AECM Annual Seminar Conrad Hotel – Istanbul 17 October 2014

Founding President

PABLO POMBO

Thecnical Secretary of the Iberoamerican Network of Guarantees (REGAR)

Breaking down barriers: Guarantee, an international perspective

Afternoon Session:

13h45 -14h 45: Recent development of guarantee schems across the world: Africa and America

Multilateral recognition and impact assessments

- **IMF**

  An IMF report in 2010 highlights the importance of guarantees to improve the access to finance for SMEs

  http://www.imf.org/external/pubs/ft/weo/2010/update/01/index.htm

- **OECD**

  An OECD report in 2012 highlights that nearly every country should launch loan guarantee programs.

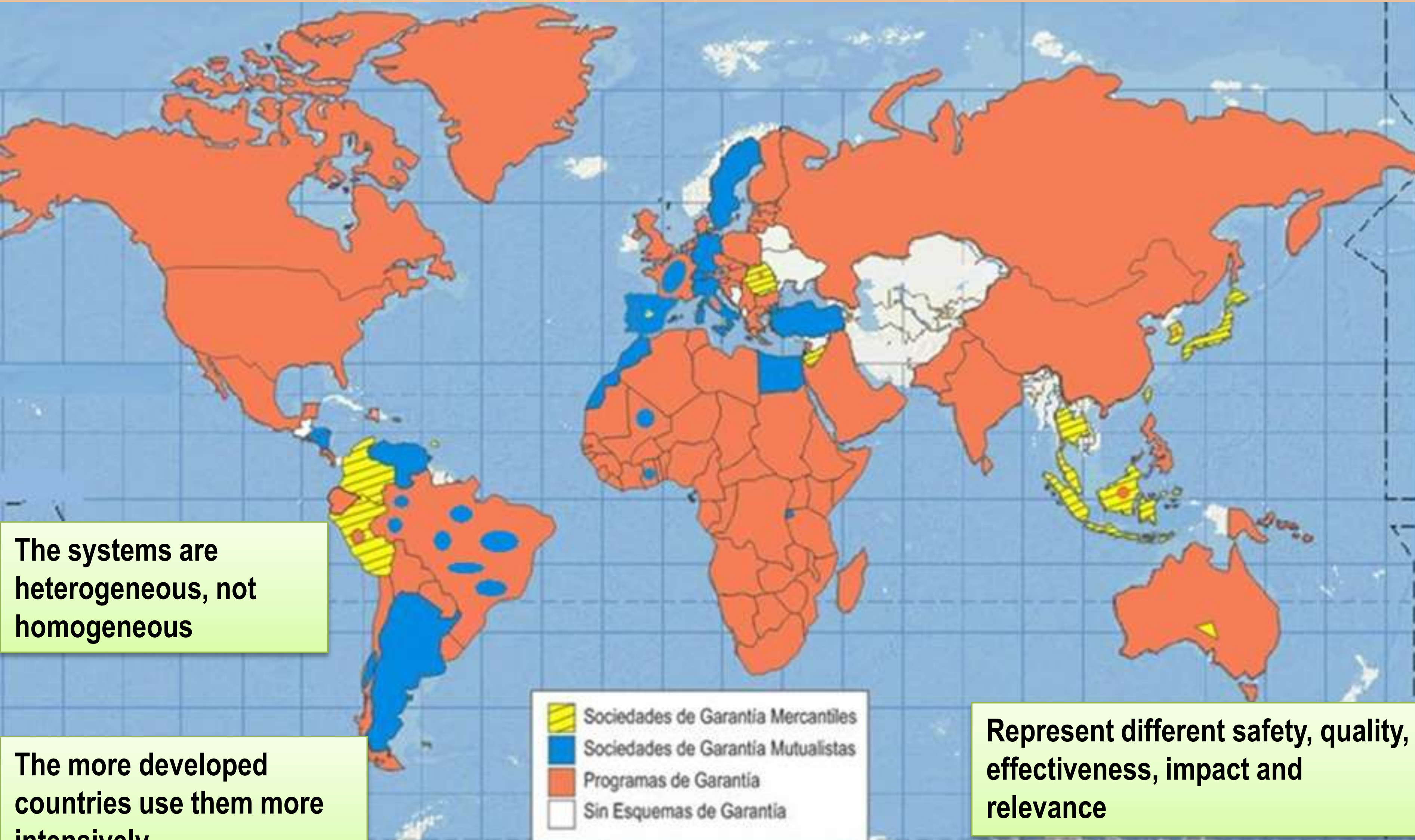
  http://www.aecm.be/es/oecd-publishes-scoreboard-of-sme-finance-smes-harder-hit-by-credit-crunch-than-larger-companies.html?IDC=119&IDD=1211&NEWSLETTERID=1214

- **An study in 2010 about the macroeconomic benefits of the activity of the German Guarantee Banks.**

  The activity of the German Guarantee Banks has lead to an improvement of GDP growth and of the State's financing, in addition to the improvement of the access to finance for SMEs

  http://www.aecm.be/es/inmit-study-on-the-macroeconomic-benefits-of-the-german-guarantee-banks.html?IDC=31&IDD=183

GUARANTEE SYSTEMS: A GLOBAL REALITY & NEED



The systems are heterogeneous, not homogeneous

The more developed countries use them more intensively

Represent different safety, quality, effectiveness, impact and relevance

Introduction by the panellists themselves

Mentioning their relation with guarantees, so that the audience gets a better understanding who is talking to them and what is their relation to SME finance especially to guarantees; PPTs are welcomed

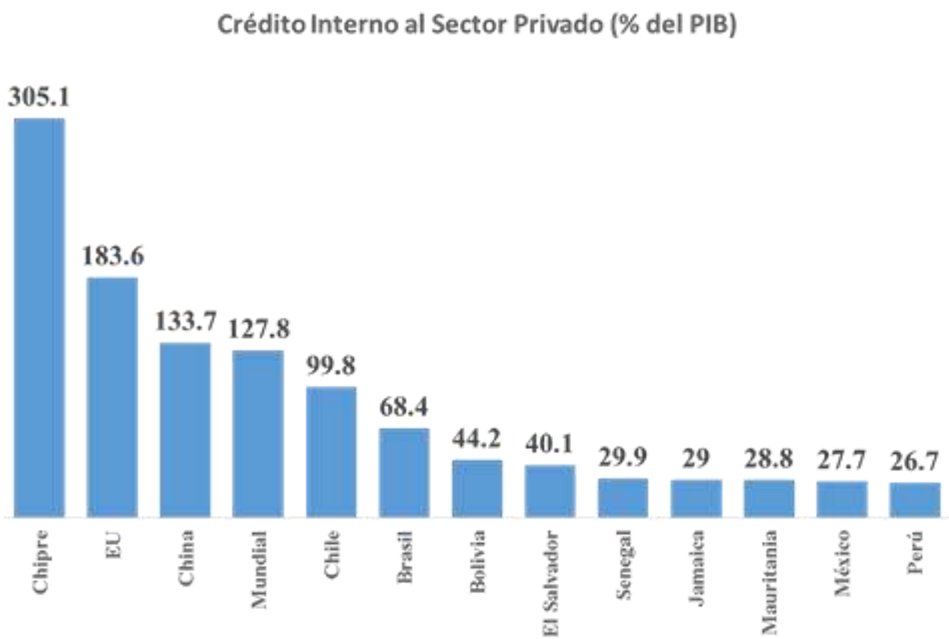
- ✓ 33 years in the sector of guarantee
- ✓ President and CEO of a Spanish SGR (1981-1996)
- ✓ President of CESGAR (1991-96) and Founding President AECM (1992-96)
- ✓ International guarantee systems consultant since 1996 with projects developed in Latin America for national and multilateral institutions and international cooperation
- ✓ Technical Secretary REGAR - 19 consecutive annual forums
- ✓ Lecturer and researcher, Award UNICAJA of economic research from 2007
- ✓ PhD in Economics and Business Sciences. Associate Professor at University of Cordoba (Spain).
- ✓ Order of civil merit

First round of questions

Pombo: sme-financing in South-America and guarantee initiatives, latest developments and new initiatives (see your study: „A Guarantee Systems Classification: The Latin American Experience.“ 2013)

- ✓ Un entorno complicado pero …
- ✓ En America latina en garantías en 10 años han pasado muchas cosas …
- ✓ Perspectivas y tendencias

Un entorno complicado pero …



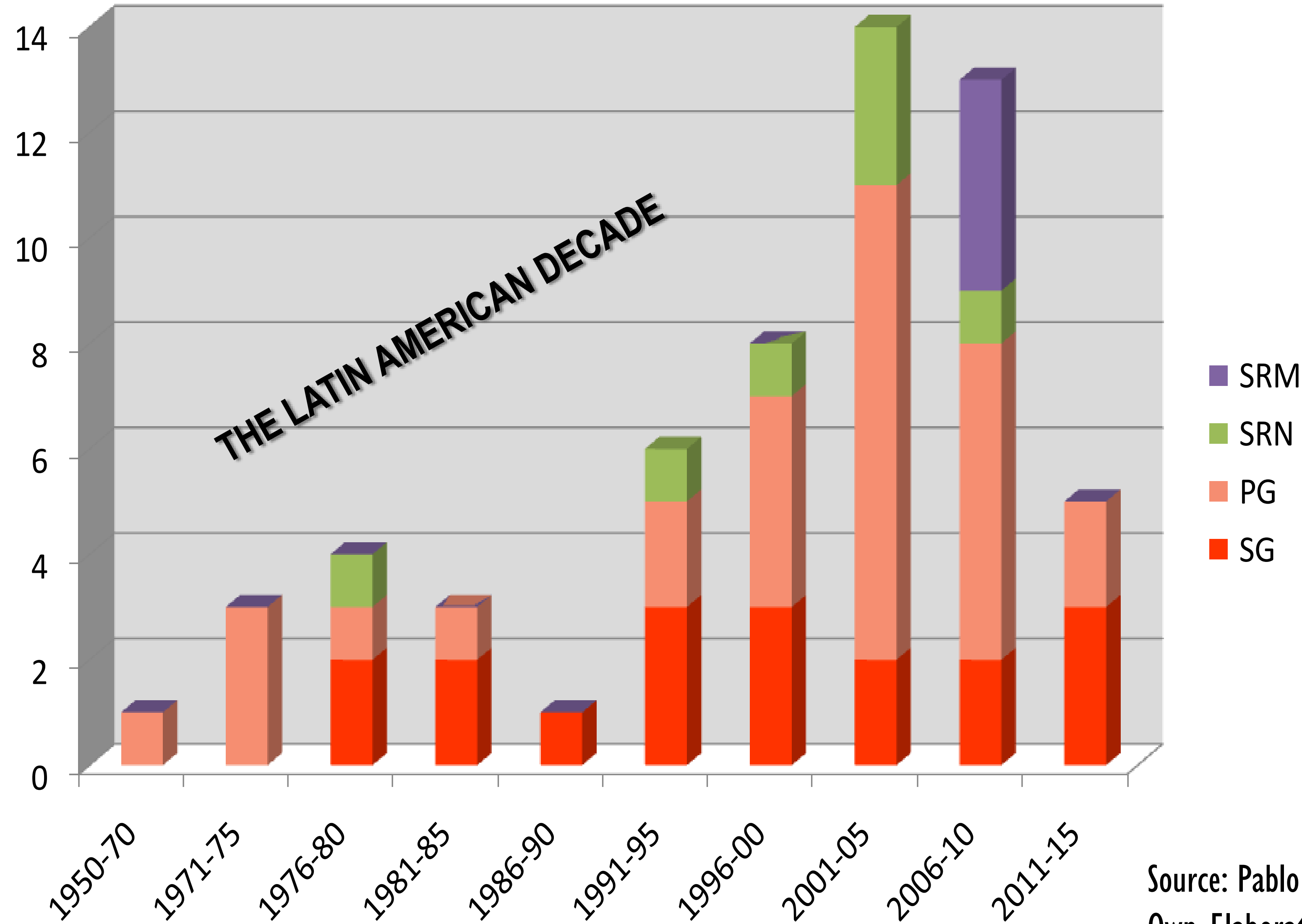
Crédito al sector privado como porcentaje del PIB, de los Indicadores Mundiales de Desarrollo del Banco Mundial en el año 2012

Inclusión financiera en América Latina y Estados Unidos 2013

	Cuenta en una institución financiera	Ahorró en sistema formal o informal	Ahorró en una institución financiera	Crédito en una institución financiera	Con tarjeta de crédito	Algún tipo de crédito formal
EE. UU.	88	67	50	20	62	82
Uruguay	24	17	6	15	27	42
Brasil	56	21	10	6	29	36
Chile	42	27	12	8	23	21
Argentina	33	24	4	7	22	29
República Dominicana	38	37	16	14	12	26
Perú	21	29	9	13	10	23
Costa Rica	50	41	20	10	12	22
Colombia	30	33	9	12	10	22
Paraguay	22	18	10	13	9	22
Guatemala	22	25	10	14	7	21
Ecuador	37	30	15	11	10	21
México	27	27	7	8	13	21
Panamá	25	35	13	10	11	21
Bolivia	28	44	17	16	4	20
Honduras	21	22	9	7	10	17
Venezuela	44	28	17	2	10	12
Nicaragua	14	26	7	8	2	10
Haití	22	32	18	8	2	10
El Salvador	14	26	13	4	5	9

Fuente: Encuesta de Inclusión Financiera (Global Findex) del Banco Mundial.

