



Enhancing SMEs' Resilience in Europe and Central Asia:

The Role of Credit Guarantee Schemes

Pietro Calice



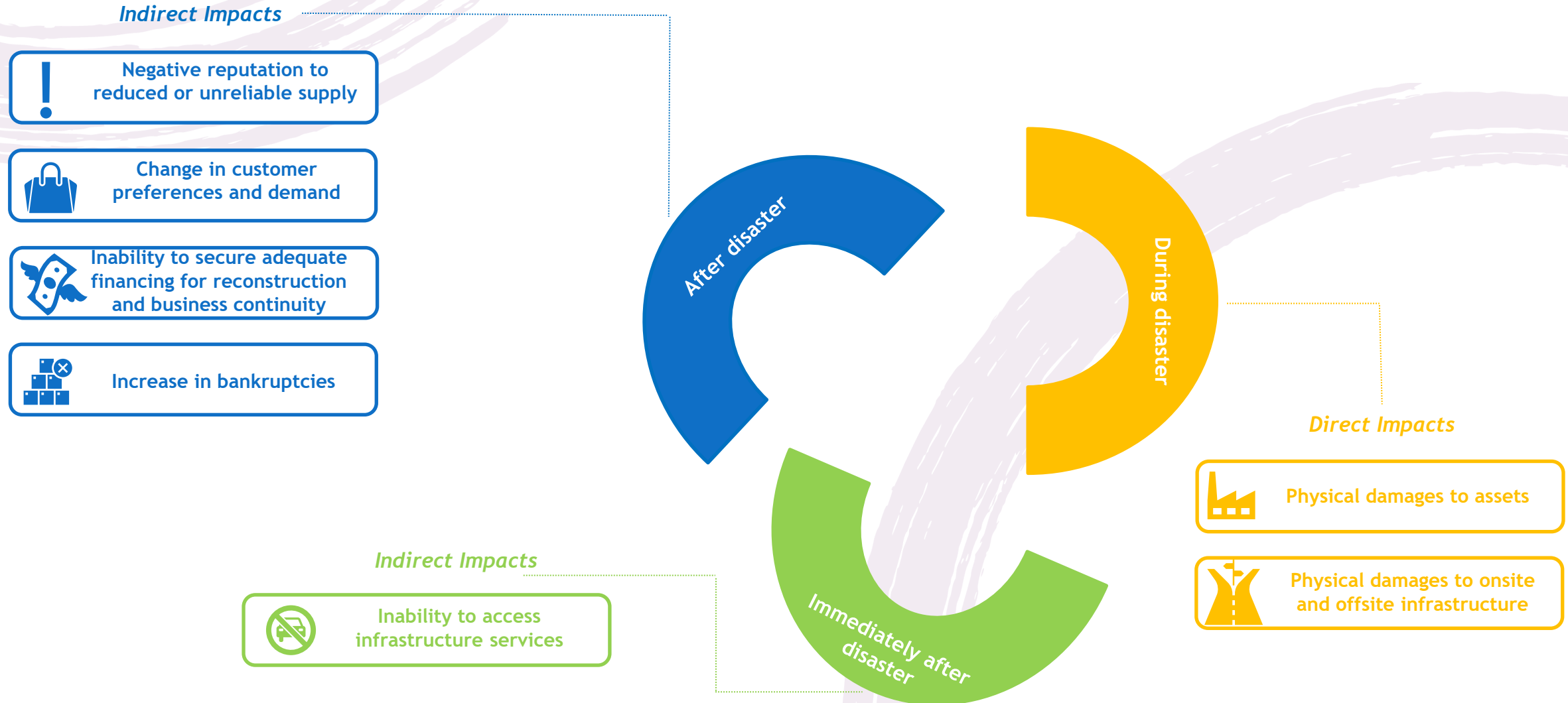
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WHY SMEs' RESILIENCE MATTERS

- Resilient SMEs maintain **continuity** and **recover** quickly post-disaster, minimizing economic disruptions.
- Strong resilience enables SMEs to **protect** jobs, **preserve** local economies, and **reduce** recovery costs.
- Enhanced resilience supports both immediate recovery and long-term **competitiveness** in the affected region.

