ADVISORY

Credit access guarantees: a public asset between State and Market

International survey on guarantee market players

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Contents

Introduction and scope of the survey

The project: international survey on guarantee market players

KPMG Advisory is the leading advisor for guarantee schemes in Italy. Through its long-standing experience, it has become aware of the following:

1) the close relationship between the actions of players and the public guarantee schemes that form the guarantee chain
2) the specific business models that big players adopt compared to smaller players
3) a broad comparison of experiences and best practices nationally that is still absent at the international level, as it is limited to political-institutional aspects and the protection of international representative associations.

This survey is based on these considerations, with the goal of mapping and gaining a better understanding of the major credit guarantee players operating in different countries, as well as encouraging a technical, industrial and operational comparison of market leaders on their role and importance in national and international financial systems.

This document sets out the evidence gleaned from this 'International survey on guarantee market players'. With this in mind, the aim is to create a real and permanent watchdog for the credit guarantee market segment that can monitor the activities of major players and encourage them to discuss technical issues.

Data analysis and survey process

The analysis originally embraced all international organisations operating in the guarantee market and all the various schemes, without limitation. Conceptual and parametric filters were inserted, with subsequent approximations, enabling us to identify a relatively uniform and comparable group of 'Big Players'.

The survey process was divided into the following stages:

Survey Process

1 PRELIMINARY IDENTIFICATION OF COUNTRIES WITH SIGNIFICANT GUARANTEE SCHEMES	2 IDENTIFICATION OF THE MAIN PLAYERS AND DESK SURVEY	3 'BIG PLAYERS' SELECTION AND SENDING OF QUESTIONNAIRES	4 FEEDBACK RECORDING AND DATA ANALYSIS AND PROCESSING
• Analysis of relevant literature of the credit guarantee segment • Analysis and identification of segment player networks • Identification of the main national legal frameworks	• Identification of the main state-owned players • Identification of the main privately-held and state-and-privately-held players	• Selection of a restricted panel of players • Analysis of publicly-available documentation • Drafting of a special survey questionnaire	• Questionnaire feedback from eight players • Use of updated publicly-available data of the individual players (2009 financial statements)

Publicly-available official sources were used for stages 1 and 2, mainly relating to:

- financial literature
- papers on specific national guarantee market issues (i.e., state aid, risk management activities, etc.)
- proceedings of international conferences promoted by networks of players and data from the individual associations of players
- financial statements of the individual players
- specific surveys.

A direct analytical survey was conducted in stages 3 and 4, by creating and sending a questionnaire that was designed to examine the activities of a number of important players, in both qualitative and quantitative terms using uniform procedures and parameters.

The questionnaire was also presented to the selected players through the important contribution of the advisory firms in the KPMG Network in other countries.

Scope

The first information screening enabled us to identify a number of countries with credit guarantee schemes of a significant size and structure, both in relation to the country's overall financial system and in terms of 'advanced' relationships with the relevant banking system.

Survey Results

1 PRELIMINARY IDENTIFICATION OF COUNTRIES WITH SIGNIFICANT GUARANTEE SCHEMES	2 IDENTIFICATION OF THE MAIN PLAYERS AND DESK SURVEY	3 'BIG PLAYERS' SELECTION AND SENDING OF QUESTIONNAIRES	4 FEEDBACK RECORDING AND DATA ANALYSIS AND PROCESSING
• 4 player networks • 22 significant countries analysed • 74 players identified	• 18 countries • Approximately 40 players identified • Approximately 25 state-owned players/public funds	• Questionnaires sent to 16 players	• Questionnaire feedback from eight players • Informal feedback and annual report from one player

Therefore, the first evidence gleaned from the desk analysis (stages 1 and 2) helped identify the national contexts which were important for credit guarantee purposes. These were identified using a number of criteria for admissibility that had to be met, including:

- players with their own independent assets
- players with an all-round and well-designed business organisation to support operations (geographical distribution of offices, number of employees, etc.)
- players who usually operate in the general market, are thus not limited to certain economic-production segments, and are mainly focused on small and medium-sized enterprises (SMEs)
- players who operate in and are part of an important global economy (for example, those included in The Group of Twenty – G20 panel).

The desk analysis of publicly-available information enabled us to identify the main players for each country included in the sample and the first quantitative evidence. Specifically, the following eighteen countries and relevant players were identified (Table 1).

Table 1
Important Players

	Country	Predominant model	Reference player
1	BRAZIL	public	FUNPROGER
2	CANADA	public	Canada Small Business Financing Program
3	CHILE	public	Fondo de Garantìa Para Pequeños Empresarios (FOGAPE)
4	COLOMBIA	public	Fondo Nacional de Garantìa S.A. (FNG)
5	FRANCE	public / private	OSEO Garantie
6	GERMANY	private / financial	Bürgschaftsbank Baden-Württemberg GmbH
7	HUNGARY	public / private	Garantiqa Hitelgarancia Zrt.
8	INDIA	public	Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
9	INDONESIA	public	Perum Jaminan Kredit Indonesia (Perum Jamkrindo)
10	ITALY	private	Eurofidi
11	JAPAN	public	Credit Guarantee Corporation of Tokyo (CGC Tokyo)
12	MALAYSIA	public / private	Credit Guarantee Corporation Malaysia Berhad (CGC)
13	PORTUGAL	public / private	Norgarante Sociedade de Garantia Mútua, S.A.
14	RUSSIA	public	*no evidence*
15	SOUTH KOREA	public	Korea Credit Guarantee Fund (KODIT)
16	SPAIN	public / private	Sociedad De Garantìa Reciproca De La Comunitat Valenciana
17	THAILAND	public	Small Business Credit Guarantee Corporation (SBCGC)
18	TURKEY	public / private	Kredi Garanti Fonu (KGF)

In the sample examined, Russia and Canada did not meet the identified legal, structural and capital criteria although in terms of size they may be considered important players compared to the others. These countries have state programmes financed through laws that provide for spending until all funds have been utilised.

Sending and analysing the questionnaires (stages 3 and 4) enabled us to obtain feedback (even though, in certain cases, this was only partial or based on publicly-available data) from the following 'Big Players':

1. OSEO Garantie – France
2. Garantiqa Hitelgarancia – Hungary
3. Perum Jamkrindo – Indonesia
4. Eurofidi – Italy
5. Credit Guarantee Corporation of Tokyo – Japan
6. Korea Credit Guarantee Fund (KODIT) – South Korea
7. Sociedad de Garantìa Reciproca de La Comunitat Valenciana – Spain
8. Small Business Credit Guarantee Corporation (SBCGC) – Thailand
9. Kredi Garanti Fonu – Turkey

“Guarantee schemes:
a credit leverage
and an important tool
for facilitating access to financing”

Executive Summary

The major operating differences in guarantee schemes on international level have made it necessary to compare the 'operating' models of these special intermediaries. At present, this occurs only on a national/regional level, not globally.

KPMG Advisory's survey is based on the need to bridge this gap.

The desk analysis focused on eighteen countries: eleven of these belong to the G20 panel (Brazil, Canada, France, Germany, India, Indonesia, Italy, Japan, Russia, South Korea and Turkey); the other seven (Chile, Colombia, Hungary, Malaysia, Portugal, Spain and Thailand) present important credit guarantee cases although they are not among the main global economies.

The survey is also based on the results of a questionnaire answered by nine major guarantee players (the 'Big Players').

The following considerations emerge from matching the information obtained through the desk analysis with the evidence gleaned from the questionnaire.

- Credit guarantee players have relatively uniform business models, mainly due to territorial proximity and regional/continental similarities.
- Most of these players are currently state-owned, even though predominantly private players are increasing, especially in certain developed economies in the West.
- Due to the economic crisis, guarantee schemes have now once again become important ways to improve access to credit and offer credit leverage (also known as additionality) rather than being mere credit risk mitigators as in the past. Only 10 to 20% of companies who resorted to the 'Big Players' would have had access to the loan without guarantees. Therefore, the support provided by guarantee schemes should not distort the credit market by making it easier for unreliable companies to obtain financing.

- Indeed, guarantee schemes are designed to act in situations of stability. The pressure they are currently experiencing and the unfavourable economic situation have adversely impacted their soundness and ability to issue guarantees, and is also deteriorating the quality of their assets. The survey shows an increase in players' bad debts.

- In this scenario, it is important for guarantee players to start up a sharing process to enhance and spread best practices and discuss the most critical issues.

- In this respect, the networks' role is fundamental to expanding the credit guarantee culture and lobbying activities. These networks, which do not support production, should expand their research and development, which currently focuses only on international, but not intercontinental, promotion. In fact, in intercontinental relationships, individual players are currently limited to a 'visiting role', participating in events organised by other networks.

These considerations are simply points of departure for further analysis, which will be developed through the ongoing monitoring activities of the 'International survey on guarantee players'.

An overview of guarantee schemes around the world

At the beginning of the survey process, we collected and analysed publicly-available data for each of the panel countries in order to identify the reference players and the first quantitative evidence.

Guarantee schemes in international economic literature

At the beginning of the survey process, it was not easy to collect and compare international data, because surveys conducted to that point had, at most, a ‘continental’ reach. On the other hand, we were able to consult an enormous number of monographic studies on partial credit guarantees that analyse the various national schemes, primarily from the banks’ and companies’ perspective. Only recently has the focus of these studies shifted to the guarantee institutions themselves and the relevant business models.

In this respect, we collected and analysed publicly-available data for each of the panel countries in order to identify the major players and the first quantitative evidence. Eleven of the countries we analysed are major economies in the G20; the other seven present particularly important credit guarantee cases, so we deemed it useful to include them to best represent the international framework.

Before describing the evidence obtained from the survey, we should mention two international research studies on credit guarantee schemes for enterprises.

The first survey, conducted by the World Bank in 2007, is the most important, guarantee scheme analysis, and with its intercontinental reach, also the broadest. However, considering the complexity inherent in every comparative analysis, the World Bank’s survey has a different approach from KPMG Advisory’s survey (especially in terms of the survey’s purpose), which makes it impossible to compare them. Specifically, the difference lies in the definition of the players analysed. In the World Bank survey, in certain countries examined player associations guarantee credit (such as Assoconfidi in Italy) rather than the players themselves; in other countries, the survey considers organisations which are not top players. In the absence of previous surveys and due to the difficulties caused by territorial differences, the World Bank’s survey is a milestone for broad, wide-ranging surveys.

The second survey was conducted by Jacob Levitsky in 1997 and was based on the results of the survey carried out by Graham Bannock and Partners between 1995 and 1997 in 85 countries and on many other studies on the topic which date back to the nineties[1]. Though this survey is older, it is more similar to KPMG Advisory’s survey, despite the different methodological approach (KPMG’s is more analytical and broader) and results (Tables 1 and 2).