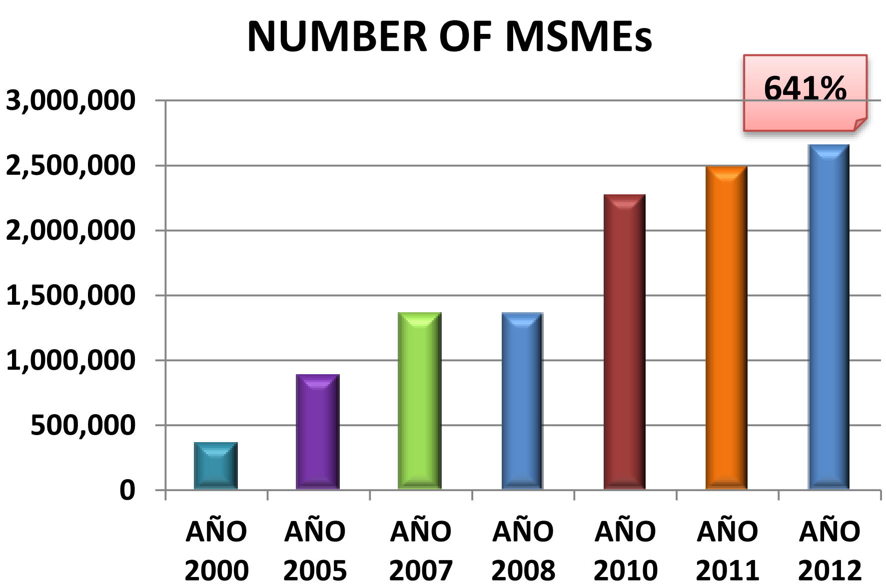
EVOLUTION OF THE SYSTEMS / SCHEMES OF GUARANTEE IN IBEROAMERICA

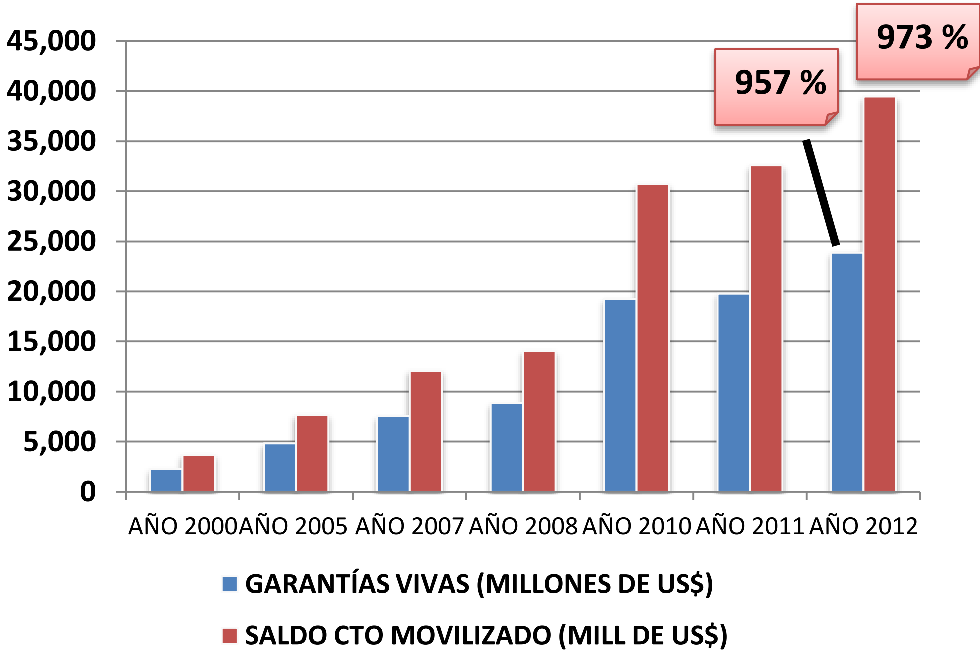


Source: Pablo Pombo. Own Elaboration.

COMPARATIVE YEARS 2000, 2005, 2007, 2008, 2010, 2011 and 2012 IN LATIN AMERICA

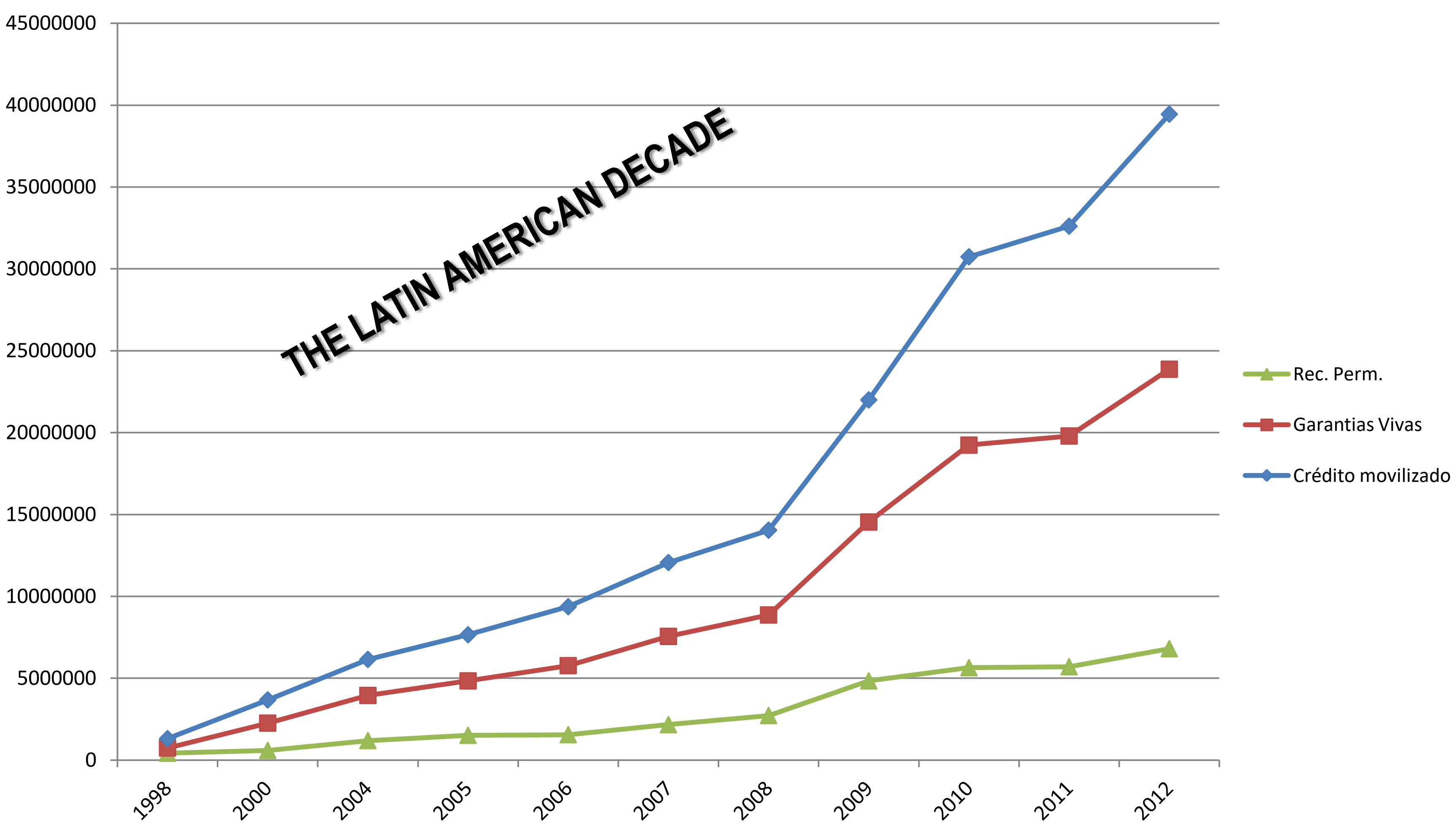
CONCEPT	2000	2005	2008	2010	2011	2012	Increase 00/12
NUMBER OF MSMEs	358.108	879.199	1.360.128	2.261.977	2.477.080	2.653.647	641%
CURRENT GUARANTEES (MILLIONS US$)	2.258	4.836	8.861	19.236	19.794	23.870	957%
CTO IN PORTFOLIO (MILL US$)	3.675	7.653	14.042	30.737	32.605	39.449	973%



