



A global forum for micro, small and
medium-sized enterprise development

Annual Meeting 2014

Rio de Janeiro, April 7-9, 2014

**Key Topic Group
Loan Guarantees**

Loan Guarantees

- > Many profitable projects from SMEs do not get financed because there is no or not enough collateral. As a result, no investment is undertaken, no jobs are created, and no economic development is promoted.
- > Loan guarantees are the solution for getting the banks to grant financing to enterprises which cannot provide traditional collateral or securities to cover the loans.
- > For the payment of a fee, the guarantee scheme offers risk-sharing and face a possible loss in case of default of the borrower.
- > The logic of issuing guarantees go beyond the financial solution; the schemes can be a way for supporting economic growth and entrepreneurship.

Working Group Members 2013-2014

KEY TOPIC LOAN GUARANTEE MEMBERS



Jean-Louis
Leloir
LEADER



Wang Fei



Louis
Dallaire



Daria
Bogomolova



Ruy
Siqueira
Gomes



Mario de la
Vega
Escamilla

KEY TOPIC SUPPORT MEMBERS



Sandra
Péloquin



Gabriel
Youssef

COLLABORATORS



Daniela
Dennis
Figueroa
Quiroz



Eloah
Manoel



Rafael
Veneza



Luciano
Lanz



Jorge
Nieto Cater



Sandeep.
Choudhury

Annual Meeting - Working Sessions Agenda

- **Who are we?**
- **What were the group objectives in 2013?**
- **What have we accomplished?**
- **What are our main challenges?**
- **What is the group plan for 2014?**

Working Session Members

during Annual Meeting working sessions

1. **Eloah Manoel (BNDES)** (Took Leadership of the Group since Jean-Louis could not attend the Meeting)
2. Alexia Ohannessian (BPI)
3. Ciro Jorge (BNDES)
4. Daria Bogomolova (VEB)
5. Erno Ihto (Finvera)
6. Louis Dallaire (BDC)
7. Luciano Lanz (BNDES)
8. Mario De La Vega (NAFIN)
9. Ruy Gomes (BNDES)

Collaborator:

Vincent Dibetta (BPI)

Special thanks to Jean-Louis Leloir (BPI)

Work Plan 2013-2014

Topic 1. Operating process - Direct x Indirect

Present practices in our institution
Reasons explaining the present practices
Ways of limiting moral hazard risks

Topic 2. Pricing the guarantee fees

Describe the model in your institution
Reasons explaining the present practices
Reasons related to structure of resources

Topic 3. Equity guarantee

Description of the model and conditions in your institution (if exists)
Brief survey of existing actors in equity for SMEs

Topic 4. Risk rating

Origins of rating (Self-developed, national standardized, or models from intermediary banks)
Main Risk factors used in the rating
Use of rating in operational processes

Topic 5. Recovery process

Present practices in our institution
Reasons explaining the present practices
Ways of limiting moral hazard risks

Guarantees Comparative Study

	Delivery	Main Objectives	Fees	Collateral
BDC*	Direct	Restructuring	6% p.a. of maximum amount	Full collateral for the bank
BNDES	Indirect	Equipement	2.5% p.a. of covered amount	No collateral for operations up to US\$ 0.4 million
BPI	Direct / Indirect E\$ 8.9 thousand	Startups, development, international, innovation, reinforcement, takeover, equity and short term	0,4% to 0,9% of the covered loan amount	Collateral shared with the bank; limits apply on personal guarantees
Finnvera	Direct / Indirect E\$ 85 thousand	Investments, working capital and exports	Based on SME risk rating 2.0% to 6.8% p.a. of covered amount	Case by case Business plan and prospects are more important
NAFIN	Indirect	Working Capital and equipment	3% p.a. of covered amount	No collateral for operations up to US\$ 0.3 million
VEB	Direct / Indirect	Focus on production	Based on risk rating / Favourable	Depends on risk rating / No collateral

* Data on BDC former approach to guarantees

CDB works with partners that provide guarantee



LOUIS DALLAIRE

AVP, Product Development & Online Banking

BDC Top 3 challenges

- Differentiating ourselves from other government guarantee programs (both Federal and Provincial)
- More complex to implement at BDC than actual direct programs
- Incentive to broaden Financial Intermediaries risk appetite



RUY GOMES

Head of Guarantees Management and Policies Department

Credit Division

BNDES Top 3 challenges

CHALLENGES	SOLUTIONS	COMMENTS
Currently FGI offers a guarantee program only to BNDES indirect loans portfolio	Extend FGI guarantee to credit provided by other financial resources (non-BNDES funding)	Implementation depends on the development of a hole new platform planned for 2014
“Cartão BNDES” (main BNDES product to SMEs) has its expansion limited by the SMEs hard time offering guarantees	Extend FGI guarantee to “Cartão BNDES”	Operating model is under discussion so that the preliminary design is concluded by the end of 2014
FGI restriction to renegotiations tends to make the scheme less attractive for commercial banks	Review FGI credit recovery restrictions, allowing banks to apply the same rules they apply to the rest of their portfolio	Identify international best practices is a key topic to the FGI business model adjustment



