REPRESENTATIVE OF GUARANTEE INSTITUTIONS IN EUROPE

- fostering SMEs' growth

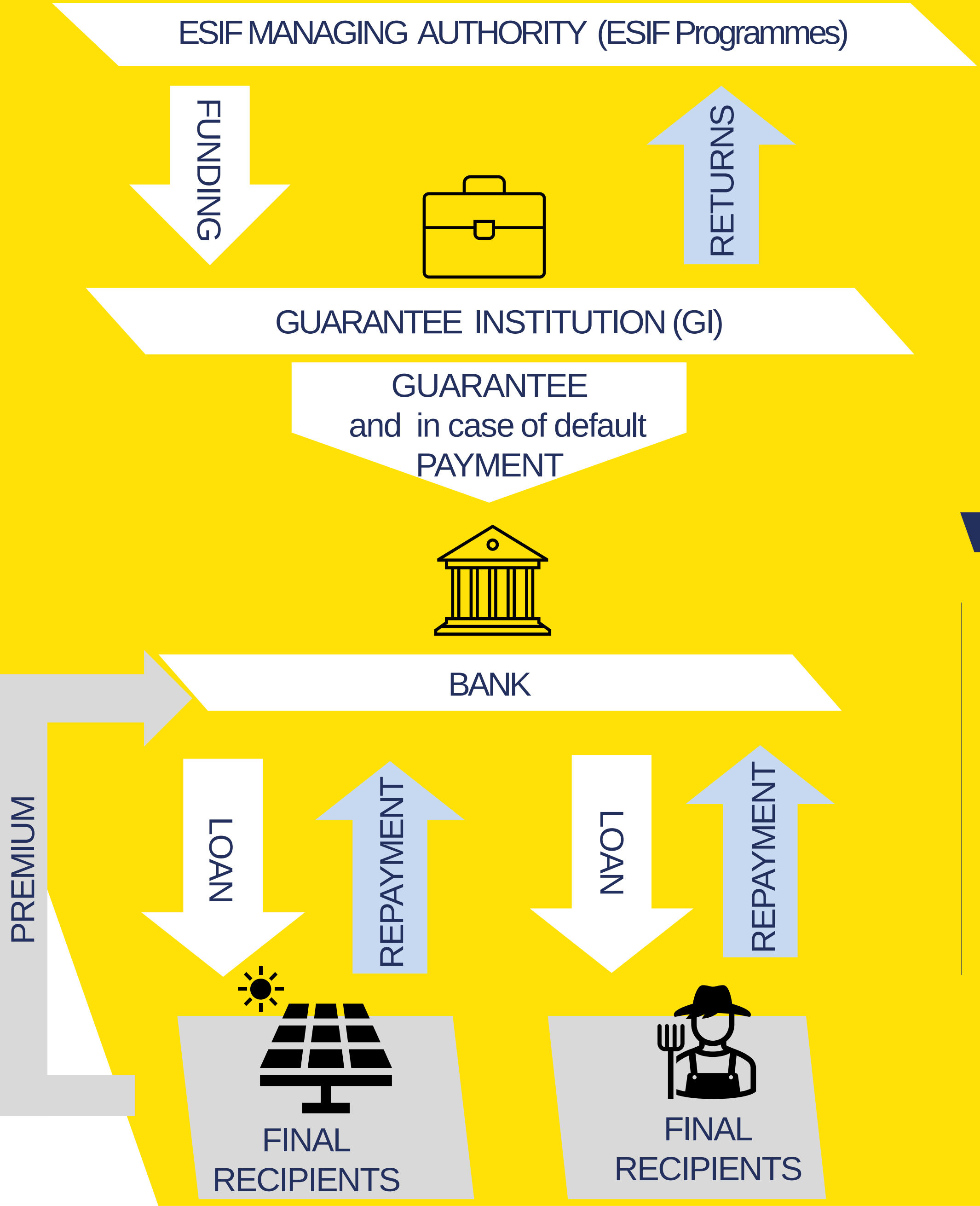
European Association of Guarantee Institutions

Avenue d'Auderghem 22-28, bte. 10
B-1040 Brussels

+32 2 640 51 77
info@aecm.eu
www.aecm.eu

GUARANTEE INSTRUMENT UNDER SHARED MANAGEMENT

HOW DOES IT WORK?