HOW NATURAL DISASTERS IMPACT SMEs



THE COSTS OF DISASTERS IN EUROPE AND CENTRAL ASIA

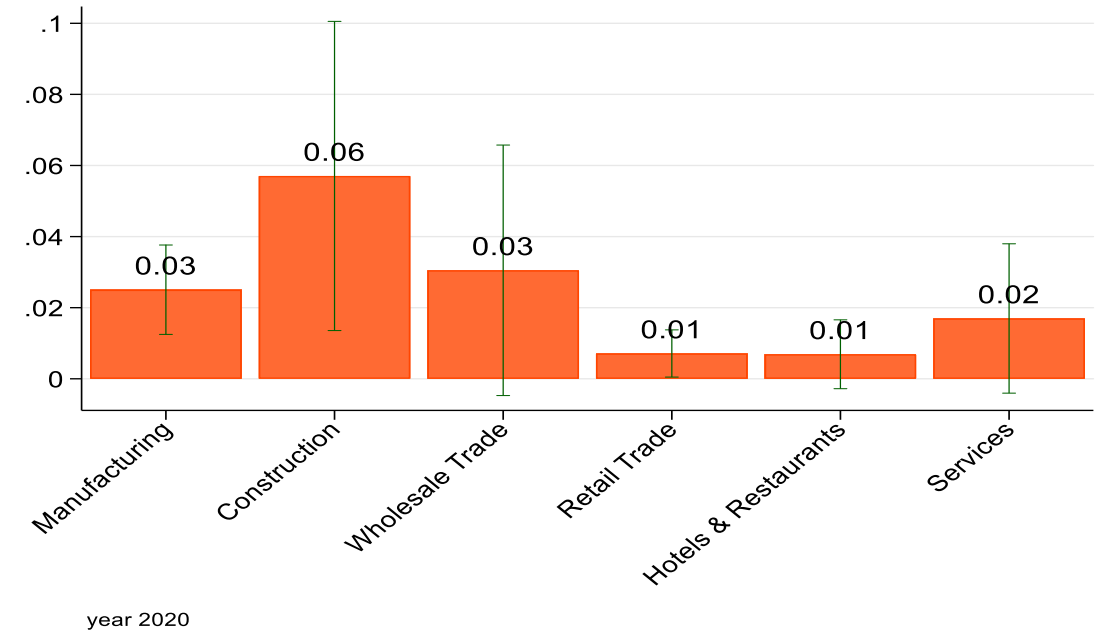
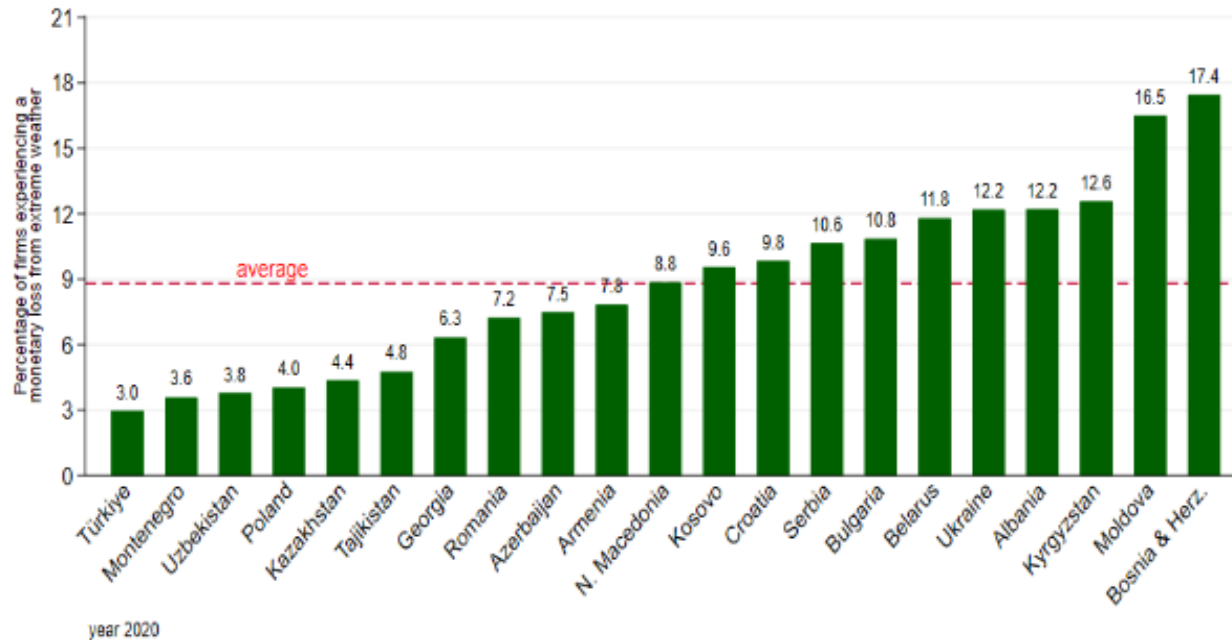
Total Costs by Disaster Type (2000 – 2024)

