

AECM

European Association of Mutual Guarantee Societies



Infoday Horizon 2020

EU Financial Instruments for Research and Innovation

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Chairman AECM



Content

- I. *Facts and figures about AECM and guarantee societies in Europe*
- II. *Typologies of Guarantee schemes in EU*
- III. *Main policy issues*



Role of AECM

- Legal background:

- ⇒ Founded in 1992, based in Brussels

- ⇒ Statute: International non-profit association (AISBL) - Open, democratic, independent Association

- ⇒ Structure:

- Members : full + associates
 - General Assembly
 - Board of Directors
 - Technical Working Groups
 - Secretariat General



Role of AECM

▪ AECM mission consists of:

- ⇒ **Representation of interests** of the member organizations towards the EU institutions and multilateral institutions
(banking legislation, EU support programmes, SME policy, state aid regulation, etc.)
- ⇒ **Platform of exchange of best practices** between members (Working groups, Seminars, Training, etc.)
- ⇒ **Promotion of guarantee instrument:**
 - In the EU towards EU member states and institutions,
 - Outside EU in cooperation with multilateral bodies (e.g. OECD and IFC)
 - Networking with other Guarantee organizations outside EU



Role of AECM

- **Ex. of promotion of guarantee instrument:**

- ⇒ **Contacts with other regional guarantee associations:**

- REGAR in Latin-America: association set up in cooperation with SPGM and Iberaval
- ACSIC in Asia
- No such association Africa or the Med-Region, but bilateral contacts in Morocco, Jordan, Lebanon and Egypt

- ⇒ **Participation in multilateral initiatives:**

- OECD Working Party on SMEs and Entrepreneurship
- Joint IFC/AECM Global conference on guarantees



Some figures about AECM



AECM: Today

❑ founded in 1992 by
6 Members

❑ In 2013:

39 Members

22 EU-countries

+ Turkey,

Montenegro & Russia



❑ Volume of Outstanding Guarantees in portfolio 2012*:

over 79 bn. EUR

❑ Number of Outstanding Guarantees in portfolio 2012*:

