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Support to an Enabling Business Environment for MSMEs Development & Financial Inclusion

Discussion Paper on

REGIONAL GUARANTEE & COUNTER-GUARANTEE PRACTICES

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GLOSSARY OF TERMS AND ABREVIATIONS

AECM	European Association of Guarantee Institutions
ALIDE	Latin American Association of Development Financing Institutions
ALIGA	Latin American Association of Guarantee Institutions
AIP	African Investment Platform
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CESEE	Central Eastern and South Eastern Europe
CABEI	Central American Bank for Economic Integration
CAC	Conditional Automatic Cover
CBC	Case by Case
CCG Morocco	Caisse Centrale de garantie / Central Guarantee fund
CERSA	Spanish Company of Reinforcement
CESGAR	Confederation of Spanish Mutual Guarantee Societies,
CGC Egypt	Credit Guarantee Company
CGM	Counter-Guarantee Mechanism
CGSs	Credit Guarantee Schemes
CIP	Competitiveness and Innovation Framework Program (successor of the MAP)
COSME	Competitiveness of Small and Medium-Sized Enterprises
CRII	Coronavirus Response Investment Initiative
DG near	Directorate-General for Neighborhood and Enlargement Negotiations
EC	European Commission
EDF	European Development Fund
EEA	European Economic area
EFSD	European Fund for sustainable development
EFSI	European Fund for Strategic Investments
EFTA countries	Iceland, Liechtenstein, Norway and Switzerland
EIB	European Investment Bank
EIF	European Investment Fund
EIP	EU's External Investment Plan
ELTI	European Long-Term Investors Association
EMGN	Euro-Mediterranean Guarantee Network
EMNES	Euro-Mediterranean Network for Economic Studies
FLAG	Latin American Guarantee Fund
GAGF	The Greater Anatolia Guarantee Facility
GNGI	Global Network of Guarantee Institutions
GSs	Guarantee Schemes
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Money Fund
IIW	Innovative Infrastructure Window
JEREMIE	Joint European Resources for Micro to Medium Enterprises- 2013-2019
JLGC	Jordan Loan Guarantee Corporation
KAFALAT Lebanon	Guarantees for loans to SMEs
KGF	Credit Guarantee Fund
LAC	Latin America and the Caribbean
MAP	Multiannual Programme (EU)

MDB	Multilateral Development Banks
MERCOSUR	Southern Common Market Argentina, Brazil, Paraguay and Uruguay, Venezuela and Bolivia (the latter still complying with the accession procedure)
MFIs	Microfinance Institutions
MSMEs	Micro, Small and Medium Enterprises
NCPs	National Contact points
NEFI	Network of European Financial Institutions for Small and Medium Sized
NGCs	National Guarantee Corporations
NIP	Neighborhood Investment Platform
NKE	Non-key expert
NLGFSME	National Loan Guarantee Fund for SMEs
NPL	Non-performing Loan
OECD	Organization for Economic Co-operation and Development
PCG	Partial Credit Guarantee
PFIs	Public financial institutions
RCGM	Regional Counter-guarantees Mechanism
SBA	Small Business Act
SBACs	Small Business Act Coordinators
SDG	Sustainable Development goals
SEF	Slovene Enterprise Fund
SEM	Southern and Eastern Mediterranean
SELA	Latin American and Caribbean Economic System
SGR	European Foreign Policy Observatory
SMEs	Small and Medium Enterprises
SMEG	SME Guarantee
SNKE	Small and Medium Enterprises Window
SOTUGAR	Societe Tunisienne de garantie

1. EXECUTIVE SUMMARY

The main objective of this discussion paper is to develop the basis for a dialogue on the creation of a (RCGM) Regional Counter-guarantees Mechanism for the South Med countries that could accompany the development of NGCs towards more impact financing by facilitating the management of risks at a controlled cost.

This can be summarized by the following questioning:

- *Is there a room to **increase the role of national guarantee companies in fostering social and economic development** driven by greater financial inclusion and the development of impact financing?*
- *If yes, **could a counter-guarantee mechanism accompany the development of such activities** by offsetting part of the additional risk taken by national guarantee institutions to generate these socio-economic developmental objectives?*
- *And, if yes, what could be the **governance, business model, financial and operational settings** of such a mechanism to be of interest for the national guarantee companies?*

ROLE OF SMEs IN REGIONAL DEVELOPMENT & THEIR IMPACT ON THE INTEGRATON OF THE SOUTH MEDITERRANEAN COUNTRIES INTO THE GLOBAL ECONOMY

MSMEs lay at at the core of the resilience of our economies and are key drivers of future (post-COVID) rebound, inclusive growth and job creation. MSMEs have proven to play a significant role in regional development. They are essential drivers of job creation and inclusive economic growth worldwide, notably in the Mediterranean, North Africa and Middle East Region, where they represent the vast majority of firms, account for between half to three quarters of total employment and contribute substantially to innovation and value creation and social cohesion.

Assisting MSMEs to take the train of transformation. Beyond the pandemic that is reshaping global value chains, the knowledge economy, big data, artificial intelligence and disintermediated business models are accelerating the transformation of the structure of the world economy. Keeping MSMEs aboard is a must; and improving the business environment for MSMEs is the way. In response, the EU adopted in March 2020 the "SME Strategy for a sustainable and digital Europe". EU partner countries of the South Neighbourhood also embarked on policy and regulatory reforms coupled with the launching of new programmes that can pave the way for more competitiveness and inclusiveness based on reinvigorated national dialogue.

But multilayered challenges remain to be addressed to have SMEs contributing their share fully to the socio-economic development of the South Neighborhood. The business enabling environment remains insufficiently conducive to entrepreneurship and growth of existing companies, starting

with access to finance that is a stumbling block impeding enterprise growth.

CONTRIBUTING TO THE ECONOMIC RECOVERY IN THE SOUTH MEDITERRANEAN COUNTRIES IN THE POST-COVID 19 ERA

MSMEs are undoubtedly the enterprise population that is the most affected by the COVID-19 crisis. The market does not always guarantee an efficient credit to SMEs, especially since the outbreak of the COVID 19 pandemic that threatens already-fragile economies starting with the most fragile segment of the population, particularly women and young.

The European Union, acting as 'Team Europe', is taking comprehensive action to tackle the impact of the COVID-19 by mobilizing more than €15.6 billion, notably for **providing guarantee and liquidity provisions to local banks** via International Financial Institutions and European Development Finance Institutions, supported by the European Fund for Sustainable Development in some of the Neighborhood countries (including Jordan and Tunisia). These initiatives create the momentum to further foster the exchange of North-South Practices and discuss how South Med National Guarantee Companies (NGCs), that have been heavily solicited as part of the COVID-response plans, can be further supported to contribute to the economic recovery.

The MED MSMEs Programme intends to share EU practices as regards SME finance guarantees to nurture the dialogue in close **cooperation with the Euro-Mediterranean Guarantee Network (EMGN)** that established a working group currently mapping out practices in the South Med countries, notably as COVID responses.1

LESSONS FROM SOME GUARANTEE AND COUNTER-GUARANTEE SCHEMES

This discussion paper presents a **mapping of the various (GS) guarantee schemes** and the **counter-guarantee mechanisms** (CGM) implemented worldwide in order to evaluate their positive impact on the regional economic growth. This exercise aims to provide lessons from previous experiences; thus, the current discussion paper will undertake holistic analyses highlighting the policy, regulation, instruments, institutional dimensions, impact and sustainability of existing initiatives.

Then the paper discusses the **benefits that could expected from a counter-guarantee mechanism** supporting NGCs, including greater access to credit by the SMEs, improvement in the credit terms (interest rates, periods and amounts in all its segments, etc.), better addressing the needs of underserved populations (e.g. women, youth, entrepreneurs) and development of social and green impact projects. The NGCs could also benefit from an accelerated expansion of their portfolio, an accompaniment to include new guarantee products, a center of expertise generating economies of scale, peer-to-peer exchange of information and practices, thus, their role would be strengthened.

This type of mechanism could encourage the development of **new guarantee windows** in the countries of operation and, at the same time, strengthen existing systems through the partial reinsurance of their commitments. Such an instrument, which does not yet exist in the EU South Neighborhood, is likely to enhance the intervention capacities of the NGCs and their capacities to address post-COVID19 issues.

[1] *Support to an enabling business environment for MSME development and financial inclusion– MED MSMEs Programme - Contract 2018/401284, Terms of Reference*

It would allow the beneficiary countries to align themselves with internationally recognized good practice, responding to the needs of their SME population, and converging towards a common set of objectives outlined at the regional level.

Bottom line, the **CGSs experiences in Europe has provided conclusive evidence** of their effectiveness and positive effects on national and regional development. Thus, the establishment of a Regional Guarantee Facility that would counter-guarantee the South Med NGCs could be useful, moreover since the outbreak of the COVID 19 pandemic.

A North-South and South-South dialogue would help implement best practices through the sharing of experiences and procedures.

A FLEXIBLE COUNTERGUARANTEE MECHASNIM COULD ACCOMPANY CGCs

In most of the South Mediterranean countries, private and/or public guarantee institutions also face difficulties in expanding their portfolio and/or increasing their coverage, as well as meeting the need for **alternative financial products**, due to the increase in solvency and liquidity risk. This issue has become even more acute since the emergence of COVID-19.

A regional counter-guarantee instrument aiming at securing the various stakeholders and allowing more financing resources channeled towards more "impact" investments, could therefore be **additional**, provided that the NGCs confirm their will to go the "extra mile" and providing that the variety of existing models is taken into consideration when designing services.

The variety of existing models and instruments generate a variety of risk management situations and capital or risk management needs Depending on the GS policy and covenants, the target groups and the type of services offered, the need for support from a counter-guarantee mechanism may vary.

The **counter-guarantee model should be flexible** or wide enough to accommodate the variety of needs and in order to add value, should assist GS to "go the extra mile" and accompany the transformation of its business model, e.g. by covering risks that are not satisfactorily counter-guaranteed by the local ecosystem (e.g. GS shareholders, Central Bank).

BEYOND THE PROVISION OF CAPITAL

A counter guarantee mechanism tasked to accompany the evolution of GSs can provide, beyond risk management solutions, other type of support services like: the adaptation of the risk management framework, organizational change, staff training, etc.

This requires **various types of resources** that will be mobilized based on the counter-guarantee fund policy, that can be based on an increase of volume, the development of side products complementary to the existing portfolio or the launching of radically different service line. An illustrative example is the assistance that is sometimes provided by guarantee funds assisting MFIs to graduate from Tier 2 to tier 1.

CONCLUSION: ALTERNATIVE FINANCE SECTOR OF PARTICULAR INTEREST

When designing a counter-guarantee mechanisms (CGM), all the above dimensions could be valuably discussed with the future clients of the CGM to see where the CGM can provide services that are additional to what the CGS can do with its own resources.

This is particularly valid as regards "impact" a dimension that requires to be effective to be mainstreamed into the GS policies, policies and organization, reporting and monitoring framework.

A CGM could encourage **CGCs going towards more "impact" financing guarantees** by providing the non-financial technical assistance required to address the challenges raised by these activities (e.g., extra guarantees for specific target groups, reduced or negative premium for specific target groups, assistance to the collection of data, assistance to banks to report on the "impact" KPIs).

The role of a CGM in the development of alternative / innovative financial products could be of particular interest as the CGM could develop a **centralized expertise platform** supporting national GSs to deal with very specific issues (thus generating economies of scale). For example, by guaranteeing using big data and social media instead of real collateral to make lending.

New types of **emerging financing models** are of particular interest for generating **impact**. But, while it is proven that the implementation of "alternative finance institutions" has been a real success for some products, notably leasing, securitization, factoring, credit insurance, start-ups etc…, the fact remains that, in the case of other products such as the crowdfunding platforms, peer-to-peer, business angels, capital-risk, etc… a comprehensive evaluation is required in order to assess their impact on the risk of the various stakeholders.

Due to the **newness of these instruments**, the regulatory framework in the making and the lack of track record, the level of risk can be perceived as higher than plain-vanilla SME lending. This maybe a reason why a counter-guarantee mechanism could **valuably focus on these new types of instruments**.

It should also be observed that, when it comes to the South Mediterranean countries, the Banks, the Guarantee Institutions, the SMEs and the public are not familiar with this kind of higher risk products. Consequently, it is essential to **raise their awareness** in order to be able to ensure economic growth.

2. INTRODUCTION

- **MSME financing: Still a daunting challenge**

Despite huge efforts deployed by governments and development partners over the last decades, the financing of enterprises remains a daunting challenge worldwide, especially for MSMEs in developing countries. The problem is not marginal: one estimates no less than 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending worldwide[2]. East Asia and Pacific accounts for the largest share (46%) of the total global finance gap in volume, followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%).