Disaster Type	Total Damage, Adjusted ('000 US\$)	Total Damage, Adjusted (% GDP, annual average)	Insured Damage, Adjusted ('000 US\$)	Insured Damage, Adjusted (% of Total Damage)
Drought	18,652,234	1.95	300,000	1.61
Earthquake	91,894,372	1.46	4,255,842	4.63
Extreme temperature	31,067,554	1.20	344,214	1.11
Flood	216,771,249	0.31	47,258,222	21.80
Mass movement (wet)	1,113,371	0.36	342,781	30.79
Storm	83,410,162	0.16	37,024,024	44.39
Wildfire	19,074,190	0.24	581,737	3.05

Source: Own Elaboration on EM-DAT

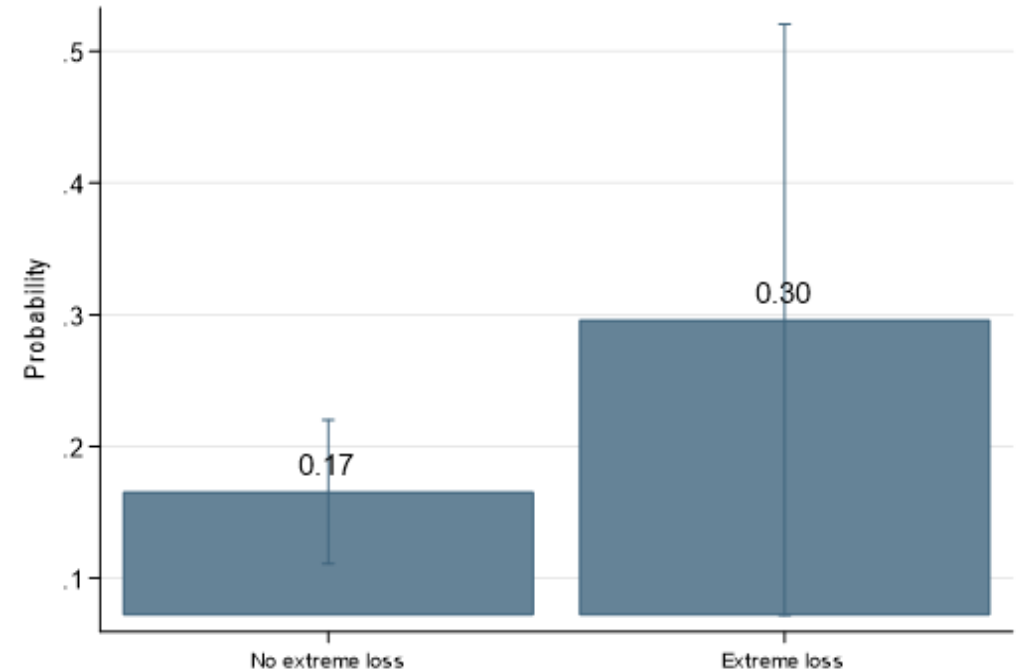
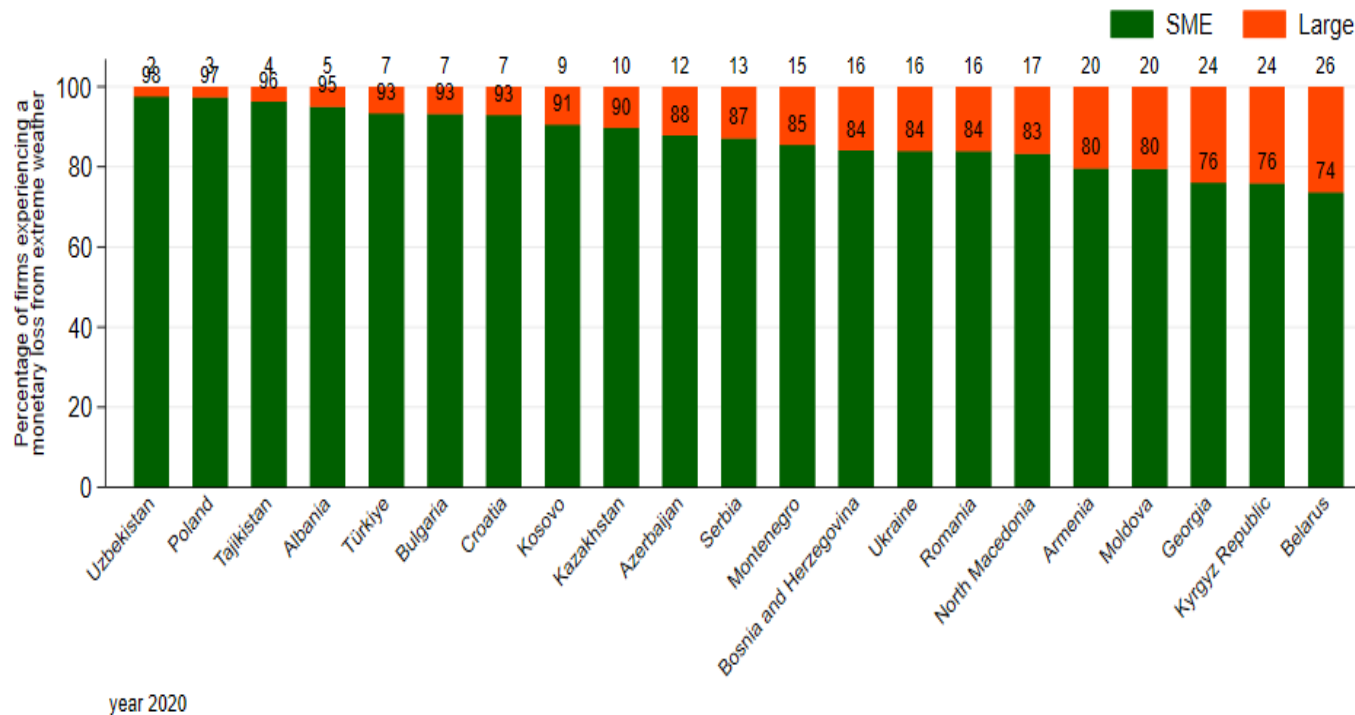
THE IMPACTS OF NATURAL DISASTERS ON FIRMS