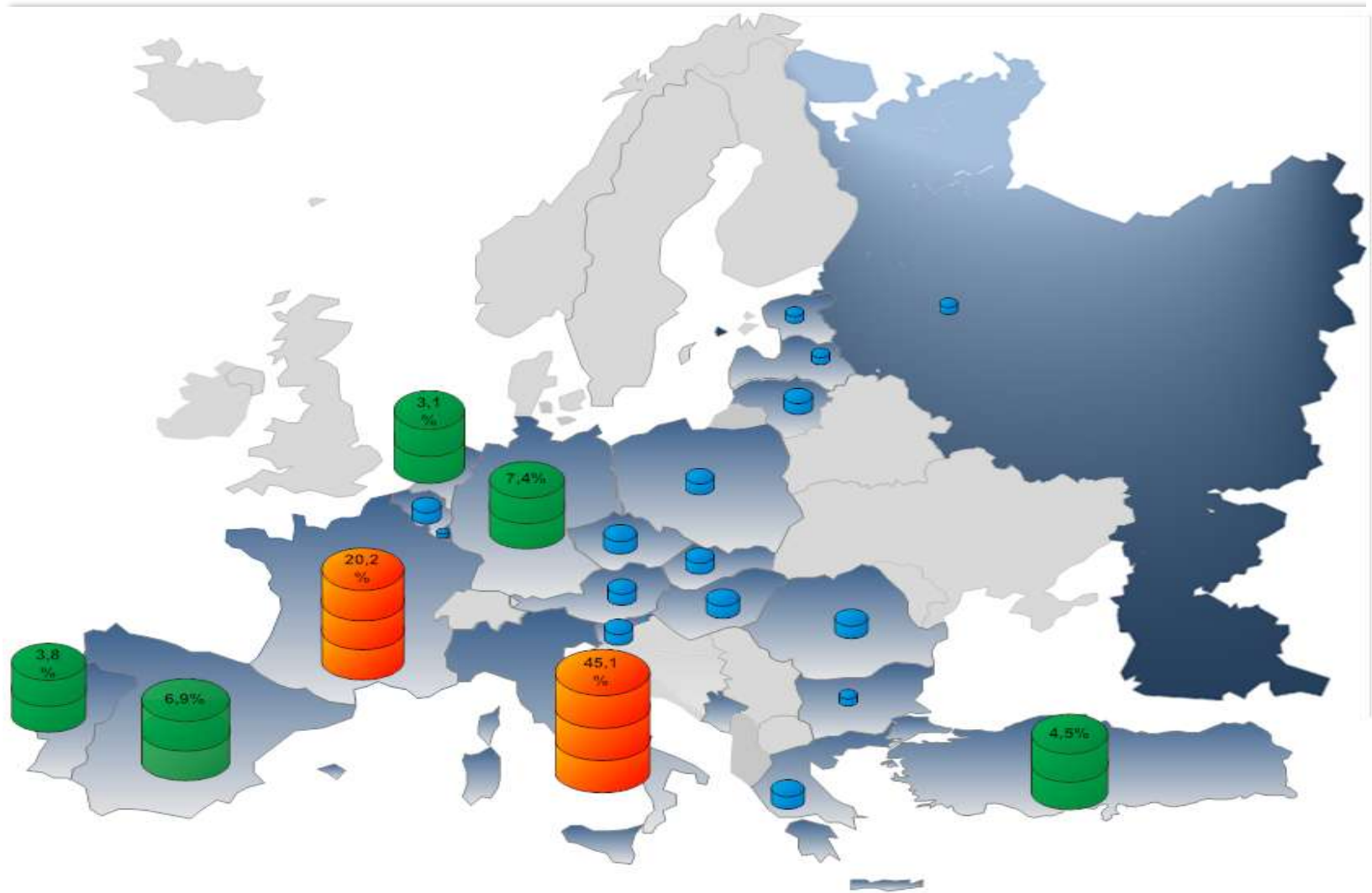
over 2.08 mn. active guarantees

* Provisional figures

AECM: Guarantee activity in Europe



Proportion of outstanding guarantees in portfolio of each country towards AECM total (values in %)