If these regions represent the bulk of the gap in volume, the Middle East and North Africa region holds the sad record of the highest proportion of finance gap[3], a gap that reaches 88%, followed by Latin America and the Caribbean at 87%. The smaller the enterprise, the greater the problem: if about half of formal SMEs don't have access to formal credit, the financing gap is much larger for micro and informal enterprises, which in turn raises the challenge of financial – hence social - exclusion of the most vulnerable segments of the enterprise fabric. [4]

- **SME Financing: a key pillar of the new EU SME Strategy**

In Europe also, SME financing remains one of the key concerns of policy makers. The 25 million Small and medium-sized enterprises (SMEs) are the backbone of Europe's economy. They represent 99% of all businesses in the EU. They employ around 100 million people, i.e. 2/3rd of the employment, account for more than half of Europe's GDP and play a key role in adding value in every sector of the economy[5].

In response to the challenge, the EU adopted in March 2020 a new "SME Strategy" that aims at "*Unleashing the full potential of European SMEs*" as drivers for sustainable growth, entrepreneurship, innovation and employment creation.

This strategy is focused on three key areas, namely 1) Sustainable and digital transition, 2) Doing business freely in the Single Market and beyond, notably by cutting red tapes, and 3) Better access to finance.

In Europe also, finance is acknowledged critical for facilitating the creation of new businesses and nurturing the innovation process as well as promoting the growth and development of existing businesses.[6] Let's note that this strategy is still relying on the MSME definition that provides a unified lens for policy makers (see box).

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[2] International Finance Corporation (IFC), 2018.

[3] Finance gap in % = (Financing extended minus potential demand) / potential demand.

[4] *SMALL AND MEDIUM ENTERPRISES (SMES) FINANCE*
Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital
https://www.worldbank.org/en/topic/smefinance

[5] EU_SMEs_strategy_en.pdf.pdf, March 2020.

[6] *Small and Medium-Sized Enterprises Financing A Review of Literature*
https://www.researchgate.net/publication/288075194_Small_and_Medium_Sized_Enterprises_Financing_A_Review_of_Literature

A unified lens for policy makers

"The abbreviation MSME (…) refers to the Community definition of micro-enterprises and small and medium-sized enterprises (SMEs) given in the Commission recommendation of 1996 with the changes that entered into force from 1 January 2005" and that can be summarized as follows:

Enterprise category	Headcount	Turnover	Or	Balance sheet total
Medium-sized	< 250	= EUR 50 million (1996: EUR 40 million)		= EUR 43 million (1996: EUR 27 million)
Small	< 50	= EUR 10 million (1996: EUR 7 million)		= EUR 10 million (1996: EUR 5 million)
Micro	< 10	= EUR 2 million (1996: not defined)		= EUR 2 million (1996: not defined)

Source: Guarantees and mutual guarantees, Best Reports, No 3 — 2006, European Commission

This unified definition, that allows the ecosystem to talk the same language and use the same metrics, is important to ensure a coordination of MSME support policies, regulations, risk exposure rules, tax incentives and direct support instruments.

It however doesn't impose itself to financial institutions that are sovereign to segment their clientele as they see fit. NB. Many of the South Med countries have adopted such a definition in recent year.

- **Boosting financing through guarantees**

Since the outbreak of the COVID19 pandemic in February 2020, Governments worldwide have placed guarantee funds at the centre of the COVID19 financing response, notably for the financing of SMEs[7].

The European Union adopted on March 30th the Corona Response Investment Initiative put forward by the Commission[8]. The initiative will mobilise EUR 37 billion to support investment through the outstanding amounts of structural funds that will be aimed at strengthening healthcare systems, financing short-time work schemes and local public services and supporting SMEs' liquidity within the European Union. This was followed by the adoption on April 22, 2020 by the Council of the European Union of the Coronavirus Response Investment Initiative Plus (CRII+[9]) that allows mobilisation of all structural fund reserves for 2020 to tackle the effects of the outbreak (including the possibility for farmers to obtain loans and guarantees of up to 200,000 euros).

With the EIB, the EU has put forward a first package[10] of EUR 28 to 40 billion designed to support the investment and liquidity needs of SMEs in Europe notably by the provision of further guarantees for SME and mid-caps to national promotional banks and non-banking financial institutions.

- **The EU support through guarantees in the Neighbourhood**

As regards neighbouring countries, the European Union, acting as 'Team Europe', is also taking comprehensive action to tackle the destructive impact of COVID-19 by mobilising more than €15.6 billion, notably for providing guarantee and liquidity provisions to local banks via International Finance Institutions and European Development Finance Institutions, supported by the European Fund for Sustainable Development in some of the Neighbourhood countries (including Jordan and Tunisia[11]).

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[7] www.oecd.org/coronavirus/policy-responses/coronavirus-COVID-19-sme-policy-responses-04440101/ - *Table 3 Overview of policy response.*

[8] https://ec.europa.eu/regional_policy/en/newsroom/news/2020/03/30-03-2020-coronavirus-response-investment-initiative-adopted

[9] https://eulawlive.com/coronavirus-response-investment-initiative-plus-adopted/

[10] https://www.eib.org/en/press/all/2020-086-eib-group-will-rapidly-mobilise-eur-40-billion-to-fight-crisis-caused-by-COVID-19

[11] https://ec.europa.eu/international-partnerships/system/files/eu-institutions-response-to-COVID.pdf - Note that the breakdown by country of NEAR response excluding guarantees and NEAR global funds and up to 27 April 2020 shows an allocation of EUR2.1 billion in the South Neighbourhood.

Such initiatives are aligned with the EU's External Investment Plan (EIP) adopted in September 2017 to help boost investment in Africa and the European Neighbourhood and notably the European Fund for Sustainable Development (EFSD). The Fund has been created to help achieve the sustainable development goals of the UN 2030 Agenda for Sustainable Development and to contribute to the implementation of the Paris Agreement on Climate Change. The EFSD was established in 201712 and comprises a blending and a dedicated financial guarantee, structured around five thematic investment windows (sustainable energy and connectivity; financing of MSMEs; sustainable agriculture, rural entrepreneurs and agroindustry; sustainable cities; digitalisation for sustainable development).

In 2018, 28 guarantee proposals were approved with International and European finance institutions (including 11 guarantee programmes for MSMEs and agriculture). Until June 2020, 7 guarantee agreements have been signed with International and European finance institutions. By the end of 2020, the EFSD guarantee is envisaged to reach a total volume of up to €1.5 billion and leverage an expected €44 billion, counter guarantee being among the intervention tools eligible.

- **Taking a look at guarantee schemes and counter-guarantee mechanisms**

In this context, the current discussion paper's aims to further assess the initiatives taken over the last years to address the situation of SMEs, focusing on 1) the overall evolution of the Credit Guarantee Schemes (GSs) on a global scale as mechanisms for improving access to finance for SMEs and 2) the counter-guarantee mechanisms (CGM) as a means to enhance impact of the Credit Guarantee Schemes notably in terms of regional economic growth, employment creation and inclusiveness.

Credit guarantee: a non-cash leveraged instrument

The guarantee is a financial commitment by the guarantee company to repay up to a certain percentage of the loan to the financial institution in case the SME customer doesn't honor its payments (usually 80% of the bank loan, leaving 20% of the risk with the lender). The SME remains liable for the loan repayment, the collection being subrogated to the guarantee company. The SME pays a once-off processing fee and an annual guarantee fee, variable depending on institutions.

The guarantee instrument is characterized by a high leverage effect (guarantee volume over own funds), resulting in a high volume of guarantees and even higher volume of credits accessed. The instrument is not only very cost effective, but also allows addressing a larger population of SMEs for the same amount of support funds (e.g. € 1 of own funds with a leverage of 10 and e.g. a 50% coverage ratio, results in € 10 of guarantees, € 20 of bank loans and an even higher amount of final investment).

At the time of its creation a guarantee is also efficient as it is non-cash: it relies on the financial strength of the guarantor, i.e. it's capacity to indemnify in case of default (the first one being the State guarantees). Several guarantee funds didn't pass the test of time, showing that the issue of risk management is critical to create guarantee schemes that can bring additionality in a sustainable way. This is where counter-guarantee may help.

The relatively recent experiences in developing new financial instruments and policies responses to the financial crisis in 1998 and 2008 are being outlined, as they were quite significant since many governments set up or expanded direct lending and guarantee schemes, as well as credit mediation and other measures to ease SME access to credit.

A special focus on the initiatives by the EU in terms of mechanisms and resources to foster initiatives promoting the SMEs' financing is being established. The financial instruments and programmes being used over the last decade are raised in order to observe their impact from the socioeconomic viewpoint, as well as their benefits for the public and private sectors.

[12] REGULATION (EU) 2017/1601 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund.

Specific examples of the Credit Guarantee Schemes (CGSs) in the CESEE countries are being reviewed as well as other positive experiences in Italy, Benelux and the Nordic countries and France. Also developed are the feasibility of creating a regional Counter-Guarantee Instrument in the LAC, as well as the credit process in Indonesia, in order to give a global overview of the existing CGSs' practices.

Practices and typologies of counter-guarantee schemes in Turkey, Slovenia, Romania, Lithuania, France and Spain are pointed out with a stress on their positive impact in regard to regional development.

> *Some very interesting avenues could be identified through these experiences, paving the way for their implementation in the South Mediterranean countries, for instance in the case of the Greater Anatolia Guarantee Facility (GAGF) in Turkey, where the partnership between the Republic of Turkey, the EU Commission, and four Turkish banks, proved to be a successful example for blending of public and private funds.*
>
> *Another example to draw inspiration from is the Romanian one where the whole of the emphasis is placed on the management of the fund's resources through well-defined prudential norms and protocol, which could be transposed to the South Mediterranean countries.*

Eventually, the credit guarantee schemes worldwide are evolving fast to cope with the COVID and post-COVID challenges. Good practices are therefore shared on how CGS can go the "extra mile" and explore unchartered areas with support that can be provided by counter-guarantee mechanisms blending financial and non-financial CGS support instruments.

3. RISK MITIGATION THROUGH GUARANTEES

In this section, we will briefly review the emergence of the CGSs through time and the measures taken to expand them appropriately while addressing the successive crisis (sanitary, economic, social, environmental, etc…) that the world is witnessing today.

In this respect, governments and institutions are taking actions and new strategies are being sought to address the negative effects of the COVID-19 pandemic with a special stress on the most fragile segments of the population, particularly women and young population.

Also threatened are the South Mediterranean Countries due to the greater complexity of their environment, which further increases the need to upgrade their organizational efficiency and the skill level of their Guarantee Schemes.

3.1 A SHORT HISTORY

Partial (and full) credit guarantee funds have existed at least since the beginning of the 20th century and have become more popular over the past decades. Beck, Demirguc-Kunt and Martinez Peria (2008) report that banks see partial credit guarantee schemes as the most common and most effective government support program for SME.

"Except for some cases in Europe, Japan and the Small Business Administration (SBA) from the US, it can be said that, in most countries, guarantee schemes are an expression of the 90s and the

explanation of its heterogeneity lies in the different circumstances and motives surrounding its establishment in each case."13

It is worth noting that CGSs have significantly expanded in the aftermath of the 2008-2009 financial crisis when concrete measures have been taken to address the negative impact of the crisis, with reference to the total amount of guarantee funds and availability of direct lending, the percentage of the guaranteed loan, the size of the guaranteed or direct loan and the number of eligible enterprises, etc…

Most of the guarantee schemes in the South Med countries have emerged in the 1990', with the exception of the Central Guarantee Fund (CCG) in Morocco, whose founding goes back to 1949. Based on the cooperation of the public and private sectors, the fund evolved to adapt to the market demand. Much more recently, the Credit Guarantee Company (CGC) in Egypt started operations in 1991; it is a private, joint stock company with banks presenting more than 90 percent of shareholders. The Jordan Loan Guarantee Corporation (JLGC) was established as a public shareholding company in 1994. In Lebanon, Kafalat was established in 2000 by the National Institute for the Guarantee of Deposits and fifty private banks with the collaboration of the Central Bank. Last, the Tunisian Guarantee Company (SOTUGAR) was founded in June 2003, and is placed under the supervision of the Ministry of Finance.

In 2012, the EuroMed Guarantee Network was created is promoted by the Euro-Mediterranean Economists Association (EMEA), the European Institute of the Mediterranean (IEMED) and with the support of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

The network seeks to alleviate the region's structural constraints for MSMEs to access to finance by gathering guarantee schemes active in the countries of the Euro-Mediterranean Partnership. The network was launched following several meetings during 2011-2013 at the Secretariat of the Union for the Mediterranean in Barcelona (Spain), the NGCs representatives from the Southern and Eastern Mediterranean (Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia and Palestine), the European Guarantee Association (AECM) and UfM officials.

This network provides the adequate forum to discuss cross-cutting issues with practitionners, notably the potential impact of a counterguarantee fund.