Countries Are Not Affected Equally and Some Sectors (e.g., Constructions) Are More Likely to Experience a Loss from Extreme Weather



THE IMPACTS OF NATURAL DISASTERS ON FIRMS

SMEs Are Significantly More Likely to Report Losses and Are Almost Twice as Much Likely to Report Access to Finance as a Severe Obstacle



BARRIERS TO SMEs' RESILIENCE

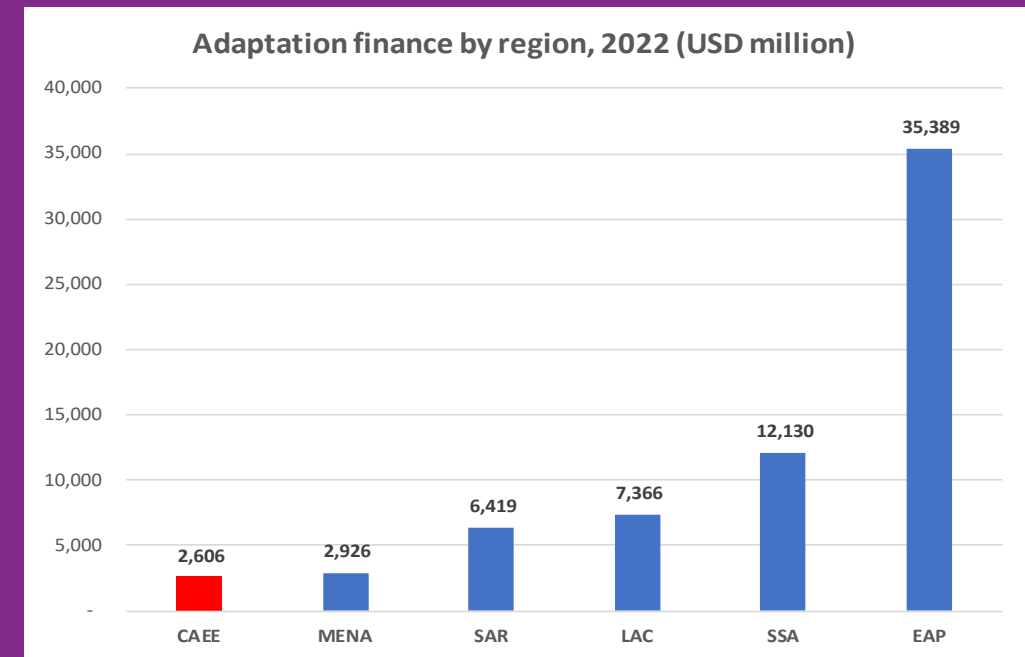
- Limited understanding of how natural disasters may affect them.
- Weak incentives for disaster mitigation and preparedness efforts.
