



**WORLD BANK GROUP**



Strengthening Financial Sectors

# Assessing Implementation of the Principles for Public Credit Guarantee Schemes for SMEs: A Global Survey



**XXI FORO  
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# Outline of the presentation

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1. Background and objectives.
2. The sample and some general characteristics.
3. Principle-by-Principle assessment.
4. Conclusions and next steps.

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# The Principles

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- Provide a generally accepted set of best practices to represent a global reference for CGSs in the world.
- Reflect appropriate legal, regulatory, governance, risk management and operational arrangements which can lead to outreach and additionality *cum* financial sustainability.
- Advance knowledge of CGSs and their role in the economy while improving their performance.
- Guide existing and new CGSs in the design, implementation and evaluation of their activities, and help inform any related policy, legal and institutional reform at the country level.

# The Principles at a glance

DIMENSION	IMPORTANCE	PRINCIPLES
Legal and Regulatory Framework	Foundations for a CGS	1 – 4
Corporate Governance and Risk Management	Building blocks for effectively designed and independently executed strategy aligned with CGS mandate and objectives	5 – 8
Operational Framework	Provides essential working parameters	9 – 13
Monitoring and Evaluation	How CGSs should report on their performance and evaluate the achievement of policy objectives	14 – 16

# Objectives of the survey

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- Provide evidence on the level of implementation of the Principles around the world based on self-reporting by CGSs.
  - Assessing implementation of the Principles is a useful tool for measuring a CGS' adherence to an effective and efficient legal, regulatory and operational framework.
- Provide up to date evidence on the variety of public CGSs around the world.
  - The survey collects information on some general features of CGSs such as ownership, size, business model etc.
- Paper available at:  
<http://documents.worldbank.org/curated/en/730551469021300941/Assessing-implementation-of-the-principles-for-public-credit-guarantees-for-SMEs-a-global-survey>

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# Methodology and sample

- Focus on public CGSs only (i.e. institution whose mandate encompasses the provision of credit guarantees to financial institutions to mobilize financing to SMEs in which the state retains *de jure* or *de facto* control).
- Questionnaire (drawn from the Methodology for Assessing Implementation of the Principles) submitted to the members of the regional associations and networks of public CGSs in Africa, Asia, Europe, Latin America and MENA.

<b>All CGSs</b>	60
<b>Income group</b>	
<b>High Income</b>	23
<b>Upper Middle Income</b>	24
<b>Lower Middle Income and Low Income</b>	13
<b>Region</b>	
<b>Africa</b>	4
<b>Asia</b>	13
<b>Europe</b>	15
<b>MENA</b>	11
<b>Western Hemisphere</b>	17



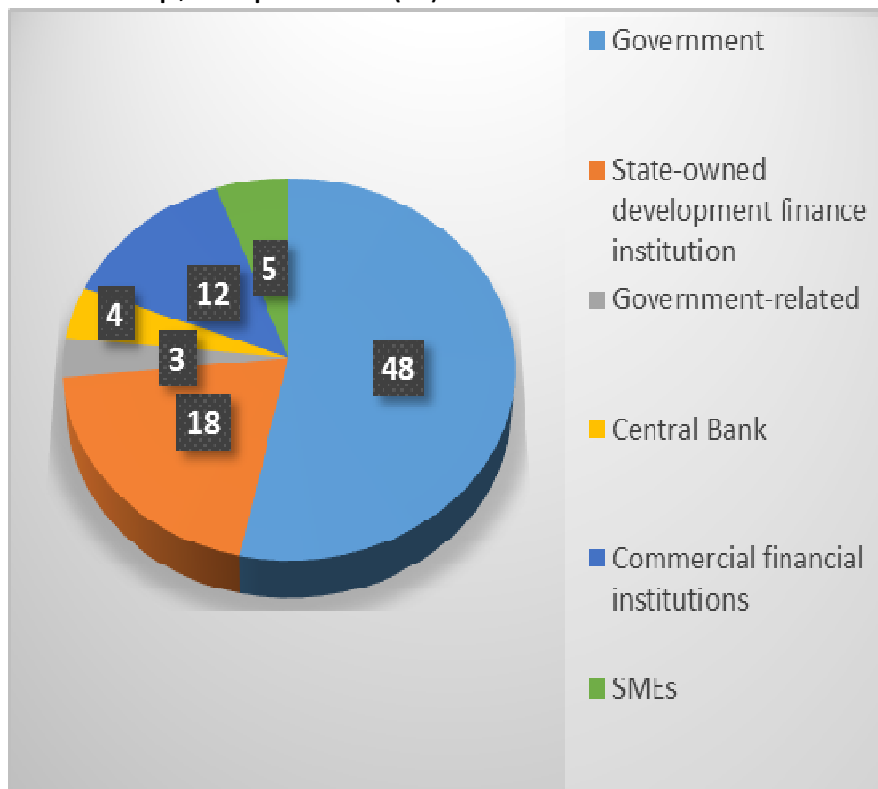
## Age and size (median values)