ALEXIA OHANNESSIAN

VINCENT DIBETTA

Bpifrance Top 3 challenges

CHALLENGES	SOLUTIONS	COMMENTS
Maintain the incentive effect of guarantees on banks attitude	Multiple new products from Bpifrance , most of them using the guarantee, and usually associated with a classic bank loan, keep communication and partnership active	Permanent effort of communication with local bankers needed from the network of branches
Limit risk cost for the guarantee fund in a more difficult economic context.	<p>Attentive selection, using sectoral and regional knowledge</p> <p>Use guarantees for good borrowers to increase « depth of financing » (longer loans, more categories of items being financed)</p>	<p>Specific coordinated actions with banks and public authorities take care of SMEs in difficulty, and optimize research of solutions</p> <p>Increase of allocation of short term facilities to improve the cash position of enterprises</p>
Adjust guarantee deployment to serve more innovation and export activity	<p>Extended Specific financing (using the guarantee umbrella) :</p> <p>Loan for export Loan for innovation</p>	Simultaneous effort in communication with SMEs on existing supports in France and through networks



LUO FEIFEI

General Manager

Market Research Division

CDB-Top 3 challenges

CHALLENGES	SOLUTIONS	COMMENTS
How to identify the risk of guarantee institutions effectively	<ul style="list-style-type: none"> -Independently appraisal -Enhanced due diligence and monitoring -Invite external rating agencies 	<ul style="list-style-type: none"> -Contribute to risk identification -Higher cost
Inadequate external supervision	<ul style="list-style-type: none"> -Improve communication with regulatory commissions and association of guarantee institutions -Push government to strengthen regulations 	<ul style="list-style-type: none"> -Contribute to strengthen supervision of guarantee company -The improvement of regulatory environment will take time
The guarantee industry is still immature	<ul style="list-style-type: none"> -Performance-based selection for cooperation -Carry out stress test for guarantee company as an industry 	<ul style="list-style-type: none"> -Contribute to the sound development of the industry -The effect is not immediate



ERNO IHTO

Senior Advisor

SME Financing

Finnvera Main challenge

- Making it easier to the banks to use the Finnvera guarantee
- Solution: Internet based guarantees application and ammendments to the loans documentation, collateral requirements



nacional financiera
Banca de Desarrollo

MARIO DE LA VEGA ESCAMILLA

Product Development Director

NAFINSA Top 3 challenges

CHALLENGES	SOLUTIONS	COMMENTS
Increase Financial Inclusion	<ul style="list-style-type: none"> • Through NAFINSA's schemes promote companies' formalizing and professionalization. • Include new enterprises to financial system. 	<ul style="list-style-type: none"> • Generate economic development. • Expanding access to financial services.
More Financial Intermediaries	<ul style="list-style-type: none"> • Take advantage of IF's expertise and infrastructure. • Increase service windows and a wide range of products. 	<ul style="list-style-type: none"> • Improve social and economic development. • Improve financing conditions • Enhance modernization and innovation
Regions and Sectors Development	<ul style="list-style-type: none"> • Development of medium companies program • Development of micro credit program • To guide companies to get equipment through electronic schemes (Market Place) 	<ul style="list-style-type: none"> • Enhance access to small producers • Lower information requirements.



VNESHECONOMBANK

DARIA BOGOMOLOVA

Deputy Director

Export Finance Department

VEB Top 3 challenges

CHALLENGES	SOLUTIONS	COMMENTS
SMEs can not get cheap loans without any collateral	VEB and the State together work out SME support programmes	SME support programmes allow SMEs to raise cheap funds
Low level of SMEs' awareness of financial support programmes	VEB and its subsidiaries organize seminars and presentations for russian SMEs	Seminars allow SMEs to be informed about benefits of SME support programmes
Legislative barriers for SMEs' development	VEB initiates amendments to russian legislation acts regulating SMEs' activity	VEB's activity helps to improve business climate in which SMEs operate

Conclusion / Observations

Geographic and historic factors play a role in organizations:

- Large countries lead to delegated systems to banks: (Brasil, Mexico, Russia)**
- Smaller countries with strong tradition tend to keep part of the decisions**

Fees rarely cover risk cost and schemes management costs ; some form of public support is usually necessary to complete income, but in a variable proportion

Relation with intermediary banks

Find common topics to discuss with the other work groups

Get to video-conference level

Organize smaller work groups with an objective of delivering structured pre-defined common outputs, perhaps with a designated writer in charge of producing synthesis

Amplify the scope of the group

Loans and Guarantees suggestions for 2014-2015

- Topic 1. Connecting entrepreneurs**
Co-leader: VEB / Daria Bogomolova
- Topic 2. Turnaround Management + Loans Restructuring**
Co-leader: Finnvera / Erno Ihto
- Topic 3. Measuring the Impacts to SMEs**
Co-leader: NAFIN / Mario De La Vega
- Topic 4. Legislation barriers to financing SMEs**
Co-leader: BNDES / Eloah Manoel
- Topic 5. Keeping it simple**
Co-leader: BPI / Jean-Louis Leloir
- Topic 6. Relationship Management with intermediaries banks**
Co-leader: BNDES / Ciro Jorge



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Thank you!