- Policy, regulatory and institutional challenges.
- Limited uptake of information and communication technology and other new technologies.
- **Limited access to finance for disaster preparedness as well as for response and recovery**



LENDERS' RESPONSE TO NATURAL DISASTERS

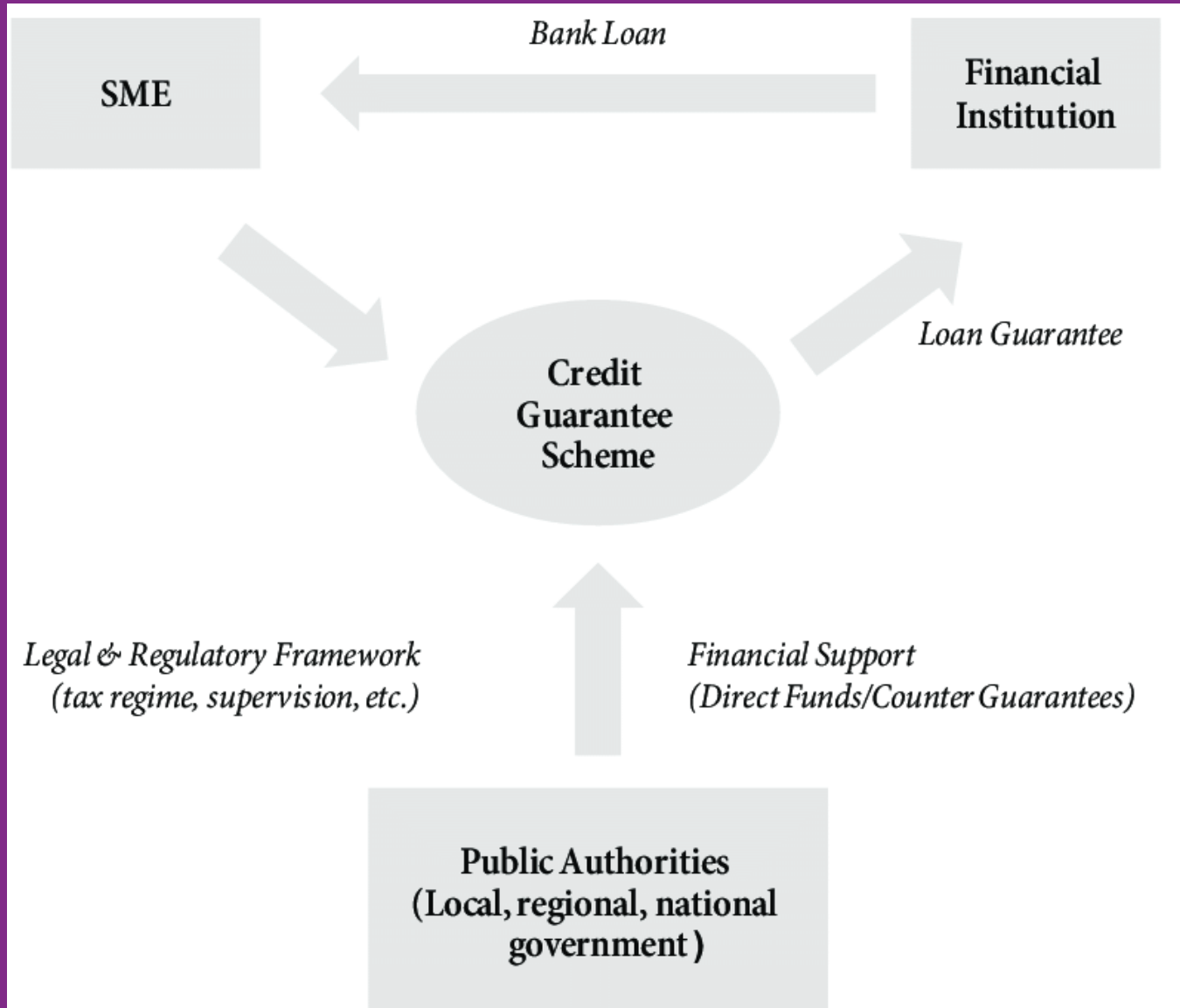
The Availability of Credit May Shape Resilience but Banks May Be Reluctant to Take the Associated Risks While Adaptation Finance in Europe and Central Asia Remains Limited