Table 2
Summary of Jacob Levitsky’s survey

Countries with guarantee schemes	Main guarantee scheme players identified		Main qualitative-quantitative elements analysed
	Guarantee market player	**Country**	
85: number of countries where guarantee schemes for SMEs have been identified 61: number of countries where information on the relevant guarantee schemes has been collected	Small Business Loan Act Guarantee Scheme (SBLA)	Canada	- Risk sharing - Guarantee staff - Leverage - Bank participation - Guarantee claims - Debt recovery - Guarantee fees - Cost of operating guarantee
	Fondo Nacional de Garantias	Colombia	
	Credit Guarantee Company (CGC)(1)	Egypt	
	SOFARIS (2)	France	
	Burgshaftsbanken	Germany	
	Deposit Insurance and Credit Guarantee Corporation (DICGC)	India	
	Indonesian Credit Insurance System (ASKRINDO) (3)	Indonesia	
	National Federation of Credit Guarantee Corporation (NFCGC)	Japan	
	CGC Berhad	Malaysia	
	Romanian Loan Guarantee Fund (RLGF)	Romania	
	Korean Technology Guarantee Fund (KOTEC)(4)	South Korea	
	Small and Medium Business Credit Guarantee Fund (SMBCGF)	Taiwan	
	Small Industry Credit Guarantee Fund (SICGF) (5)	Thailand	
	Small Business Development Corporation (SBDC)	Trinidad and Tobago	

Note:
(1) KPMG Advisory’s survey only considers CGC Tokyo as it chose to select a player rather than a network of players for each country under examination;
(2) The player chosen for the French case in KPMG Advisory’s survey is OSEO, established through the 2005 merger of SOFARIS and Anvar;
(3) KPMG Advisory’s survey chose to analyse Perum Jamkrindo for Indonesia, which is currently the most important experience;
(4) KOTEC changed its name to Korea Technology Finance Corporation in 2009;
(5) In 1991, this institution was replaced by the Small Business Credit Guarantee Corporation (SBCGC).

1 Jacob Levitsky, *Credit guarantee schemes for SME’s – an international review*, Small Enterprise Development, vol. 8, no. 2, June 1997

The concept of additionality arose and became popular in the nineties, when these and many other surveys on the issue were being conducted. Guarantee schemes facilitate access to credit for companies who would otherwise be unable to obtain it, transforming the role of these players from 'risk mitigators', which reduce the banking system's information asymmetries, to 'risk underwriters'. With the economic crisis, guarantee players have returned to being the sole credit access tool for most SMEs. However, this trend should lead to the gradual opening of guarantee schemes to private capital.

There is vast market literature which describes and analyses the various credit guarantee schemes. However, most of these surveys and this literature have a national reach or focus on specific issues (i.e., the contribution to reducing interest rates, the effects on the impairment rate, the impact on credit access, etc.).

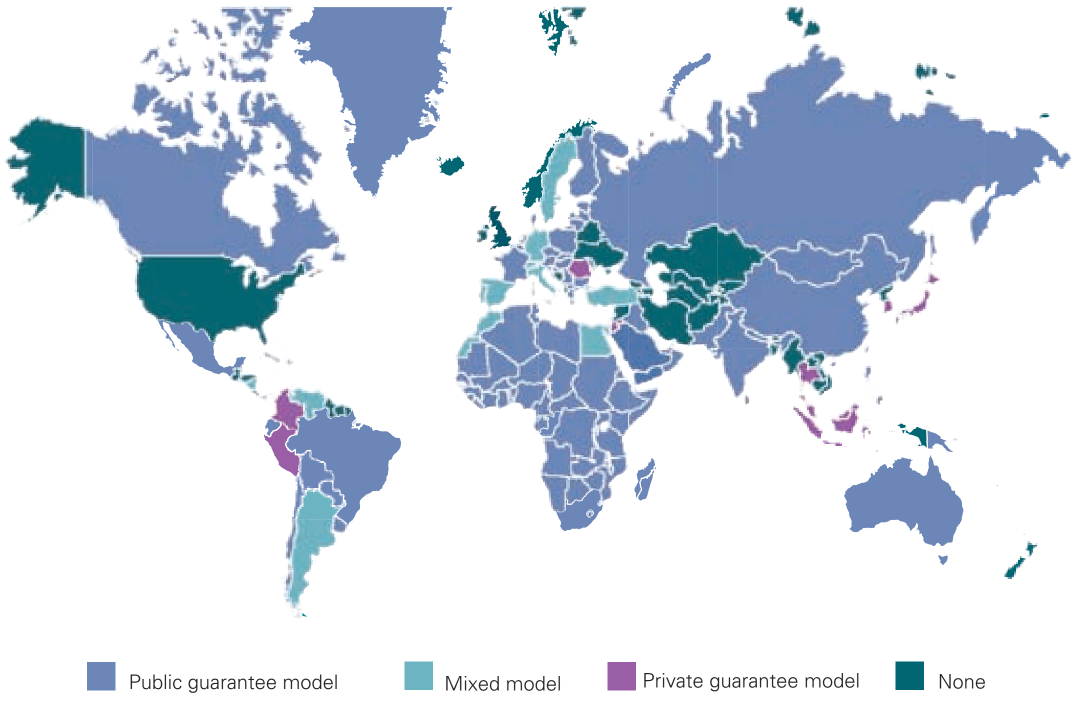
KEY WORD

Additionality: guarantee schemes are essential tools that facilitate credit access to companies which otherwise would not meet the requirements for obtaining loans from the banking system

Table 3
Summary of Jacob Levitsky's survey

	Some evidence on the identified guarantee schemes
Risk sharing	Out of the 70 guarantee schemes: - 17 cover 50% of the risk - 8 cover 100% of the risk - the remainder cover from 60 to 80% of the risk
Leverage	The ratio of issued credit to guaranteed credit is, in the worst case scenario, 5 to 1; in the longest-standing guarantee schemes (in the European and Asian countries), this ratio may well exceed 20 to 1.
Guarantee fees	- commission calculated as a percentage of the guaranteed credit or issued loan - registration fee (on average from 0.25% to 1% of the loan) - annual fee (on average from 0.5% to 2% of the guarantee)
Additionality	A number of analyses show how guarantee schemes foster credit access to companies which would otherwise be excluded from it. In the various schemes analysed, the percentage of enterprises whose application for credit would have been rejected if not guaranteed was as follows: - 90% (according to Fundes' estimates on Panama, Costa Rica, Guatemala, Bolivia, Chile and Colombia); - 63% (according to Boocock and Shariff's estimates on 32 guarantee beneficiaries in Malaysia); - 48% and 68% (according to NERA's and Pieda's estimates, respectively, in UK); - 53% (according to (unknown) estimates on Japanese SMEs); - etc.

Guarantee schemes models in the world



Main features of international guarantee schemes

In this section (Tables 4 and 5) we summarise the main qualitative and quantitative features of the international guarantee schemes identified by KPMG Advisory's analysis on publicly-available data and information. Market players operating in the G20 countries are separated from others which, although they have significant credit guarantee experience, are not among the world's major economies.

Table 4
Guarantee schemes in the main G20 economies

Country	Main guarantee scheme	Reference market players	Other qualifying elements
Brazil	• State-owned players (funds with independent capital set up by state laws).	• **FUNPROGER:** second floor guarantee, mainly for nationwide public banks; public funds managed by Banco do Brazil and promoted by SEBRAE; target clients are small and medium enterprises up to 2,2 Euro millions of revenue	• Strong legislative impulse from 1997 to 1999.
	• Privately-held players (Sociedades de garantìa de credito) promoted by SEBRAE (the agency for the development of SMEs). These still have a secondary role.	• **Garantiserra**, established in 2008 on the model of the Spanish Sociedades de Garantìa Reciproca and operating exclusively in the Serra Gaucha region. In quantitative terms, its operations are still marginal compared to those of state-owned funds.	• Starting from 2008, SEBRAE promoted the establishment of state-and-privately-held regional guarantee companies, consistent with the federal structure of the Brazilian state.
Canada	State guarantee programme (promoted by the government through Industry Canada, the Canadian governmental department with responsibility for economic development, investment, and innovation).	**Canada Small Business Financing Program** (this programme relates to funds not qualified as capital of an independent legal entity, therefore it may not be compared to credit guarantee market players).	85% of the risk is covered by the government, the remainder by financial institutions. Companies apply directly to the banks which examine the requests and take the necessary steps in order to use publicly-available guarantees.
France	State-and-privately-held players.	36 players: • OSEO Garantie (59.84% held by OSEO Financement, in turn held by the state, addressed to micro, small and medium-sized enterprises of all industries) • SIAGI (75% held by APCM, the French network of chambers of professional trades, 2.5% by OSEO Garantie and the remainder by financial intermediaries, addressed to micro enterprises of the crafts industry) • 34 SOCAMA (Sociétés de Caution Mutuelle Artisanale, regional cooperatives-direct mutualism).	Banking sector law enacted on 24 January 1984. SIAGI and SOCAMA are financial institutions. OSEO Garantie and OSEO Financement are special financial institutions as they are predominantly state-owned. All players are directly controlled by Banque de France.
Germany	Privately-held (financial) players.	22 regional private players (Burgschaftsbankens). The biggest players, based on the industry in which they operate, are: • **Bürgschaftsbank Baden-Württemberg** • **Bürgschaftsbank Sachsen**	• The Burgschaftsbankens are governed by banking regulations. They are 'special financial intermediaries' as they are not authorised to raise funds. • These players act on a monopoly basis: each Burgschaftsbanken operates in its own region. If there are more than one players in a region, they are specialised by industry. • Indirect mutualism: Burgschaftsbankens are not promoted directly by the beneficiary enterprises but by the Chambers of Commerce with which the enterprises must be registered.

