



# MED MSMEs

Policies for inclusive growth

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



## Regional Risk Sharing Mechanism Counter-guarantees in the South Med

### Strategic Positioning & Recommendations

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# Presentation Outline


## **PART I – Findings and strategic options**

- Questioning and methodology
- Recommendations: Strategic options

## **PART II - Modalities of implementation**

- 5 options
- Operational recommendations
- Next steps



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# Questioning and methodology

Phase 1 of the assignment:  
Regional Risk Sharing  
Mechanism - Good practices



MED MSMEs Working  
groups on A2F: stressing the  
role of guarantees

Questioning

Phase 2 Dialogue

Survey

One-to-one  
interviews

EMGN ANNUAL CONFERENCE 2021  
**THE FUTURE OF CREDIT GUARANTEE  
 SCHEMES IN THE MEDITERRANEAN:  
 OPPORTUNITIES FOR A STRENGTHENED ROLE**  
 24 January 2022 - Virtual event



**4 intervention strategy options**  
**5 modalities of interventions**



**Panel: 11 institutions consulted in 7 countries**

**Interview organized around 5 key topics**

- Situation analysis
  - Prospects
- Regional Risk Sharing Mechanism additionality
  - Main identified risks
- Possible governance structure
  - Recommendations



## Questions 1 - 3

- Can the role of NGCs be increased to foster inclusive and sustainable growth? **Yes, strategically NGCs are at forefront to support both development of new business opportunities and post covid recovery**
- Can a RRSM boost NGCs impact on sustainable and inclusive growth? **Open new market segments, extend the portfolio, address the establishment of banking facilities, raise the above-ceiling risks, tackling default and COVID portfolio**
- How can the common interest of NGCs be structured to provide regional products? **Minimum denominator among NGCs is the strategic outlook on digitalization, fintech, innovative finance sectors, to support local economies for which new products**



## Questions 4 - 6

- Does the pandemic impact on NGCs call for specific treatment measure? **Yes, especially because NPL and PAR increasing is expected**
- Which intervention policy will create additionality and economic leverage at a regional level? **A risk sharing facility - through capital, know how, TA, exchange of practices and information – can provide marked based incentives, related infrastructure and regulations to generate economies of scale by fostering green and impact investments**
- What does it imply in terms of governance, business model, financial and operational settings? **Term sheet to include all consultation recommendations**



# polls

- 52% of participants supported the idea of a **guarantee – industry support instrument** (as opposed to discrete intervention)
- 72% pleaded for an intervention that would foster **innovation with an increased participation of the private sector**
- 76% would prefer to tackle simultaneously the **COVID Non Performing Loans issue and the development of new practices**





## Strategic recommendations

- The RRSM can **generate economies of scale** by becoming a centre of excellence (AAA) developing tools to **manage new risks** but also by providing **new products** and related **new expertise** to address and manage these new risks and **achieve new business opportunities**.
- **Donors should participate with capital, know-how and TA** with significant investments on **technology** transfer for data sharing to increase regional cooperation.
- The **strategic intervention** to creating a RRSM to become effective will **need** the support of **a diagnostic** to evaluate which option scheme successfully apply because selected as closer to the effective market needs.



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# Strategic positioning options

# Four intervention strategies

## TARGETED AT PORTFOLIOS

- Option 1** Scaling up existing operation (traditional)
- Option 2** Support innovative green businesses (new opportunities)