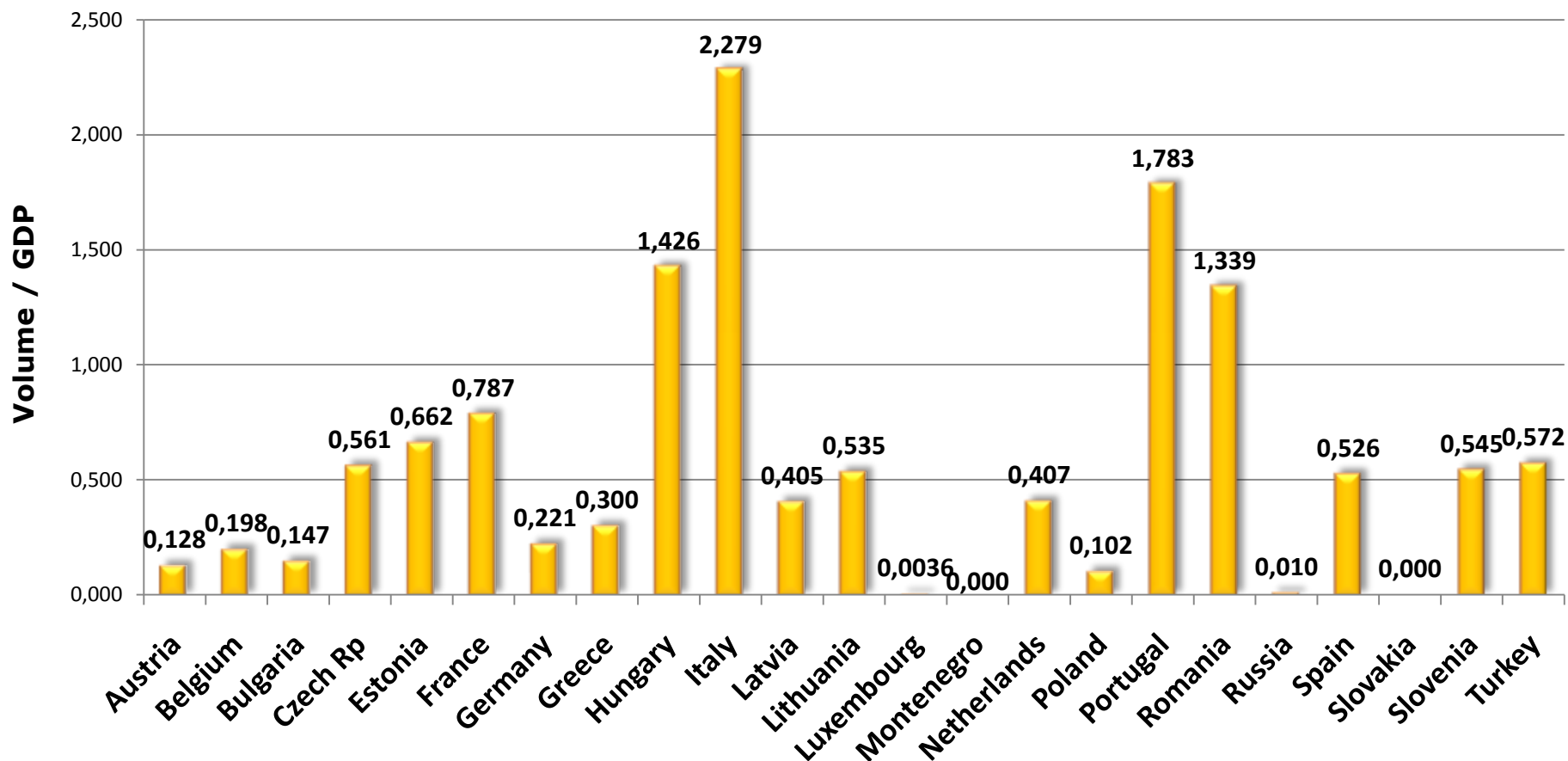


AECM: Guarantee activity in Europe



Volume of Outstanding Guarantees (in portfolio) scaled by GDP at market price (values in %)

Volumes of Outstanding Guarantees in portfolio scaled by GDP for 2012***
(values in %)



*** Provisional figures

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Typologies of EU-Guarantee Schemes

In general, we can observe in Europe a great variety of different legal and operational frameworks for guarantee schemes, reflecting local needs. Nevertheless it is possible to identify some main models:

1. Ownership:

- Fully mutual (e.g. SOCAMA, Confidi)
- Funded by SME or banking associations (e.g. VDB)
- Fully public (e.g. Invega, Kredex, AWS, etc)
- Presence of mixed models (SPGM/MGS, SGR)

2. State support:

- Public systems – Private systems
- Counter-guarantees: regional, national level or EU –Level
- Contributions to own funds



Typologies of EU-Guarantee Schemes

3. Legal form:

- Cooperative or mutual societies
- Limited companies
- Foundations
- Funds
- Development banks, agencies, others

4. Supervision:

- Mono-product banking licenses
- Financial intermediary statute
- Non-supervised (very few cases)



Typologies of EU-Guarantee Schemes

5. Distribution:

- Banking partners
- Direct guarantees
- Individual approval
- Portfolio guarantees

6. Product types:

- Loan default guarantees
- Other guarantee types: VC, mezzanine, leasing, project guarantees, export, student loans, housing, etc.
- Other SME support instruments (subsidized loans, mezzanine finance, venture capital, coaching, mediation services, etc.)



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AECM: Main Policy issues

AECM members performance in using the SME Guarantee Facility 2007-2013 (CIP – counter-guarantee)

- ❑ AECM members represent **65% of Maximum Portfolio Volume (approx. 10,95 billion EUR)**
- ❑ Financial intermediaries member of **AECM have supported 129.355 SMEs**, until the 31st of December 2012/since the start of the programme,
- ❑ According to the **European Commission** from 2007 until the 31st December 2012: **220.000 small firms** benefited from this guarantee facility,
- ❑ which means that **AECM members have covered 59% (129.355/220.000) of all beneficiaries**.