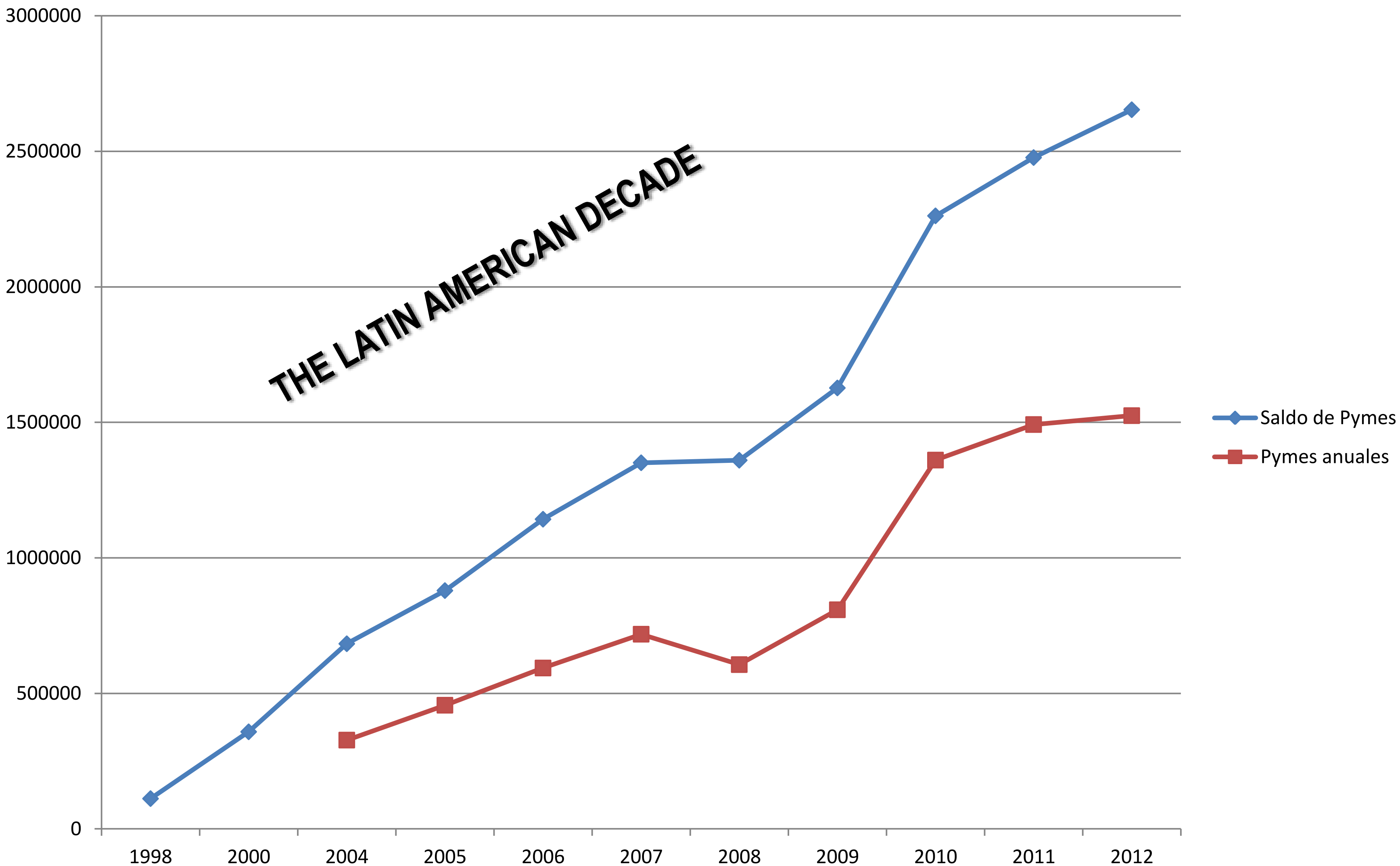


Source: Own elaboration

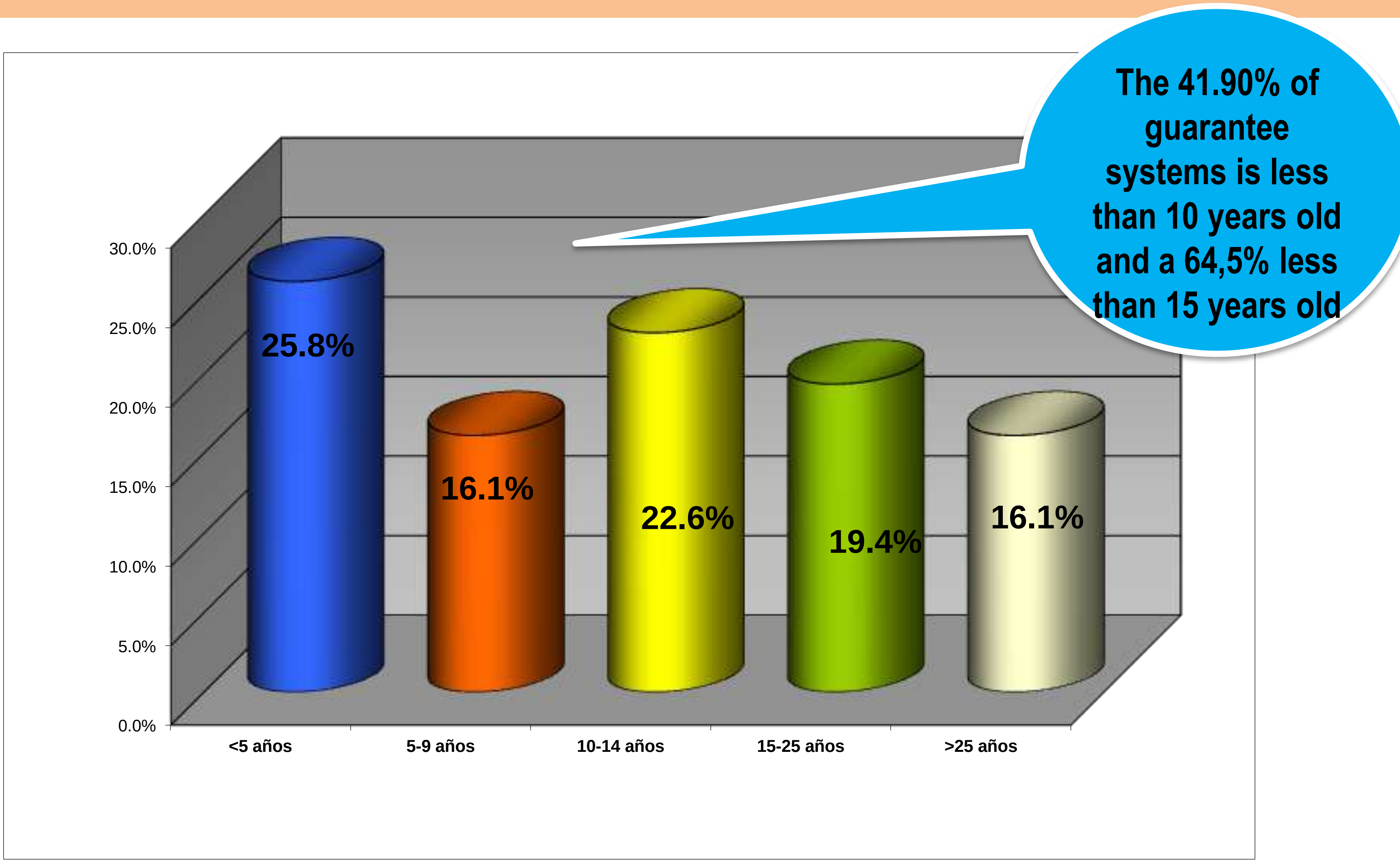
EVOLUTION 1998-2012 IN LATIN AMERICA ACTIVITY



EVOLUTION 1998-2012 IN LATIN AMERICA SMEs

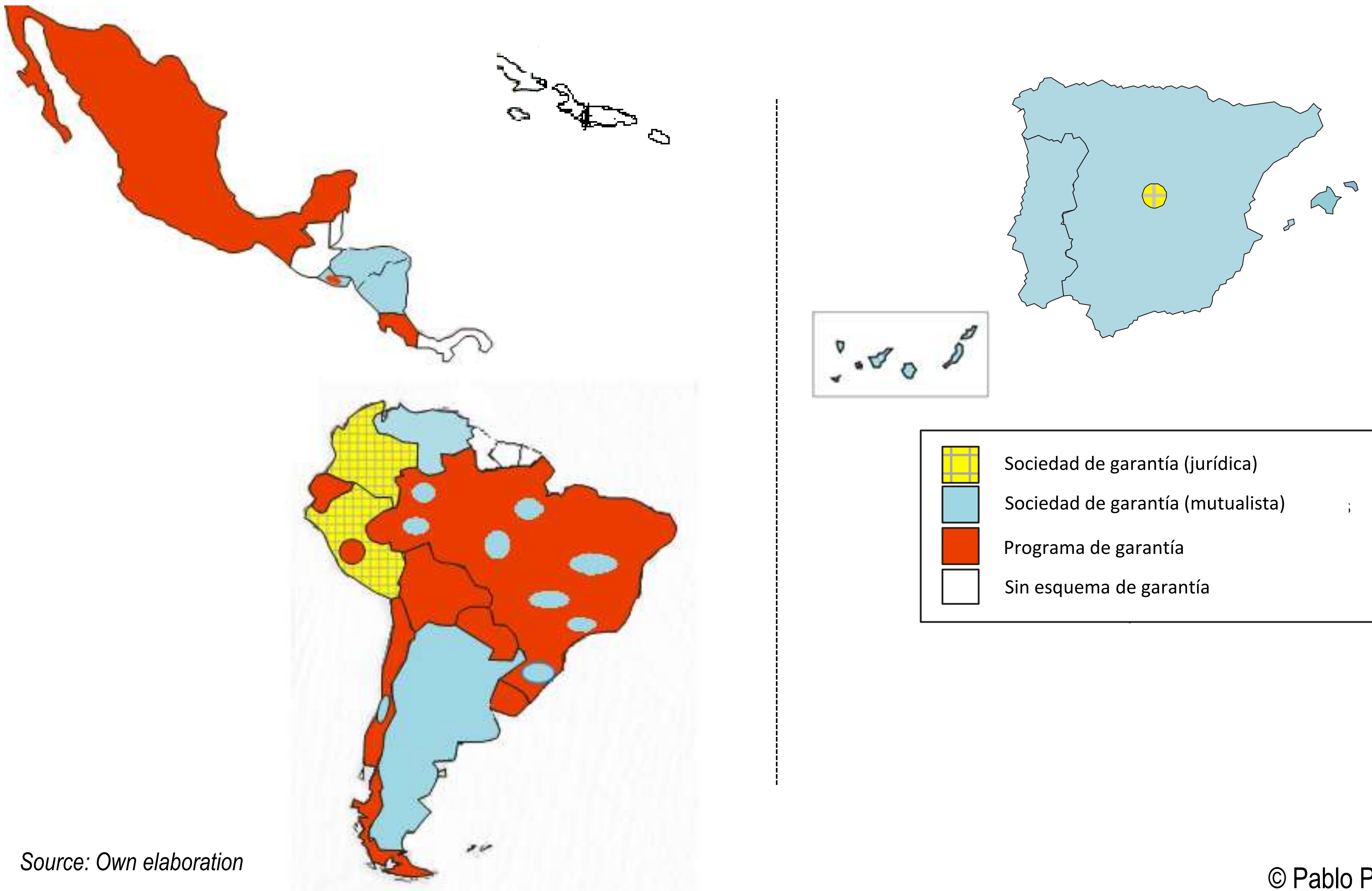


% DISTRIBUTION BY YEARS OLD OF THE SYSTEMS / ENTITIES IN LATIN AMÉRICA (2012)



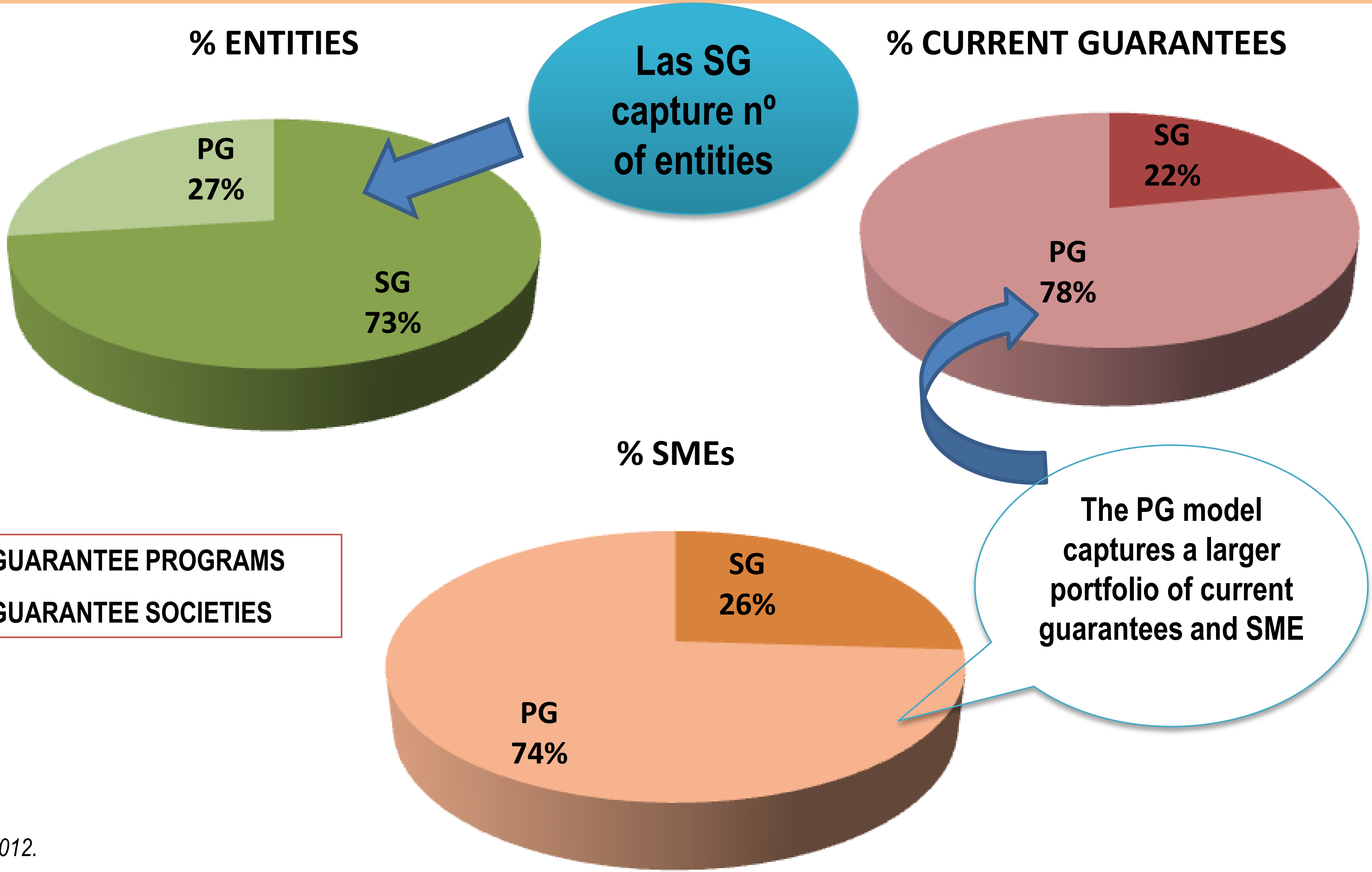
Source: Own elaboration

GUARANTEE SYSTEMS IN LATIN AMERICA & IBEROAMERICA



Source: Own elaboration

SHARE IN % OF ENTITIES, SMEs Y CURRENT GUARANTEES BY MODEL (LATIN AMERICA)



PG: GUARANTEE PROGRAMS

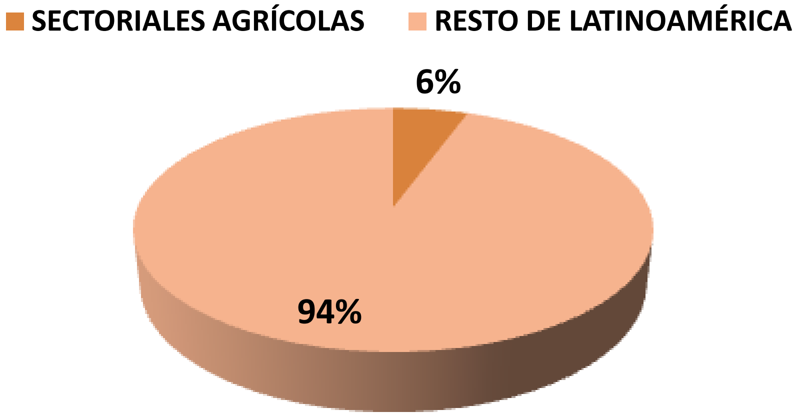
SG: GUARANTEE SOCIETIES

Year: 2012.