Country	Main guarantee scheme	Reference market players	Other qualifying elements
India	State-owned players.	• **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** is the most important player • **Deposit Insurance and Credit Guarantee Corporation** • **Export Credit Guarantee Corporation of India Ltd** (export credit).	The CGTMSE was set up by the Indian government and by SIDBI (Small Industries Development Bank of India) to make the Credit Guarantee Scheme (CGS) launched in August 2000 by the Ministry of Micro, Small and Medium Enterprises (MSME) operative. This scheme interrupted the operations of the Deposit Insurance and Credit Guarantee Corporation.
Indonesia	State-owned players (funds with an independent legal status operating on a large-scale national level).	**Perum Jaminan Kredit Indonesia (Perum Jamkrindo)**	Established in 1971, this company provides guarantees to small and medium-sized enterprises and cooperatives of all industries.
Italy	• Privately-held players (SMEs and entrepreneurs' associations). • State-owned players (or semi-public players, local bodies and regional financial institutions which support or replace private players where absent).	• **Eurofidi** • **Sistema Fedart Fidi** • **Sistema Federconfidi** • **Sistema Federfidi** • **Sistema Federascomfidi**	• Regional distribution (mainly concentrated in Lombardy, Veneto, Piedmont, Sicily, Sardinia and Tuscany). • Very disjointed and inconsistent scheme. • Direct mutualism (mutual guarantee cooperatives and consortia) • The Consolidated Banking Act under development could reduce the operations of Italian guarantee providers (CONFIDI) not supervised by the Bank of Italy, while favouring those listed in the official register.
Japan	State-owned players (the government disburses outright grants).	**52 Credit Guarantee Corporations (CGC):** • 47 offices distributed over the country, one for each prefecture • 5 in each metropolitan city • **CGC in Tokyo** is the largest (with a market share of more than 40% and with less than 10% of the scheme's total branches).	• Non-profit public financial institutions. • The guarantees given usually cover 100% of the loan. • Controlled by the central government through the Ministry of Finance, the METI (Ministry of Economy, Trade and Industry) and local governments. • There is no competition at all. • They represent a supplementary economic policy tool. • Indirect mutualism is almost insignificant as the Chambers of Commerce are minority shareholders.
Russia	State-owned players (funds with an independent legal status financed by local federal governments).	**14 funds**, for which no statistics are available; we were therefore unable to identify the reference players.	Regional (federal) operations.
South Korea	State-owned players (operating at national and municipal level)	**Korea Credit Guarantee Fund (KODIT)**, for SMEs of the traditional industries (wholesale & retail and manufacturing) and **Korea Technology Finance Corporation (KIBO)**, for SMEs of the technological industry. 16 small players operating at municipal level.	• KODIT (established by law in 1974) and KIBO (established by law in 1986) are non-profit guarantee institutions supervised by the Ministry of Economy, Finance and the Budget and by Parliament. • Regular compulsory grants issued by the government and the banks to guarantee players. • Guarantee coverage: from 60 to 80%. KIBO may guarantee up to 100% for those companies which invest in technology.
Turkey	State-and-privately-held players.	• **TESKOMB (Union of Credit and Guarantee Cooperatives for Tradesmen and Craftsmen of Turkey)** divided into three levels: 970 cooperatives for craftsmen and tradesmen, 32 regional offices, national union • **Kredi Garanti Fonu,** 33% held by TOBB, the Turkish chambers of commerce and trade-unions system, 33% by KOSGEB, the organisation for the development of small and medium-sized enterprises, and the remaining 33% by entrepreneurial associations and, most of all, banks.	• TESKOMB is more like a players' association rather than an individual player. Direct mutualism as the shareholders are the same beneficiary cooperatives. • Kredi Garanti Fonu finances all SMEs, especially those of the manufacturing industry. It has received EU grants since 2009.

Table 5
Other important credit guarantee cases

Country	Main guarantee scheme	Reference market players	Other qualifying elements
Chile	State-and-privately-held players (public institutions, state-owned funds and private companies).	• **Fondo de Garantìa para Pequeños Empresarios (FOGAPE)** state-owned fund, leading institution • **PROAVAL** (established in 2008 on the model of the Sociedades de Garantìa Reciproca, whose promoters are private investment funds).	A law enacted in June 2007 introduced the possibility to establish Sociedades de Garantia Reciproca. The first one was set up in 2008.
Colombia	State-and-privately-held players (public institutions, regional state-owned funds consistent with the federal structure of the Colombian Republic, and private companies).	**Fondo Nacional de Garantìa S.A. (FNG)** state-and-privately-held fund with an independent legal status, an S.A. of a 'commercial' nature established in 1982. It is divided into nine regional funds and provides guarantees to SMEs of all industries except for the agricultural industry (supported by the **Fondo Agropecuario de Garantìas).**	Promoters which have an investment in the Fondo Nacional de Garantìa: Ministerio de Hacienda y Credito Publico, Banco de Comercio Exterior de Colombia, Ministerio de Comercio, Industria y Turismo, Findeter (Financiera de Desarrollo Territorial, an entity set up by the government to finance national development activities).
Hungary	State-and-privately-held players.	• **Garantiqa Hitelgarancia** (the most important player, held by public and private shareholders, namely, the Ministry of Agriculture and many financial partners). • **Hungarian Enterprise Development Fund** (an independent organisation set up in 1991 with the aim of promoting the development of SMEs. A regional network which issues guarantees in the country's 20 counties with very limited operations).	• Garantiqa Hitelgarancia provides its services mainly to agricultural enterprises, which did not avail of guarantee services in the previous five years with a project related to the industry's development. • Garantiqa Hitelgarancia has acted as a financial institution since 2008 and is therefore subject to supervisory regulations.
Malaysia	State-and-privately-held players.	**Credit Guarantee Corporation Malaysia Berhad (CGCMB)** established to facilitate credit access by SMEs of all industries.	Development financial institution, held by Bank Negara Malaysia (the central bank) with a 79.3% stake; the residual 20.7% is held by a number of commercial banks. It manages guarantee programmes with the assistance of its partner commercial banks.
Portugal	State-and-privately-held players.	• The scheme's holding, **SPGM Sociedade de Investimento S.A.,** established in 1994 as pilot mutual guarantee company, contributed all its initial assets to Norgarante and Lisgarante. It currently has investments in the four regional players: **Norgarante, Lisgarante, Garval and Agrogarante.** • **Norgarante,** the most important player, provides guarantees to SMEs in the north of Portugal. The promoters are both public (Portuguese government, Portugal's tourism institute, SPGM and main national banks) and private entities (most of all, the companies benefiting from the guarantees which have more than a 45% investment in the company).	• This scheme is based on the direct mutualism principle. • There is also a state-owned counterguarantee fund (FCGM) which enables to counterguarantee on average 60% of the guarantee. This fund is managed by SPGM, which in turn can counterguarantee itself at a 'third level' with FEI.

Country	Main guarantee scheme	Reference market players	Other qualifying elements
Spain	State-and-privately-held players.	• 3 Sociedades de Garantìa Reciproca (SGR), operating at a national level and specialised by industry, and 20 operating at a regional level. • The largest ones are **Sociedad De Garantìa Reciproca De La Comunitat Valenciana** (the largest one in terms of size, which operates in Valencia) and **IBERAVAL** (which operates in the Castile region). Promoters: public bodies, financial institutions, cooperatives, associations, chambers of commerce and SMEs.	• Spain's credit access support scheme has always been very strong in the past as 99% of its enterprises are SMEs. • It is a direct mutualism system. • SGRs are governed by a law enacted in 1994 which also limits the public sector's and banks' investments in these players. • SGRs are financial and not banking intermediaries and, therefore, are supervised by the Central Bank.
Thailand	State-owned players.	**Small Business Credit Guarantee Corporation (SBCG)**, established by the government in 1991 and specifically by the Ministry of Economy and Finance. It is a special financial institution supervised by the Central Bank.	• The law for the establishment of the Credit Guarantee Corporation was enacted in 1986. SBCGC was not set up until five years later, therefore it has not yet developed its potential. • Issuing guarantees on behalf of the government is to be considered as an economic policy tool providing support in periods of economic downturn.

In short, most of the guarantee players operating in the international scenario are state-and-publicly held, mainly through public capital. However, given the increasingly important role of this tool, we expect and hope the sector will gradually open up to private capital. In countries where the public model prevails, the guarantee scheme represents an economic policy tool through which the government distributes economic aids, especially during a period of economic downturn. The private model is based on the direct mutualism principle, whereby member companies benefit from the guarantee. On the contrary, the German case, whereby the players' shareholders are mainly financial institutions, is an example of indirect mutualism.

The players are supervised by the Central Bank when they qualify as (special) financial intermediaries, especially in privately-held schemes, otherwise they are supervised by the central government or ministries of economy.

They operate at a national level and in some cases at a regional/area level (Japan, Germany, France, Portugal, Spain and Chile) mainly serving small and medium-sized enterprises, and in some cases micro enterprises. These mainly operate in the traditional industries (manufacturing, handicrafts, commerce and services), although there are cases in which guarantee players specialise in a particular business segment.

“In spite of different business models, credit guarantee players face common issues„

Survey of 'Big Players': comparative trends

The survey has the purpose of mapping and gaining a better understanding of the big credit guarantee players operating in different countries. The aim is to encourage discussions on technical, industrial and operating items among the market leaders on their role and importance in the national and international financial systems.

The Survey

The survey was conducted through a questionnaire focused on the experience of nine 'Big Players' from different countries (Table 6).

Table 6
The 'Big Players'

	Country	Name of analysed player
1	France	OSEO Garantie
2	Hungary	Garantiqa Hitelgarancia Zrt.
3	Indonesia	Perum Jaminan Kredit Indonesia (Perum Jamkrindo)
4	Italy	Eurofidi
5	Japan	Credit Guarantee Corporation of Tokyo (CGC Tokyo)
6	South Korea	Korea Credit Guarantee Fund (KODIT)
7	Spain	Sociedad De Garantìa Reciproca De La Comunitat Valenciana (SGR Valenciana)
8	Thailand	Small Business Credit Guarantee Corporation (SBCGC)
9	Turkey	Kredi Garanti Fonu (KGF)

Most of these players are part of the G20 panel. However, the desk analysis showed the particular importance of a number of credit guarantee players in countries which do not figure among the main global economies; therefore we chose to analyse these cases as well. Specifically, the following countries were included in this survey:

- Spain because the Sociedad de Garantìa Reciproca represents a fast developing guarantee scheme, despite its regional scope
- Hungary and Turkey because they are the two Eastern European countries which have set up a guarantee scheme to support growth
- Thailand because it is one of the Asian countries in which credit guarantees are most important.

This survey conducted through a questionnaire represents the first attempt to compare the main international credit guarantee players using a common basis and uniform parameters, in relation to the following aspects:

- ownership models
- network activities
- organisational and operating structures
- guarantees in terms of type, procedures and volumes
- credit quality
- relationships with banks
- accessory services
- supervision and control
- regulatory framework.