	Number	Age*	Outstanding guarantees (US\$ mn)	Outstanding guarantees (% GDP)	Employees
All CGSs	60	21	203	0.11	99
<b>Income group</b>					
High Income	23	21	727	0.33	189
Upper Middle Income	24	19	178	0.07	32
Lower Middle Income and Low Income	13	24	32	0.10	36
<b>Region</b>					
Africa	4	26	3	0.01	26
Asia	13	27	214	0.10	371
Europe	15	22	579	0.29	93
MENA	11	12	91	0.12	40
Western Hemisphere	17	19	220	0.05	64

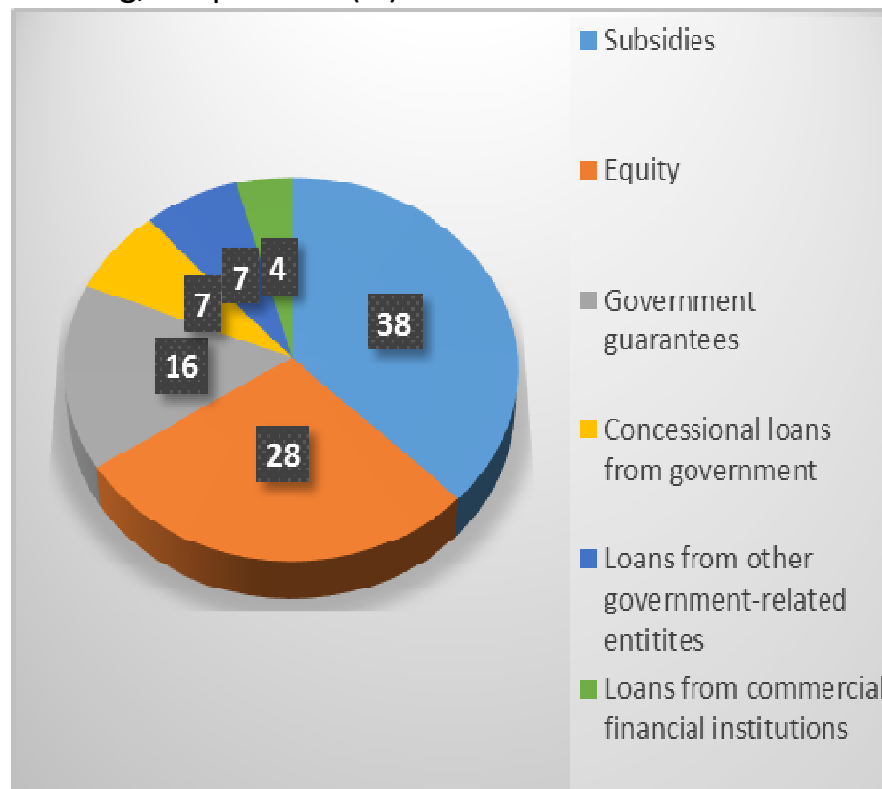
\* As of 2016.

# Ownership and funding

Ownership, frequencies (%)



Funding, frequencies (%)



## Performance (median values)

	SMEs served	Outreach (%)*	Productivity**	Leverage (X)***	Default rate (%)****
<b>All CGSs</b>	1,383	1.6	29	3.3	2.5
<b>Income group</b>					
High Income	6,507	2.0	30	4.1	2.9
Upper Middle Income	1,139	0.9	29	2.9	3.0
Lower Middle Income and Low Income	887	1.6	21	1.0	1.0
<b>Region</b>					
Africa	77	0.3	8	1.7	17.1
Asia	17,293	2.7	33	3.2	1.2
Europe	1,139	0.9	17	3.8	2.9
MENA	829	2.2	22	4.4	3.8
Western Hemisphere	6,531	3.4	164	3.0	2.0

\* Number of SMEs served divided by total SMEs in the country.