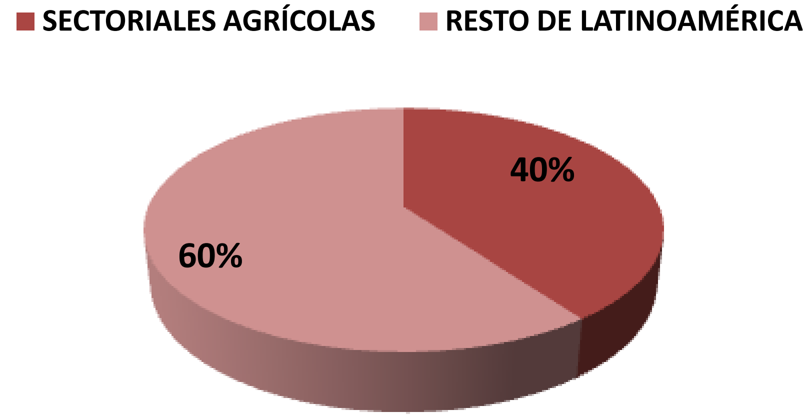
Source: Own elaboration

ACTIVITY AGRICULTURAL GUARANTEE SYSTEMS 2012

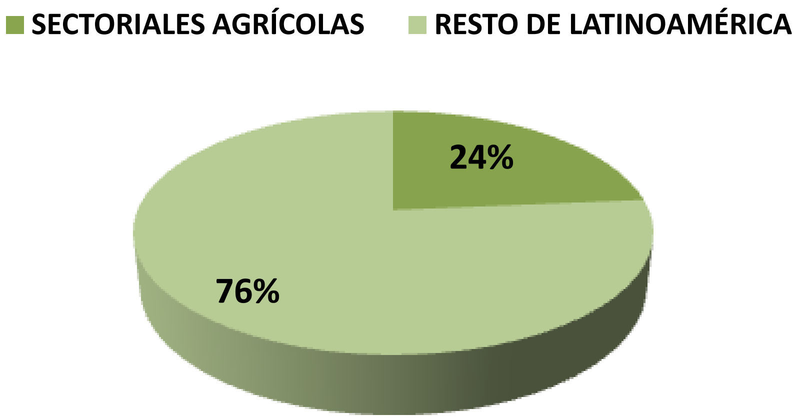
Nº ENTITIES



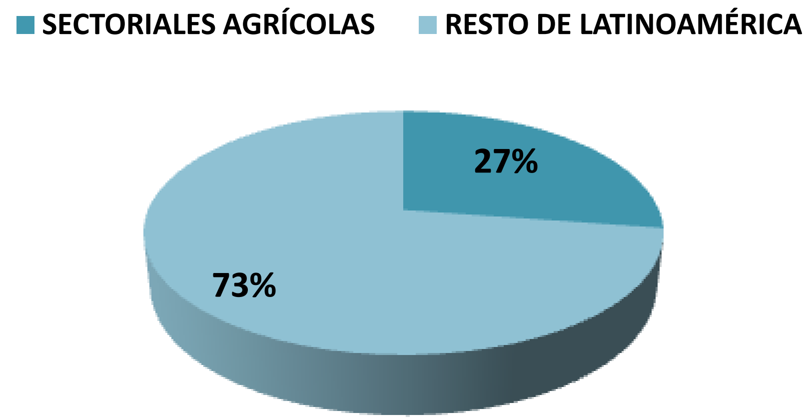
SMEs



CURRENT GUARANTEES



CREDIT IN PORTFOLIO



TRENDS AND PROSPECTS

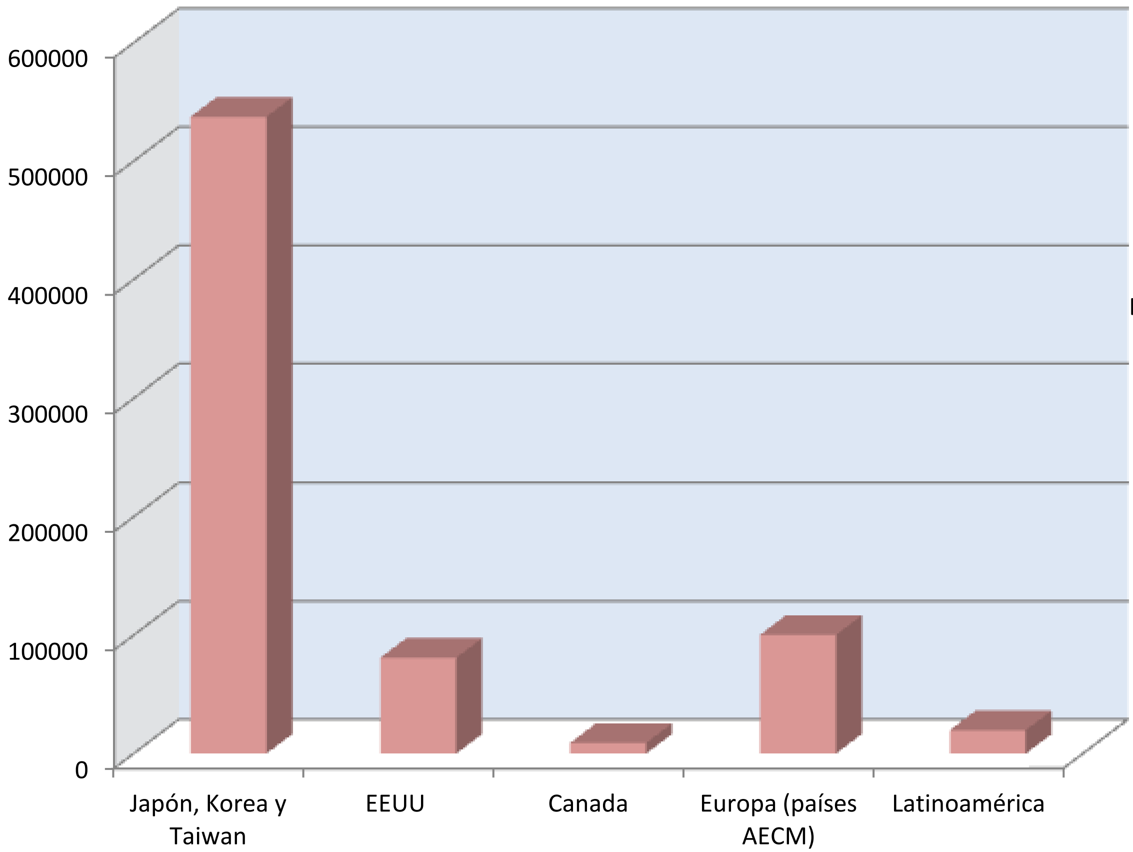
TRENDS	PROSPECTS
Future important growths and developments.	Major expansion and high % of growth.
Continuity of the important role of the State in the implementation and development, coexisting with private participation that is increasingly expanding and relevant.	▪ Guarantee program with an important boost to MGS's. ▪ It involves methods of capitalization and specific operational profiles.
Implementation of regulatory frameworks and quality and efficient supervision.	▪ Integration of the financial system. ▪ Scoring and weighting of guarantees and national counter-guarantees in the mitigation of own resources and provisions for IFI'S and MGS's.
Consolidation of initiatives by multilateral organizations of supranational counter-guarantee	▪ Extension of experiences such as FLAG CAF, CII, FG MERCOSUR.

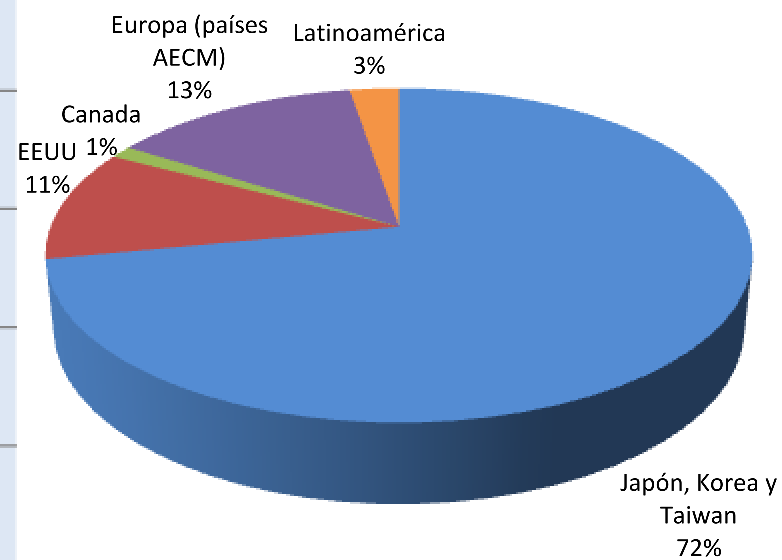
Second round of questions

Pombo: are there some best practices of South American Guarantee Institutions (some countries), are there main differences between the South American and the European guarantee systems.

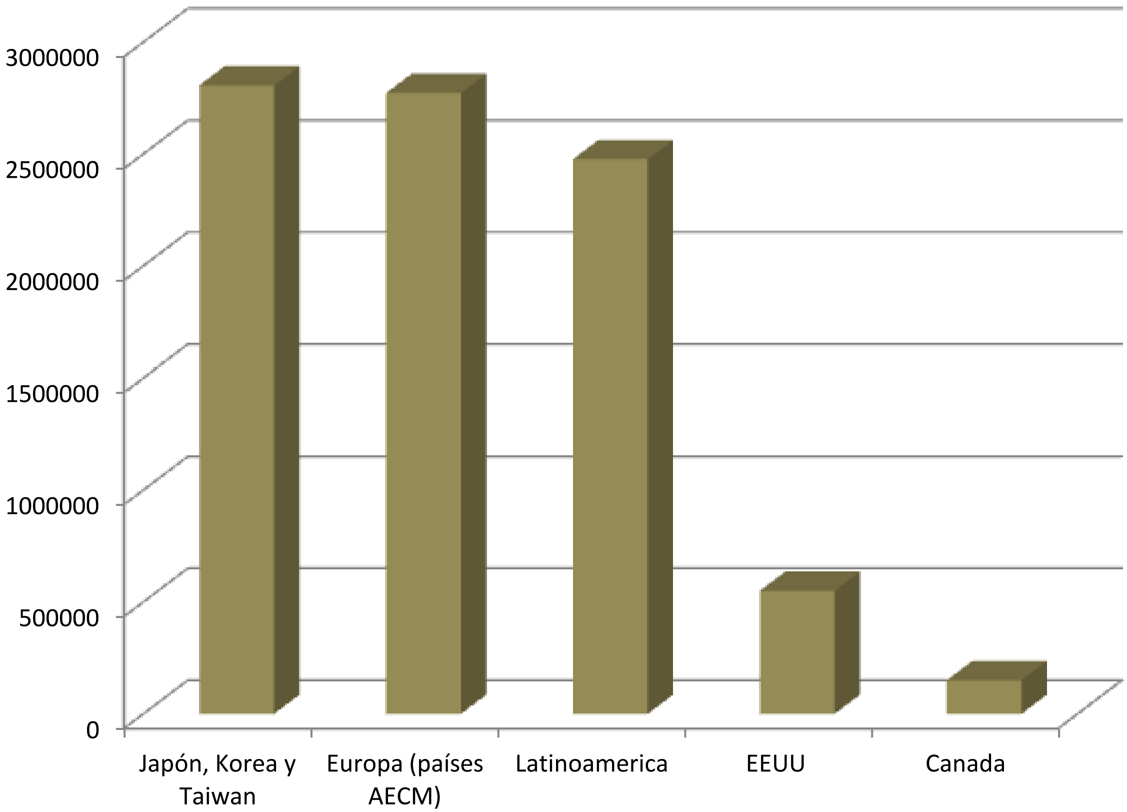
- ✓ Significant differences in origins: EU SCM-SGR-SGM - LATAM - FG and trusts administered by Trustees -
- ✓ Example of excellent good practice - FOGAPE of Chile in marketing and relationships with the EEFF - FNG, SA of Colombia in expansion and management system
- ✓ Incorporation of the private sector in recent years from various fields and perspectives
- ✓ Results of studies and evaluations