AECM: Main Policy issues

Lessons learned

- ❑ Constant **improvement of partnership** with the Commission and EIF
- ❑ **No major issues** related to the CIP counter-guarantees
 - ⇒ Only particular point raised in the past: difficulties of some AECM members, when having to prove the **additionality** of their proposed financial products



AECM: Main Policy issues

Comments future instruments

- ⇒ Strong expectations from AECM members to continue being the main Intermediaries under COSME and Horizon 2020, as well as structural funds programmes for SME financing



AECM: Main Policy issues

Comments future instruments

⇒ Two horizontal concerns regarding all financial instruments:

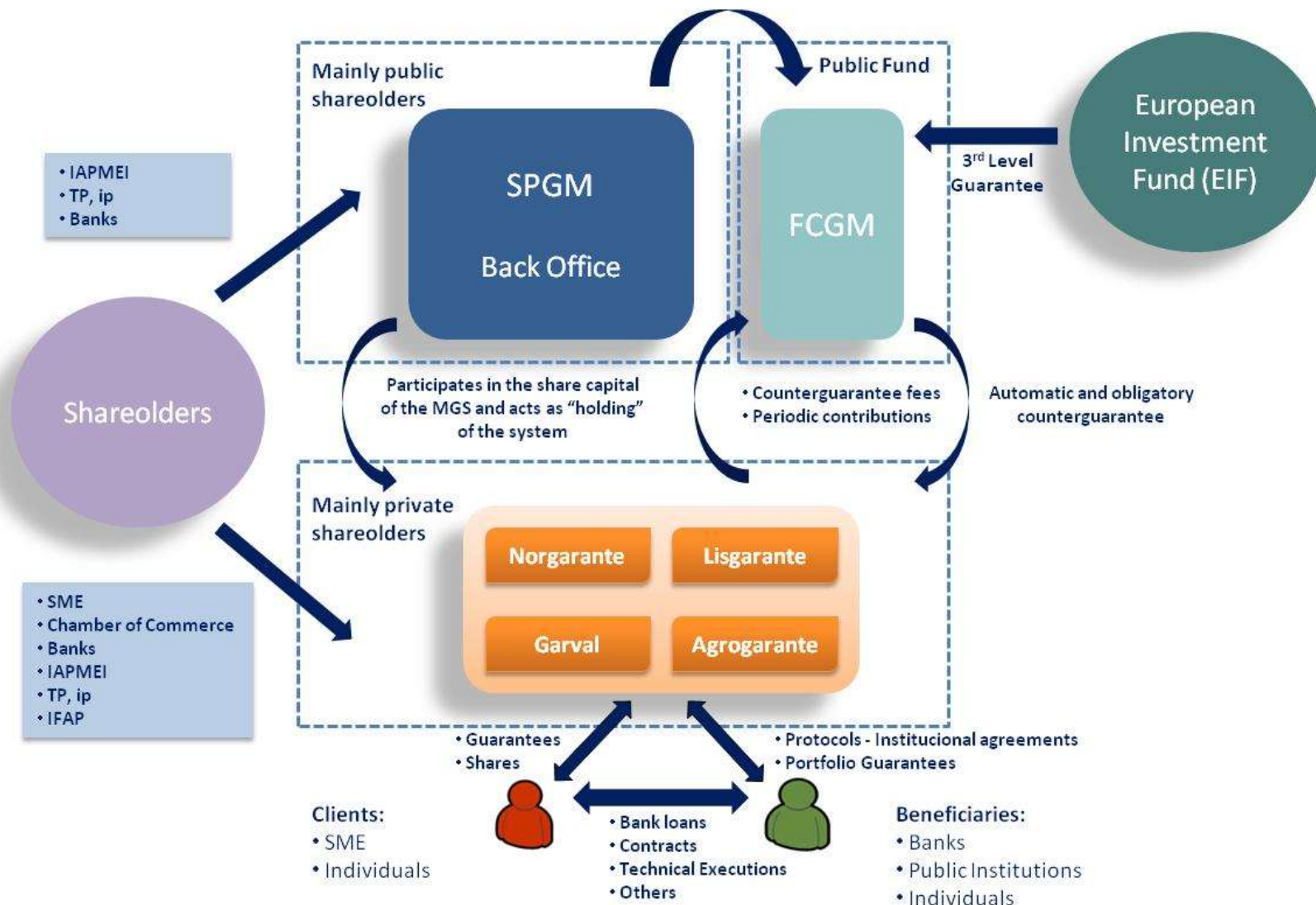
- ❑ **“Crowding out” effect** on guarantee institutions
 - AECM members have **technical** and **financial capacities** to **multiply the impact of political measures**
- ❑ **Capped and uncapped product versions** under COSME, Horizon, RSI and Structural Funds must include ready to use (off –shelf) partial individual coverage from EIF of guarantees/counter-guarantees issued by AECM members as in most of CIP agreements
 - To assure risk sharing pari passu mechanism well tested and proved in the past
 - As to ensure Capital relief in Member States where it is possible