- Banks reduce lending in areas affected by natural disasters with limited initial access to finance (Rajan and Ramcharan 2023).
- Banks are more likely to exit markets affected by natural disasters if they are not native to the region (Gallagher and Hartley 2017).
- Banks face loan distress and increased delinquencies following natural disasters (Barbaglia et al 2023).
- Banks charge higher interest rates for mortgages backed by properties exposed to a greater risk of sea level rise (Nguyen et al 2022) and for SMEs located in areas at high risk of flooding (Barbaglia et al 2023).



Source: Climate Policy Initiative

ENTER CREDIT GUARANTEE SCHEMES



Access to Finance, in particular to credit, is a critical enabler for the growth and development of small and medium enterprises (SMEs).



SME credit markets, however, are notoriously characterized by market failures and imperfections.

THE TRILLION DOLLAR GAP

In emerging markets and developing economies, between 55 to 68 percent of formal SMEs are either unserved or underserved by financial institutions, leading to a total credit gap estimated in the range of \$0.9 to \$1.1 trillion.¹



To address this challenge, governments intervene through public credit guarantee schemes (CGSs), which provide third-party credit risk mitigation to lenders.

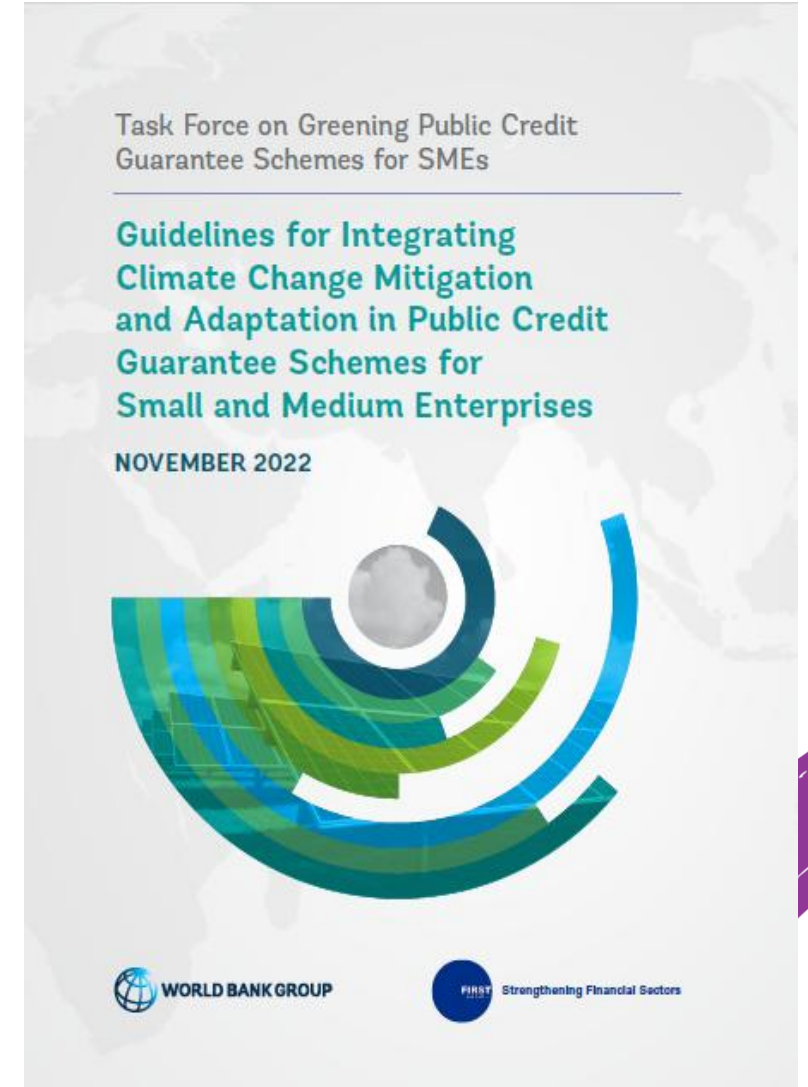
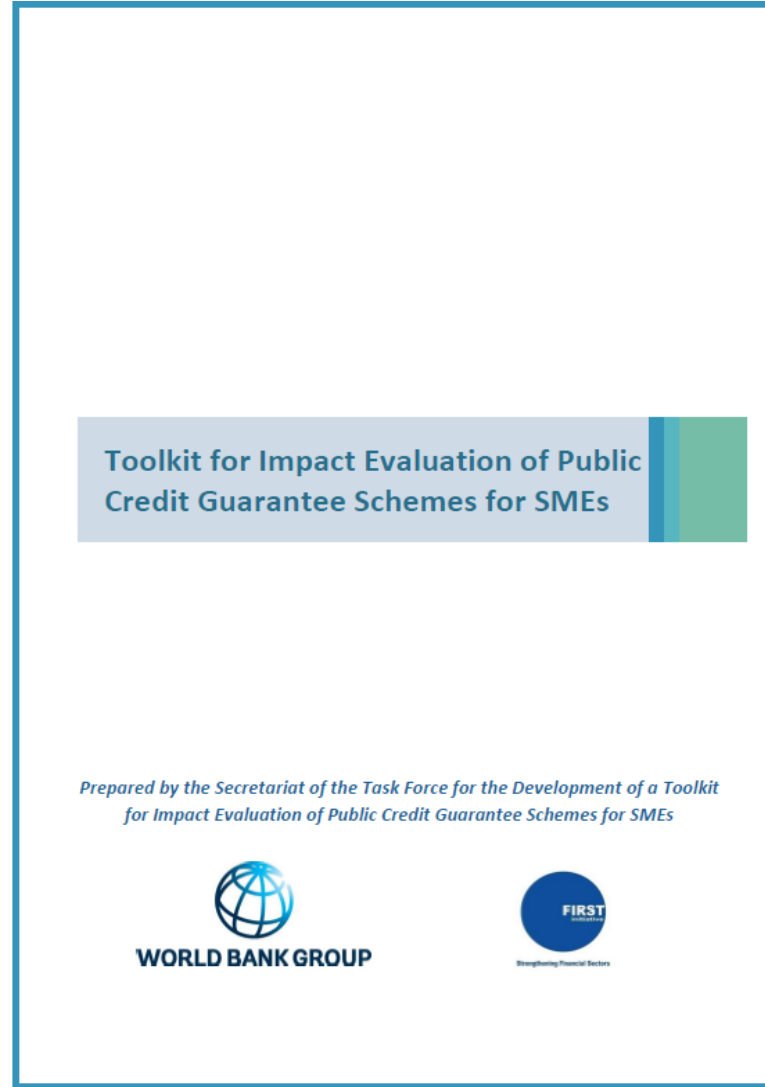


CGSs are becoming increasingly popular as they typically combine a public subsidy with market-based credit allocation.



It is important that CGSs are properly designed and operated to achieve both outreach and additionality in a financially sustainable way.