3.2 GUARANTEE SCHEMES TYPOLOGIES

According to the AECM's (European Association of Guarantee Institutions) classification, there are four typologies for the GS:

1. **Mutual Guarantee Societies:** private guarantee institutions created by beneficiary SMEs, they typically have a cooperative or mutual statute. This means that the MGS' capital is provided directly by the SMEs that apply for a loan guarantee in form of cooperative or mutual shares. Each members has an equal voting right and participates in electing the General Assembly and Board of Directors. The Mutual Guarantee Societies are usually run by entrepreneurs, bringing an SME perspective to the risk assessment process, e.g. Portugal: Mutual Counter-Guarantee Fund (FCGM), Italy (Confidi), Spain CESGAR (Confederación Española de Sociedades de Garantía Recíproca), France SOCAMA, Germany (Bürgschaftsbanken)

[13] *Guarantee Systems. Keys for their implementation, No.13, Spanish Association of Accounting and Business Administration (AECA), July 2015*

2. Private Guarantee Societies: initiatives by representative organizations of the private sector (Chambers of Commerce or Crafts, Business Federations, Banking organizations, etc.). They have a joint-stock company statute, foundation statute or other. The capital is provided by the private shareholders

3. Public guarantee institutions: they have been set up by public authorities in a number of countries. They are legally independent entities and can chose from a variety of statutes, e.g. development bank, development fund, etc. They are entirely funded and run by public shareholders. They implement public SME support policy and either guarantee SMEs directly or provide counter-guarantees to private Guarantee Societies, e.g. Japan Canada, Chile, Estonia, Slovakia, Russia.

4. Public-Private Partnership: in some cases, Guarantee societies have chosen a Public-private partnership model, where the public shareholder usually holds a minority stake e.g. Hungary, Turkey, Malaysia, Portugal (SPGM), France OSEO.14

Analysis

Theoretically, the involvement of governments would consist of setting up an appropriate legal framework and provisioning technical assistance, while the private sector would be in charge of the management and risk assessment aspects of the scheme, whose sustainability will depend greatly on close coordination between these two players.

It remains that the **wide disparities between the CGSs and their various typologies** reflect the particularities of each of the related countries, in terms of historical, political, cultural and socio-economic contexts. Generally, Private Guarantee Societies are more reactive and result oriented whereas Public ones are driven by economic development objectives and less by sustainability. A combination of different strategies would be the best option, through a global, yet flexible approach.

In most of the South Mediterranean countries, private and/or public guarantee institutions also face **difficulties in expanding their portfolio and/or increasing their coverage**, as well as meeting the need for alternative financial products, due to the increase in solvency and liquidity risk. This issue has become even more acute since the emergence of COVID-19.

A regional counter-guarantee instrument aiming at securing the various stakeholders and allowing more financing resources channeled towards more "impact" investments, could therefore be additional, provided that the **NGCs confirm their will to go the "extra mile"** and providing that the variety of existing models is taken into consideration when designing services.

On top, a counter-guarantee fund, working in close synergy with the EMGN could have an advocacy role towards governments of the countries concerned to assist in the improvement of the legal framework affecting guarantee transactions. The EU's expertise would be of great help in framing this process.

[14] Guarantee Products and Services, AECM
https://aecm.eu/guarantees/guarantee-products-and-services/

3.3. GUARANTEE SCHEME PRODUCTS AND SERVICES

As there are several models for CGCs, there is a variety of guarantee products and services. The range of products will vary according to the Guarantee Scheme (GS)'s policy, strategic objectives, KPIs that describe the mission or "raison d'être" of the institution (that can be social, territorial, job oriented, purely financial or a combination of those), the target groups, and the translation of the mission into instruments.

The "mission" also depends on the **Guarantee Fund model** and key sponsors as described above: ex. a CGS on the PPP model might be more oriented towards financial performance than a pure public instrument.

The policy translating into services is also reflected in the limits ("**covenants"**) given to the fund manager in terms of weight of a sector, portfolio versus case by case guarantees, multiplier (outstanding guarantees / net equity), maximum sinistrality (portfolio at risk / outstanding)

From a product perspective:

- All CGC **offer loan default guarantees**, which cover part of the bank's credit risk, should the SME customer default on his payments. Loan default guarantees are issued for all phases of the SME investment lifecycle (start-up, growth, internationalization, business transfer). There are also products for short term financing needs, e.g. of Net Working Capital Needs (cash conversion cycle: inventories + clients – suppliers) and financing fixed assets.
- Aside from the classical loan default guarantee, GS also offer **other types of guarantees**, such as guarantees for mezzanine finance, business angels, equity investments, project finance, etc.
- Certain members, mainly the public ones, also have other support instruments for SMEs, such as **grants, loans with subsidized interest rates, export finance guarantees**, etc. Among the services provided are support of the SME for preparing its loan application, business transfer exchange platforms, mediation services between banks and SME customers, etc.
- Depending on the GS, the guarantees are available to **specific branches of industry** or to a wide array of sectors. **Agriculture** is usually dealt with through specific guarantee societies.

Analysis

Reflecting the **evolution of the business models**, new guarantee products are launched regularly, that are aimed at 1) increasing the volume of specific activities (e.g. SME lending guarantees), 2) starting new activities that are related or complementary to existing services (e.g. MFI guarantees expanded to small lending "missing middle" guarantees), or 3) venturing into completely new territories (e.g. venture capital guarantees, impact-lending guarantees or honor loans).

But the various services associated to the covenants, calls for **different sources of capital** and **risk management tools**. Introducing news services implies therefore a reflection of the nature and sources of funds to be mobilized. This is all the truer if the new services depart from the classical financially sustainable guarantees. Assigning developmental objectives to a CGS manager needs, therefore, to be accompanied with the right source of funding to avoid deteriorating the financial situation of the institution. But this can also be done by offloading the risk related to the new services onto an off-balance sheet instrument (e.g. sovereign guarantees, trust funds, or counter-guarantees).

As a consequence:

- The variety of existing models and instruments generate a **variety of risk management situations**
- Depending on the GS policy, the target groups and the type of services offered, the **need for support** from a counter-guarantee mechanism may vary
- The counter-guarantee model should be flexible or wide enough to **accommodate the variety of needs**
- To add value, the counter-guarantee model should assist GS to "**go the extra mile**" and accompany the transformation of its business model, e.g. by covering risks that are not satisfactorily counter-guaranteed by the local ecosystem (e.g. GS shareholders, Central Bank).

3.4. GUARANTEE SCHEMES DESIGN

Design of a guarantee scheme is a key issue: its operational features need to ensure that guarantees are both attractive and financially sustainable. Six features are generally analyzed in a scheme's design: approach, eligibility criteria, coverage, collateral requirements, repayment rules and fees and sustainability.[15] In addition, the following criteria are to be taken into consideration and be added to the main criteria mentioned above:

- Risk sharing
- Defaults rate
- Risk management
- Regulatory and institutional framework
- Financial Performance (turnover, employment growth, profits)
- Formalization of enterprises
- Increase of value added
- Governance
- Technical aspects[16]

These dimensions are evolving throughout the life of the GS to reflect changes in the institution's overall policy that are reflected in the guarantee policy, the organization, the services, the sector or geographical reach.

ANALYSIS

As a consequence:

- A counter guarantee mechanism tasked to accompany the evolution of GSs can provide, beyond risk management solutions, **other types of support services** like: the adaptation of the risk management framework, organizational change, staff training, etc.
- This requires **various types of resources** that will be mobilized based on the counter-guarantee fund policy, that can be based on an increase of volume, the development of side products complementary to the existing portfolio or the launching of radically different service

[15] For more detailed information, kindly refer to: *Access by MSMEs to Finance in the Southern and Eastern Mediterranean (SEMC) What role for credit guarantee schemes? Rym Ayadi and Salim Gadi MEDPRO Technical Report No. 35/April 2013*

[16] *Access by MSMEs to Finance in the Southern and Eastern Mediterranean (SEMC) What role for credit guarantee schemes? Rym Ayadi and Salim Gadi MEDPRO Technical Report No. 35/April 2013*

line. An illustrative example is the assistance that is sometimes provided by guarantee funds assisting MFIs to graduate from Tier 2 to tier 1.

3.5 GUARANTEE SCHEMES ASSESMENT

Several indicators allow a good assessment of the performance of a guarantee scheme with the purpose to reach long-term sustainability and a default rate that is under control. These include:

- **Relevance**: guarantee societies' relevance is higher if its establishment is the result of a broad consensus at the national level + establishing key relationships with both banks and SMEs.
- **Additionality** consisting of the capacity to provide 'additional finance', that is finance which would not have been available from any other commercial source.
- **Multiplying effect** i.e. **leverage,** which is the ratio of the outstanding guarantee commitments to the underlying own funds of the Guarantee scheme. It is an important indicator of the successful operation of a scheme on the lending activity.

  As an example, € 1 of own funds with a leverage of 10 and e.g. a 50% coverage ratio, results in € 10 of guarantees, € 20 of bank loans and an even higher amount of final investment.
- **Effectiveness**, which can be measured by the number of guarantees granted in a year, the growth rate of the portfolio, the development of the network and the attraction of more banking partners.
- **Efficiency** considers the productivity of a guarantee society and the quality of its management: it refers to elements of cost, organization and process relative to the output and to the price of the service.[17]

Default rate and sustainability were considered specially, as the result of policies of additionality, leverage and public support.

Analysis

Another very important dimension is the "**impact**": most often, National GS have primarily the objective to contribute to support indirectly the creation of jobs – notably for the youth and women, the increase in value added, the increase in exports, the contribution to societal KPIs.

Very often though, the volume of loan guaranteed and the "default rate" or sinistrality remain the sole metrics that are used in the reporting. This is due to both the "financial culture" of the GS management (which is important for the institution sustainability) and the difficulty (and costs) of collecting data from the end borrower.

As a consequence:

- When designing a counter-guarantee mechanisms (CGM), **all the above dimensions** could be valuably discussed with the future clients of the CGM to see where the CGM can provide services that are additional to what the CGS can do with its own resources.
- This is **particularly valid as regards "impact"** a dimension that requires to be effective to be mainstreamed into the GS policies, policies and organization, reporting and monitoring framework.

[17] *Guarantees and mutual guarantees, Best reports, No 3 -2006*

- A CGM could **encourage GCs going towards more "impact" financing** guarantee by providing the non-financial technical assistance required to address the challenges raised by these activities (e.g., extra guarantees for specific target groups, reduced or negative premium for specific target groups, assistance to the collection of data, assistance to banks to report on the "impact" KPIs).
- The role of a CGM in the **development of alternative / innovative financial products** could be of particular interest as the CGM could develop a centralized expertise platform supporting national GSs to deal with very specific issues (thus generating economies of scale). For example, by guaranteeing using big data and social media instead of real collateral to make lending.

4. EU SUPPORT TO SMEs: GENERAL OVERVIEW

4.1. EU INTERVENTIONS

4.1.1. The role of the EIF

The EIF is a public-private partnership whose tripartite shareholding structure includes the EIB, the European Union represented by the European Commission and various public and private financial institutions from European Union Member States and Turkey.

The European Investment Fund (EIF) is Europe's leading risk finance provider for small and medium sized enterprises (SMEs) and mid-caps, with a central mission to facilitate their access to finance. As part of the European Investment Bank (EIB) Group, the EIF designs, promotes and implements equity and debt financial instruments, which specifically target the needs of these market segments.

4.1.2 The EIF's response measures to the COVID-19 pandemic (as at 06 April 2020)

The European Investment Fund (EIF) and the European Commission are launching specific COVID-19 support under the COSME Loan Guarantee Facility (COSME LGF), which is supported by the European Fund for Strategic Investments (EFSI). It is also open to financial intermediaries supporting SMEs in Armenia, the Republic of Moldova and Ukraine.

Under this scheme, the EIF will be able to provide enhanced terms and conditions for guarantees and counter-guarantees to incentivize financial intermediaries to provide working capital financing to European SMEs hit by the economic impact of the coronavirus pandemic. Securitization of SME debt finance portfolios will be provided to selected financial intermediaries, those already operating under COSME LGF) and to new applicants, for example guarantee institutions, banks, leasing companies, etc. to help them providing more loans and leases to SMEs.

4.1.3. The European Fund for Sustainable Development (EFSD)

Established in 2017, the EFSD is an integrated financial package that supports investments in Africa and the EU's neighboring countries to help achieve the sustainable development goals laid down in the UN 2030 Agenda for Sustainable Development. It is composed of two regional investment mechanisms, the African Investment Platform (AIP) and the Neighborhood Investment Platform (NIP). The funds of the European Development Fund (**EDF**) and the European Neighborhood Instrument are used for the purposes of the **EFSD** Guarantee Fund.

The EFSD Guarantee shall be used to cover the risks for the following eligible instruments[18]:
(a) loans, including local currency loans;
(b) guarantees;
(c) counter-guarantees;
(d) capital market instruments;
(e) any other form of funding or credit enhancement, insurance, and equity or quasi-equity participations.