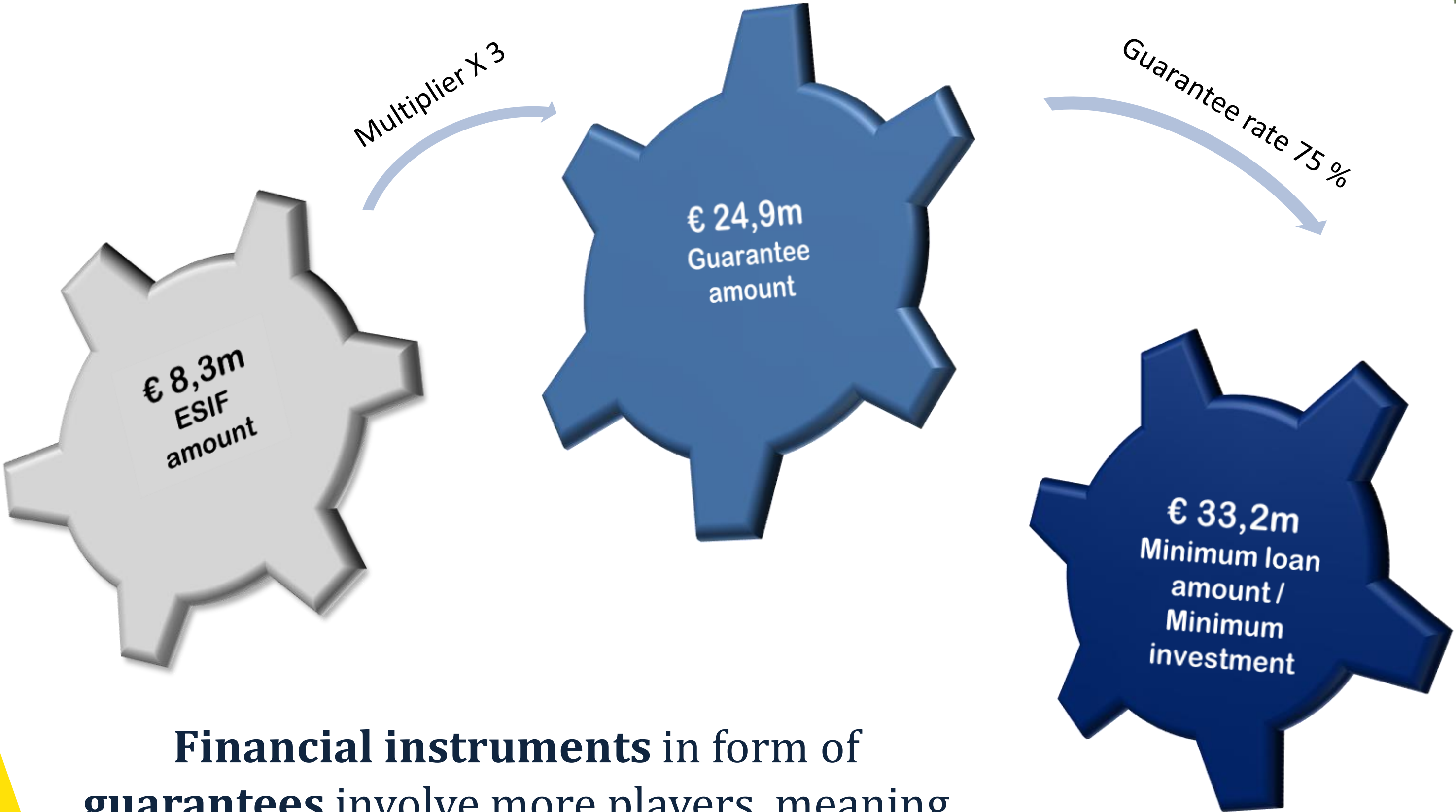


RISK SHARING

Bank carries at least **20%** of the risk

GI covers up to **80%** of the loan

LEVERAGE EFFECT



Financial instruments in form of **guarantees** involve more players, meaning the more often the risk is shared, the **higher** the **leverage effect** becomes and the more **budget efficient** the public money is used

GUARANTEE INSTRUMENT

ADDED VALUE…

FOR PUBLIC AUTHORITIES

- **Efficient way to implement public policy objectives** e.g. public support for specific sectors, especially when:
  - High collateral requirements by banks
  - Aversion of banks to finance riskier projects
  - Tightening of lending conditions stemming from regulatory pressure.
- **Cost efficient** due to risk sharing
- **High leverage effect** due to several players involved
- **Revolving effect** - money generated through repayments can be reused for further investments
- Impact studies prove that the costs caused by a guarantee institution are outweighed by the **positive impact** it has especially **on growth, employment and innovation** (according to a German impact study from 2021 **the cost-benefit ratio is 1:17**)

FOR SMEs

- **Access to finance** for economically sound projects, including riskier ones
- Lower collateral requirement
- Lower risk premium
- Additional support and expertise
- Recognition of qualitative factors in risk analysis
- Geographic coverage of all SMEs

FOR BANKS

- **Reduction of its risk** exposure
- **Increase** of lending activity
- **Positive effect** of guarantees on the capital requirements in many countries
- Additional **expertise** results in **stronger decision**
- **High level of liquidity** of guarantee in case of default

PRACTICAL EXAMPLE

INVEGA / Lithuania

• **FI** *"Guarantees for start-ups"* under the Holding Fund "Entrepreneurship Promotion Fund" – instrument financed from reflows (returns from the FI financed from ESIF, 2007-2013 programming period):

○ since June 2016

○ guarantees provided until 31 October 2023

• **Budget**: EUR 8.3m

○ 80% counter-guarantee on INVEGA's commitments under individual guarantees

○ Individual guarantee:

- Guarantee rate - up to 80% of the credit to SME operating <1 year
- Max loan amount - EUR 25 000
- Guarantee premium - 1%
- Purpose - for investment or working capital loans

• **FI manager**: INVEGA

• **Responsible ministry:** Ministry of Social Security and Labour of the Republic of Lithuania

Further examples on AECM members' guarantee projects can be found in our Best practice guarantee projects