthy
 - Have an economically meaningful project but at the same time do not :
 - Dispose of sufficient collateral to access bank credit
- Guarantee schemes' philosophy:
 - "Help for self-help" principle

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What types of Guarantee schemes exist?

Great variety of different legal and operational frameworks for guarantee schemes => Reflection of local needs. Three main models:

- Private guarantee societies:
 - Full mutual guarantee societies (e.g. France, Spain, Italy)
 - Sectoral or multi-sector guarantee societies
 - Both usually rely either on:
 - » a public counter-guarantee
 - » direct public funding for the own funds
- Public guarantee institutions:
 - Funds, development banks, etc.
- Mixed models (PPP, e.g. Portugal)

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What Guarantee products are offered ?

- Generally: Credit default guarantees for SMEs:
 - Guarantee issued on behalf of SME to bank to substitute missing collateral
 - Offered for all stages of SME life-cycle (Start-up – Transfer)
- But also other types of guarantee products offered by some Guarantee schemes:
 - Guarantees for:
 - Micro loans, leasing, factoring, mezzanine finance, risk capital, internationalization, projects, EU funding, etc.

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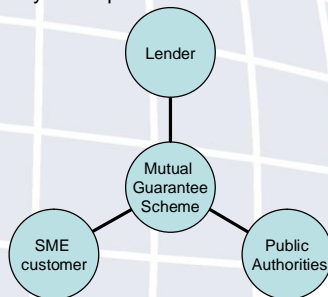
How to apply ?

- Usually: Contact through bank is distribution channel for guarantee:
 - SME customer submits loan application to bank
 - Bank, in absence of guarantee for an interesting project submits demand for guarantee in name of SME at the guarantee scheme
 - Guarantee scheme performs own (qualitative) analysis and upon positive decision, issues guarantee to bank on behalf of SME customer
 - In case of default, GS pays out amount of loan covered by guarantee (usually between 50 – 80% to lender)
- Other application processes / distribution channels exist:
 - Direct guarantee – the SME contacts directly the guarantee Society – typical in mutual schemes
 - Portfolio guarantee – Guarantee entity delegates all the analysis and distribution to the banks and cover just a percentage of final losses from a certain portfolio of loans previously agreed

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Added value of Guarantee schemes

- Unique intermediary function between SMEs, lenders and Public authorities, based on consensus, added value and shared responsibility for all parties involved:



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Added value of Guarantee schemes

Advantages to banks:

- Reduction of bank's risk exposure, improvement of credit quality
- Build-up of SME-Retail portfolio
- Financial supervision of MGS => Trust and sustainability vis-a-vis lending partners
- MGS provides specific sector knowledge of SME customer in addition to traditional B/S analysis
- Specialization in guarantee business
- Mitigation effect on risk-asset ratio, thus reduction on capital consumption by the banks (depending of the qualification of the guarantee scheme)
- High level of liquidity of guarantee in contrast to other types of collateral (most of the times guarantees are first demand)

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Added value of Guarantee schemes

Advantages to SMEs:

- Access to finance for economically sound projects
- Recognition of qualitative factors in MGS risk analysis
- Support services and third party analysis by sector analysis of business plan and model
- Non-profit orientation of Guarantee scheme
- Intermediary function of Scheme towards lender
- In mutual schemes, participation in management of scheme

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Added value of Guarantee schemes

Advantages to Public authorities :

- Individual risk assessment and follow-up
 - Financial intermediary for public policies:
 - Counter-guarantee element (reg., nat., EIF-CIP)
- => Cost effective leverage effect of MGS' regulatory own funds:

Example:

Leverage effect of 10 x €1 with e.g. a 50% coverage :