Five investment windows were identified shortly after the launch of the EFSD:

1. Sustainable energy and connectivity
2. Financing of micro-, small and medium-sized enterprises (MSMEs)
3. Sustainable agriculture, rural entrepreneurs and agroindustry
4. Sustainable cities
5. Digitalization for sustainable development.

In this regard, 28 proposed guarantee programmes have been selected by November 2020 with an allocated budget of 1.54 billion; among which, seven guarantees were signed by April 2020[19]. Future agreements will follow, which will take into account the onset of COVID 19 and the means to tackle its negative impacts. **One may note that no national guarantee benefitted from the programme.**

Depending on the total volume of the **EFSD** guarantee, it might leverage from an expected €44 billion up to the double of this amount whenever important additional contributions are made by eligible partners, such as EU Member States, European Free Trade Association states, or others.

4.1.4. The European Fund for Strategic Investments (EFSI)

The EFSI provides a first loss guarantee, allowing the EIB to invest in more, often riskier, projects. The projects and agreements approved for financing under the EFSI so far are expected to mobilize more than €371.2 billion in investments and support over 856 000 SMEs across all 28 Member States. Furthermore, it shows that the intermediation via a guarantee institution provides the highest leverage effect of 40.9x, compared to a leverage effect of 19.1x in a situation where the guarantee is intermediated by a commercial bank.[20]

As of December 2019, under **EFSI** Private Credit, EIF had signed commitments totaling EUR 375m with 14 guarantee funds. The impact is substantial - due to the leverage effect, every euro invested in a loan guarantee is expected to release up to 30 euros of financing for SMEs. **EFSI 2.0** extends the lifetime of the EFSI until 2020 and increases its target to mobilize at least half a trillion euro of investments by 2020. The two figures below show the functioning between the different EU financial funds & programmes:

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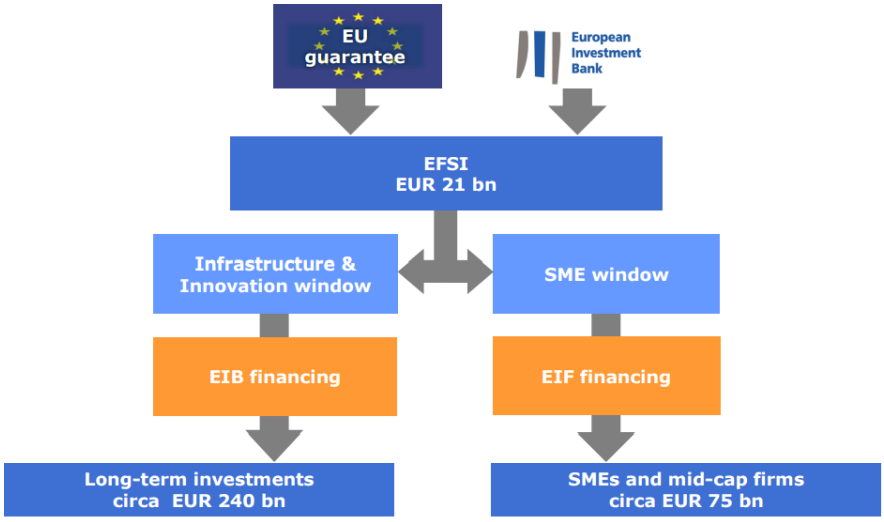
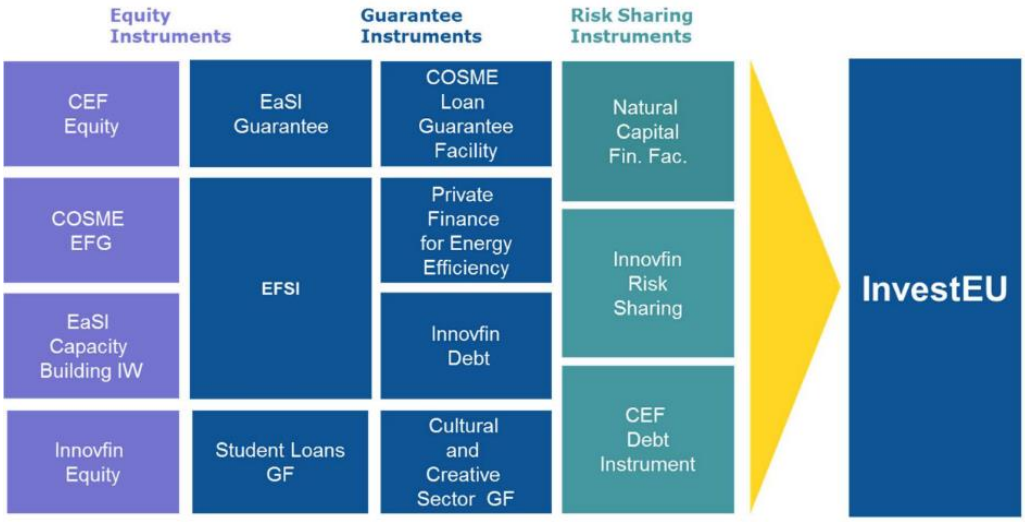
[18] *REGULATION (EU) 2017/1601 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund*

[19] *FMO's NASIRA Guarantee Facility, CDP and AfDB's Archipelagos Guarantee Agreement, FMO's Ventures Programme Guarantee Agreement, EBRD's Framework to Scale-up Renewable Energy Investments, AECID and World Bank Group's Resilient City Development (RECIDE), KfW's African Energy Guarantee Facility 'AEGF' and EIB's SME Access to Finance Guarantee Agreement*

[20] *EIB Report 2019 https://www.eif.org/what_we_do/guarantees/case- Page 54 https://www.eif.org/news_centre/search/index.htm?keywords=counter+guarantee*



The structure and functioning of the EFSI: how financial intermediaries could access EFSI funding, Commissioned, monitored and steered by EASPD is the following:



Source: 2019 EFSI REPORT:From the European Investment Bank to the European Parliament and the Council on 2019 EIB Group Financing and Investment Operations under EFSI (page 69)

4.2. EU GUARANTEE SCHEMES INSTRUMENTS

The number of Credit guarantee schemes in support of European SMEs has increased in the past decades. At the EU28 level, several schemes were implemented over the last 20 years:

- In 1998, the European Commission (EC) established the first SME Guarantee facility ("SMEG 1998") under the “Growth and Employment Initiative, 1998-2000” programme.
- This first facility was followed by the "**SMEG 2001**", implemented under the 2001-2006 Multi-Annual Programme for enterprises and entrepreneurship for SMEs (MAP).
- In turn, this programme was followed by the "**CIP SMEG**" facility implemented under the Competitiveness and Innovation Framework Programme 2007-2013. This programme helped to mobilize almost €25 billion of loans and venture capital to almost 400 000 SMEs in Europe.
- The **COSME** Loan Guarantee Facility (LGF) in 2014 is the successor of these predecessor facilities. The facility is running from 2014 to 2020 with a total budget of €2.3 billion. COSME

LGF, EIF offers guarantees and counter-guarantees, including **securitization of SME** debt finance portfolios, to selected financial intermediaries (e.g. guarantee institutions, banks, leasing companies, etc.) to help them to provide more loans and leases to SMEs. Under COSME, EIF offers two different financial instruments to financial intermediaries: 1/ The Equity Facility for Growth ("EFG"), 2/ The Loan Guarantee Facility ("LGF").

Besides C**OSME**, several other financial instruments are available at European level. **InnovFin** that is used by ten AECM members allows for larger tickets of support to companies with innovative projects. **CCS** is a guarantee facility that is destined to the cultural and creative sector that is currently used by a few AECM members. The **EaSI** guarantee instrument that is dedicated to microfinance and social entrepreneurship is not used by AECM members.

For the next **Multiannual Financial Framework from 2021 to 2027**, it is planned to establish a programme that combines all EU financial instruments under the roof of one single programme with one single rulebook, called InvestEU, with four policy windows: Sustainable infrastructure; Research, Innovation and Digitalization; SMEs and Social investment and skills.

InvestEU is planned to have a financial allocation of EUR 15.2 billion allowing the Commission to provide a guarantee of EUR 38 billion to trigger total investments of EUR 650 billion. 75 % of the programme will be implemented by the EIB group whereas 25 % shall be implemented by NPBIs (national promotional banks and institutions) as well as by IFIs (international financial institutions). [21]

4.3. ASSOCIATIONS OF GUARANTEE INSTITUTIONS

Associations of Guarantee Institutions play an active role in terms of promoting the guarantee instruments as well as facilitating the exchange of experiences and sharing best practices amongst their members.

The European Association of Guarantee Institutions (**AECM**) has currently 48 member organizations operating in 30 EU countries, nearly all of them are EU Member States as well as Turkey. In 2018, AECM member organizations had a total guarantee volume in portfolio of 125.1 bn. EUR, issued a total volume of over 45.3 bn. EUR of new guarantees and supported 3.1 million SMEs. [22]

The Global Network of Guarantee Institutions (**GNGI**) is a digitally based Network that serves as a platform for the exchange of information about the industry, in order to facilitate working together and making the guarantee business even more efficient. The network meets every year at one of its member's annual events such as ACSIC, AECM, REGAR or MENA and a Global Coordinator is in charge of maintenance and representation. [23]

The Euro-Mediterranean Guarantee Network (**EMGN**) seeks to alleviate the region's structural constraints by gathering guarantee schemes active in the countries of the Euro-Mediterranean Partnership around eight closely related objectives, including the expansion of the Mediterranean guarantee schemes and Euro-Mediterranean cooperation and the support to the development of guarantee product range, particularly for MSMEs. [24]

The Network of European Financial Institutions for Small and Medium Sized Enterprises (**NEFI**), founded in 1999, consists currently of 18 financial institutions from 18 European Union Member

[21] *https://ec.europa.eu/commission/presscorner/detail/en/MEMO_17_3224*
[22] https://aecm.eu/
[23] https://aecm.eu/international-relations/gngi/
[24] https://emgn.eu/our-mission/

States. In 2015, NEFI members actively supported and financed approximately 454 000 SMEs all over Europe with more than EUR 60,9 billion of financing mainly in the form of loans and guarantees.[25]

4.4. POSSIBLE TRANSFER OF EU PRACTICES TO THE SEMCs?

As the foregoing clearly shows, the development of financing tools to facilitate access to SME finance at EU level has been done gradually, drawing on previous experience.

Would it be possible to transpose this model to the countries of the South Mediterranean countries? As things stand and given the huge disparity between these two models, it will be a long and challenging process. However, the European model makes it possible to highlight the fundamental principles on which any financial aid instrument should be based, namely, and quoting the EIP: 1) funding 2) expertise 3) dialogue.

As a first step, building on existing structures such as central banks, banking associations, chambers of commerce, private guarantee institutions and encourage/train them to put in place a capacity building would be a good strategy.

In parallel, governments should establish long-term strategies and "improve the rules and regulations around investment and doing business". Digitalization is a key asset to facilitate exchanges of all kinds. And, above all, focusing on transparency as it proved to be one of the key principles underlying the success of the European model.

[25] http://www.nefi.eu/nefi/

5. CURRENT COVID-19 CRISIS VS. PREVIOUS FINANCIAL CRISES

5.1. CREDIT GUARANTEE RESPONSE TO THE FINANCIAL GLOBAL CRISIS

The decade following the global financial crisis saw pronounced changes in the policy landscape for SME and entrepreneurship finance. Direct lending activities and credit guarantee schemes were often expanded and broadened in its immediate aftermath. The aim was to counter the cyclical impact of the crisis and mitigate potential unintended consequences of tighter bank regulation.

As credit conditions eased, these policies were largely maintained and often targeted more explicitly to certain segments of the SME population. SME access to finance became recognized as a continuing policy priority in many countries.

Immediate post-crisis financial regulation focused on reforming the banking sector in order to contain systemic risk. The widespread adoption of Fintech and online alternative finance instruments in the second half of the decade prompted regulators to change their focus. Tools also evolved from general macro prudential measures to new regulatory measures such as Sandboxing and relaxing licensing schemes.

While many governments have taken action in recent years to harness the potential of financial innovation, further initiatives can be expected, and the next decade may well witness a profound transformation in how many SMEs access finance. In addition, the experience from the financial crisis provide insights for government responses to current and future crises affecting SME access to finance. This includes the economic fallout caused by the outbreak and spread of the coronavirus (COVID-19) in the first half of 2020. [26]

5.2 BASEL III FINANCIAL REFORMS AND SME FINANCE IN THE AFTERMATH OF THE CRISIS

The Basel III framework was a central element of the policy response to the global financial crisis.

Regulators identified and addressed shortcomings in the pre-crisis framework with the aim to bring more resilience to the banking system and to contain systemic vulnerabilities. A risk based capital ratio, liquidity coverage ratio, leverage ratio and additional macro-prudential requirements for systemically important banks were gradually introduced after the crisis. In this changing scenario, the overdependence of SMEs to banking finance made reforms an important issue for SME finance policy makers in the post-crisis years (OECD, 2012[53]).