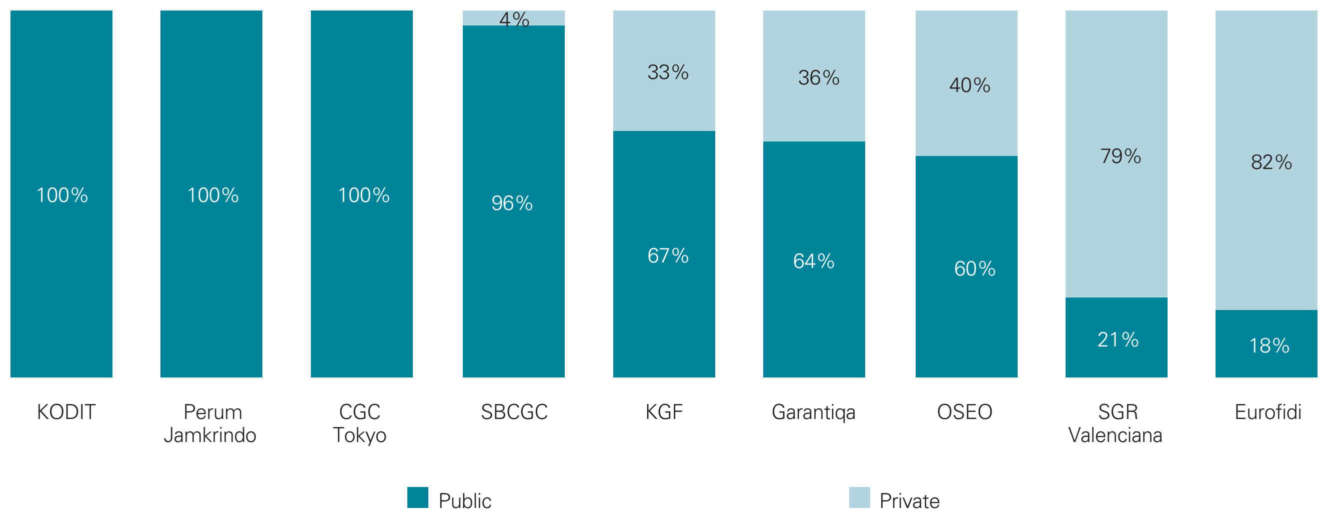
However, the scope and quality of the information collected compelled us to highlight only common trends rather than individual figures and indications.

Ownership models: guarantees are promoted and backed by the public sector because access to credit is a 'public asset'

The players we analysed adopted a wide variety of ownership models, which may nevertheless be grouped into the following three macro-categories:

- **Entirely public model:** the player is entirely owned by the central government and, in countries where the devolution process is most developed (for example, Japan), by administrative bodies as well (the 'enlarged public' sector). The players which have adopted this model are all Asian: KODIT, Perum Jamkrindo, the Japanese CGC scheme and Thai SBCGC (Chart 1 and Table 7).

Chart 1
Capital funds composition (Public/Private), %



Note: 33% of KGF's public capital is held by TOBB (The Union Chambers and Commodity Exchanges of Turkey).

- **Mainly public model**: publicly-and-privately-held player, with a public majority. In addition to the government, other parties which promote these organisations are financial institutions, chambers of commerce and, in some cases, state-owned funds. The latter may join in with a one shot deal, for example to support specific industries or anti-crisis measures, or to meet the operating requirements of the guarantee intermediary. The players in the analysed panel who have adopted this model are European: KGF, Garantiqa and OSEO Garantie (Chart 1 and Table 7).
- **Mainly private model**: the player is privately-held and public bodies might hold only minimum or residual interests. The promoters are financial institutions (indirect mutualism) and the enterprises that benefit from the guarantee (direct mutualism). The players which have adopted this model are SGR Valenciana and Eurofidi (Chart 1 and Table 7).

In all the models analysed to date, the contribution of capital by the public sector, including minimum amounts, is practically essential to support growth.

Alternative tools with a different structure (for example, hybrid equity instruments or subordinated loans) should be identified for the players analysed in this survey. This would make it possible to concentrate the scheme's effort on a single player.

In all the models analysed to date, the contribution of capital by the public sector, including minimum amounts, is practically essential to support growth

Regardless of the shareholder base, the main source of financing in the current economic situation remains the government (Table 8). Indeed, resorting to guarantees in this period represents an 'extraordinary' and countercyclical tool to mitigate the impact of the economic crisis on SMEs. The governments are therefore mainly using credit guarantee players to distribute extraordinary aids to enterprises in difficulty, with mechanisms similar to state programmes with separately managed accounts.

Table 7
Capital ownership

	Government	Financial Institutions	Central Bank	Banking Supervisor - National Public Agencies	Private companies	Other
OSEO Garantie - France	√	√				√
Garantiqa - Hungary	√	√				
Perum Jamkrindo - Indonesia	√					
Eurofidi - Italy		√			√	
CGC Tokyo - Japan	√					
KODIT - South Korea						
SGR Valenciana - Spain	√	√			√	
SBCGC - Thailand	√	√	√	√	√	
KGF - Turkey	√			√		√

Note: with reference to OSEO, 'other' relates to other owners; with reference to KGF, 'other' relates to industrial and business organisations.

Table 8
Source of financing

	Government	Financial Institutions
OSEO Garantie - France	√	√
Garantiqa - Hungary		
Perum Jamkrindo - Indonesia	√	
Eurofidi - Italy		
CGC Tokyo - Japan	√	
KODIT - South Korea	√	√
SGR Valenciana - Spain	√	√
SBCGC - Thailand	√	
KGF - Turkey		

Resorting to guarantees in this period represents an 'extraordinary' and countercyclical tool to mitigate the impact of the economic crisis on SMEs

The networks' role: to spur research, spread the culture and engage in lobbying

The desk analysis shows that most of the guarantee market players are members of international networks, mainly located in Europe, Asia and South America, including:

- AECM (Association Européenne du Cautionnement Mutuel) with 34 member companies operating in 18 European countries.
- ACSIC (Asian Credit Supplementation Institution Confederation) with 16 member companies operating in 11 Asian countries. This confederation organises an annual conference, which is now in its twenty-third year and is an important occasion for exchanging views at an international level. Other players who are not part of the network are also invited to the event (visiting role).
- REGAR (Red Iberoamericana de Garantìas) with 122 member companies operating in 22 countries, mainly South American but also European (Spain and Portugal). It also organises the Ibero-American Forum, which is now in its sixteenth year.
- ALIGA (Asociaciòn Latinoamericana de Instituscionès de Garantìa) operates at a regional level as it includes South American countries with developed guarantee schemes, such as Chile and Peru. Its individual operations are rather limited and it interacts regularly with REGAR.

Networks are essential for spreading the credit guarantee culture and engaging in lobbying (Table 9).

The networks' difficulties in actually promoting lobbying and analysing business model trends may be due mostly to the differences among the players in terms of size and operating approach (first or second level players, state-owned players that act under long-term programmes, etc.), as well as the different economic development of the countries in which member companies operate.

Networks are essential for spreading the credit guarantee culture and engaging in lobbying

Another important activity performed by networks is promoting international events and annual conferences where players can exchange information. To date, these events are mainly regional or continental, although in some cases they are gradually being opened to 'outside' players with a visiting role (individual players that take part in events organised by other networks).

Table 9
Network activities

	Lobbying	Training	E-learning	Negotiation with banks	Research	Other
OSEO Garantie - France	√					
Garantiqa - Hungary	√	√				√
Perum Jamkrindo - Indonesia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Eurofidi - Italy	√					
CGC Tokyo - Japan	√					
KODIT - South Korea	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SGR Valenciana - Spain	√					
SBCGC - Thailand		√				
KGF - Turkey	√	√		√		

Note: other activities carried out by Garantiqa are knowledge/experience sharing.

What is the optimal size? Operating and organisational structures are still very diverse

The operating structures through which credit guarantee institutions do business are quite diverse. There are players with widespread regional networks and those with a single centralised office, which rely on the operating structures of the promoting entities or partners (banks, trade associations and SMEs, member and approved bodies) for their sales activities.

Consequently, the number of employees by branch varies significantly, but after being duly standardised it comes to approximately 15 employees, a figure which drops to 10 employees when only sales staff is considered.

The operating structures through which credit guarantee institutions do business are quite diverse

Approximately 90% of the branches engage in sales activities. Employees and sales staff also account for 80%, on average, of the human resources of these organisations (Chart 2), 10% above the average impact in the banking system[2].

In most cases, these players operate at a national level (Table 10). Those which do business at a regional level (for example, SGR Valenciana and CGC Tokyo) are part of a national scheme divided into regions. This enables them to manage demand by area while avoiding overlaps and, given the mutual nature of the guarantee, to essentially operate as monopolies.

The national model divided by region sometimes relies on national players that provide second level guarantees, engage in coordination activities, or specialise in specific industries.

In most cases, these players operate at a national level

Chart 2
Distribution of employees by role, %

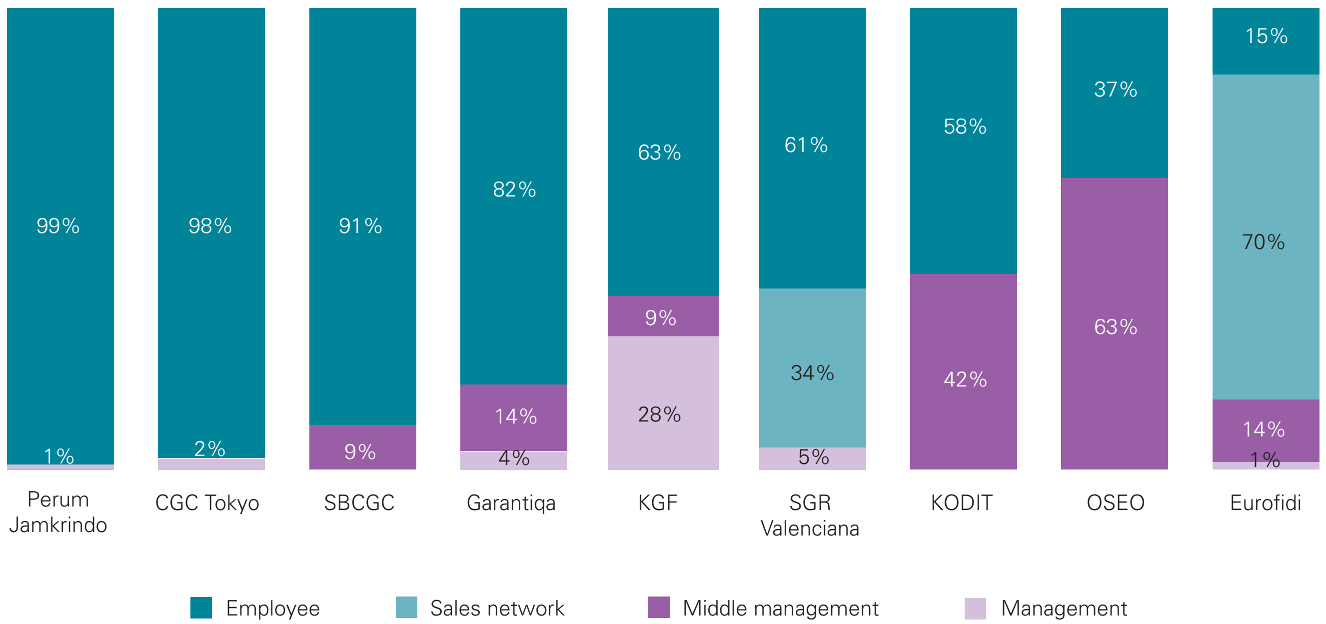


Table 10
Institution's operating range

	International	National	Regional	Municipal	Other
OSEO Garantie - France		√	√		
Garantiqa - Hungary		√			
Perum Jamkrindo - Indonesia		√			
Eurofidi - Italy		√			
CGC Tokyo - Japan				√	
KODIT - South Korea		√			
SGR Valenciana - Spain			√		
SBCGC - Thailand		√			
KGF - Turkey		√			

Note: CGC Tokyo and SGR Valenciana are part of national credit guarantee schemes which operate on a regional basis.