The Portuguese Guarantee Scheme



PORTUGUESE GUARANTEE SCHEME MODEL



★ Mutual Guarantee Societies (MGS) issue the guarantees.

- ★ The MGS share capital is held majority by beneficiary SME (>50%), banks, SME organisations and SPGM. Thus, they are **mutual and private credit institutions**;
- ★ Their scope is to support the access to finance of micro and SMEs
[MGS also support University students and self-employed professionals];
- ★ MGS provide **on first demand financial guarantees** aimed to help SMEs accessing credit in adequate price and term conditions;
- ★ The MGS get a partial counter guarantee from the national Counter-Guarantee Fund (FCGM).
- ★ They assume their own risk analysis activities and credit decisions.
- ★ The price of the guarantees is set according the risk appraisal results (internal rating model), inside the global boundaries defined at MGS board level (currently minimum fee of 0,5% and maximum of 4,5%, per annum on the outstanding amounts);
- ★ They are subject to internal and external auditors;
- ★ They are supervised by the central bank and act under a specific regulation as well as under the general banking laws (including Basel II and III).

★ The Counter-Guarantee Fund (FCGM) automatically covers a part of the risk assumed by MGS.

- ★ It has no direct contact with either SME and Banks;
- ★ Its own funds are fully owned by the Government;
- ★ It doesn't carry any kind of risk analysis on individual files as counterguarantees are by law automatic and compulsory;
- ★ The counterguarantee levels goes from 50% to 80% of the guarantees issued by the MGS, depending on the type of product;
- ★ The Fund is managed by SPGM;
- ★ The Fund is audited by internal auditors, being the external one the Auditor Body of the Central Bank. It is submitted to specific auditing from tax authorities and Court of Auditors, namely in specific programmes supported by EU structural funds and/or national budget endowments and/or under a third level partial coverage of the EIF/EU programmes;
- ★ It may get a third level guarantee that partially covers its issued counter-guarantees from the EIF under the EU different SME supporting programmes like CIP.

★ SPGM acts as “Holding” of the Portuguese Guarantee Scheme.

- ★ Manages the FCGM;
- ★ Acts as Shared Services Centre to both the FCGM and all MGS;
- ★ Represents the public interests while designing and negotiating new credit lines or other guarantee facilities;
- ★ Negotiates with national agencies (such as IAPMEI, Tourism Agency, Ministry of Higher Education, ...), and international organisations (EIF and EIB) about new credit facilities to Portuguese SME;
- ★ Institutionally represents the Guarantee Scheme at internal organisations;
- ★ Represents the Portuguese Guarantee Scheme internationally, namely at international organisations (European Association of Guarantee Societies – AECM and the Ibero-American Guarantee Network – REGAR).

Acting Model: Risk Sharing between different entities

Portfolio Guarantee: x% of each individual counter guarantee issued by FCGM, with limit of y% of total counter guarantees portfolio of FCGM

Individual Guarantees : x% of each loan (principal). Limit for the global guarantees amount just the limit defined for the global credit line, if any. No cap.