One policy response to mitigate possible negative effects of the more stringent regulation on SME lending was the introduction of the SME Supporting Factor Article by European legislators in 2014. The Capital Requirements Regulation (CRR) allowed a capital reduction factor for exposures to SMEs at a discount factor of 0.7619 with the aim to provide stimulus for bank-firms to lend to SMEs. Across jurisdictions, non-regulatory measures were also put in place as counter-cyclical measures for SME financing.

Nine years after the initial Basel III package was agreed upon, results of an ongoing evaluation of the

effects of reforms on SME financing find that **no material and persistent negative effects on SME** financing occurred in general, despite some differentiation across jurisdictions.

[26] *Financing SMEs and Entrepreneurs 2020, AN OECD SCOREBOARD*

Nonetheless, risk-based capital requirements may have temporarily affected growth and tightened the conditions of SME lending in some jurisdictions when considering the most exposed banks (the least capitalized). In addition, financial institutions have appeared to be more conservative in their decisions to grant credit, redirecting activities towards less risky segments (FSB, 2019[55]). This is in line with the observation that, in some jurisdictions, there has been an increase in demand for credit guarantees in recent years because of banks' stricter capital and reporting requirements (written exchanges with AECM).

It is noteworthy that anecdotal evidence from this evaluation suggests that macroeconomic conditions and factors other than financial regulation are the most important drivers of SME financing trends. In the aftermath of the crisis, public policies put in place and the positive financial conditions such as the low interest rate environment were important confounding factors that might have mitigated some of the negative effects of financial reforms (FSB, 2019[55]). [27]

5.3 EVOLUTION OF SME FINANCE POLICIES

Despite marked improvements in SME access to finance since 2012, most policy instruments introduced during the crisis have largely been kept in place. Nonetheless, they have undergone transformation in their design, and in some instances, have been redirected to tackle structural problems concerning specific segments of the SME population.

Nevertheless, SME financing remained a prominent policy priority in many countries in order to stimulate economic growth and well-being. In addition, international instances such as the G20 and the G7, as well as regional groupings such as Asia-Pacific Economic Cooperation (**APEC**), the European Union (**EU**) and the Association of Southeast Asian Nations (**ASEAN**), made SME finance a political priority in the years following the crisis.

Governments have sought to consolidate their SME financing efforts and increase efficiency through dedicated national financial institutions.

Public financial institutions (PFIs) are a common policy tool to address failures in the financial market and supply financial services to underserved groups.

In the early years of recovery, many governments restructured the PFIs providing these services. In the case of **France, Portugal and the United Kingdom,** centralized institutions were set up to coordinate and provide all these direct and indirect support facilities for small businesses.

France created a public development bank (**Bpifrance**) at the start of 2013 through the fusion of several public operators (OSEO, CDC Enterprises, Fonds stratégique d'investissement). Bpifrance offers businesses a local financing service supported by an extended portfolio of financial instruments and consultation options. It provides guarantees, co-financing, direct loans, and managesgovernment support for innovation and services. It also guarantees venture capital funds. On the equity side, Bpifrance manages several investment funds, including funds-of-funds, mostly targeting SMEs needs (OECD, 2017[37]). [28]

[27] *Financing SMEs and Entrepreneurs 2020, AN OECD SCOREBOARD*

[28] *Ditto*

5.4. OVERVIEW OF MEASURES AGAINST THE ECONOMIC IMPACT OF THE COVID-19

After the outbreak of the COVID-19 pandemic and the decision of most governments in Europe (as well as other continents) to prioritize "social distancing", it immediately became clear that these decisions will have a significant impact on the global economy.

All governments are reflecting how to support self-employed, solo-entrepreneurs, SMEs on to mid-caps and globally acting conglomerates, airports and healthcare systems as well as companies in the fields of export, tourism and in many other areas. European Member States also introduced completely new measures with the Maastricht criteria becoming less of a priority.

EU Member States quickly began designing an appropriate answer to the challenges ahead – with each country customizing their specific needs whilst basing themselves on existing structures. National Promotional Banks and Institutions as well as guarantee institutions are providing support to companies within their respective countries. The overall economic public policy goal is that "no job be lost due to the current crisis, and that no company should become bankrupt due to the liquidity problems caused by this crisis has been backed by the public budget. [29]

Most **common measures** taken include:

1. Coverage from 50% to 90%
2. Facilitate the financing of the Working Capital Need for Operations (Suppliers – Inventories – Clients)
3. Freelance activities are now eligible for guarantee
4. A fast-track procedure will be introduced to enable guarantees to be given immediately
5. 0,5% premium (per year)
6. Deferred public contributions
7. Reduction of the interest rate on Investment loans
8. Suspending the payment of granted loan instalments
9. Direct Equity investment with Risk Sharing
10. Partial counter-guarantee up to 80% on new bank loans
11. Extension of the financing period.
12. Grace period – up to 12 months.
13. Significant reduction of the collateral requirements taking into account company's assets.
14. Guarantee ceiling for credit guarantees for SMEs has been increased
15. Guarantees will be granted for loans for investments and working capital and can cover up to 90% of the loan amount
16. Rescheduling of existing loans

It is a significant fact that **Governments have proved very prompt at mobilizing their guarantee institutions** in times of crisis as they have all the necessary levers for this. The situation is much more critical when it comes to "alternative finance institutions" desperately looking for more equity or risk coverage to increase their activities. Thus, the archetypal Guarantee and Counter-guarantee schemes which intends to cover the inherent risks for short, medium and long-term financing addressed to non-

[29] *AECM - European Association of Guarantee Institutions www.aecm.eu ELTI - European Association of Long-Term Investors www.eltia.eu and NEFI - Network of European Financial Institutions for SMEs www.nefi.eu*

eligible SMEs, must evolve towards newer and riskier instruments to support the development of the economy.

Analysis

While it is proven that the implementation of "alternative finance institutions" has been a real success for some products, notably leasing, securitization, factoring, credit insurance, start-ups etc…, the fact remains that, in the case of other products such as the crowdfunding platforms, peer-to-peer, business angels, capital-risk, etc… a comprehensive evaluation is required in order to assess their impact on the risk of the various stakeholders. Whatever the scenario considered, there is a constant that does not change regarding the crucial role of a counter-guarantee fund to cover the increase in risks related to these types of products.

It should also be observed that, when it comes to the South Mediterranean countries, the Banks, the Guarantee Institutions, the SMEs and the public are not familiar with this kind of higher risk products. Consequently, it is essential to raise their awareness in order to be able to ensure economic growth.

5.5 AECM POST COVID-19 WEBINAR – NOVEMBER 2020

Actions to counteract the negative consequences of the COVID-19 pandemic were discussed during a Webinar organized by AECM on November 5 & 6, 2020, during which, the following points and recommendations were raised by the speakers:

The vulnerability of the SME sector was highlighted as they are facing the following issues:

- Solvability and liquidity problems.
- Inability to build resilience and sustainability.
- Decrease of their turn-over (in 90% of the cases)
- Deterioration of their portfolio
- Increase of their financing needs (cash conversion cycle)

The following measures were proposed in order to mitigate the impact of the crisis:

- Debt moratorium
- Tax and fiscal incentives
- Financing of the fixed costs
- Broadening of the eligibility criteria
- Reinforcment of the risk evaluation measures
- Simplification of the procedures
- Taking on more risks
- Encouragment of the alternative finance practices
- Focus on the Digitalisation,
- Focus on SMEs with strategies and green economies
- Promoting sectors such as agricultural, women and youth entrepreneurship
- Banks to act as consultants in addition to their financial role
- Banks to support the SMEs financing needs
- Loss cap to be limited to 20% max.

8. RECOMMANDATIONS

8.1 IN GENERAL

A regional mechanism should allow broadening the capacity for providing guarantees of the local guarantee systems, and/or sharing the risk with them. It also should have its own constituted patrimony managed by a professional and technical institution trusted by the financial system. The following requirement if added to the above has to conduct this management at a reasonable cost, and hopefully at the lowest cost possible as it will be, directly or indirectly, charged to the SMEs. The system should be focalized in that their clients are the national guarantee systems, supporting them even in the management with the IFIs, but aimed at impacting indirectly on the larger number of SMEs in each country. An expertise in the appropriate calculation techniques for risk and provisions is to be developed as the issue of risk management is essential.

The operation process between the local guarantee entity and the administration of the guarantee system are to be automated, flexible and at low cost and the process of guarantee collection, as well as the payment of guarantee commissions are to be timely and reliable. The fund administration personnel should have the suitable technical qualifications and experience in the financial system and the needs of the SMEs. It should be part of the tender process applicable to both private and public sectors.

Before operating with each local system, the fund has to make an in-depth analysis of the transactions of each guarantee system which would include various information such as corporate government, systems, processes, professional team, analysis of default, portfolio, loss frequency, commission collection, etc.

8.2 SPECIFIC TO THE SOUTH MED COUNTRIES

With regard to the South Mediterranean countries, it would be useful to identify the risk mitigation products (leasing, private equity, etc.) provided to SMEs by the guarantee institutions for which a counter-guarantee by the EIF could be obtained. The financing of investments and working capital may also be counter guaranteed in order to assist the development of SMEs and/or to support them financially in times of crisis (COVID-19).

Priority will be given to “alternative finance institutions” in the case they exist on the markets of the countries concerned; the presence of a Regional Counter Guarantee will encourage the creation of other institutions capable of attracting funds circulation outside the banking system.

Such an instrument will serve as a catalyst at the level of the SEMCs and will help unifying certain practices while reducing the existing heterogeneity.

The involved parties will define Its mission and actions. These will be diversified and modelled on the measures already taken at the EU level, seeking to develop, among others, the following financial and non-financial actions:

- Funding feasibility studies to see if the project is likely to achieve its goals
- Helping local banks screen project and business proposals
- Supporting beneficiaries in managing the financial affairs.
- Establishing a regular, formal dialogue, known as structured dialogue, between the private sector and governments
- Supporting governments to put reforms into practice.

- Encouraging more lending to small agricultural business; providing a technical assistance by mobilizing financial and rural agriculture experts, such as agricultural engineers, accountants, insurance experts, etc…
- Helping in developing new projects and ensure they succeed
- Bringing together governments and businesses to discuss investment challenges.

The above-mentioned aim to promote the high-risk products, which can generate substantial profits while ensuring the financing of new niches such as digitalization, the green economy, women and youth entrepreneurship, etc…

As already seen, consistency of the credit risk mitigation treatment by financial guarantees and the associated regulatory capital relief may facilitate the more widespread use of these instruments. Thus, it is important to work on the standardization of financial credit instruments on the regional level, in order to streamline and simplify procedures. Among other benefits, this would facilitate the development of statistics, which, in the medium term, would make it possible to refine and adapt these procedures in order to better meet the specific needs of the region.

9. CONCLUSION

The CGSs experiences in Europe has provided conclusive evidence of their effectiveness and positive effects on national and regional development. Thus, the establishment of a Regional Guarantee Facility that would counter-guarantee the South Med NGCs could be useful, moreover since the outbreak of the COVID 19 pandemic.

A North-South and South-South dialogue would help implement best practices through the sharing of experiences and procedures. However, the assessment of a counter-guarantee mechanism in two of the linked countries, Morocco and Lebanon, highlighted the diversity of models. This must be attributed to the extreme disparities between the countries concerned.

To tackle these problems, comprehensive studies must be carried out, through surveys and dialogues, in order to identify a common denominator on which a regional platform could be established. This process will take place at the national level first and between the countries of the region in a second phase, linking both the countries concerned and the promoters. To achieve this, a bilateral dialogue would pave the way for multilateral dialogue.

An interesting avenue to explore concerns the alternative finance products as they may spearhead economic development by granting credits to companies ignored by traditional Financial Institutions due to their high exposure to risks. Despite the inherent risk of this kind of funding, there will always be players attracted in the high profitability and return on investment (ROI) of these products.

On this point, it is interesting to note that the alternative finance providers, mainly Capital Risk and Joint Venture, do not always share the same selection criteria with respect to business sectors, debt, profitability, leverage, management, etc.

The socio-economic and cultural dimension must be taken into account and given high priority, as evidence indicate that women-owned enterprises, micro-enterprises, start-ups and businesses located in remote and/or rural areas have more difficulty to access appropriate sources of finance.

In this respect, digitalization is a major issue in the development of a network from which experiences and good practices will be shared and will benefit as many people as possible. Other benefits of digitalization include standardization of procedures, where possible, ease of financial transactions and

complementary financial and technical tools. Initiating and supporting this transition will be one of the challenges facing the promoters.

However, the most significant benefit of digitalization remains the promotion of transparency and the introduction of the ethical dimension, which has proved essential to the sustainability of any project . Transparency is key in the process of confidence building and digitalization has acquired critical importance in the post COVID world where personal face to face contact has been severely curtailed.