2 The average of EU countries is 70%, according to KPMG's international benchmark.

In further detail:

- the Japanese Credit Guarantee Corporation (CGC) scheme, coordinated by the National Federation of CGCs and controlled by the central government, is divided into 52 entities distributed over Japan which correspond to the 47 prefectures and five metropolitan cities
- the Spanish SGR scheme is comprised of 20 regional players and three national players, the latter focusing on specific industries
- the French OSEO Garantie is a national player, whose operations are carried out through regional offices.

KODIT, Perum Jamkrindo, Eurofidi, SBCG, KGF and Garantiqa are big national players. Except for KODIT and Perum Jamkrindo, which are entirely state-owned, all the others have a mixed (public/private) capital structure; only Eurofidi has mainly private capital, although private contributions to the capital structure of the other players are currently underway.

Guarantee schemes supporting SMEs: without interventions on the equity structure it will be difficult to achieve further growth

Type of guarantee

The issue of direct guarantees is the main element which the players' business models have in common (Table 11). Indeed, first level guarantees are the best tool to support growth. Co-guarantees are used only marginally (the only one in our panel is Perum Jamkrindo).

First level guarantees are the best tool to support growth

In the current economic situation where guarantees mainly act as 'aids' to SMEs, the 'Big Players' try to fully utilise state aids, often resorting to public counterguarantees (state or international bodies).

In the Asian schemes (Japan, Korea and Thailand), these mechanisms are often institutionalised. On the contrary, in Europe, public counterguarantees are activated only in response to an economic downturn and mainly through the appropriation of funds[3], though this has less impact than the Asian mechanisms. These appropriations can be repeated over time; however, due to their strong national nature, they can be quite different in terms of procedures, time of application and term.

Guarantees mainly act as 'aids' to SMEs in the current economic situation

Table 11
Type of issuing guarantees

	Direct guarantee to borrower	Counterguarantee to financial institution	Co-guarantee with financial institution	On equity participation or participatory debt
OSEO Garantie - France	√			
Garantiqa - Hungary		√		
Perum Jamkrindo - Indonesia	√		√	
Eurofidi - Italy	√			
CGC Tokyo - Japan	√			
KODIT - South Korea	√			
SGR Valenciana - Spain	√	√		
SBCGC - Thailand		√		
KGF - Turkey	√	√		

Customer selection models
The players we analysed adopt two different customer selection approaches:

1. **static analysis models**: these mainly focus on company data, do not involve a proper creditworthiness assessment, and the use of software applications is usually very limited. These models are adopted by mainly state-owned organisations which interact with state programmes (OSEO Garantie and CGC Tokyo)
2. **creditworthiness analysis models**: these adopt 'soft risk management' approaches which are not as complex as the banks' scoring and rating mechanisms and average computerisation, when compared to applications implemented in the banking system over recent years (widespread, using different procedures, within the remaining 'Big Players' in the panel).

Specifically, the static models analyse the following information on companies applying for guarantees:

- general data: turnover, years of operations, number of employees, etc.
- industry
- regional or area location (for those players which operate at a regional level).

The creditworthiness analysis models also require:

- an analysis and reclassification of financial statement figures and any acquisition and analysis of management data
- segment analysis and acquisition of specific reports
- scoring and rating analysis
- acquisition of information from monitoring agencies and central banks.

Preliminary investigations and IT systems
The survey shows that, although the preliminary investigation may be meticulous, even the largest and most developed credit guarantee organisations do not regularly monitor the information on customers they acquire. Usually, only the players which carry out a very detailed preliminary investigation update their analysis on a regular basis (at least once a year).

This market segment is clearly developing and will surely undergo a computerisation process which will gradually help it exchange information with the banking system.

Credit guarantee organisations do not regularly monitor the information on customers they acquire

Indeed, the low level of computerisation, which are especially common in mainly state-owned players may ignite implicit processes which transfer the risk from the banks to the guarantee market players.

However, the 'Big Players' seem to be aware of this risk and have recently started to adopt risk management application software. Still, especially during the preliminary investigation, these tools are not yet linked to 'blocking' credit risk analysis mechanisms; they only impact the guarantee approval process by delaying the relevant approval times and, sometimes, increasing the rates applied (especially in the case of mainly privately-held players).

The low level of computerisation may ignite processes which implicitly transfer the risk from the banks to the guarantee market players

Credit approval procedures share a number of common features. Specifically, the players never perform their preliminary investigations before the bank does, and joint (bank/player) investigations are rare. This testifies to the substantial independence of the guarantee players from the banking system, although in schemes which feature strong subsidiarity, and mainly in the Asian countries (Indonesia, Thailand and Japan), the Big Players' approval also follows that of the bank.

The small percentage of joint (bank/player) preliminary investigations testifies to the substantial independence of the guarantee players from the banking system

The independence of the preliminary investigation processes should be combined with an appreciation of bank-guarantee player synergies, which are essential in order to fully enhance the player's role.

The preliminary investigation process is consistent with the adopted market approach: it is basically selective and analyses creditors on a case-by-case basis. Therefore, the large size of guarantee players does not compromise direct relationships with customers either at the business level or in terms of preliminary investigation analysis. The only player that performs portfolio analyses is SBCGC, while Perum Jamkrindo in some cases performs aggregated analyses, in addition to the usual individual analyses.

The large size of guarantee players does not compromise direct relationships with customers either at the business level or in terms of preliminary investigation analysis

Volumes
When compared to the entire credit volume issued by the banking system of each country, the percentage of guarantees provided by the individual players is rather modest (approximately 1.2% on average).
The ratio of outstanding guarantees to the player's equity - leverage - varies considerably from approximately 5 to 40, with an average of about 18.

Guarantee volumes reflect the terms under which they are issued. Specifically, other conditions being equal, players that can guarantee 100% of the credit issued have larger guarantee volumes. This is above all the case of state-owned players.

Size, industry and type of customers
As they are a tool supporting SMEs, most of the guarantees offered by the players we analysed are absorbed by small and medium-sized enterprises. Specifically, in Europe, credit guarantee systems are essential to support micro enterprises and companies operating in the retail market.

Most of the guarantees offered by the players we analysed are absorbed by small and medium-sized enterprises

For Asian players, enterprises must often satisfy minimum size requirements to have access to the guarantee; at the same time, facilitated loans are reserved to micro enterprises.

On the contrary, the distribution of guarantees by industry is rather diverse; this largely reflects the economic structure of the economies in which the players operate (Chart 3). In particular:

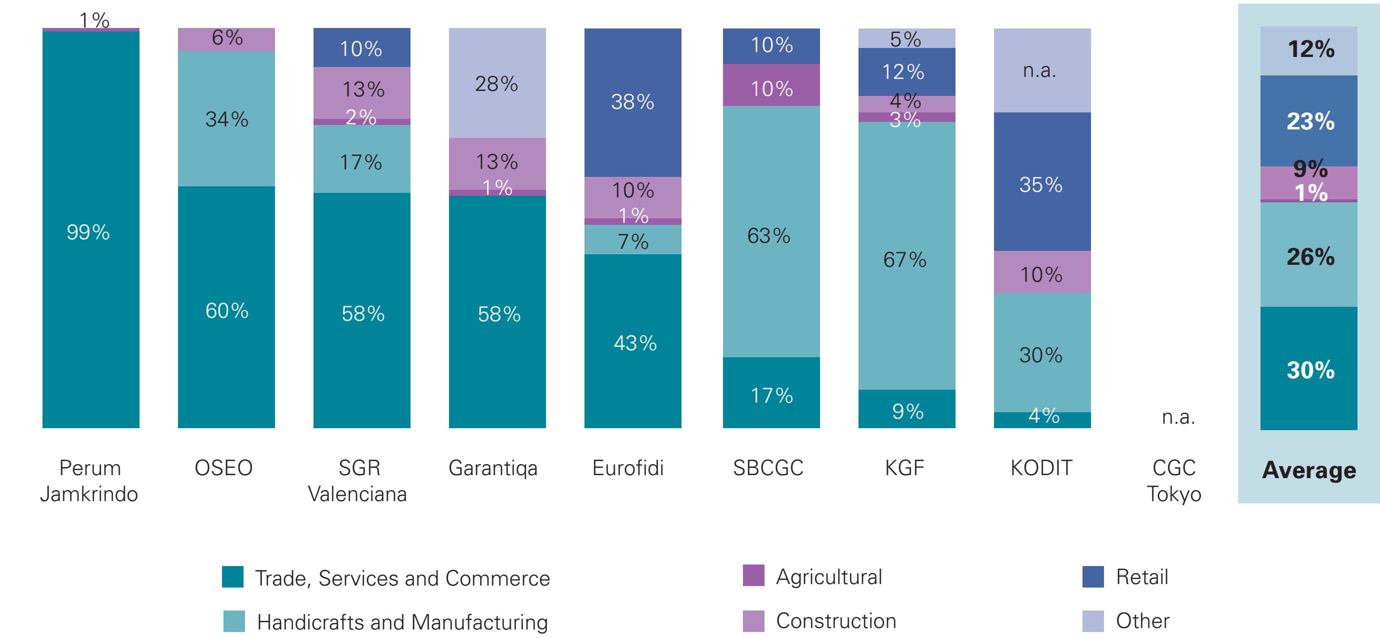
- there are cases in which the guarantees are mainly absorbed by enterprises operating in the services and trade sector (specifically, Perum Jamkrindo, which is almost exclusively active in this segment and, albeit to a lesser extent, OSEO, SGR Valenciana and Garantiqa Hitelgarancia)
- on the contrary, there are cases in which the manufacturing and handicrafts industry prevail (as for KGF and SCBCG)
- the other 'Big Players' address enterprises which operate in a wider range of economic sectors, in particular companies that operate in the retail market.