\*\* Number of guarantees issued divided by number of employees.

\*\*\* Outstanding guarantees divided by total capital.

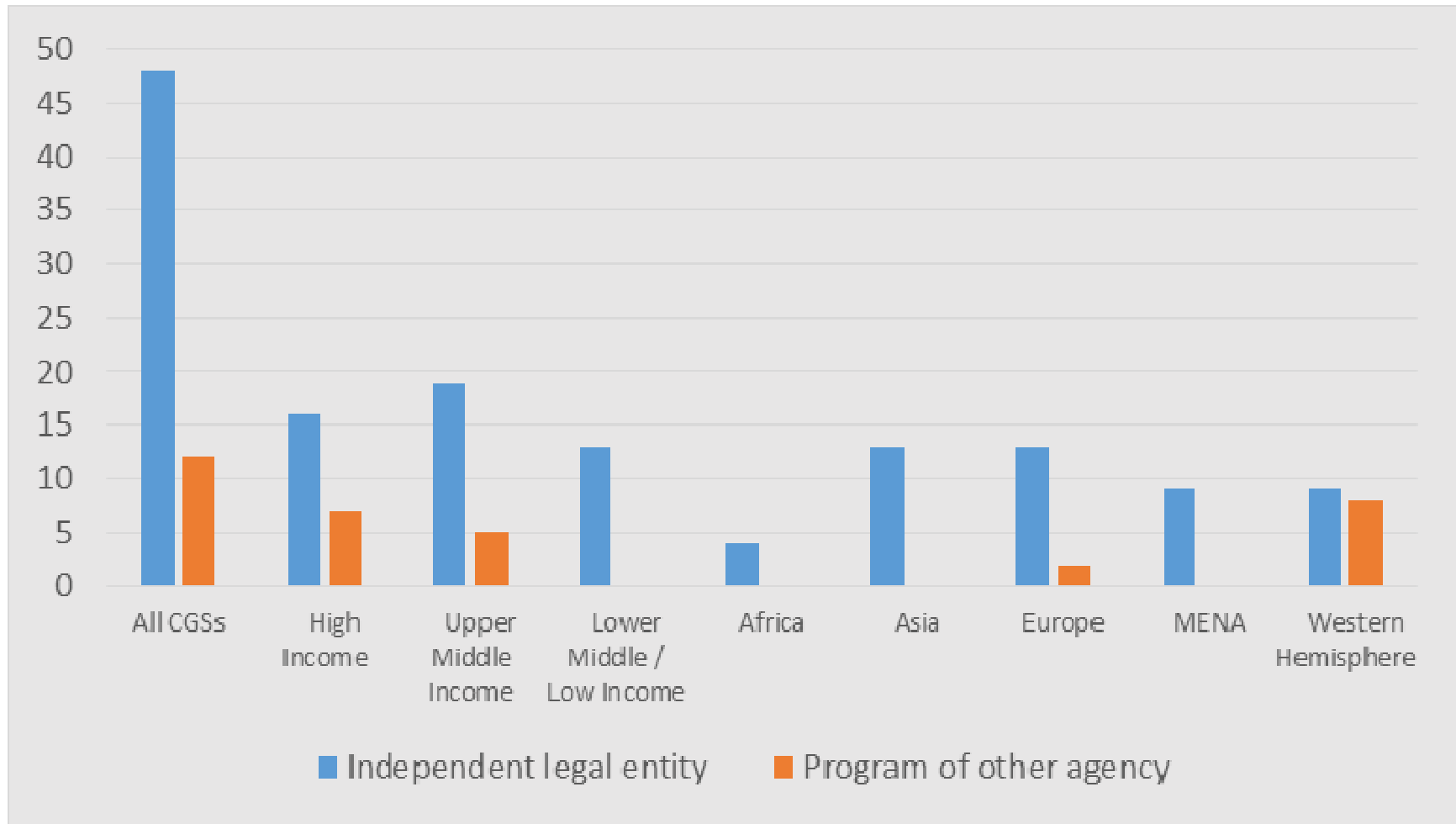
\*\*\*\* Nonperforming guarantees divided by outstanding guarantees.