## TARGETED AT THE GUARANTEE SECTOR

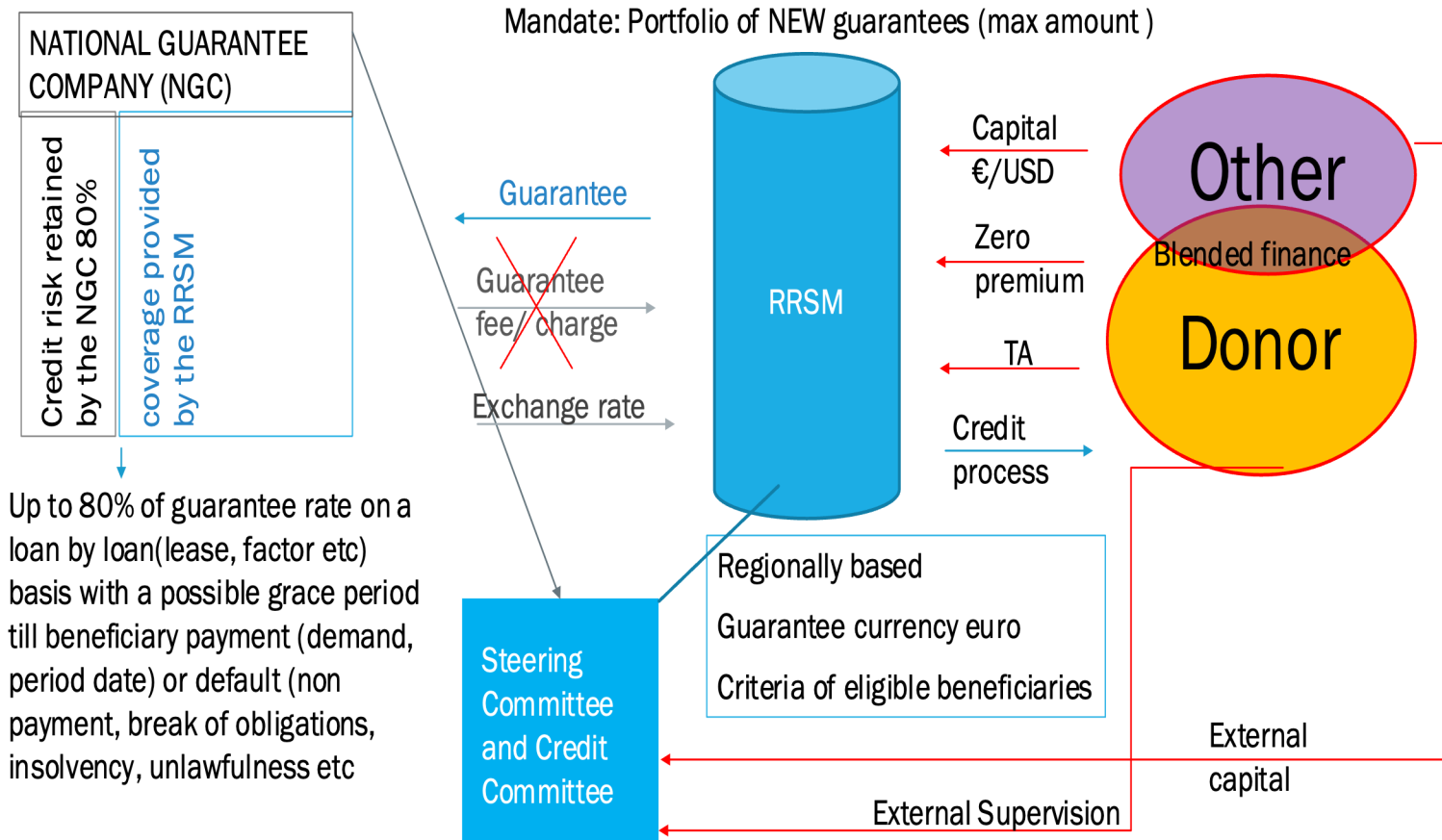
- Option 3** Foster innovation in the guarantee sector with private sector involvement
- Option 4** Increase the resilience of the guarantee sector (addressing NPLs contributing to the post COVID)