The distribution of guarantees by industry largely reflects the economic structure of the economies in which the players operate

None of the 'Big Players' are specialised in a particular market segment; on the contrary, this is a distinguishing feature of smaller players.

In short, the trade and handicrafts industries prevail and together account for, on average, almost 60% of outstanding guarantees.

Chart 3
Outstanding guarantees by industry, %



Unfortunately, data on the distribution of issued guarantees based on the type of company (hi-tech, start-up or already operative) is rather scarce (only four out of the nine players we analysed provided this information). Nevertheless, this information indicates three different approaches:

- a prudent guarantee scheme, addressed exclusively to already existing companies which operate in the traditional industry (Garantiqa and KGF)
- a guarantee scheme which extends its offer to companies in their start-up stage (Eurofidi)
- a model which supports existing companies and companies operating in the traditional industry, as well as offering a substantial part of its guarantees to start-up and hi-tech companies (KODIT).

Term of the guarantees

Finally, the term of the guarantees offered is also rather diverse. Although not all players provided this kind of information, guarantee schemes usually operate on a short to medium-term basis, with significant differences in the percentage of guarantees due within 18 months (short-term) and those due after 18 to 60 months (medium-term). SGR Valenciana represents the only exception to the above, where almost two thirds of the guarantees are due after 60 months; however, this figure should be also considered in relation to the limited size of stocks.

Pricing

Although the information is incomplete, guarantee pricing structures are also rather diversified.
The pricing is usually based on a specific fee, calculated in relation to the risk or as a percentage of the guarantee (Table 12). Specifically, for most of the 'Big Players', the price is an annual fee calculated as a percentage of the guarantee (as for KODIT or Garantiqa, which also requires payment of a fixed financing fee) or the loan (as for CGC Tokyo, OSEO and Perum Jamkrindo). On the contrary, SBCGC requires a lump-sum fee calculated on the guarantee.

The pricing is usually based on a specific fee

Table 12
Pricing based on the...

	Size of the loan	Amount guaranteed	Fee adapted to risk	Specific fee
OSEO Garantie France		√		
Garantiqa Hungary		√		
Perum Jamkrindo Indonesia		√		
Eurofidi Italy			√	
CGC Tokyo Japan			√	
KODIT South Korea				√
SGR Valenciana Spain				√
SBCGC Thailand				√
KGF Turkey				√

Note: with reference to the KODIT specific fee, 'the rate has been varied according to the credit rating of the applicant from 0.5% through 3% of credit guarantees by credit standing. Adjustments applied by risk management policy'. With reference to SBCGC, the specific fee is the 'fee rate based on the cabinet's approval'.

With reference to the time of payment, KODIT, Perum Jamkrindo and Garantiqa require advance payment of the fee, while the other players accept quarterly payments (Table 13).

Table 13
Payment provided...

	In advance	Quarterly - Time related	Other
OSEO Garantie France		√	
Garantiqa Hungary	√		
Perum Jamkrindo Indonesia	√		
Eurofidi Italy		√	
CGC Tokyo Japan		√	
KODIT South Korea	√		
SGR Valenciana Spain		√	
SBCGC Thailand		√	
KGF Turkey		√	

Worsening credit quality: a trend which should be monitored and reversed

Considering the impact of the global economic-financial crisis, the survey of 'Big Players' also focused on the credit quality issue.

Indeed, in these last few years, guarantee schemes used in a number of countries as anti-crisis tools for supporting SMEs reported a considerable increase in bad debts; this may threaten the soundness of these players.

The most affected were small players, but larger organisations also suffered the significant impact of the crisis.

In these last few years, guarantee schemes reported a considerable increase in bad debts; this may threaten the soundness of these players

Although the information we collected is scarce and incomplete, the results of the survey showed that, to a greater or lesser extent, the players' bad debts are increasing.

This confirms that the use of credit guarantees not as risk mitigators or risk sharing tools, but as sole credit access channels for a number of companies, represents a distortion of the scheme. The predominance of the additionality component in the role of guarantee players no longer involves companies who are applying to the financing market for the first time, but also companies who already have relationships with banks and who are resorting to guarantees to maintain their indebtedness level in response to the current economic situation.

The use of credit guarantees as something other than risk mitigators or risk sharing tools represents a distortion of the scheme

What is their relationship with banks, partners or counterparties? Close and highly developed relationship

In all the cases we analysed, the relationship between banks and guarantee players is apparently very close. For the banking system, these players are important intermediaries not only because of their role as guarantors, but also because, thanks to their relationships with the SMEs' network, they are able to bridge the information gap (and, therefore, the trust gap) which characterises the relationship between banks and SMEs.

For the banking system, guarantee players are important intermediaries not only because of their role as guarantors, but also because of their ability to bridge the information gap (and, therefore, the trust gap) which characterises the relationship between banks and SMEs

If the players deny the guarantee request, banks are unlikely to issue the loan or they tend to impose harsher conditions, by increasing interest rates and requiring further guarantees.

Although the information provided is incomplete, the survey shows that 80% to 90% of companies would not have been able to access credit without the guarantee players' support. Furthermore, even when the guarantee is not essential for accessing credit, in many cases it improves bank loan conditions.

Approximately 80% to 90% of customers would not have been able to access credit without the guarantee players' support

The average concentration ratio for the top three banks[4] with which the 'Big Players' operate is approximately 70%.

This high concentration, which is well above the scheme's average, is partly attributable to the fact that the main guarantee players naturally tend to concentrate their operations on leading national banks, establishing a peer-to-peer relationship with them. They choose these banks for both their widespread sales networks and for time-to-market reasons.

The main guarantee players naturally tend to concentrate their operations on leading national banks

The players we analysed have a highly developed relationship with banks, including because of the predominance of first demand enforcement of guarantees. This shows how the financial system (rightly) associates the large size of these players with higher quality.

4 Calculated as the ratio of outstanding guarantee volumes with the first three banks to total outstanding guarantee volumes with the banking system.

The guarantor is 'only' a guarantor, however providing accessory services helps serve customers better

The models for providing accessory services are quite varied and diversified (Table 14). Only four of the 'Big Players' (SGR Valenciana, SBCGC, KGF and Garantiqa) provide credit guarantee services only. On the contrary, KODIT and Perum Jamkrindo have diversified their offer with 'contiguous' services, for example export guarantees, guarantees backing infrastructure investments and guarantees on the purchase of goods, and therefore engage in hybrid operations and take the place of foreign trading agencies where these are not present. Moreover, by backing infrastructure projects, KODIT actually supports the country's growth. Through the group companies OSEO Financement and OSEO Innovation, OSEO Garantie provides a wide range of financial products/services, including those not directly related to guarantees.

Certain players, such as Perum Jamkrindo, even provide consumer credit services. Diversification is boosted by the intention to provide useful services to customers that enable them to improve their business culture and financial management techniques. For example, Eurofidi provides financial advisory services, while the Japanese CGC offers training courses to entrepreneurs.

The prime objective of diversification is to better serve customers, internalising other modules in the value chain; secondly, it is aimed at improving credit quality, by providing companies with the necessary customer selection skills (using tools such as the credit transition matrix).

Table 14
Does the institution offer other services in addition to guarantees?

	Loans	Leases	Financial advisory services	Advisory services for accessing public incentives or funds	Other
OSEO Garantie - France	√	√	√	√	
Garantiqa - Hungary					
Perum Jamkrindo - Indonesia		√			√
Eurofidi - Italy			√		
CGC Tokyo - Japan			√		√
KODIT - South Korea					√
SGR Valenciana - Spain					
SBCGC - Thailand					
KGF - Turkey					

Note: other services provided by Kodit are credit insurance services and infrastructure credit guarantee services. Other services provided by Perum Jamkrindo are factoring, consumer financing, profit sharing-based loans, guarantees on purchasing of goods and service transactions. Other services provided by CGC Tokyo are training courses to entrepreneurs.

Supervision and control are assigned to central governments

The supervision and control of guarantee organisations are assigned to the ministries of central governments in many cases (Table 15). The only exceptions are Hungary, where supervisory activities are carried out by the Hungarian Financial Supervisory Authority; and OSEO, Eurofidi and SGR Valenciana which, being financial intermediaries, are supervised by the Central Bank. In the latter case, guarantee players are also listed in a special register.

The regulatory framework: from very regulated to 'open' models

In most of the cases we analysed, the laws governing guarantee market players regulate many aspects: their scope of operations, legal status and governance, capital and operating requirements, as well as their access to state-owned funds.

In short, guarantee markets in the countries we analysed may be poorly regulated, as in Thailand where the law imposes restrictions only on legal status and access to state-owned funds; or it may be stricter and more highly regulated, as in Indonesia and Spain where the law regulates all aspects regarding guarantee players.

Table 15
Supervision and control

		The institution is supervised by	Is the institution listed in a special or public register?	Can the supervisory authority apply any kind of sanction?
Supervised by the Ministry	**Perum Jamkrindo** - Indonesia	Ministry of Economy	No	Yes
	CGC Tokyo - Japan	Ministry of Economy Operations are supervised by FSA (Financial Service Authority) and SMEA (Small and Medium Enterprise Agency)	No	Yes
	KODIT - South Korea	Ministry of Strategy and Finance, Financial Services Commission, and Small and Medium Business Administration	No	Yes
	SBCGC - Thailand	Ministry of Finance	No	Yes
	KGF - Turkey	Ministry of Industry and Commerce	No	No
Supervised by the Bank	**OSEO Garantie** - France	Central Bank	Yes	n.a.
	Eurofidi - Italy	Central Bank	Yes	Yes
	SGR Valenciana - Spain	Central Bank	Yes	Yes
Other	**Garantiqa** - Hungary	Hungarian Financial Supervisory Authority	Yes	Yes

Large guarantee organisation models

Despite the scarce and inconsistent information at our disposal, the survey enables us to draw up three guarantee organisation models.

The three main guarantee organization models may be summarised as follows: the public guarantee model reflects a guarantee scheme which is typical of Asian players; the mixed model and private guarantee model, on the contrary, reflect European cases. Specifically, we noted that the greater the private component in the player's ownership structure, the greater the ability for it to provide a range of complex and structured additional services in addition to guarantees.