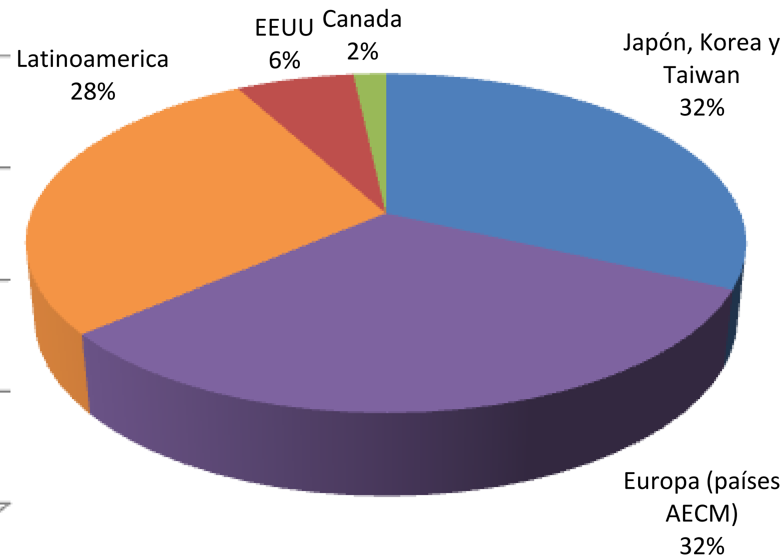
UNA VISON GLOBAL: GARANTIAS VIVAS 2011



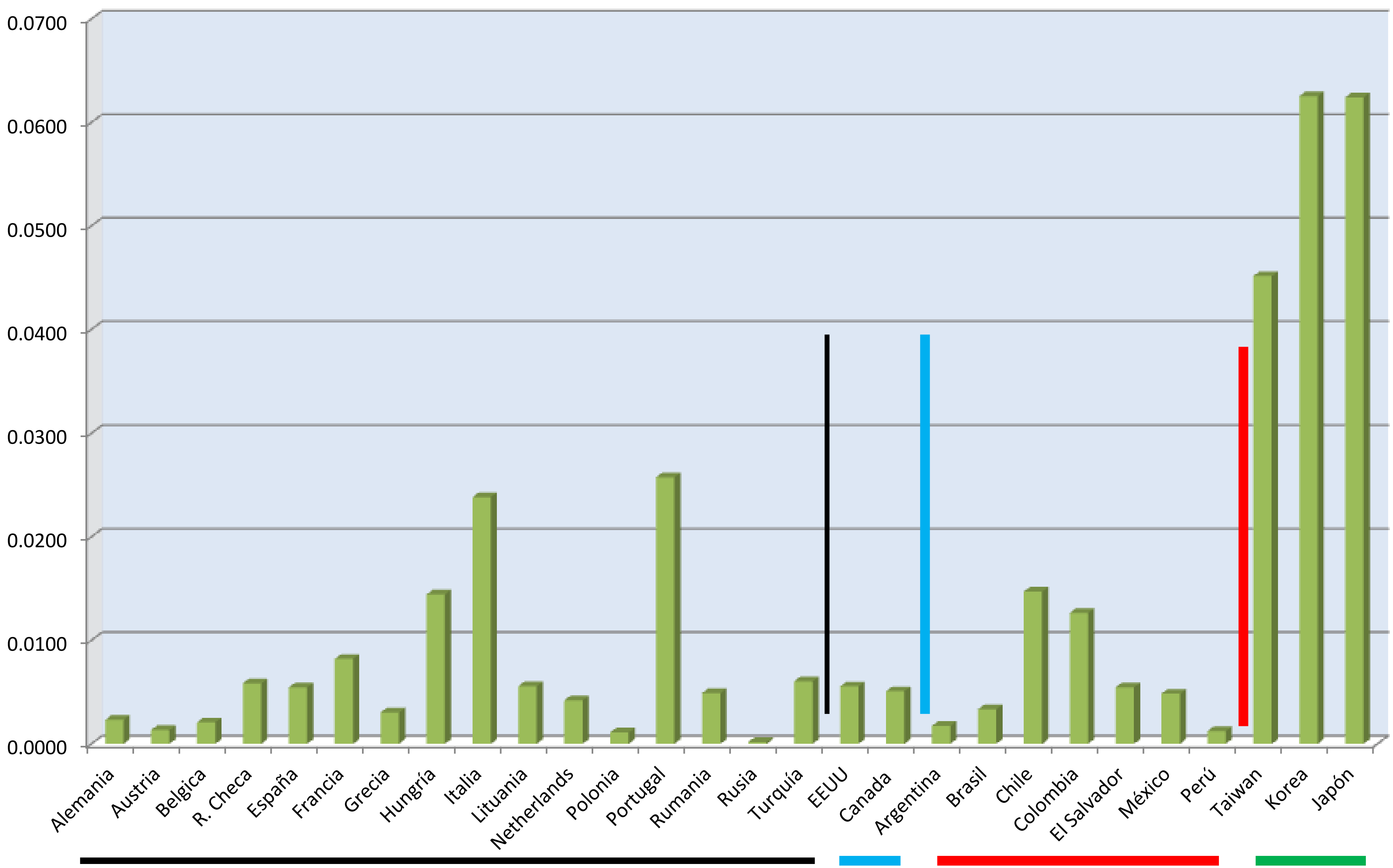


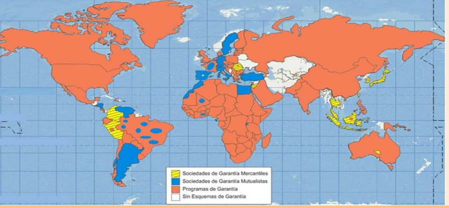
UNA VISION GLOBAL: PYMES 2011





A GLOBAL VISION : GUARANTEES IN PORTFOLIO / GDP 2012





FOGAPE

FOGAPI

NORGARANTE

AGROGARANTE

FINAGRO

nacional financiera
Banca de Desarrollo

FSG
FONDO SALVADOREÑO DE GARANTÍAS

spgm
SOCIEDADE DE INVESTIMENTO S.A.

FNG
Fondo Nacional de Garantías S.A.

GARANTIZAR
SOCIEDAD DE GARANTIA RECIPROCA

Iberaval

FIRA

FONPYME s.a
Fondo Nacional de Garantías Recíprocas
para la pequeña y mediana empresa

Fogaba

G&S
Garantías y Servicios, SGR, S.A. de C.V.

FONAES

SGR
Sociedad de Garantías Recíprocas de Guárico S.A.

SEBRAE
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas

Garantiacrédito
Sociedade de Garantia de Crédito

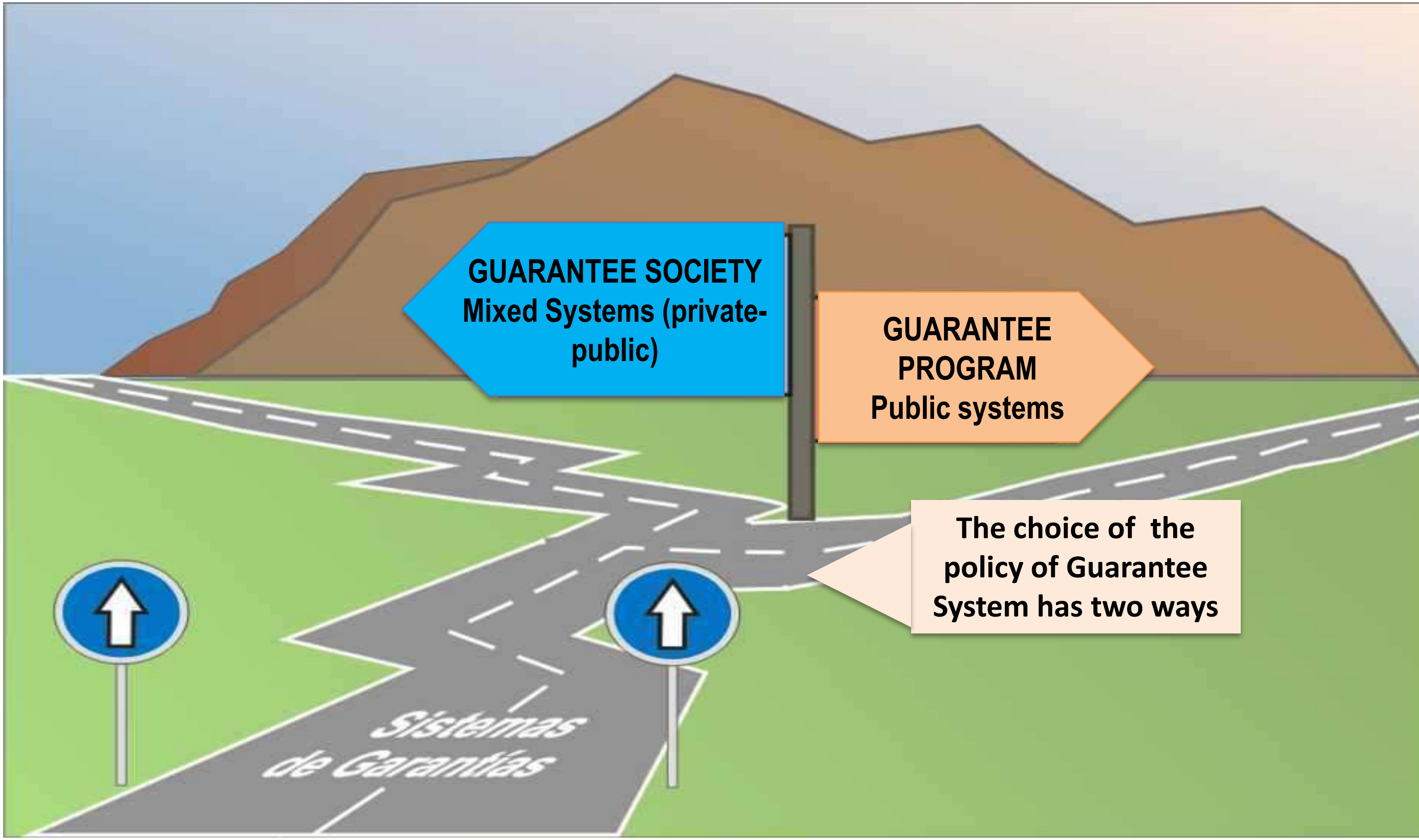
CORFO
sueña emprende crece

FODEMIPYME
Fondo de Desarrollo de Micro, Pequeñas y Medianas Empresas

BNDES

?

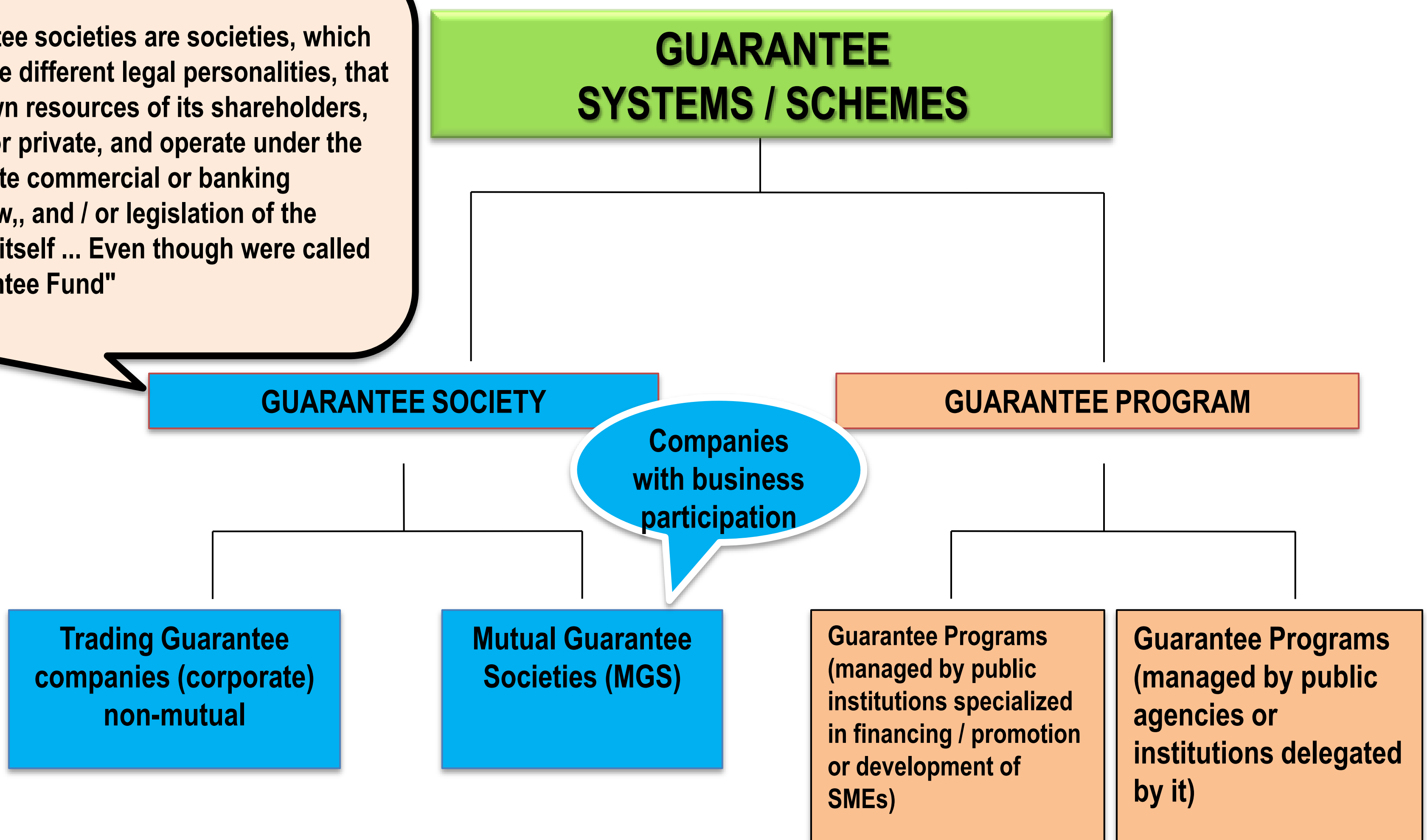
GUARANTEE SYSTEM / SCHEMES: MODELS / OPTIONS