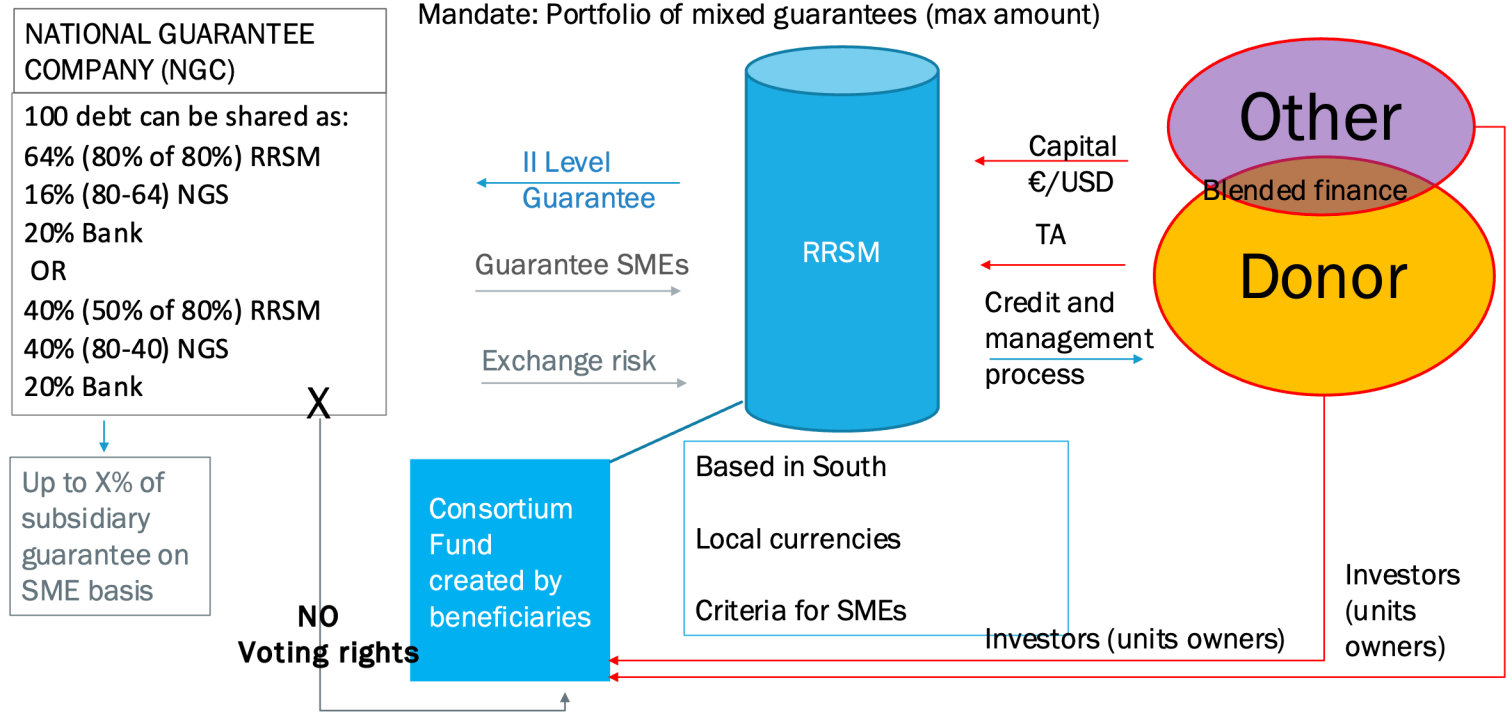


**PART II**  
**Modalities of  
implementation**

## SCENARIO 1 TRADITIONAL PUBLIC