ANNEXES

A.1. GUARANTEE SCHEMES IN EASTERN AND SOUTHEASTERN EUROPEAN (CESEE)

The following information is based on the report by the Vienna Initiative Working Group on Credit Guarantee Schemes dated November 2014 "**Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe".** This document summarizes the discussions in the Working Group on Credit Guarantee Schemes in Central, Eastern and South-Eastern Europe (CESEE), established under the European Bank Coordination Initiative (EBCI). To be noted that the counter-guarantees intervene quite regularly in the process of granting guarantees although not systematically.

A.1.1. General information

- **The key multinational provider of credit guarantees is the European Investment Fund (EIF).** Similarly, to the local CGSs, the EIF provides credit guarantees to banks on SME loans. In addition, it also can provide counter-guarantees to the guarantee portfolio of the local CGSs
- **The EIF manages the SME Guarantee Facility (SMEG) on behalf of the European Commission** (EC), as part of the Competitiveness and Innovation Framework (CIP) programme.
- Despite the continuing challenging economic environment, **the EIF played an important role in tackling the prevailing financing shortage conditions for the small and medium-sized enterprises (SMEs) in CESEE.**
- **Credit guarantees are an integral part of the system of financial intermediation in many CESEE countries.** Many local CGSs provide guarantee services to SMEs. The European Association of Mutual Guarantee Societies (AECM) has 15 member institutions in CESEE, and another four operating in the Baltic area. Besides the local scheme guarantees are also provided by supranational entities, such as the European Investment Fund (EIF)."
- The importance of the role of local CGSs show considerable heterogeneity within the region.
- **Guarantee schemes operating in the region provide financial and non-financial services to SMEs**. Most credit guarantee schemes began operations prior to 2008, and offer credit guarantees along with other services such as grants, loans, equity finance, interest subsidies, and/or SME consultancy services. Also, almost all schemes target mainly or exclusively small- and medium-sized enterprises (SMEs). For schemes operating in the EU, SMEs are defined as per the EU definition.
- Many local CGSs provide guarantee.
- Few CGSs in the region provide specialized products to a particular set of clients.
- Guarantee providers in CESEE are typically publicly owned and are publicly operated.
- CGSs are subject to taxation and are not-for-profit institutions; CGSs also reported that they are expected by their owners to be sustainable
- As a general rule, both public and privately- operated CGSs receive government support
- **The range of products offered by CGSs varies widely across the region**. Direct guarantees most often consist of guarantees to banks: more than 25 percent of CGSs provide guarantees only to banks, as opposed to other types of lending institutions. About a third of guarantee schemes surveyed offer counter-guarantees; half of these provide such guarantees alongside direct guarantees

- **Most often, the lending institutions are the borrowers' first point of contact,** as opposed to the CGSs themselves. Only a third of CGSs have a direct contact with the borrowers at the time of application for the guarantees — in Bosnia-Herzegovina, Croatia, Czech Republic, Romania and Slovenia. These include all those CGSs that provide trade finance and those that provide portable guarantees.
- **Investment and working capital loans are guaranteed by almost all CGSs.**
- **CGSs operating in the region provide mostly guarantees on individual loans as opposed to portfolio guarantees**. Beck et al (2010) also find that more than two-third of schemes operate on a loan-by-loan basis.
- **Most CGSs have developed some criteria**, often quite lax, to identify lenders that are eligible for the guarantees.
- **The majority of CGSs do not cover interest payments** and provide maturities of up to 25 years for some products.
- **When it comes to pricing, CGSs rely mostly on guarantee fees**, which are reviewed annually.
- **Fees are mostly paid by borrowing SMEs.** There are most often no penalty rates, in case of default on the payment of guarantee fees. Also, hardly any schemes reward success in the repayment of loans with lower prices of future guarantees. However, for 60 percent of CGSs, failure to repay may result in higher fees or denials in the future.
- Guarantee schemes use common appraisal procedures, based on commercial practices.
- With regards to the payment of guarantee claims, almost 75 percent of schemes adopted a pari passu loss-sharing rule.
- Only 20 percent of guarantee schemes reported not using any risk transfer instruments to avoid excessive concentration of risk.
- **When asked how they measure their performance, 13 guarantee schemes disclosed their performance indicators**. In addition to basic indicators such as the number and volume of guarantees and the number of beneficiaries, several schemes also monitor the performance of their portfolio through its growth rate, non-performing loan ratio, recovery and loss rate.
- **To assess their impact, CGSs generally assume they generate additional lending,** and only very few of them measure explicitly their financial or economic impact.

A.1.2. CURRENT ISSUES AND CHALLENGES FACED BY GUARANTEE SYSTEMS IN THE CESEE REGION

- Most of the banks operating in the CESEE have already been actively using the guarantee schemes in their SME lending activity.
- For banks, the supply of guarantees is below the demand in some parts of CESEE
- It appears that banking groups operating in the CESEE region actively use CGSs to manage and offload SME credit risk

A.1.3. THE ROLE OF GS IN ALLEVIATING THE IMPACT OF THE CRISIS

- Both the CGS and the bank surveys indicate that the post-crisis increase in demand for guarantees is mainly related to working capital loans, rather than investment financing. This shift in credit demand
- CGSs in the CESEE region have reacted to the crisis with various measures to increase their activity. as documented by AECM (2010), these included, among others:

CGS measures to alleviate the impact of the crisis	Country
Obtaining additional funding for broadening their operations, often from EU structural funds	Czech Republic, Estonia, Hungary, Lithuania, Romania, Slovenia
Developing products for working capital or strengthening the existing ones	Czech Republic, Estonia, Lithuania
Increasing the maximum amounts for guarantee	Estonia
Increasing the guarantee coverage	Hungary, Lithuania, Romania, Poland
Reducing fees	Hungary, Romania
Simplifying the decision-making process (Hungary, Romania).	Hungary, Romania

A.1.4. FACTORS CONSTRAINING THE CREDIT GUARANTEE ACTIVITY IN CESEE

- The one area that is qualified as an important constraint in banks and CGSs' surveys is the regulatory treatment of guarantee products. This creates an operational uncertainty that discourages banks from engaging in guarantee-based SME Lending in certain jurisdictions.
- Besides regulatory issues, the key constraints identified by CGSs relate mainly to borrowers and, to a smaller extent to lenders.
- The most important constraints identified by banks are all related to CGS's eligibility criteria and operating processes.
- Comparing answers received from banks and CGSs highlights the similarities and divergences of these two parties in explaining the low usage of credit guarantee schemes. Figure 23 groups common.

A.1.5. REGULATORY ISSUES

- The conducted surveys indicate that the regulatory treatment of SME credit guarantees is an important issue for banks and CGSs in the CESEE region.
- A key aspect of the regulatory environment relates to the regulatory capital relief obtained for the use of guarantees.
- Obtaining regulatory capital relief is an equally important component of guarantees as the transfer of credit risk for banks in the CESEE.
- More than two-thirds of the banks answering the survey have been facing problems obtaining regulatory capital relief at least in certain jurisdictions, even within the EU.
- A uniform ex ante treatment of credit guarantees from this aspect could be a significant step forward.
- About 70 percent of the CGSs participating in the survey indicated that the regulatory environment should move towards recognizing exceptions through national legislation, rather than seeking greater uniformity at the EU level.

A.1.6. THE ROLE OF COLLATERAL

- A wide consensus seems to exist that the main "raison d'etre" of CGSs is to resolve the collateral gap.
- Guarantees, however, apparently at best reduce, but certainly do not eliminate the need for collateral.

- All responding guarantee schemes confirmed that lenders are allowed to request collateral from SME borrowers.
- The limits of credit guarantees in reducing the need for collateral in practice have been documented before.
- It seems that, even for guaranteed loans, borrowers with higher levels of eligible collateral are often preferred and selected by commercial banks.

A.1.7. FINANCIAL SUSTAINABILITY AND ADDITIONALITY

- Financial sustainability refers to the CGS's capacity to absorb losses and maintain an adequate equity base.
- Most schemes have not been imposed such prudential requirements, however, in practice the majority of CGSs have a leverage ratio of less than 5
- Net loss information was not readily provided and was found quite heterogeneous among the six schemes that provided responded.
- CGSs seem to assume that guarantees have an inherent additionality.
- The bank survey also reveals that CGSs seldom provide clear indications about additionality requirements, and they usually do not have the necessary processes to enforce additionality
- As to the actual additionality of the credit guarantees they use, banks believe that guarantees generate additional lending rather than securing existing exposure.

A.1.8. CGS DESIGN, PERFORMANCE AND UTILIZATION

This section aims to briefly contrast the design features of CGSs against key performance characteristics and the revealed CGS rating by banks. To that end, it compares data from the CGS survey (providers) and the bank.

- CGSs that receive public funding offer higher coverage rate and increased their operations during the crisis.
- Fully publicly owned schemes have longer appraisal processes.
- Profit-oriented CGSs have guarantees covering more loan products, risk-based fees and have adopted pari passu for sharing losses and recovery proceeds.
- Profit-oriented CGSs report having a maximum leverage ratio.
- Contrasting CGS design features with bank's revealed rankings, the relationship between the two is based on the expected net value of coverage, process costs and regulatory treatment.
- Banks tend to give higher rankings to CGSs that have higher coverage rates.
- The least preferred CGSs are those that present a high counterparty risk for banks and have slow appraisal processes. Low upfront capitalization, non-standard documentation, and a slow application process deter banks from using certain CGSs.

A.1.9. KEY PRINCIPLES OF OPERATIONAL CHARACTERISTICS FOR CGSS

- CGSs should have a clear mandate, a distinct legal structure and be subject to taxation in accordance with these.
- **State-owned CGSs (SOCGSs) should have a clear mandate, including at least the following factors: i) a target sector, ii) market positioning, and iii) financial sustainability objectives.**
- The "gap-filling" nature of the SOCGS's mandate provides a rationale for its countercyclical role.

- **Private sector participation should be encouraged when possible**. CGSs are encouraged to engage participating banks early in the scheme's capital, at least in equal equity amount to the aggregate contribution of the Government, municipalities and donors.

A.1.10. Coverage and pricing of the guarantee

- Coverage ratios should be on a risk-sharing basis with the financial intermediary providing adequate protection against default risk and moral hazard, while preserving incentives for effective loan origination and monitoring.

A.1.11. Appraisal

- CGSs should outsource credit risk assessment to the private sector, as it has better capacity to assess credit risks.
- Collateral should be allowed, but, based on the objectives of the scheme, could be capped as a percentage of the loan amount. Collateral requirements may vary for schemes, as influenced by their objectives and target beneficiaries.

A.1.12. Risk mitigation

- Effective and permanent risk-mitigation tools (including **counter-guarantee mechanisms**) can be beneficial. CGSs should ensure proper evaluation of counterparty risk, sufficient loan loss provisioning, adequate leverage, risk diversification and limited single exposure. As a guiding rule, appropriate leverage for a CGS should be 3 in the early stage, gradually increasing to a maximum of 7 as the scheme reaches a well-diversified guarantee portfolio.

A.1.13. Performance and Impact

- Increased transparency of the additionality, impact and cost of guarantee schemes is warranted, through rigorous assessments.

A.1.14. CONCLUSIONS AND RECOMMENDATIONS FOR ACTION

- Credit guarantee schemes can be an effective way to deliver public support for SME access to finance. At the same time, public funding should be consolidated as it is essential for the existence of CGS.
- Credit guarantee schemes should be designed and operated soas to ensure the prudent and efficient use of public resources.
- Credit guarantees should allow a widening of the universe of SMEs that have access to finance, but mechanisms should be in place to limit the adverse selection of high-risk borrowers and the moral hazard associated with existing borrowers.
- Guarantees may reduce, but in practice do not eliminate, the need for collateral.
- Excessive administrative requirements and narrow definitions of eligible clients often discourage the Financial Institutions from using credit guarantees.
- A coherent approach to, and a stronger awareness of credit guarantee schemes by the national financial regulatory and supervisory authorities is essential.
- Banks could support the use of credit guarantees by ensuring that lending officers are provided with the necessary incentives to roll out guaranteed loans.
- For EU countries, uniform treatment by national authorities of the credit risk mitigation provided by financial guarantees and the associated regulatory capital relief may facilitate the more widespread use of these instruments.