Source: Pablo Pombo's doctoral thesis and own elaboration

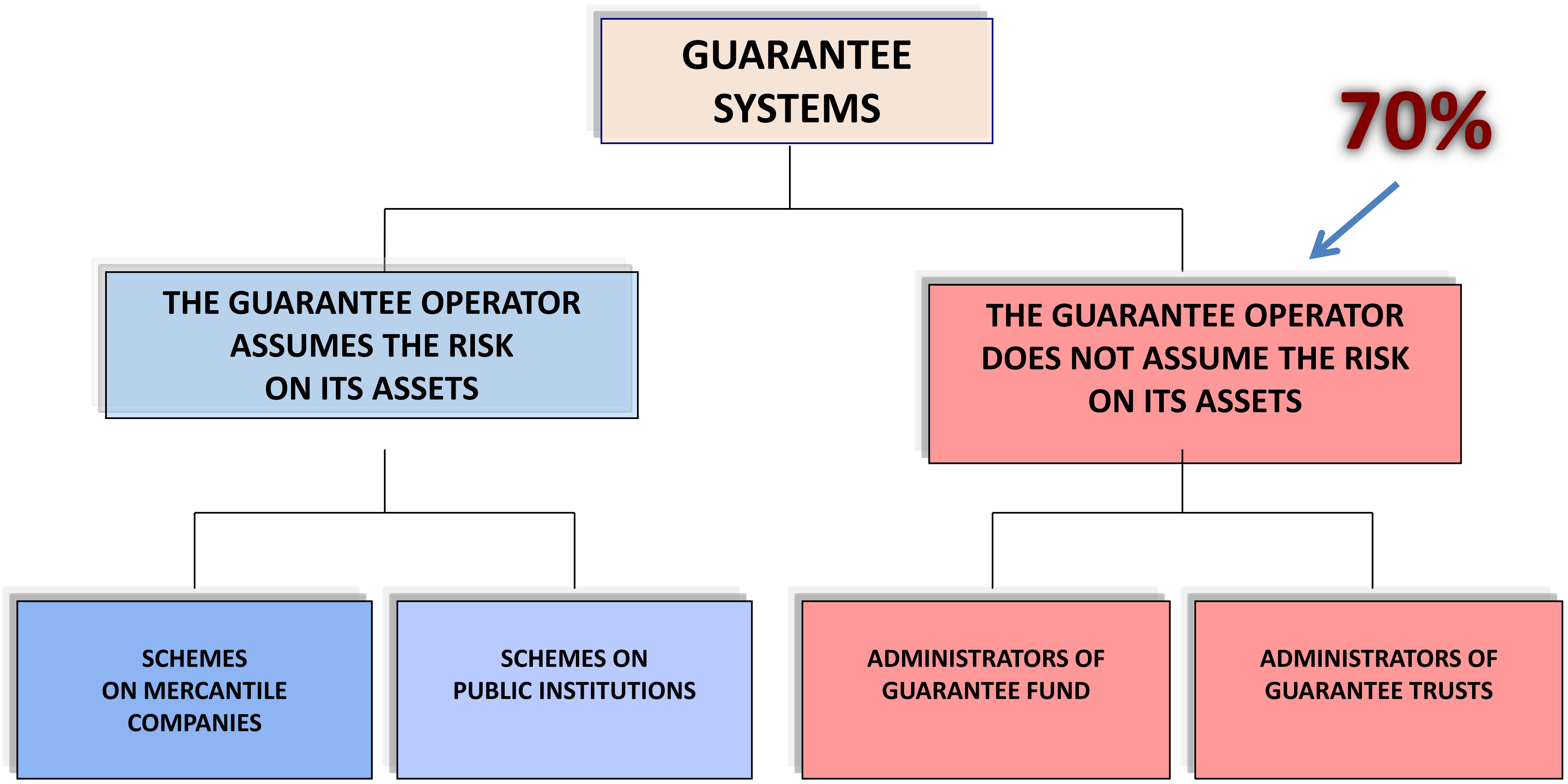
CALIFICATION OF THE GUARANTEE SYSTEMS/SCHEMES
2007 study on Europe

Guarantee societies are societies, which can have different legal personalities, that have own resources of its shareholders, public or private, and operate under the corporate commercial or banking rules/law,, and / or legislation of the activity itself ... Even though were called "Guarantee Fund"



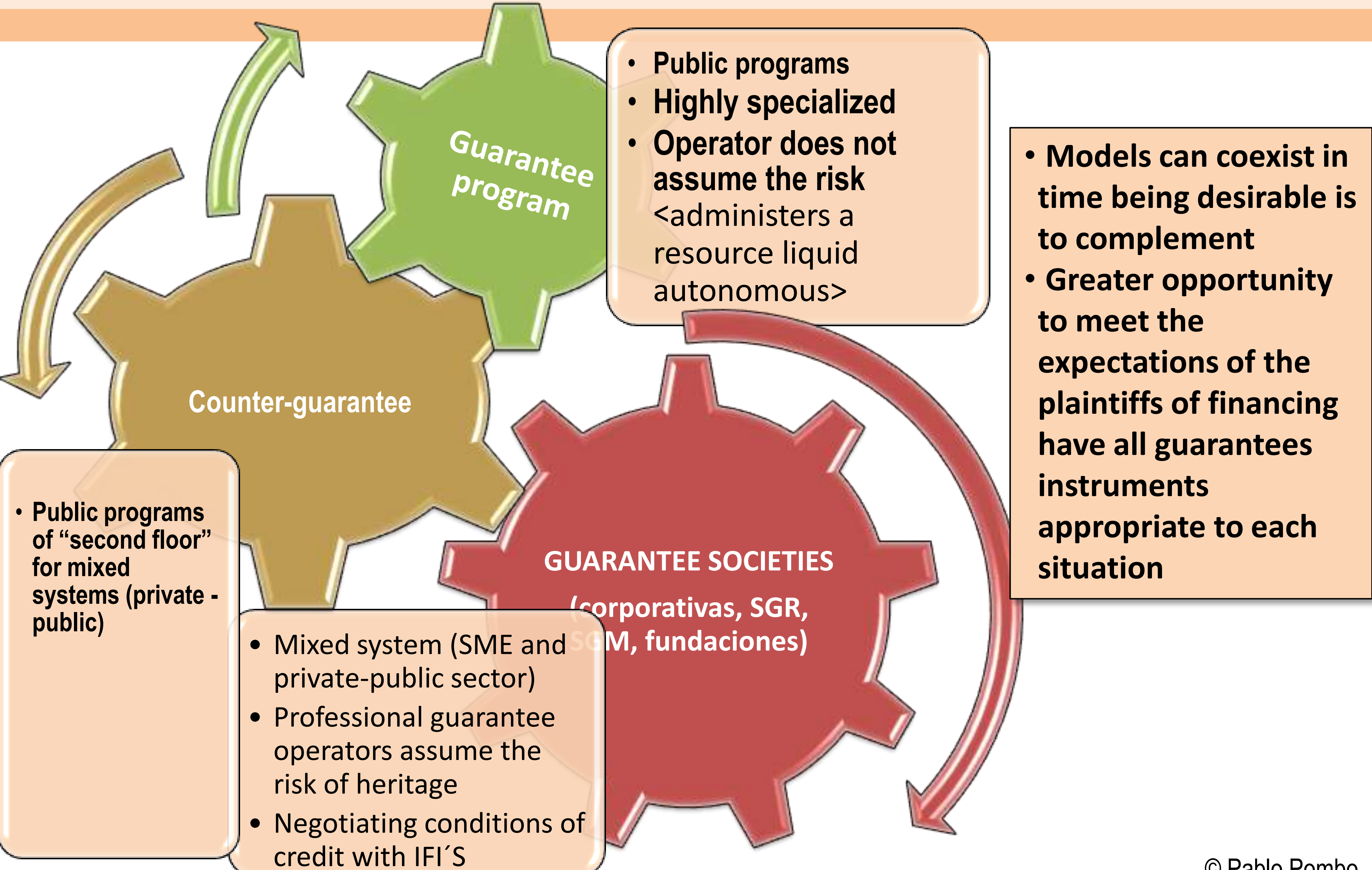
Source: Own elaboration

Empirical classification of the guarantee systems / schemes in Latin-American - 2013 IDB study