EIF / EU guarantees the FCGM

FCGM counter guarantees the MGS

MGS guarantees the Banks

Banks lend to SME

SME use loans
for investment or working capital

Counter guarantees automatically the MGS portfolio: x% of each individual guarantee issued by the MGS. Uncapped. Limit only the one defined for the global credit line, if any defined

Banks lend money to SME according to conditions defined at "Credit Line" Protocols: maximum amounts per loan, terms and interest rates (spreads), as well as guarantee fees and counter guarantee percentage on each guarantee and delivery process defined in these Protocols. Prices according to rating.

Acting Model: Risk Sharing between different entities

50% of each
counterguarantee with
“cap rate” of 8%:
200.000.000 nominal EIF
guarantee, limit of losses
32.000.000

50% of each loan
(principal):
500.000.000

EIF / EU
guarantees
the FCGM

FCGM counter
guarantees the
MGS

MGS
guarantees
the Banks

Banks lend
to SME

SME use
loans
for investment or
working capital

80% of each
guarantee:
400.000.000

Credit line of:
1.000.000.000

★ Beneficiaries

- ★ The final beneficiaries should be SMEs who comply with EU regulations and are not in position to be defined as a company in difficulties.
- ★ SMEs belonging to several economic industries, such as services, trade, manufacturing, electricity, transports, tourism, construction, but also, agriculture, education and health are eligible.

★ Credit line

- ★ Total loan facility 203 million €.
- ★ Maximum Loan Amount – 1,5 million euro (through one or more loans per SME).
- ★ Term of the loans – Between 12 months and 10 years.
- ★ Loan purposes – Standard medium to long term loans, including leasing operations, with the purpose of investment in tangible or intangible assets or to provide working capital, as well as to finance innovation activities.
- ★ Exclusions - The contracted guarantees could not be associated to debt restructuring or credit substitution.

★ CIP (EU/EIF) Intervention

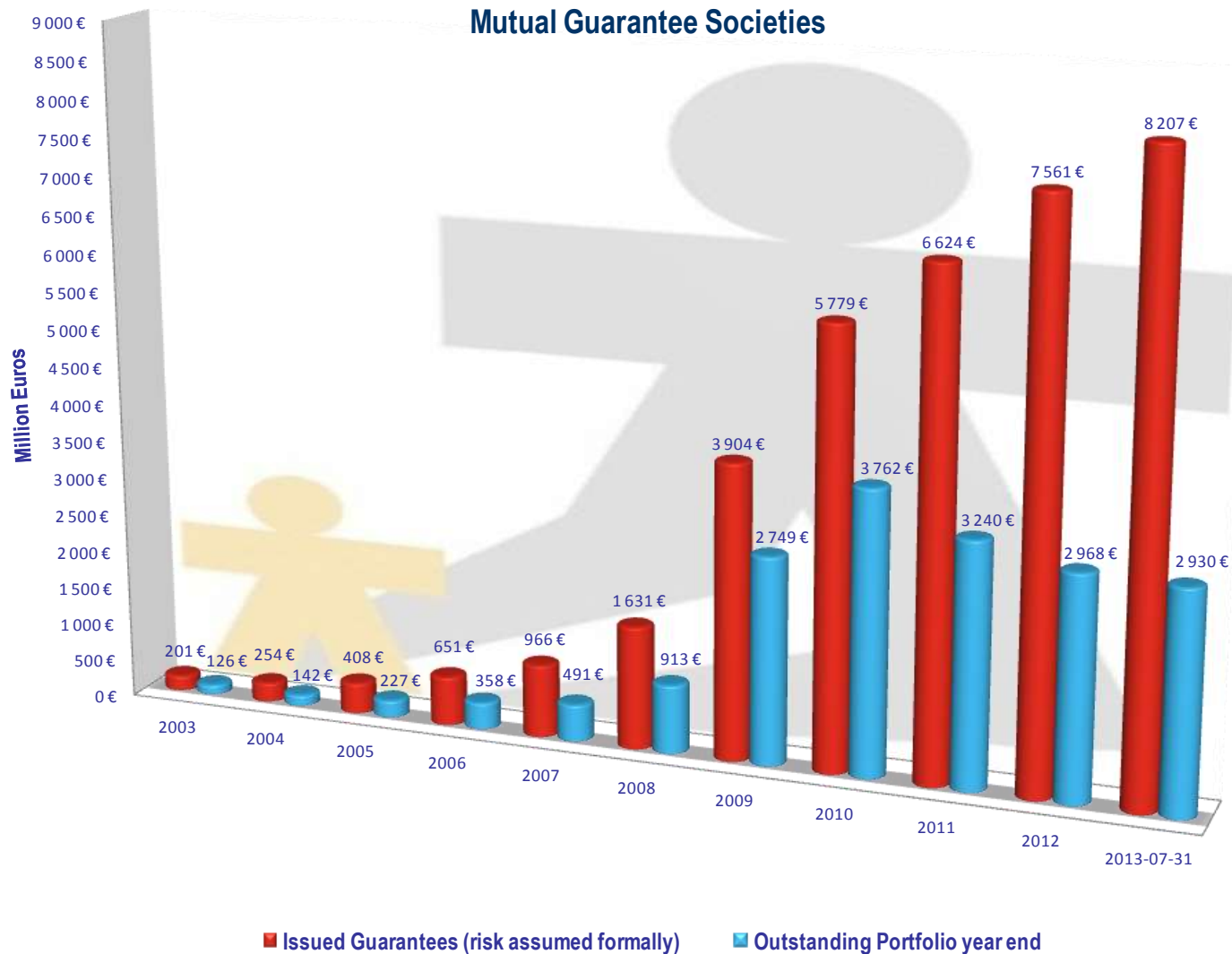
- ★ Guarantee from EIF of 50% of the individual counter-guarantees issued by the national FCGM in favor of the MGS.
- ★ The counter-guarantee of the FCGM is up to 80% of the guarantee issued by the MGS.
- ★ The guarantees from the MGS to the banks is also up to 80% of the principal of the loan