Generally, *micro* and *young* SMEs have benefited the most from MAP-guaranteed loans in terms of economic additionality. Overall, The survey findings suggest that the EU SME Guarantee Facility has been successful in bringing significant positive effects on beneficiary firms in CESEE Countries

MAP CESEE beneficiaries have experienced:

- A significant increase in *employment* in the order of 14% to 18%, compared to their counterfactuals.
- A similar result, albeit slightly less significant, is the rise in *turnover* up to 19% within the first five years after signature date.
- Impact on employment is driven essentially by a positive and significant effect in Romania and a weaker positive effect observable in the medium run for Czech MAP beneficiaries.
- Impact of public credit guarantee schemes on the financial conditions of SMEs (so called financial additionality), rather than on firms' performance (economic additionality). [30]

[30] *Credit Guarantee Schemes for SME lending in Central, Eastern and South-Eastern Europe A report by the Vienna Initiative Working Group on Credit Guarantee Schemes, November 2014*

A.2. CREDIT GUARANTEE SCHEMES IN EUROPE

The following information is based on the report by the Vienna Initiative Working Group on Credit Guarantee Schemes dated February 2019 "**Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs",** Reference # EIF_Working_Paper_2019_5.

As documented in the above mentioned Working Paper dated Feb 2019, the investigation related to the effects of guaranteed loans granted between 2002 and 2016 (under MAP and CIP managed by the EIF) reveals the below results on the growth of small and medium sized enterprises (SMEs) located in **Italy, the Benelux and Nordic countries (Denmark, Sweden, Finland and Norway).**

To this end, the study considers 174,107 guaranteed loans for a total amount of EUR 15.58 billion.

A.2.1. POSITIVE EFFECTS OF GUARANTEED LOANS ARE AS FOLLOWS:

- **B**eneficiaries grew more rapidly than non-beneficiaries
- Growth in assets (+19.6 percentage points over the two years after the end of the signature year)
- Growth in sales (+14.8 percentage points)
- Employment (+16.9 percentage points)
- Share of intangible assets (+1 percentage point). 2 years after the end of the signature year
- No significant effect on profits is observed.
- Beneficiaries were more likely to survive following the granting of the guaranteed loan
- The probability to default within 2 years after the end of the signature year is 30% smaller for beneficiaries than for twin non-beneficiaries
- On average, sole proprietorships in Italy have relatively lower default rates than limited liability companies. However, this is the opposite in Belgium, where sole proprietorships are instead much more likely to default than limited liability companies are.

A.2.2. THE TREATMENT EFFECT OF GUARANTEED LOANS IS:

- Stronger when the beneficiary is small and/or young,
- As well as when the size of loan is larger. The effects are larger for firms in services than in manufacturing industries, but do not seem to be larger in high-tech and knowledge-intensive sectors vs. low-tech sectors.
- We also document the large differences in the magnitude of the economic additionality across the three geographical areas under consideration.
- The effects in the Nordic countries are more than double in size than those in Italy (which are nevertheless positive), and those in Benelux are almost twice as large as in the Nordic countries.
- The discrepancies between countries stem from differences in terms of loan sizes, the age and industry of beneficiary firms, and the specific ways the policy instrument was channeled to firms via financial intermediaries.

The analysis looks exclusively at the firm-level economic benefits of guarantees, without considerations to the implied financial risk and/or cost. These are likely to be higher for younger and

smaller firms. Future research will shed additional light on the potential risk/additionality trade-off of loan guarantee instruments.[31]

A.3. CREDIT GUARANTEE SCHEMES IN FRANCE (2002-2016)

The econometric study commissioned by the European Court of Auditors, in the context of its audit of EU-funded loan guarantee instruments; assess the performance effects of the loans to SMEs disbursed in France during the years 2002 to 2018.

- The study estimates the average treatment effect of guaranteed loans over a 10-year period around disbursement, using a combination of difference-in-difference estimation, coarsened exact matching and propensity score analysis.
- On average, French SMEs benefitting from EU-guaranteed loans experienced additional 9% asset growth,
- Growth in sales 7%
- Growth in employment compared to the control group 8%
- The economic significance of the effect is typically stronger for smaller and younger beneficiary firms.
- SMEs also experienced 5% lower default rates.
- No significant effects on profitability detected.

[31] Guarantee Schemes dated February 2019 "Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs", Reference # EIF_Working_Paper_2019_5.

A3. CGSs IN SOUTH MED COUNTRIES

The following information is based on the report Access by MSMEs to Finance in the Southern and Eastern Mediterranean (SEMC) What role for credit guarantee schemes? Rym Ayadi and Salim Gadi MEDPRO Technical Report No. 35/April 2013.

3.1 SOUTH MED CGSs: TYPOLOGY & OBJECTIVES

"The majority of CGSs in the SEMCs are a mix of publicly and privately owned entities, and it is not always easy to state definitively whether they are publicly or privately governed."

South Med CGSs' objectives	Country
Support MSMEs access to finance	**Egypt**: Credit Guarantee Corporation (CGC) **Jordan**: Jordan Loan Guarantee Corporation (JLGC) **Morocco** : Caisse Centrale de Garantie (CCG) **Palestine**: Euro-Palestinian Credit Guarantee Fund (EPCGF) **Tunisia** ; Société Tunisienne de Garantie (SOTUGAR)
Support middle-income households in securing proprietorship	**Morocco** : Caisse Centrale de Garantie (CCG)
Support students in financing their studies	**Ditto**
Extend access to finance	**Lebanon**: Kafalat
Support middle-income households in securing proprietorship	**Jordan**: Jordan Loan Guarantee Corporation (JLGC)
Support Jordanian importers and exporters through guarantees	**Ditto**

3.2. SOUTH MED CGSs SPECIFIC TOOLS IN TERMS OF RISK MITIGATION

3.2.1. RISK MANAGEMENT

CGS can reduce both ex-ante and ex-post risk through risk management practices.
Ex-ante risk can be mitigated with credit scoring models and the conduct of due diligence to assess borrowers' creditworthiness. Ex-post, CGS may have recourse to several methods such as loan portfolio securitization, loan sales, counter guarantees and more general forms of reinsurance, which, inter alia, provide counter-guarantees.

3.2.2. SUPERVISION

"Partly as a consequence of different ownership and governance characteristics, there is no single supervisory framework of guarantee schemes in the Southern and Eastern Mediterranean. Broadly speaking three types of supervisory frameworks co-exist:

Ministries - Central Bank (Lebanon: Capital adequacy ratio 12%) – Jordan Securities and Exchange Commission

Partner banks are more eager to issue loans to guaranteed borrowers since they can deduct a share of the guarantee from their provisions

The Lebanese and Moroccan schemes have tried to use securitization and counter guarantees. In 2008, Kafalat considered securitizing part of its guarantee portfolio, but eventually the scheme abandoned the process, judging it "too cumbersome".

The same year, under the EU programme "Réussir le Statut Avancé", Morocco's CCG benefitted from a counter guarantee fund, managed by the EU Delegation. While the CCG recognised the counter-guarantee fund's usefulness in allowing for the extension of more guarantees, the scheme deplored its management and operational characteristics: its application criteria were judged to be not risk-oriented and to suffer from long administrative delays.

This negative experience notwithstanding, Morocco's and other countries' schemes express strong interest in counter-guarantees, which would eventually allow them to extend more guarantees by providing lenders with more incentives through higher coverage ratios and guarantee ceilings.

For Southern and Eastern Mediterranean guarantee schemes in general, counter guarantees on a share of their guaranteed portfolio would more resources make available for guarantees."

3.2.3. FINANCIAL PERFORMANCE

1. Return on equity (%) de -13% a 29%
2. Return on assets (%) de -10% a 18%
3. Cost to income including provisions (%) de 38% a 563%
4. Cost to income excluding provisions (%) de 24% a 259%
5. Loan loss absorption capacity (total equity + provisions//outstanding guarantee) de 45% a 101%
6. Leverage: (Outstanding guarantees//equity) de 4 a 35

3.3. AVENUES FOR FUTURE RESEARCH

- "Guarantee schemes in operation are not homogeneous.
- Current data do not allow us to assess whether they meaningfully contribute to alleviating MSMEs' access to finance, and which factors are conducive to a better outreach.
- Such a knowledge base could take the form of a formal network structured around the exchange of information, best practices and research activities.
- The region's CGS to foster the evaluation of programs.
- Future research on CGGs in the SEMCs should assess the viability of associating CGSs with other MSME policies as well as the prospective outcomes of such linkages."

3.4. CONCLUDING REMARKS

Research has showed a high level of heterogeneity in the region's schemes, different patterns of ownership, governance, design, specialization and supervision as well as varying indicators of financial performance.

In the current context of sustained unrest in the region, conditions for MSMEs' access to finance are likely to worsen and CGSs can contribute to alleviate the effects of growing credit rationing in the region

In this regard, it is likely that the COVID-19 pandemic will act as a catalyst, in the same way that financial crises triggered and strengthened the landscape of their policies for SMEs and entrepreneurship financing following the financial crises of 1998 and 2008.

The working group initiated by the Euro-Mediterranean Guarantee Network (EMGN) has already identified some of the policies/incentives implemented or about to be implemented by governments to support the SMEs sector[32], which is hard hit by the current COVID-19 crisis.

In this regard, it is relevant to note that these measures have much in common, which shows that it is possible to work within a common platform, thus paving the way to the establishment of a regional counter-guarantee mechanism (RCGM). For instance, extending the guarantee coverage is commonly used in Tunisia, Morocco and Egypt. Restructuring and rescheduling loans are also practiced in these three countries as well as deferral of tax payments and fees reduction, etc…

[32] *EMGN Webinar 2, 2 June 2020: Tackling the impacts of the COVID-19 through international cooperation in the Mediterranean: assessing measures for guarantees*
EMGN Webinar ,14 April 2020: COVID-19: What role for the credit guarantee schemes to mitigate the health and economic crisis

A4. COUNTER-GUARANTEE SCHEMES (CGSs)

4.1. COUNTER- GUARANTEE DEFINITION

"The **counter-guarantee** provides indirect protection to the lender through a guarantee of the main guarantor. This might be in the form of a guarantee in the case of default of the main guarantor or as a percentage of each loss incurred by the main guarantor. Counter-guarantors can be states, public agencies, or international financial institutions."[33]

4.2. FINANCIAL APPROACH OF THE COUNTER-GUARANTEE

Generally, a bank grants loans to a company whose balance sheet is in a healthy financial situation, based on the following ratios:

- A good financial balance
- An acceptable debt ratio
- A cash-flow which allows the repayment of debt

The role of the Guarantee Institution is to support the Bank when these criteria are not met, thus, allowing the granting of loans on short, medium or long-term.

Short-term financing consist of covering the need generated by the Cash Conversion Cycle (Inventories + Clients – Supplier) i.e., the Working Capital Need for Operations (WCNO)

Medium- and long-term financing consists of financing fixed Assets such as Buildings, Equipment, etc. i.e. the Working Capital = Permanent Funds (Net worth + long-term debt) – Net Fixed Assets

From one year to the next, the activity of the company grows, as does its financing needs; thus the guarantee institution, to keep its coverage ratio, must increase its own funds in order not to deteriorate its exposure; hence the need for a Counter-Guarantee mechanism.

4.3. THE ROLE OF COUNTER-GUARANTEE

Risk management is most effective if the volume of operations to be covered is wider; therefore, transfer of risk to an institution that assumes a part of each guaranteed operation allows optimizing management.

The Counter-Guarantee is in fact a State public support mechanism to guarantee schemes, in order to mitigate risks taken on their guarantee portfolios and allow for a better use for such portfolios expansion. On the other hand, in addition to the coverage, counter-guarantee is a way take the decision of granting of credit away from the public sector and thus avoid one of the risks highlighted in 1996 BID Round Table, which consists in the possible political instrumentation of these entities.[34]

4.4. CHARACTERISTICS OF THE COUNTER-GUARANTEE PRODUCT

[33] *The Typology of Partial Credit Guarantee, Funds around the World by Thorsten Beck, Leora F. Klapper and Juan Carlos Mendoza.*

[34] *July 2015 - AECA p.35.36 Counter-Guarantee*

The Counter-guarantee has greater quality and efficiency in the relation to the guarantee scheme if the financial regulator declares to mitigate the need of capital or provisioning requirements thereof. The guarantee may be qualified or weighted, being explicit in the case of public entities.

Coverage percentage is based on the risk they want to share. As the percentage covered by indemnity increases, the scheme increase moral hazard. On the other hand, as this percentage increases, scheme's granting capacity is multiplied. Therefore, Counter-Guarantee coverage percentage is a decision determined by the binomial level of activity and risk.

Finally, the Counter-Guarantee can be free or bear a cost. In the latter case, resource is rationalized by the schemes and the availability of fund for this purpose is increased by Counter-Guarantee system. [35]

4.5. COUNTER-GUARANTEE BEYOND CONVENTIONAL FINANCING

Over the past ten years, various forms of financing have emerged, some through banks (leasing, securitisation, factoring, private equity, etc.) and others, called alternative financing, through the use of platforms or simply through direct contact between Lender and Borrower: Crowd-funding, Peer-to-peer financing, Venture Capital, Business Angels, Honorary loans etc.