- €10 of guarantees
- €20 of bank loans
- even higher amount of final investment

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Some figures

34 active schemes in 18 countries

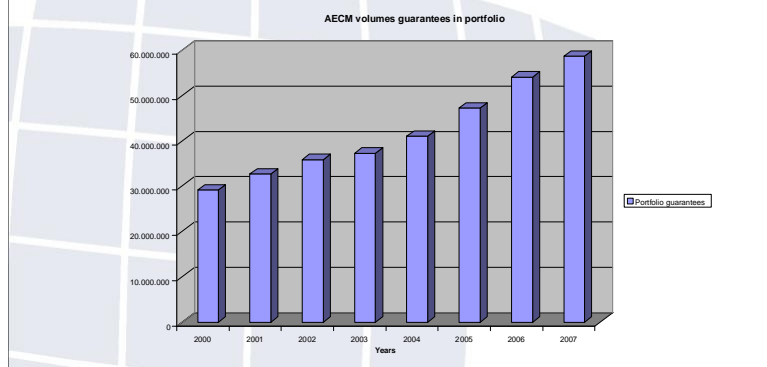
AECM Key figures (31.12.2008, in €1.000.000)

– Own Funds	€ 6.154
– Guarantees issued in 2007	€ 23.601
– Outstanding commitments	€ 57.418
Leverage Cap / commitments	> 10 x
– SMEs beneficiaries	> 2 Million

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Strong market demand for guarantees

2000 - 2007: Portfolio growth by 89,8 %



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Impact of current crisis and guarantees

SME financial situation:

SMEs are impacted in various ways:

- Banks need to manage balance sheets and increase regulatory capital positions => risk of credit rationing
- Increase of payment delays => risk default of otherwise healthy SMEs
- SMEs are affected as suppliers to large companies, particularly in problem sectors (automotive and building)
- Especially retail and exporting companies struggle with falling demand

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Impact of current crisis and guarantees

Access to finance situation:

Contrasted picture according to MS:

- Intensity of crisis impact very different from country to country, particularly severe in e. g. Hungary, Latvia, Estonia, Spain
- **Supply:** More difficult access to finance for SMEs (credit conditions tightened, more selective credit policy according to creditworthiness, reduction or cancellation of credit lines)
- **Demand:** Decreasing demand for investment loans, increasing demand for working capital loans

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Impact of current crisis and guarantees

Access to finance situation:

Policy consideration:

- Micro economic level: Prevent failure of otherwise healthy SMEs due to economic domino effect;
- Macro-economic level: Large-scale failure of SMEs should be avoided to safeguard industrial tissue and acceptable levels of employment;

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Impact of current crisis and guarantees

Activities by public authorities to boost guarantee activity:

- EU level:
 - Temporary state aid framework: temporary relaxation of state aid rules to respond to crisis situation (higher guarantee coverage, possibility for subsidized guarantee premiums, etc.)
 - Competitiveness and Innovation Framework Programme (CIP): Counterguarantees managed by European Investment Fund on behalf of the European Commission

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Impact of current crisis and guarantees

Activities by public authorities to boost guarantee activity:

- Member State level:
 - Use of national funding and Structural Funds to support guarantee activity
 - Increase of Guarantee schemes' own funds
 - Counter-guarantee:
 - » Creation of new counter-guarantee funds
 - » Existing counter-guarantee funds: increase of volume, of coverage rate and / or sector coverage

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Impact of current crisis and guarantees

Concrete actions by guarantee societies:

- a) Adaptation of existing guarantee supply:
 - Increase of coverage rates
 - Decrease of guarantee premiums and fees
 - process simplifications
 - New guarantee products that respond to the crisis, e.g. for working capital loans (often based on Temporary framework and therefore limited until end 2010)

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Impact of current crisis and guarantees

Concrete actions by guarantee societies:

b) Provision of other non-guarantee products and services (often linked to a guarantee product):

- Micro-credit
- Mezzanine finance
- Loans with preferential interest rates
- etc.

c) Mediation services

- The guarantee societies in some cases take an active role in mediating between the banks and the SME customer to reschedule the debt and find other solutions

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