	Public guarantee model	Mixed model	Private guarantee model
Ownership structure	Entirely public model: both the capital and ownership are public	Mainly public model: mixed ownership shared between the public and private sector, with a majority relating to the 'enlarged public'	Mainly private model: mainly private ownership, which nevertheless provides for the direct involvement of institutions in funding activities
Business model	Focused on direct guarantees but often with institutionalised second level mechanisms	Focused on direct guarantees	Direct guarantees remain the main business, although the co-guarantee and counterguarantee components increase
Structure	They are often part of area networks	They are not usually part of structured networks	They are often part of area networks or groups operating in various businesses
Supervision	Supervision is exercised by public bodies	Supervision is exercised by public bodies	They are directly controlled by the country's central bank and are listed in special registers
Other features	Less inclined to lobbying activities	They do not usually provide other services in addition to credit guarantee services	They offer a wide range of services in addition to guarantees

Focus

Challenges and opportunities for credit guarantee structures

Interview with Josè Fernando Figueiredo, Chairman, AECM

In the current economic scenario credit guarantee players constitute a more and more countercyclical tool for economic policy.

With the sovereign debt crisis we are facing today, what role or perspective can you make out for these players? Do you think there will be enough public money to allocate to these players or will other sustainable paths have to be found?

It is true the guarantee schemes have played a very important role as a countercyclical tool in the past years. In a situation where international financial markets were closed and the banking sector was reluctant to lend money to SMEs, our guarantees contributed in a very significant way to ensure that credit financing was channeled to the real economy. In the current situation of continuous downgrade of some European economies and additional pressure being put on state deficit control, there is a risk that less money will be available to capitalise guarantee and counterguarantee schemes on a national basis. This is why the European programmes, such as the CIP, are even more important than before. However, our multiplier effect on public money support is so high that I believe governments will still use the guarantees as one of the most important tools to help SMEs get access to financing. Countries need SMEs to keep investing, developing their operations and creating or sustaining jobs and wealth to distribute.

What developments do you see for the credit guarantee players business model in the upcoming decade? Highly specialised players or total financial assistance to meet all of the requirements of SMEs?

I believe we will see both ways. That is, in some markets, namely those where the guarantee schemes are within public organisations or development agencies, we will probably see services tending to be of a 'one stop shop' type. On the other hand, the pure guarantee issuers will continue to be the majority of the players and the trend will be that guarantee schemes will have even closer contact with the beneficiary SMEs, bringing some additional services, such as coaching, together with the guarantees.

In a market context in which credit access will constitute an increasingly competitive asset for SMEs, what kind of cooperation do you think credit guarantee players should undertake for their fundamental role to be acknowledged by the business community?

Guarantee schemes represent one of the most powerful tools SMEs can use in order to access credit financing, in appropriate price and term conditions. Thus all the actions the industry can take concerning the exchanging of best practices, benchmarks, technical assistance and other actions such as institutional lobbying and marketing are of great importance to ensure the business community knows about us and can make the best use of our services. AECM as you know has a very broad programme concerning the subjects I mentioned, with the precise purpose of better serving the guarantee community and, through that, European SMEs.

Considering market globalisation and the growing internationalisation of companies, do you believe that it will be possible to establish international credit guarantee players?

I would say that some experiences have already started and maybe we will see it spread in the near future. Necessarily some transnational guarantee schemes will be launched in Europe in a few years. But we should not forget the CIP Guarantee Programmes managed by the EIF. To a certain extent we can consider it an international guarantee operator.

In your opinion, what sort of relationships with banks will ensue in the near future? Are they likely to be partners or counterparties?

I see the guarantee schemes as being in the middle of a triangular relationship between SMEs, banks and the state. That is, SMEs need credit, banks want to provide it, but also need to protect their risks, and finally the state wants strong SMEs sector creating jobs and paying taxes. All of these entities are naturally partners of the guarantee schemes, not only the financial counterparties.

A common road for development based on international experience

By Alessandro Carpinella, Partner, KPMG Advisory

Strengthening local roots, hybridizing the offer, stabilizing public support, and coherent regulatory structure and supervision.

In all advanced economies (with the partial exception of the USA and the UK) and in various emerging economies, there are guarantee schemes and structures that act to facilitate credit access for small and medium-sized enterprises. These structures come in a variety of corporate forms, from the public operator model to mutual guarantee companies.

In spite of all the diverse corporate, organizational and control models adopted, there are still common traits in the challenges that guarantee schemes are facing.

The principal challenges that are emerging internationally in the development of guarantee schemes have sparked an increasingly sophisticated debate, as well as spurring legislative and regulatory policy decisions.

Of these challenges, four in particular stand out.

1. **Strengthening local roots.**
   Most international guarantee structures do not have local roots, but are public-central in origin. The challenge faced is to strengthen the front office component, what strategic plans refer to as 'basic financial assistance', that is direct knowledge of enterprises and the ability to generate additionality by capturing soft information. These elements all become part of the issuance of what is known as an 'implied guarantee'. One of the benchmarks for this challenge could be the Italian system, as its guarantee structures, known as *Confidi*, originated locally, within the

sphere of associations and unions. A preliminary policy indication could be regulatory stimulation to improve the distributional specificity of guarantee structures, without making formal restrictions that could obstruct the development of effective distribution models any stricter than necessary.

2. **Hybridize the offer.**
   The boundaries of 'credit guarantee services' are becoming increasingly fuzzy. Today, coming out of a long recession that has weakened the financial structures of most enterprises, long-term support of SMEs means finding new tools for selection and revival. Important international experiences, like that in France and in Germany, but also in emerging countries, show us the extent to which credit guarantees must sometimes hybridize with other financial instruments.

   - **Microcredit**, which allows an individual or a family to launch a new, small business initiative, taking advantage of their own knowledge and talent
   - **Equity investment guarantee**, which permits the recapitalization of enterprises that have a better chance of growing with a balanced debt to equity ratio.

   At the same time, credit guarantee goals expand, and the guarantee becomes not just a third party's 'promissory guarantee' to the bank, but performs a more markedly insurance and portfolio function in terms of Credit Risk Mitigation.

3. **Stabilize public support.**
   Wherever guarantee schemes are subsidized by the public system to any degree, by withdrawing sums from general taxation or other specific sources. Even in countries where mutual companies predominate, the public contribution remains decisive, albeit more difficult to stabilize and report in financial statements. In addition to acting on competent institutions in terms of the form and recursiveness of allocations to sector operators, it is fundamental to find ways of stabilizing public contributions. In this regard, the Korean experience offers an example that should be carefully examined.

4. **Define a coherent regulatory and supervisory structure.**
   At present, players are subject to various forms of regulation:

   - Strictly public control entrusted to institutions such as ministries, the government and State agencies, or, when the guarantee structures act as financial intermediaries, a bank/financial type control entrusted to the Central Bank
   - In some cases, supervision is quite weak.

   The challenge for the future is to find a convergence of these different set-ups that is able, on the one hand, to enhance the public role rather than the market role of guarantee structures, which would require forms of regulation/control that are typical of Agencies that provide public goods, and on the other hand to take advantage of the fact that the credit guarantee is a fundamental component of the credit system, which would require the relative standard to be integrated with credit regulation.

These are the future challenges for sector players, who are already facing significant organizational changes. In fact, over recent years, guarantee structures have had to deal with significant transformations related to developments in the related market situation, in particular the significant increase in activity following the economic crisis, with consequent shifts in organizational and operational models.

Thus, over the next few years, paths for developing business models of sector operators must necessarily consider both the peculiarities of the guarantee structures and their possible strategic developments. In particular, this includes strengthening consulting activities and financial assistance for businesses in order to reinforce their own role in both economic as well as social and civic development and growth.

Credit guarantee structures in Italy

By Salvatore Rebecchini, Commission Member, Italian Antitrust Authority

The Italian *Confidi*

Collective loan guarantee entities (hereinafter *Confidi*) provide guarantees to facilitate enterprises in accessing financing (short-, medium- and long-term) that is used to develop economic and production activities.

Historically, *Confidi* arose as an expression of trade associations in the sectors of industry, commerce, handicrafts and agriculture, based on the principles of mutual assistance and solidarity.

The first credit consortia, or guarantee cooperatives, were established back in 1956 to facilitate access to credit for small businesses. In 1963, through an initiative by Confartigianato, the first guarantee cooperative, the Cooperativa Laziale di Garanzia, was established in Rome, and operated regionally in the Lazio area. In 1975, Unionfidi Piemonte was established by the Unione Industriale di Torino, and is currently one of Italy's largest *Confidi* with trade association roots. Subsequently, due in part to regional incentives, various guarantee entities were established, principally within handicrafts but also in the sectors of SMEs and industry.

The system of *Confidi* in Italy developed quite rapidly, as the country met all the necessary prerequisites for cultivating such a system:

- large number of SMEs
- abundant offers of loans and little offer of risk capital
- extensive system of business associations
- an institutional system which views active economic policies favorably.

From the legal perspective, these *Confidi* take the form of associations or cooperatives, or consortia established as cooperative companies, which provide collective guarantees based on financing disbursed to the member enterprises. When banks grant credit to small and medium-sized enterprises, the intervention of *Confidi* makes it possible to contain the costs of obtaining information on companies to be granted funding and reduce the risks in case of insolvency.

Within the credit system, *Confidi* come between SMEs and banks, transforming the classic one-to-one relationship into a triangle; the service consists of providing guarantees, for a fee, to member SMEs on loans from banks, utilizing financial resources from members, supporting bodies, and outside parties.

In real terms, the activity of *Confidi* not only gives enterprises access to credit, but also offers them a series of secondary benefits, such as reducing bureaucratic red tape, reducing the time required for loan disbursement, and negotiating more favorable economic conditions with the financing bank.

Regulatory Framework

The sector is primarily regulated by the provisions of the Consolidated Banking Act, which requires *Confidi* which meet particular equity and professional requirements to be listed with the Bank of Italy's register of financial intermediaries provided in articles 106 or 107[5]. Therefore, pursuant to Art. 108 of the Consolidated Banking Act, these operators are subject to special regulation by the Bank of Italy, through both general provisions '*on capital adequacy, limitation of various types of risk, administrative and accounting procedures and internal control mechanisms, as well as the disclosure to the public on said issues*' and specific provisions '*regarding individual intermediaries on such matters.*' The Bank of Italy may also dictate provisions for particular types of activities in order to ensure that they are conducted in an appropriate manner.