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# Sound legal basis



## Adequate and transparent funding

- Does the legal and regulatory framework establishing the CGS indicate the sources of funding of the CGS?

	MENA	AFR	EU	AS	WE
No	45%	50%	7%	8%	31%
Yes	55%	50%	93%	92%	69%
Total	100%	100%	100%	100%	100%

- Is the CGS subject to a maximum leverage ratio as per the chartering legislation and/or regulation?

	Frequency	Percent
No	19	33%
Yes	38	67%
Total	57	100%

	Max leverage ratio (X)		
	Median	Min	Max
MENA	7.3	1.0	16.7
AFR	8.0	8.0	8.0
EU	2.8	1.0	7.5
AS	6.0	1.0	20.0
WE	9.5	2.0	20.0

## Mixed ownership

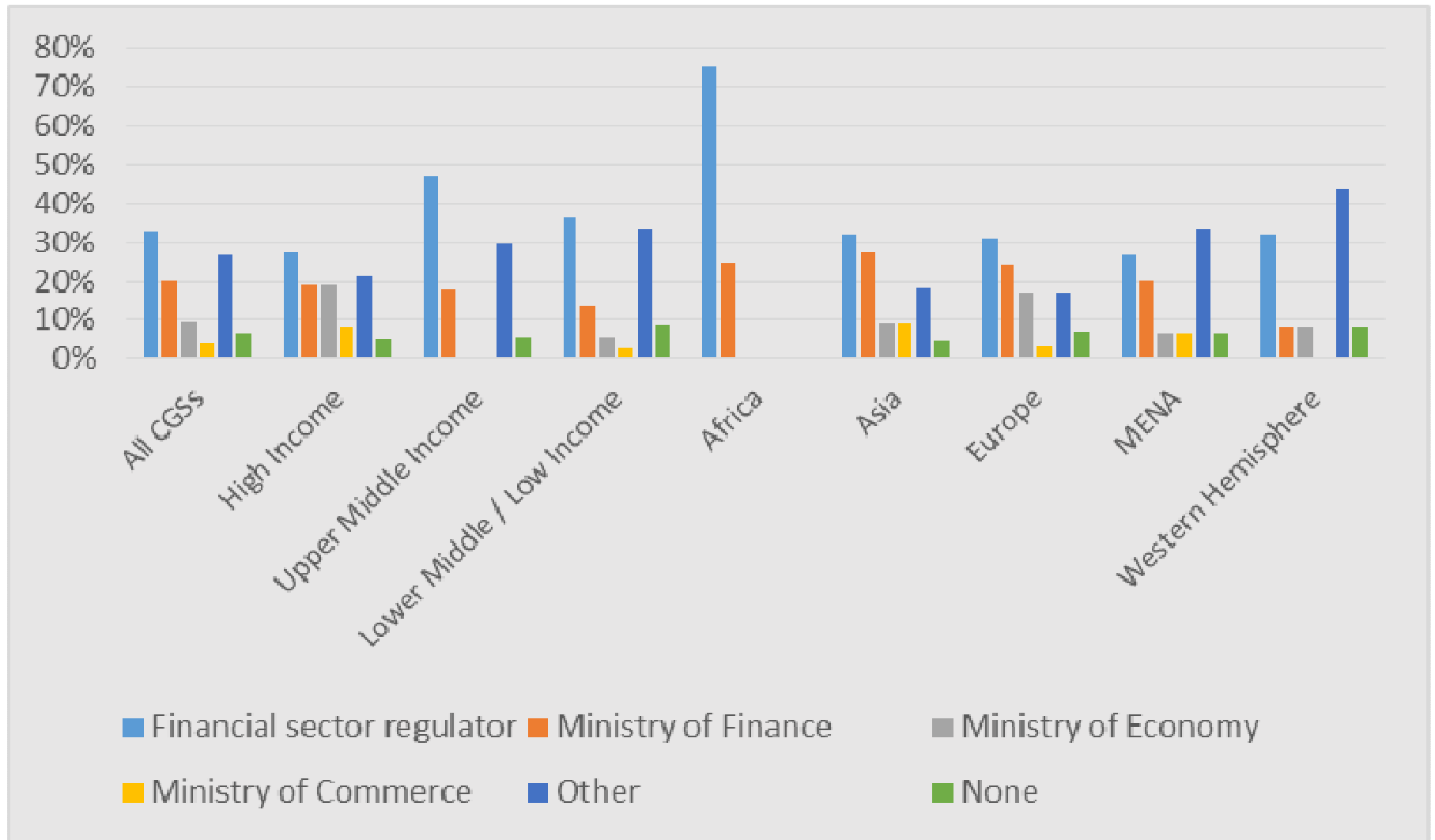
- Does the legal and regulatory framework of the CGS expressly promote voluntary, minority participation of the private sector in the CGS capital?