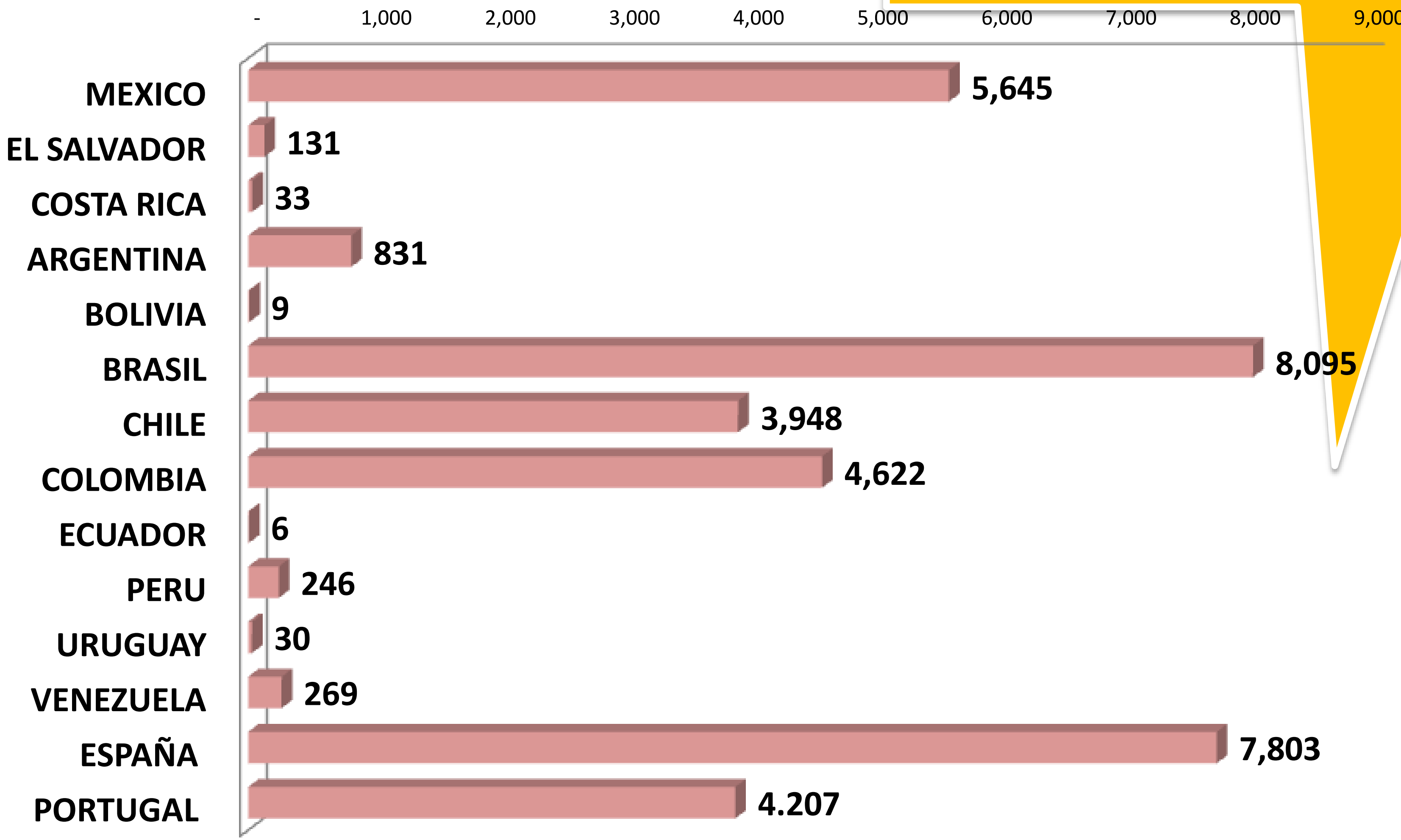
Source: Own elaboration

Complementarity in the offer of guarantees

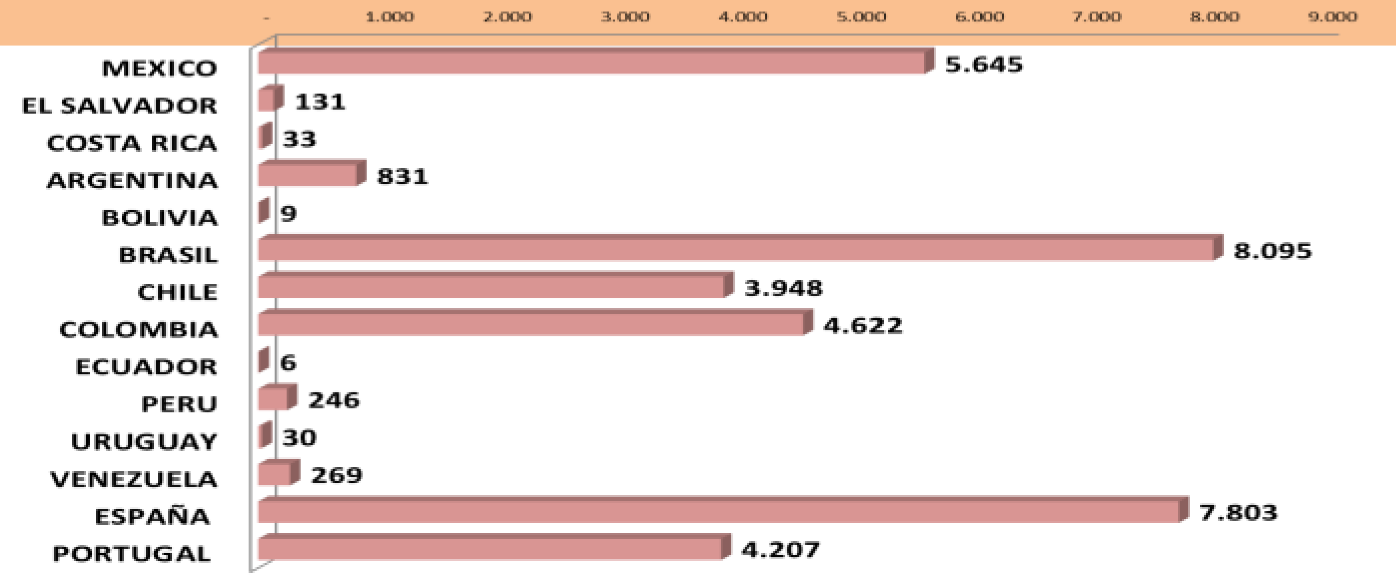


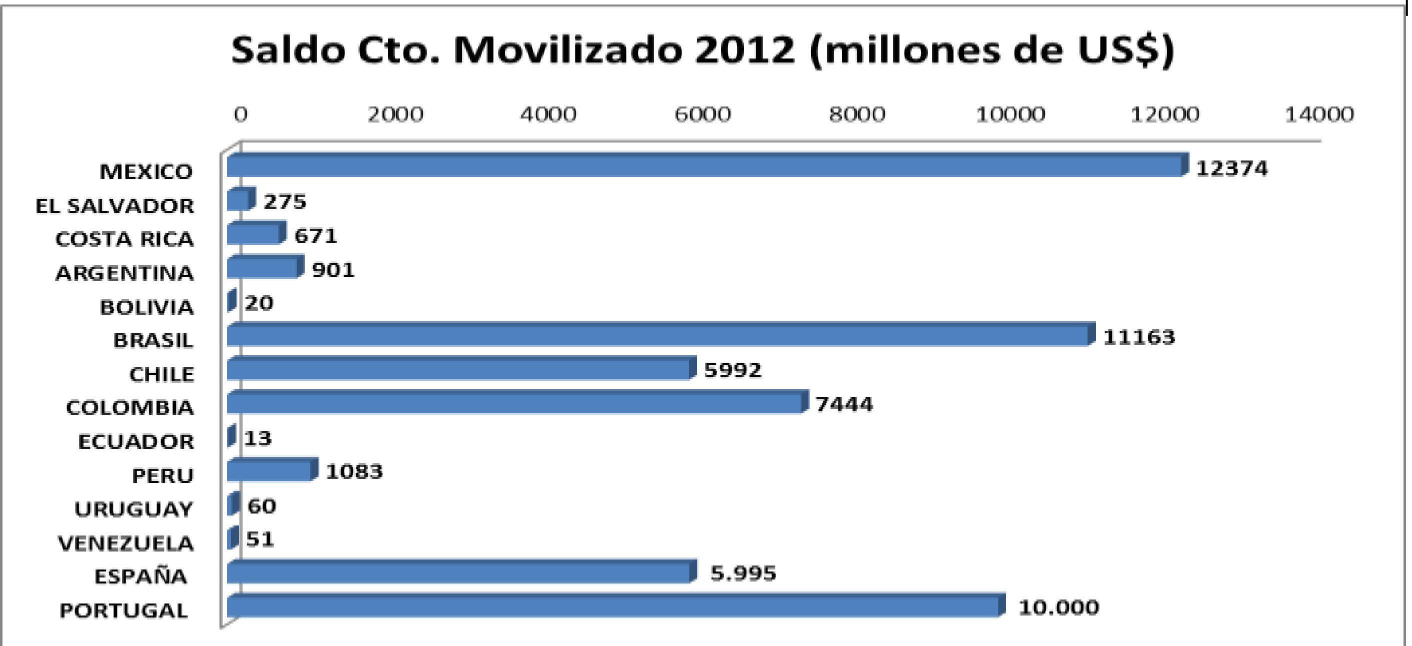
GUARANTEE PORTFOLIO (2012) (millons US$)

Specially significant Brazil, Spain along with Mexico, Colombia, Portugal and Chile



GUARANTEE AND CREDIT IN PORTFOLIO (2012) (MILLIONS US$)

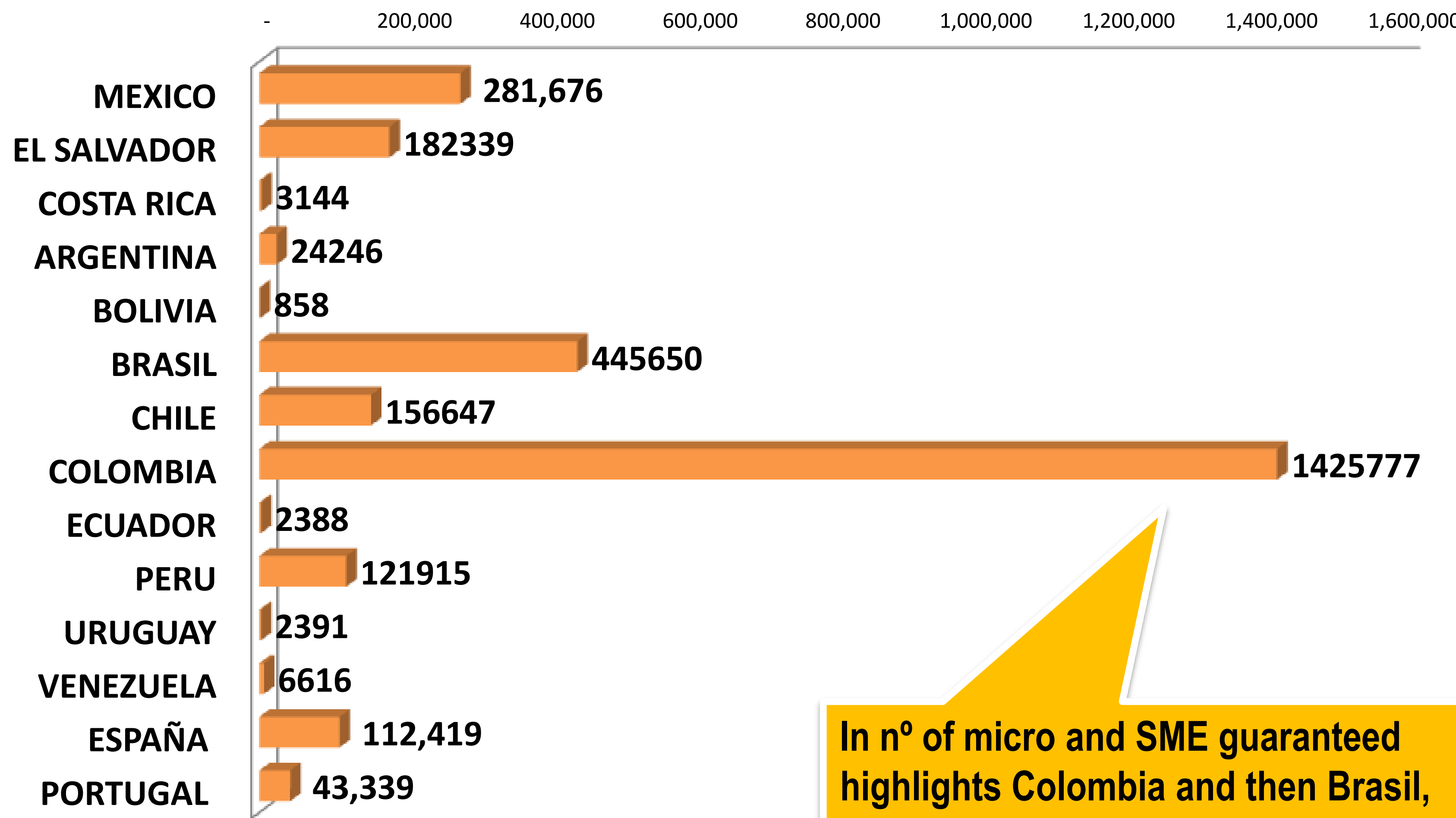




Specially significant México, Brasil, Portugal, Colombia, España and Chile

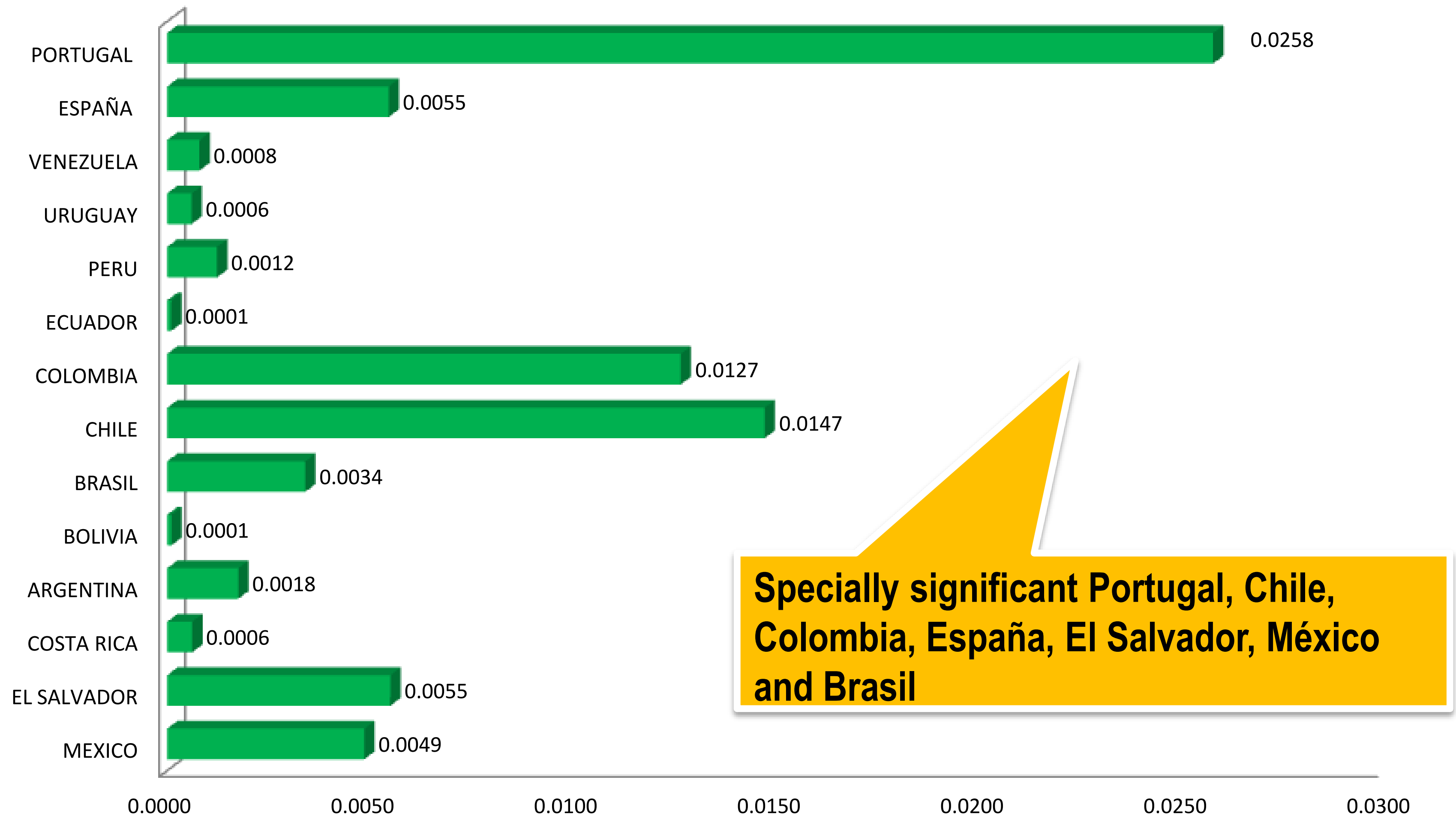
Fuente: Elaboración propia

PORTFOLIO MICRO AND SME (2012)



In nº of micro and SME guaranteed highlights Colombia and then Brasil, México y El Salvador

GUARANTEE IN PORTFOLIO / GDP (2012)



13h45 -14h 45: Recent development of guarantee schems across the world: Africa and America

Invitation to the public to ask questions

Final round of questions

Pombo: what will the future bring for sme-financing, maybe a change of instruments (e.g. increasing alternative financing like crowdfunding, business angels) what role will bank loans play in the future

- ✓They are complementary instruments intended to other purposes.
- ✓Those indicated are instruments intended to strengthen the equity and in the case of crowdfunding reduce the dependence of a core shareholder.
- ✓Our conceptual framework and our raison d ' être is different... the access to financing is...
- ✓The discussions and contacts of our Latin American forums have helped us to understand it and understand it better...

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MARCO DE REFERENCIA DE LA FINANCIACION DE LA PYME

- STIGLITZ & WEIS 1982-1986
  - Asimetrías de información
  - Selección adversa y Riesgo moral

- BASILEA I 1988
- BASILEA II 2004
- BASILEA III 2010-2011
  - **La cobertura de garantía**

The financial system optimizes its management about the quality of its assets coverage

The guarantee is a strategic value for financial institutions: their income statements and coverage of own resources and provisions

For a warranty coverage of a lower quality, higher own resources requirements and provisions which are of a higher quality

DIAGNOSIS-POLICY PUBLIC-GUARANTEE RELATION

STRUCTURALS PROBLEMS

REQUIRE

STRUCTURALS SOLUTIONS

SO ...

ACCESS TO CREDIT OF SMEs vs GUARANTEE

MUST BE SOLVED BY

PUBLIC POLICIES

GUARANTEE SYSTEMS AS SOLUTION:
Change of paradigm

- By the Mortgage Law citizens generally can access, with that coverage, to the financing of a home or other real state ..
- Through the guarantee system the employer can access to the financing of their business

Mortgages

- The fully integration of the guarantee system in the financial system means a major paradigm shift: it is about taking the employer to the credit, under the best conditions from the warranty coverage by the guarantee system.