BEST PRACTICES IN THE DESIGN OF CGSSs



THE ROLE OF CGSs IN DISASTER RISK FINANCE

Mitigation & Preparedness

Objective	Facilitate SME investments in disaster preparedness and risk mitigation to build resilience
Target Beneficiaries	Firms undertaking preparedness and mitigation efforts, such as risk assessment, structural upgrades, and supply chain security
Eligible Sectors	Priority given to critical sectors (e.g., manufacturing, trade, construction) in regions at risk
Type	On demand
Guarantee Coverage	Up to 70% of the loan amount in case of default due to non-disaster-related causes
Loan Size	Minimum: \$10,000; Maximum: \$2 million
Interest Rate	Discounted rate with government guarantee Subject to lender adjustment based on risk profile
Loan Term	2 to 5 years, depending on the scale of mitigation measures
Eligible Use of Funds	Financing activities and projects focused solely on disaster risk mitigation and preparedness, including: <ul style="list-style-type: none"> - Structural upgrades and retrofitting for seismic, flood, and fire resilience - Implementation of preventive systems (e.g., fire suppression, flood barriers) - Supplier diversification and inventory management for supply chain resilience - Risk assessment and BCP development and implementation
BCM Compliance Requirement	Beneficiaries must either have or commit to establishing a Business Continuity Plan (BCP)
Fees	Annual Guarantee Fee: 0.5%–1.5%, based on Business Continuity Management ratings and sector-specific risk factors
Monitoring and Compliance	Annual BCM assessment and verification of preparedness investments are mandatory

Response & Recovery

To enhance firms' creditworthiness and provide financial support through guaranteed loans to aid in disaster recovery, ensuring business continuity and fostering economic resilience
Firms that have introduced Business Continuity Plan (BCP)
Open to all sectors, with priority for industries in regions at risk
Pre-arranged, conditional upon the adoption of BCP
Up to 100% of loan amount in case of disaster-related default
Ranges from \$10,000 to \$2 million, depending on the firm's size, needs, and disaster impact level
Competitive, below-market rate with possible subsidized rates for high-impact zones or severely affected sectors Rates to be determined based on prevailing market conditions and regional policies
Up to 5 years, with a possible grace period of 6–12 months post-disaster to allow firms time to recover before repayment begins
Disaster recovery, business continuity activities, capital expenditures, operating costs, inventory replacement, workforce retention, and other essential recovery-related expenses
Firms must submit a certified BCP approved by a local authority Annual BCP updates are required to maintain eligibility
No guarantee fees are charged prior to a disaster event Activation fees may apply post-disaster
Annual monitoring to include assessment of financial status, BCP updates, and disaster preparedness Non-compliance may affect eligibility for program renewal

ILLUSTRATIVE ONLY

EXAMPLES



Japan

Disaster-related Emergency Guarantee Program: Credit Guarantee Corporations

- SMEs affected directly and indirectly in specific disaster areas by the Great East Japan Earthquake
- Upper limit of guarantee: ¥280 million
- 100% guarantee coverage
- Business recovery and business stability
- Fee < 0.8%



Japan

Disaster-Triggered Credit Guarantee Program: Shizuoka Prefecture

- SMEs that have introduced Business Continuity Plans
- Upper limit of guarantee: ¥280 million
- Business recovery and business stability
- No fee before disaster
- Annual monitoring



Türkiye

Disaster-related Emergency Guarantee Program: Teskomb

- Trade and craft SMEs affected directly and indirectly in specific disaster areas by the 2020 and 2023 earthquakes
- 100% guarantee coverage on loans provided by Halkbank
- Upper limit of guarantee: TL 750,000
- Fee < 0.8%

CREDIT GUARANTEE SCHEMES ARE NOT PANACEA

While Public Guarantees Can Play a Role, Resilient SMEs Require a Comprehensive, Collaborative, and Adaptive Approach to Protection Against Growing Disaster Risks

- **Multisectoral Collaboration:** Involvement of public, private, and financial sectors to create supportive environments for resilient firms.
- **Comprehensive Risk Financing:** Access to diverse disaster risk financing mechanisms is essential for enabling firms to invest in risk mitigation and ensuring quick recovery after a disaster.
- **Advance Planning:** Implementing Business Continuity Plans (BCPs) and disaster preparedness strategies to mitigate impacts and recover quickly.
- **Community Empowerment:** Promoting the involvement of women and minority groups to strengthen local economies and enhance overall resilience.
- **Ongoing Investment:** Continuous improvement of resilience measures, including infrastructure and technological innovations, is essential to adapt to changing risks.



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