The nature and activity of *Confidi* are governed by Art. 13 of Legislative Decree no. 269 of September 30, 2003: '*Governing collective credit guarantees*' (converted into Law no. 326 of November 24, 2003), which provides that 'Confidi *are consortia with outside activity, cooperatives, joint stock, limited liability or cooperative consortium companies that engage in collective credit guarantee activities*'; '*collective credit guarantee activity*' consists of '*using resources which come wholly or in part from consortium enterprises or members, to provide the service of mutual assistance and entrepreneurial guarantees that are intended to encourage their financing by banks and other parties operating in the financial sector.*'

Paragraph 8 provides: 'Confidi *consist of small and medium-sized industrial, commercial, tourism and services enterprises, handicrafts, and agricultural enterprises, as defined in EC regulations.*'

Paragraphs 9 and 10 provide that '*Larger enterprises may participate in Confidi… on behalf of small and medium-sized enterprises, provided they represent overall no more than one sixth of the total of consortium or member enterprises.* ***Public and private entities and larger enterprises*** *which cannot participate in Confidi pursuant to the previous*

5 In particular, Art. 112 establishes that '*The Ministry of the Economy and Finance, after consulting with the Bank of Italy, shall determine the objective criteria for the volume of financial assets used to identify Confidi, who are required to request authorization to be listed with the registry provided by Article 106. The Bank of Italy has set out a provision that indicates the elements to be taken into consideration when calculating the volume of financial activity. In derogation of Article 106, in order to be listed with the registry, Confidi may adopt the form of limited liability consortium company.*' Art. 155, paragraph 4 bis, of the Consolidated Banking Act also provides that certain Confidi which have a volume of financial activity and capital pre-established by the Ministry of the Economy and Finance, after consulting with the Bank of Italy, are required to request registration with the special list provided by Article 107 of the Consolidated Banking Act.

paragraph ***can support their activity*** *through contributions and guarantees not targeted to individual operations; they do not become consortium members or associates nor do they benefit from association activities, but their representatives may participate in the elective organs of Confidi, following the procedures set out in the by-laws, provided the power to appoint the majority of members of each organ is reserved to the assembly*.'

Based on these provisions, many Regions and chambers of commerce have prepared special rules aimed at regulating their contribution to *Confidi* in order to support SMEs by strengthening them and their consequent ability to provide guarantees to the banks that disburse financing.

Generally speaking, in Italy it is above all the regions which are interested in the service of establishing and managing a guarantee fund to finance the investments of enterprises, primarily those which operate within the region and are SMEs or agricultural enterprises.

Over the past eight years, the regions have injected over 700 million Euros in public funds to *Confidi*.

The Market

The guarantee market in Italy is highly concentrated: most market shares are in fact in the hands of the major players, who hold 82% of the outstanding guarantees. Even within the group of major players, the offer is particularly concentrated: the top ten *Confidi* in size hold 54% of existing guarantees in Italy, and among these, the top two *Confidi* (Eurofidi and Italia Com-Fidi) hold about 32%.

The top 10 *Confidi* by stock of guarantees at Dec. 31, 2009 are:

1. Eurofidi (Piedmont)
2. Italia Com-Fidi (Tuscany)
3. Unionfidi (Piedmont)
4. FidiToscana (Tuscany)
5. Artigiancredito Toscano (Tuscany)
6. Unifidi Emilia Romagna (Emilia Romagna)
7. Confidi province lombarde (Lombardy)
8. Neafidi (Veneto)
9. Confidi Lombardia (Lombardy)
10. Centro Fidi Terziario (Tuscany)

The top two Italian *Confidi* by size (Eurofidi and Italia Com-Fidi) hold almost 2/3 of the stock within the group of major players, corresponding to over 1/4 of the entire Italian market.

The three market leaders Eurofidi, Italia Com-Fidi and Unionfidi all operate nationally, while the remaining ones operate almost exclusively within regional confines[6].

Confidi in Italy are, in fact, for the most part an expression of trade associations. This characteristic has had a very peculiar effect on the development of the Italian guarantee market: since trade associations operate at the territorial level and financing comes primarily from local bodies, in Italy primarily regional markets have formed. The vast majority of *Confidi* in fact operate solely within their own region.

6 Data are from the Turin Chamber of Commerce study of April 2010.

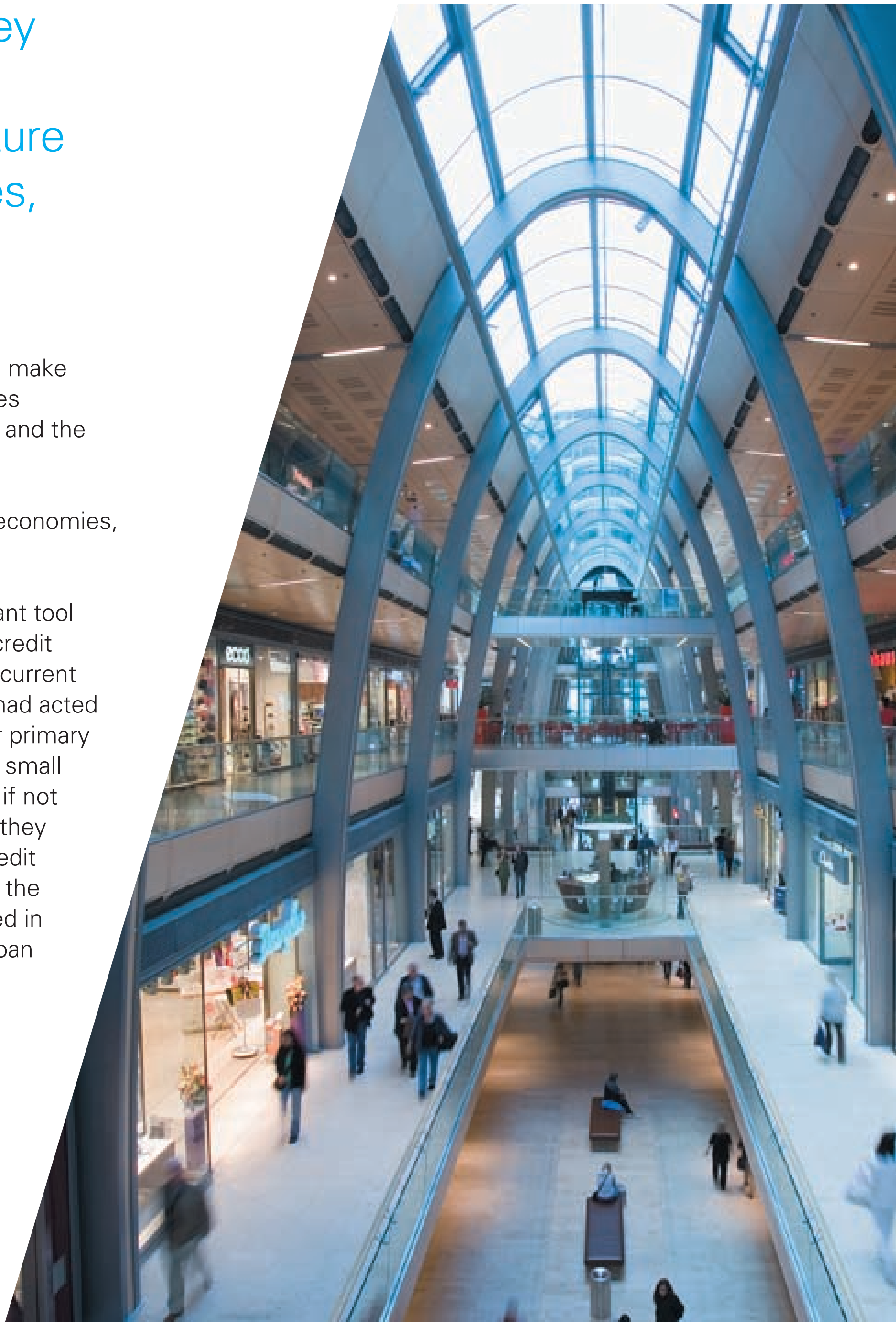
Conclusions: credit guarantees, important tools for growth

The desk analysis and survey of 'Big Players' provide a substantially diversified picture of credit guarantee schemes, although they have some common features.

In light of the evidence that has emerged, we can make some comments which relate not only to the cases analysed, but also to the entire guarantee system and the many different schemes on which it is built.

Guarantee schemes have spread in all important economies, except for USA and UK markets.

Guarantee schemes have proved to be an important tool for facilitating access to financing and constitute credit leverage (also known as additionality). During the current economic downturn, guarantee schemes, which had acted as 'risk mitigators' in the past, have regained their primary role as intermediaries facilitating credit access for small enterprises, who would otherwise find it difficult, if not impossible to obtain. Indeed, in today's economy they are able to significantly increase the amount of credit issued, especially for SMEs. Only 10% to 20% of the companies which resorted to the players examined in this analysis would have been able to obtain the loan without guarantees.



Guarantee schemes have proved to be an important tool for facilitating access to financing and represent a credit leverage

However, this ability to support credit access should not distort the credit market by facilitating access to financing for unreliable companies. For this purpose, risk sharing should be carefully balanced.

This ability to support credit access should not distort the credit market by facilitating access to financing for unreliable companies

Therefore, risk sharing remains a crucial issue. The Big Players' experiences are rather diverse and it is not easy to identify a single reference model. However, what all of them have in common is a wide range of variation in the guaranteed credit percentages. This proves that, in all guarantee schemes, the relationship between the player and its customer is flexible and based on their mutual knowledge and ongoing trust, rather than being strictly regulated by qualitative or quantitative standards.

Guarantee schemes are designed to act in situations of stability. The pressure they have been subjected to, in many countries during this period, has adversely impacted their soundness and the ability to issue guarantees. Often used as anti-crisis tools, the quality of their assets has deteriorated in many countries, a trend which should be reversed. Although the data is incomplete, the survey shows an increase in players' overdue receivables. The situation is particularly critical for those models with less public capital in the ownership structure.

With guarantee schemes often used as anti-crisis tools, portfolio quality has deteriorated in many countries, a trend which should be reversed

Sharing information and experiences will facilitate the transformation process which guarantee schemes are undergoing due to changes in the regulatory framework.

These comments, rather than being conclusions of the desk analysis and KPMG Advisory's survey, are intended to spur further analysis and a point of departure for regular monitoring of the 'International survey on guarantee players'.

The main issues for guarantee players are:

1) reflecting on their mission: what space does a 'guarantor' occupy in the market?
2) whether to pursue self-sustainability or rely on government grants
3) rethinking their 'exchange relationship' with banks: partners or counterparties?
4) whether to extend their business to support profit or stick to the core business
5) whether to restructure players/schemes in difficulty (due to deterioration in the quality of their assets)
6) what is optimal size?

In this scenario, it is all the more important for guarantee players to start talking to improve and spread best practices and discuss areas of common interest and outstanding issues.

Notes

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