	Previous Agreements		Current Agreement
Beneficiaries	SMEs with a maximum of 100 employees, operating in services, trade, industry, power, transports, tourism and construction		SMEs operating in services, trade, manufacturing, electricity, transports, tourism, construction, agriculture, education and health, which comply with EU regulations and are not in position to be defined as a company in difficulties
Maximum loan amount	1 000 000,00 €		1 500 000,00 €
Loan Term	At least 3 years		Between 12 months and 10 years
Loan purposes	Investment or Working Capital		Investment, working capital, leasing operations
Exclusions	Debt Restructuring/Credit Substitution		Debt Restructuring and Credit Substitution
Guarantee fee range (according to rating)	0,5% - 4,5% on outstanding		0,5% - 4,5% on outstanding
	SMEG 98	MAP 2001	CIP **
Agreement Signing Date	2000-06-29	2004-11-15	2012-12-20
Agreement Expiry Date	2012-12-31	2016-12-31	2026-10-01
Maximum Loan Volume	71 111 111,11 €	280 888 906,86 €	203 125 000,00 €
Maximum Guarantee Volume	53 333 333,33 €	210 666 680,15 €	162 500 000,00 €
Maximum Counterguarantee Volume	40 000 000,00 €	158 000 010,11 €	130 000 000,00 €
Granted Loans Volume	59 304 086,82 €	280 888 907,53 €	1 400 000,00 €
Issued Guarantees	40 157 845,74 €	210 666 680,65 €	1 107 500,00 €
Issued Counterguarantees	27 958 274,71 €	158 000 010,11 €	886 000,00 €
Counterguaranteed Loans	166	952	6
Supported SMEs	145	776	6
Guarantee fee (average percentage)	1,517%	1,507%	N/D

(*) These amounts have been totally demand to EIF

(**) Entered fully operational second quarter 2013

ACCUMULATED ISSUED GUARANTEES AND OUTSTANDING PORTFOLIO OF THE SCHEME



MULTIPLYING EFFECTS OF PUBLIC AND PRIVATE FUND ALLOCATION

Million Euros
(July 2013)



(1) Includes renewals

(2) Includes renewals and plafonds

**Thank you for
your
attention**

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