OWNED

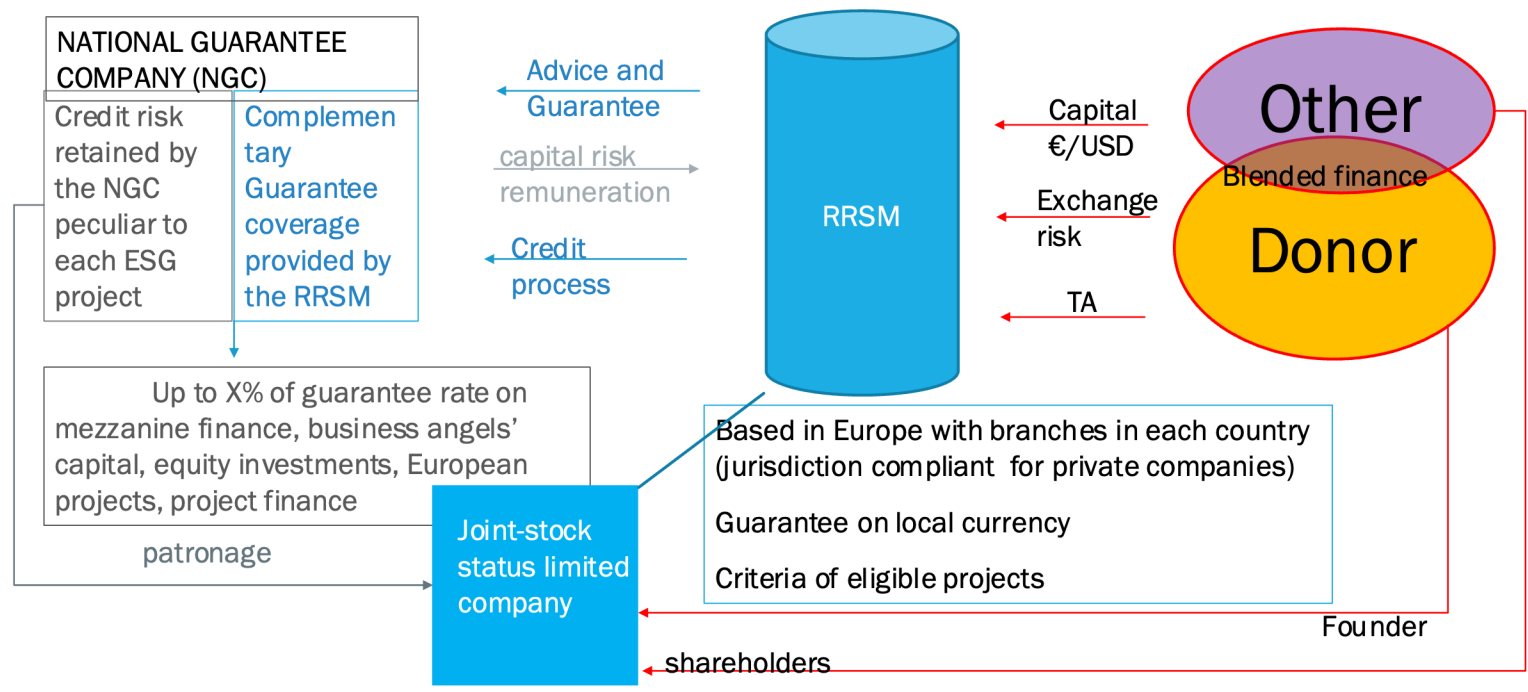


## SCENARIO 2 MUTUAL GUARANTEE COMPANY



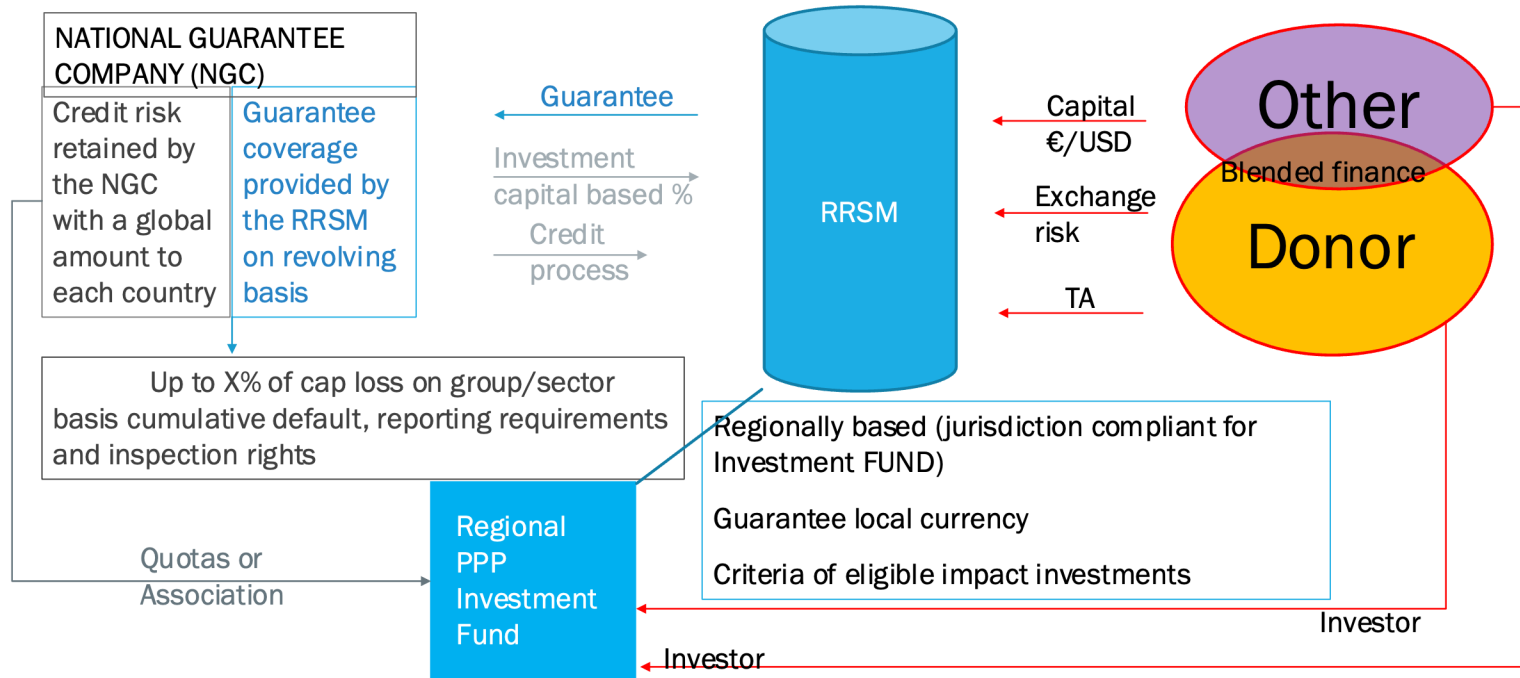
## SCENARIO 3 PRIVATELY OWNED COMPANY

Mandate: Portfolio of BLENDED (% of new/old) guarantees (max amount)