Guarantee Systems

OLD PARADIGM

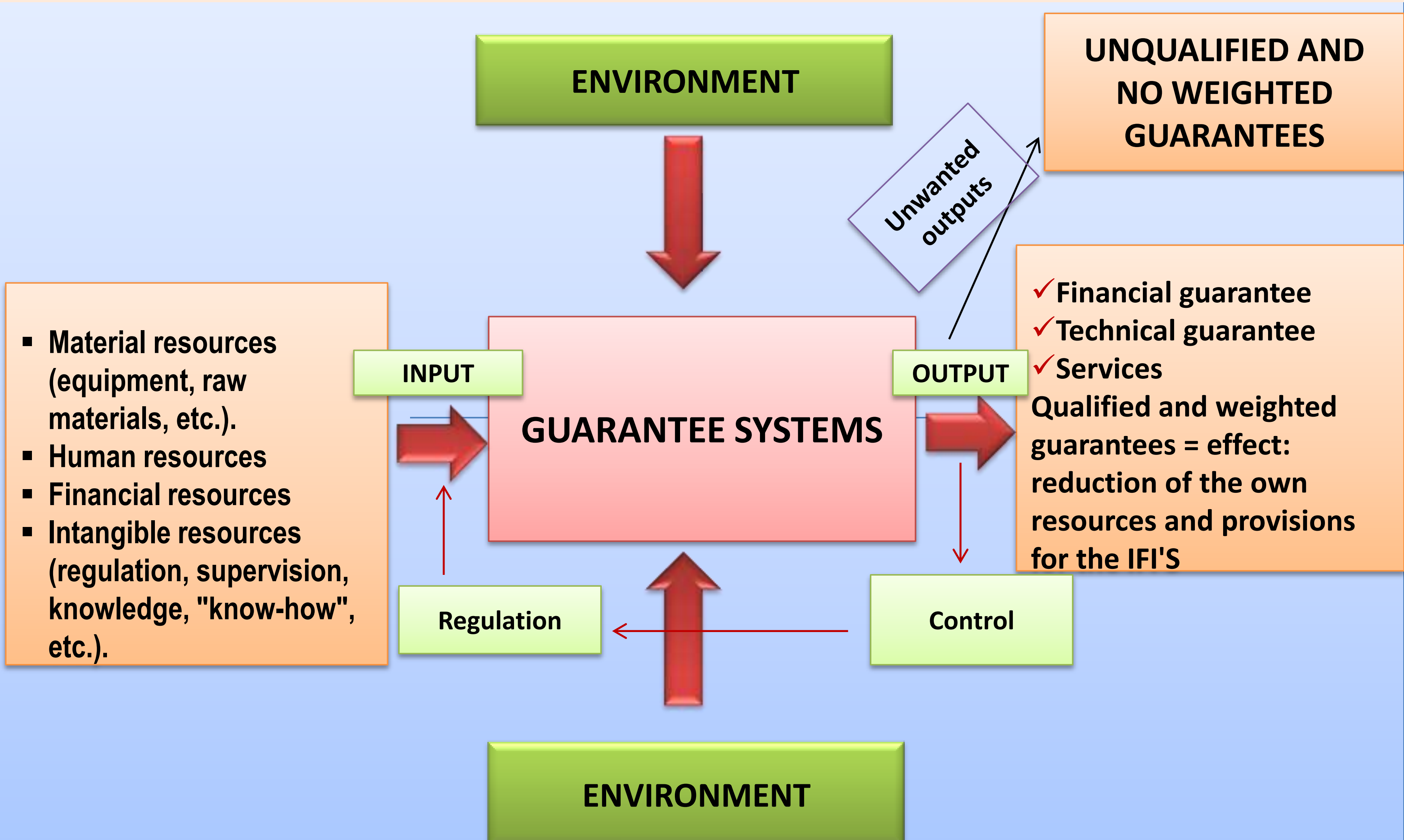
THE GUARNTEE IS A PRODUCT FOR SMEs

NEW PARADIGM

THE GUARNTEE IS A PRODUCT FOR THE BANK

The GUARANTEE SYSTEMS is for SMEs

GUARANTEE AS A SYSTEM OR SUBSYSTEM OF THE FINANCIAL SYSTEM



Source: own elaboration

GUARANTEE: SYSTEM REGULATED AND SUPERVISED INTEGRATED IN THE FINANCIAL SYSTEM

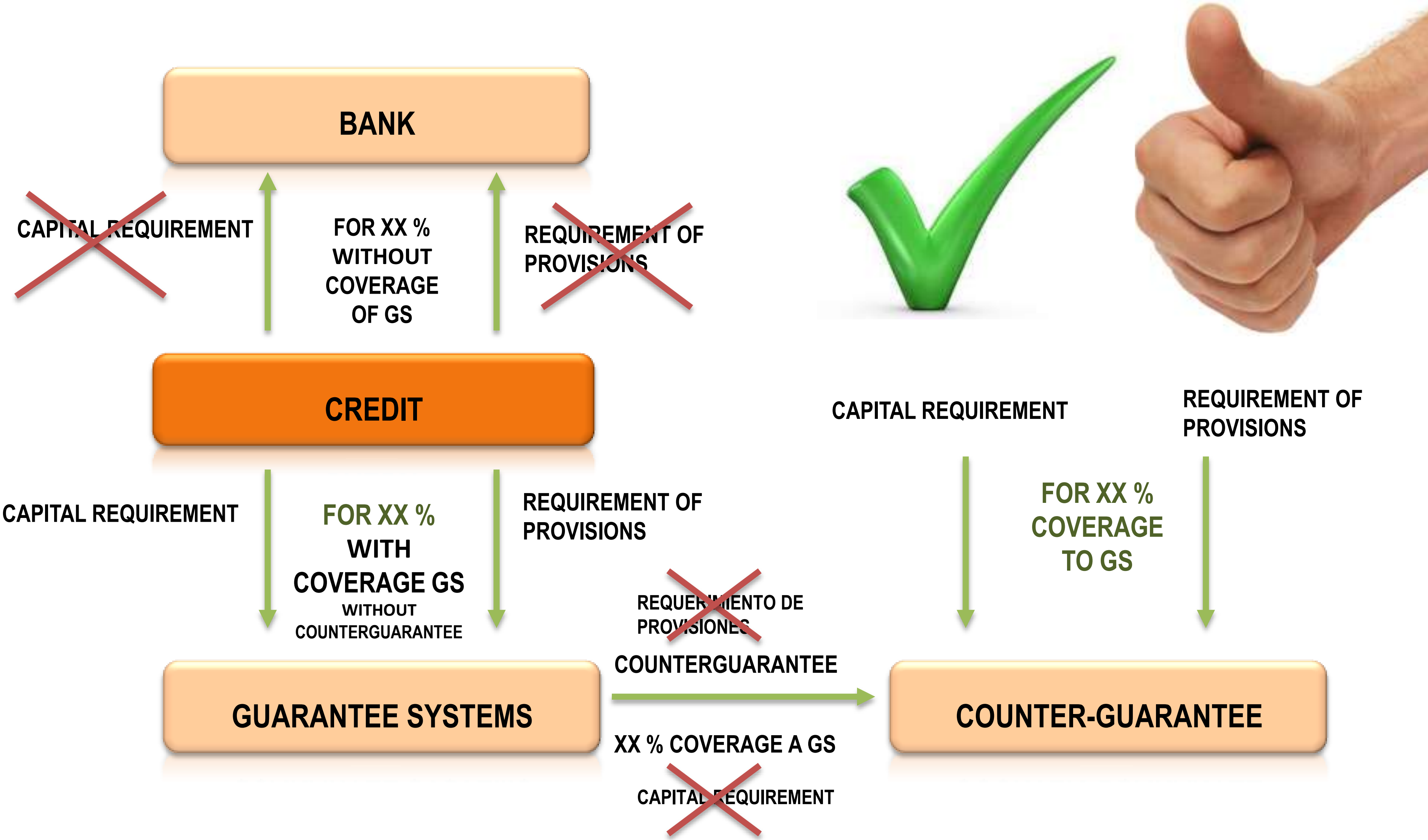
Credit = Coin → 2 Sides

Heads = Bank — It is regulated / supervised

Tails = Guarantee systems — It must be also regulated / supervised

SUBSYSTEM OF THE FINANCIAL SYSTEM

OPTIMAL MODEL



Source: Own elaboration

GUARANTEE COVERAGE PROBLEM OF ACCESS TO CREDIT

FIRST STEP: ANALYSIS

There are entrepreneur, company

and viability

Certificado
ProyectoViable

PV-0001
2012

BUT … THERE IS A SECOND STEP …

2° PASO

GRANTING

GUARANTEE COVERAGE

Garantiacrédito
Sociedade de Garantia de Crédito

SEBRAE
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas

GUARANTEE COVERAGE PROBLEM OF ACCESS TO CREDIT

1 ✓ The financial institution can **analyze** and conclude that there is an entrepreneur and business, but ...

2 ✓ **Needs / requires of a warranty coverage for the approval decision**

GarantiaMútua
Cresça connosco.

IF THE GUARANTEE OF THE MGS IS "VALID" IN THE FINANCIAL SYSTEM

ACCESS TO CREDIT

Change of paradigm: it is for the bank ... coop. cto. ...

- ✓ Legal certainty: supervision and regulation - financial system integration
- ✓ Effect of mitigation of own resources and provisions
- ✓ Coverage: 100% ?
- ✓ Procedure of the guarantee:
  - Solidarity or subsidiary?
  - Default payments or delinquent debtors?
  - First demand payment or
  - conditioned?
  - Analysis – Decision delegated?
  - Automatic or semiautomatic?

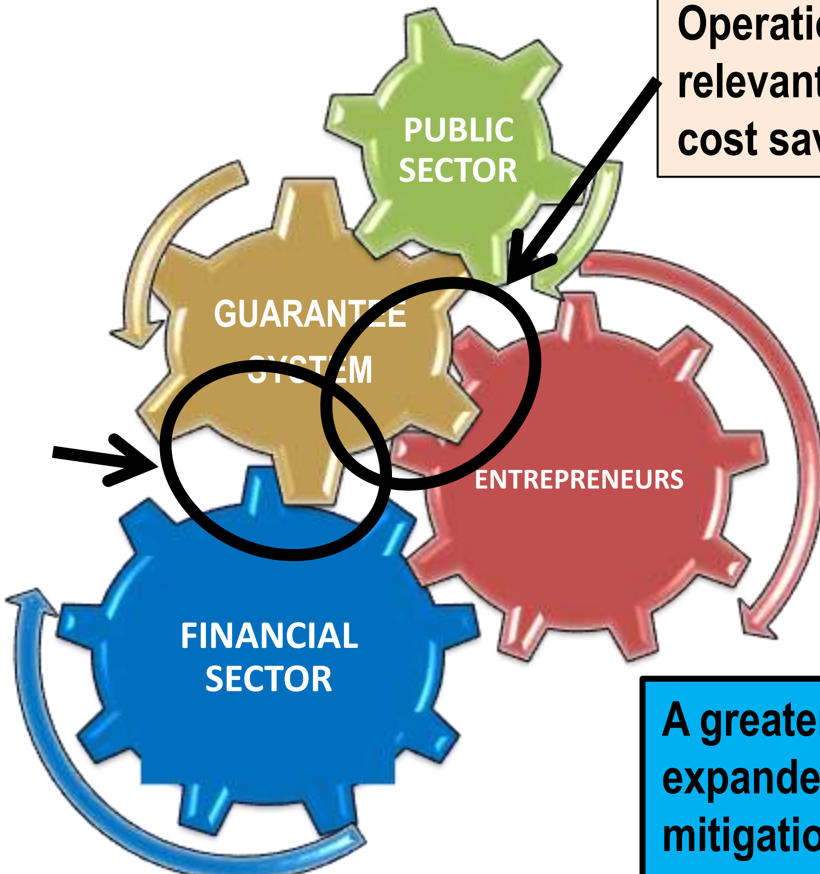
?

The guarantee coverage is for the bank ... coop. cto. ...

Who is directed the guarantee system In its expansion or extension?

Structural characteristics : regulation and supervision, mitigation of own resources and provisions.

Relevant operational characteristics for Banking - Credit unions, etc. (Coverage, responsibility, form and payment, delegation, analysis and decision)



Operational characteristics relevant to the MSMEs (term, cost savings, amount)

A greater extension implies a expanded guidance to mitigation and operational characteristics for Banking - Credit unions, etc.

LINKS

REGAR Red Iberoamericana de Garantías
www.redegarantias.com

AECM Asociación Europea de Caución Mutua
www.aecm.be

ACSIC Asian Credit Supplementation Institution Confederation
www.acsic.org/acsic/index.jsp

ALIGA Asociación Latinoamericana de Instituciones de Garantía
www.aligalat.org/index.html

"Guarantee systems for micro and SMEs in a globalized economy"
www.redegarantias.com

"Guarantee systems in Latin America: experiences and recent developments"
www.redegarantias.com y www.alide.org.pe

"Conceptual contributions and characteristics for classifying guarantee systems / schemes“
http://www.redegarantias.com/archivos/web/ficheros/2010/edicion_ii_premio_unicaja_investigacion_economica_english_version).pdf

“Clasificación de los sistemas de garantía desde la experiencia latinoamericana”
http://www.iadb.org/es/publicaciones/publicaciones,4126.html?doctype=Technical%20Notes&docTypeID=TechnicalNotes&searchLang=&keyword=pombo&selectList=All&topicDetail=0&tagDetail=0&jelcodeDetail=0

"WHOEVER DOMINATES THE GUARANTEE DOMINATES THE CREDIT"

PPOMBO@telefonica.net