The guarantee institutions and the banks are too often cautious towards these different forms of financing that represent a risk, thus, the intervention of a counter-guarantee mechanism is vital as it allows, by securing these transactions, the development of new sectors such as green economies, women and youth entrepreneurship, etc…

4.6. COUNTER- GUARANTEE SCHEMES IN THE EU

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

However, since the literature in respect of the counter-guarantee is not too developed and is often assimilated to the guarantee practices, thus, reference will be made to the information related to the guarantee schemes and typologies, e.g. public, private, public & private & mutual counter-guarantee… For the same reasons, we will directly develop the few existing examples.

4.6.1. SPECIFIC EXEMPLE OF COUNTER-GUARANTEE SCHEMES # 1: TURKEY, MAP COUNTER-GUARANTEE to KGF BY THE EIF 30/11/2004.

EIF has been providing venture capital, private equity and guarantees to partners and financial intermediaries in Turkey for over 10 years. Through numerous agreements it effectively promoted the development of a sustainable SME financing market.

The Greater Anatolia Guarantee Facility (**GAGF**) combines EIF guarantees financed by the IPA funds of the EU and Turkey' Ministry of Science, Industry and Technology and EIB lending.

[35] Ditto

Initially designed to generate EUR 37.5m of micro-loans to micro-enterprises, and EUR 500m of loans to SMEs through a combination of long-term lending by the EIB and portfolio guarantees or counter-guarantees provided by EIF. Available sources are further complemented by local partner banks.

Based on its success, **GAGF'** budget was increased twice, generating an additional EUR 75m lending for microenterprises and EUR 400m for SMEs, and reaching over EUR 1bn of loan volume in its target region.

As of December 2015, more than 1,800 micro-enterprises and over 8,600 SMEs benefited from GAGF loans.

Key figures (at Jan. 2013)

- Project size : € 112.5 million
- EIF counter-guarantee amount : € 2,925,000
- Counter-guarantee maturity : 8 years
- Project sources: 50% EIF counter-guarantee, 50% KGF guarantee
- Project risk sharing: 40% EIF, 40% KGF, and 20% Bank
- Targeted guarantee capacity : € 90 millions
- Realized guarantee capacity : € 88,646,830
- Realization ratio : 98%
- Number of guarantee transactions : 689[36]

Other relevant Key figures (at 31.12.2015)

- First EIF operation in Turkey: 2004
- EIF-supported private equity funds investing in Turkey: 13
- EIF Financial intermediary Partners: 11
- Turkish SMEs supported: 60,000+
- Total commitments in equity (2011-2015) 271m
- Total commitments in guarantee securitization (2011-2015) 307m
- Expected mobilized resources in equity (2011-2015) 1.9bn
- Expected mobilized resources in guarantee securitization (2011-2015) 3.8bn
- Leverage of guarantees and securitization on equities 307/271= 1.13
- Expected leverage of guarantees and securitization on equities 3.8/1.9=2 [37]

4.6.2. SPECIFIC EXEMPLE OF COUNTER-GUARANTEE SCHEMES # 2: SLOVENIA, MAP COUNTER-GUARANTEE TO SEF BY THE EIF [38]

The Slovene Enterprise Fund (**SEF**) benefits from a counter-guarantee issued by the European Investment Fund (EIF) under the European Community's multiannual programme for SMEs (MAP). Guarantees are intended for investment loans (material and non-material investments). They are issued based on an invitation for application for loans granted by 10 banks in Slovenia. The company submits the application for obtaining the guarantee to SEF after receiving the bank's positive input.

[36] *https://www.kgf.com.tr/index.php/en/our-supports/our-sources/european-investmant-fund*

[37] *EIF in Turkey. http://www.eif.europa.eu/news_centre/publications/country-fact-sheets/EIF_factsheet_tr.pdf*

[38] Guarantees and mutual guarantees, Best Reports, No 3 — 2006, European Commission

The advantages offered to the SMEs are:

- Lower interest rates for loans,
- More favorable terms and conditions for granting loans (lower charges, longer maturity and grace period),
- Guarantees for investment loans raised with commercial banks in Slovenia, and grants in combination with indirect loans or guarantees..
- Guarantee rate is 50 % of bank loan on the principal
- Total amount of guarantee potential is EUR 5.4 million in 2004, which presents EUR 10.8 million of loan potential.
- The most important aim of the scheme is to facilitate long-term credit financing medium-sized competitive enterprises by reducing the credit and interest risk

4.6.3. SPECIFIC EXEMPLE OF COUNTER-GUARANTEE SCHEMES # 3: ROMANIA, COUNTER-GUARANTEE BY THE NATIONAL LOAN GUARANTEE FUND FOR SMES (NLGFSME). (SINCE 2009, BY THE GOV.)[39]

Guarantee system in Romania comprises three independent guarantee funds:

1. Romanian Loan Guarantee Fund for Private Entrepreneurs,
2. Rural Credit Guarantee Fund
3. National Loan Guarantee Fund for SMEs (NLGFSME).

For existing enterprises, guarantees cover up to 75 % of the value of medium- and long-term credits, but no more than EUR 500 000, and up to 60 % of the value of short- term credits, but no more than EUR 400 000.

For start-ups, guarantees cover up to 80 % of the value of medium- and long-term credits, and up to 70 % of the value of short-term credits, with the same value limits.

Commissions are of 1.5 % (for short-term credits) and of 2.5 % yearly (for medium- and long-term credits) of the outstanding guarantee.

The average time for analyzing and approving the guarantee file is nine days.

For start-ups and micro-enterprises there is a special product for microcredits up to EUR 10 000. The guarantees are approved within three days, based on data from the analysis document sent by the bank. Guarantees cover up to 80 % of the value of medium- and long-term credits, and up to 70 % of the value of short-term credits. The guarantee commission is of EUR 100. There is no minimum level for guarantees granted by the fund.

NLGFSME has concluded working conventions with 15 banks (the main banks that finance the SME sector).

The advantages offered to the SMEs:

[39] Ditto

The setting-up of a fund by the State, dedicated entirely to SMEs, is beneficial due to the fact that such a fund, although it proposes to support itself financially, does not have as its main objective the making of an accounting profit from the guarantee activity. It aims to support, through a guarantee policy adjusted to the needs and features of SMEs, the objectives and policies of the government in the area of SMEs, taking into perspective Romania joining the European Union.

The management of the fund's resources is performed carefully, each decision being made in compliance with prudential norms. These include the fund's maximum exposure on a single bank, the fund's maximum exposure on a single debtor, minimum level of solvability, minimum level of liquidity, and treasury management. Meeting the established levels of prudential criteria is checked monthly by the fund's board of directors

4.6.4. SPECIFIC EXEMPLE OF COUNTER-GUARANTEE SCHEMES # 4: LITHUANIA, COUNTER-GUARANTEE BY THE EIF[40]

The **Invega guarantee scheme** is supported by the European Investments Fund's EIF at a 50 % counter-guarantee under the SME guarantee facility's 'loan guarantees' window.

Guarantees by Invega are granted from the guarantee limit set annually by the Government of Lithuania. Invega guarantees are equal to 'sovereign' guarantee, thus are quite effective way of risk mitigation and are treated positively by banks in terms of capital adequacy requirements

Invega generally grants up to 50 % guarantees on bank loans to eligible SMEs. Banks do not usually require the additional pledge of any collateral to secure the guaranteed part of the loan.

To minimize the loss risk, Invega requires the businessperson to invest not less than 20 % of his own capital or assets into the business project for which the loan with Invega's guarantee is taken.

The maximum loan amount that could be guaranteed by Invega is EUR 289 600 for investments, and EUR 145 000 for working capital.

The above facts has made a big step forward strengthening confidence with the banks. Invega has cooperation agreements with almost all commercial banks which have around 400 branches and customer service officers in all main cities and towns over the country.

From the beginning of the activity to 1 October 2004, Invega guaranteed 405 loans to SMEs, of EUR 26 million total portfolio.

The advantages offered to the SMEs:

- Currently, every partner knows what will happen in the case of default. Banks can apply for guarantee payment immediately after the default and receive up to 50 % of the guarantee amount in advance. The rest of the guarantee amount will be paid to the banks after the realization of collateral.

[40] Guarantees and mutual guarantees, Best Reports, No 3 — 2006, European Commission

- No additional collateral is needed to cover the guaranteed part of the loan, thus allowing lower administration expenses to the bank and lower credit cost to the borrower. Banks are satisfied that they can receive a good financial participation of Invega in the case of default and thus are motivated to conduct a recovery action
- The 'first instalment' guarantee principle is good for the efficient use of limited public resources allocated to facilitate SMEs' access to finance, and for increasing the number of potential beneficiaries.
- The design of the guarantees on microcredits was made to give a maximum of additionality to the system and the maximum of incentives for use on behalf of the banks. This scheme has created more favourable conditions for small and starting companies to get external financing for their business development.

4.6.5. SPECIFIC EXEMPLE OF COUNTER-GUARANTEE SCHEMES # 5: FRANCE, COUNTER-GUARANTEE BY THE EIF[41]

Bdpme/Sofaris, as a guarantee system, has an increasing coverage in innovation financing, via several schemes.

- **Medium- and long-term loan for innovative SMEs:** when an SME is declared an 'innovative enterprise' by ANVAR (National Institute for Research and Development), Sofaris increases the share of risk guaranteed (60 % instead of 40 % of the investment amount). Furthermore, the Sofaris guarantee of loans is often used,by some banks, as substitute collateral in the financing of intangible investments.
- **Financing of biotechnology:** it combines loans and equity guarantee schemes. By the end of 2003, 16 loan guarantees had been granted for EUR 17 million of financing and 23 VCFs had been authorized. • **Guarantee of venture capital fund:** the 'Développement technologique pour les FCPI/FCPR' fund, counter guaranteed by the EIF granted 285 guarantees in 2003.
- **Counter-guarantee of banking guarantee**: in addition, Sofaris is currently investigating a guarantee scheme aimed at encouraging large corporations to entrust key projects to innovative SMEs. The principle would be that Sofaris counter-guarantees a bank which pays to the client a contractual amount in the case of SME bankruptcy. The counter-guarantee granted by Sofaris should help SMEs find banking guarantees, in order to act as a more 'trustworthy' provider.
- The advantages of this mechanism are, for the government and European Commission, a perfectly controlled final risk thanks to the stop-loss technique and an important leverage on public money (when VCFs achieve a positive IRR, the leverage increases dramatically)
- The advantages for VCFs are simplified formalities, quick decisions and a smoother 'J curve'. This is particularly useful when trying to bring in institutional investors, which are especially averse to highly volatile returns. Furthermore, the guarantee mechanism increases the amount of cash available during the first years after investment phase, thus allowing for second round financing or new investments.

[41] Guarantees and mutual guarantees, Best Reports, No 3 — 2006, European Commission

4.6.6. SPECIFIC EXEMPLE OF COUNTER-GUARANTEE SCHEMES # 5 & 6: SPAIN, COUNTER-GUARANTEE PROVIDED BY PUBLIC COUNTER-GUARANTEE FUNDS [42]

CESGAR – Confederation of Spanish Mutual Guarantee Societies, SPAIN

The guarantee system of Spain has 18 mutual guarantee societies called sociedades de garantía recíproca (SGR) and a public counter-guarantee society called CERSA (Compañía Española de Reafianzamiento) which is supported by the State.

The SGR (companies) have a particular legal form that meets the legal definition of the SGR.
It is a mutual system with **SME members** (almost 74 000 SME members and beneficiaries, 55 % of the equity) and **protector members** (autonomous regions and other public powers, 29 % of the capital; finance companies, 12 % of the capital; and SME bodies, chambers of commerce, 4 % of the capital).

Cesgar is also in charge of the formation process of the MGS workers and organizes every year a training plan in order to improve the knowledge and formation of the workers and organize the relations between all its members.

4.6.7. OVERVIEW OF THE CREDIT GUARANTEE SCHEMES IN LAC; DIFFICULTIES IN SETTING UP A REGIONAL COUNTER-GUARANTEE MECHANISM - (REF. ANNEX 1)

Latin American SMEs have a particularly significant productivity gap, being responsible for only a quarter of the region's total production value. This difference is particularly large for companies at the end of the size spectrum: Latin American microenterprises account for about 3.2% of production, while in Europe they contribute 6 times more (20% of GDP) even though they have a similar participation in the labor force.[43]

"The guarantee systems activity is basically circumscribed to the national or federal sphere (93%) and poorly to the regional or state one (7%)"[44]

In this context, and referring to the historically active role played by guaranties and counter-guarantee schemes in the Latin America countries, the difficulties encountered in the implementation of a regional counter-guarantee mechanism reveals the complexity of such a process.

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[42] Guarantees and mutual guarantees, Best Reports, No 3 — 2006, European Commission

[43] *SME Policy Index Latin America and the Caribbean 2019, POLICIES FOR COMPETITIVE SMES IN THE PACIFIC ALLIANCE AND PARTICIPATING SOUTH AMERICAN COUNTRIES,OECD*

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(5) https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_small_and_medium-sized_enterprises

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