## SCENARIO 4 PPP REVOLVING FUND

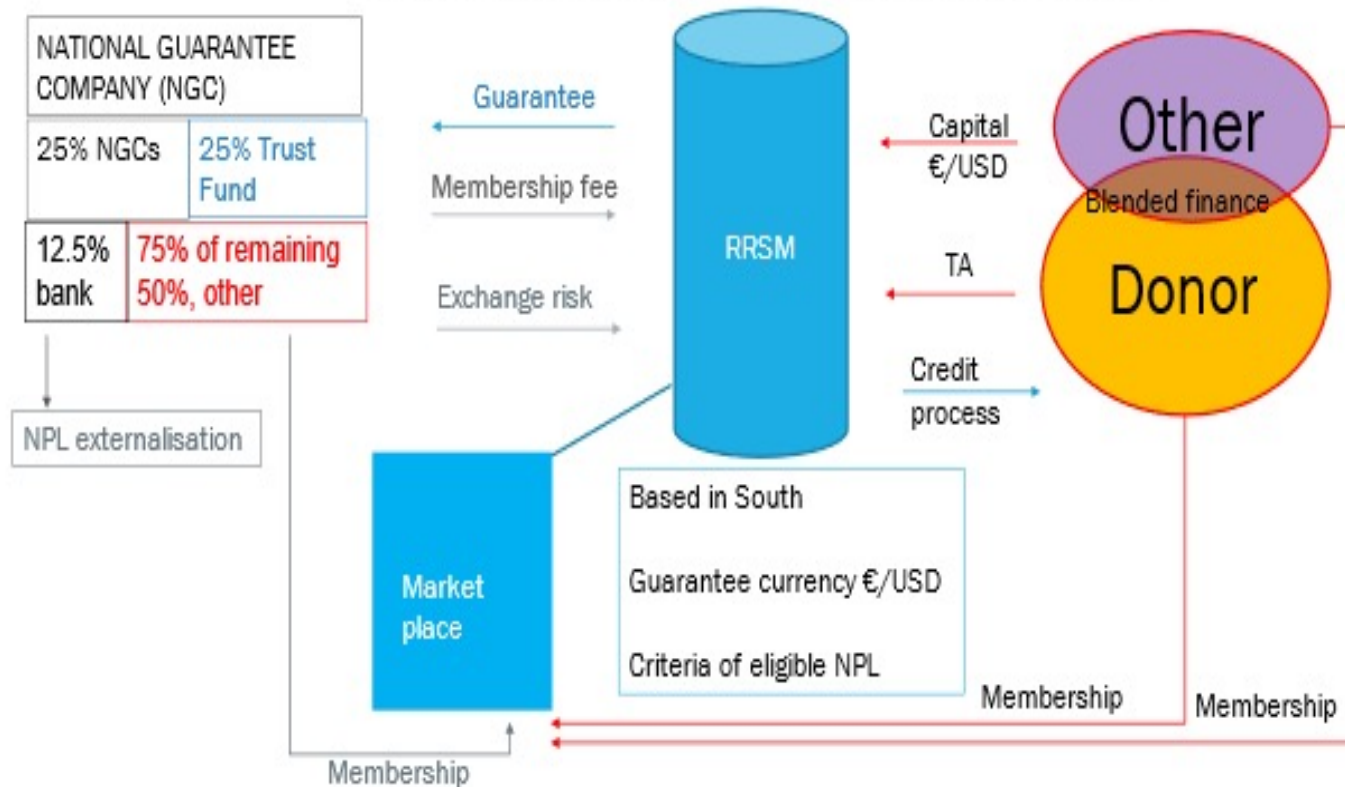
Mandate: Portfolio of BLENDED (% of new/old) guarantees (max amount)





## SCENARIO 5 COVID AND NPL TRUST FUND

Mandate: Portfolio of COVID/NPL EXISTING guarantee (max amount)



## Recommendations for implementation (1/2)

- RRSM clear priorities and objectives need to be reflected in the new institution activities, to both **extend the multipliers** and **harmonising interventions within countries and sectors**

because

- Financial sustainability (**operational costs, risks assessment and pricing**) is conditioned by the **nature of resources** and the **scheme design**

as

- The **new instrument can provide**: subsidised interest rates, reduced statutory reserve requirements, and tools for credit risk analysis

and

- Specific **TA** e.g., for technicalities, liquidity management, currency risk evaluation and management, legal advice



## Recommendations for implementation (2/2)

- The RRSM
  - by funding operations and **subsidising the guarantee fee** can reach a **coverage closer to 80-100%** by both making it affordable and by creating new business opportunities e.g. green energy and start ups
  - by offering sufficiently attractive conditions (such as a **negative premium**) to incentive e.g. impact financing and informal business
  - by the provision of **equity guarantees and first loss ratio to target** capital toward specific sectors e.g. collaterals for digital companies, women entrepreneurs
- **Data sharing will help to optimize costs** and define subsidy / market discount an **increase regional cooperation**



- Elaboration of an **indicative term sheet** for the selected option
- Further coordinated with **GIZ / EMGN** team to draft a term sheet with common features
- Include a series of **follow-activities** linked to the best option(s) selected e.g.:
  - detailed assessment of the COVID NPL portfolio,
  - identification of parameters and criteria for green finance and impact financing in the region,
  - development of a regional digitalization and business innovation strategy
  - plan data collection and share through a regional IT system implementation
- Support **peer-to-peer exchange** within EMGN workshops (virtual and in presence) and/or one-to-one activities (ex. study tours to Europe and within the region to meet regulators, possible counterparts and partners, experienced institutions; meetings among partner countries to share best practices, regulations, plan stakeholders approach etc.



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Thank you