	MENA	AFR	EU	AS	WE
No	60%	100%	73%	69%	81%
Yes	40%	0%	27%	31%	19%
Total	100%	100%	100%	100%	100%

- Does the CGS actually have minority shareholders from the private sector in its capital?

	MENA	AFR	EU	AS	WE
No	64%	75%	73%	85%	82%
Yes	36%	25%	27%	15%	18%
Total	100%	100%	100%	100%	100%

# Independent supervision





## Clear mandate and strategy

- Does the law or decree establishing the CGS prescribe a clear and explicit mandate for the CGS?

	MENA	AFR	EU	AS	WE
No	36%	50%	21%	8%	0%
Yes	64%	50%	79%	92%	100%
Total	100%	100%	100%	100%	100%

- Does the CGS establish clear strategies tailored to its target sectors and groups?

	MENA	AFR	EU	AS	WE
No	9%	25%	7%	8%	0%
Yes	91%	75%	93%	92%	100%
Total	100%	100%	100%	100%	100%

## Sound corporate governance

- Does the legal and regulatory framework establishing the CGS include a clear appointment process for the board of directors?

	MENA	AFR	EU	AS	WE
No	18%	25%	21%	8%	24%
Yes	82%	75%	79%	92%	76%
Total	100%	100%	100%	100%	100%

- Are there minimum qualification criteria for board members?
- Are board members serving a fixed term?

	MENA	AFR	EU	AS	WE
No	27%	25%	27%	23%	24%
Yes	45%	50%	67%	69%	35%
Not relevant	27%	25%	7%	8%	41%
Total	100%	100%	100%	100%	100%

	MENA	AFR	EU	AS	WE
No	9%	25%	0%	15%	25%
Yes	64%	50%	87%	85%	56%
Not relevant	27%	25%	13%	0%	19%
Total	100%	100%	100%	100%	100%

## Strong internal control framework

- Does the CGS have an internal audit and compliance function?

	MENA	AFR	EU	AS	WE
No	18%	25%	13%	8%	0%
Yes	82%	75%	87%	92%	100%
Total	100%	100%	100%	100%	100%

- Is the internal audit and compliance function authorized to with conducting investigations at the request of the board or board committee?

	MENA	AFR	EU	AS	WE
No	9%	0%	0%	8%	0%
Yes	82%	75%	87%	85%	82%
Not relevant	9%	25%	13%	8%	18%
Total	100%	100%	100%	100%	100%

# Comprehensive risk management

	Income				Region				
	All	High	Upper Middle	Lower Middle and Low	Africa	Asia	Europe	MENA	Western Hemisphere
Credit risk management	83%	91%	79%	77%	50%	92%	87%	90%	76%
Risk mitigation techniques									
<i>Counter guarantee</i>	61%	67%	67%	25%	-	38%	80%	50%	70%
<i>Co-guarantee</i>	26%	27%	25%	25%	-	50%	20%	-	20%
<i>Other</i>	13%	7%	8%	50%	100%	13%	-	50%	10%
Liquidity and market risk management	70%	70%	71%	69%	75%	85%	53%	55%	82%
Operational risk management	81%	87%	83%	69%	75%	85%	93%	64%	81%

# Sound operational framework

	Income				Region				
	All	High	Upper Middle	Lower Middle and Low	Africa	Asia	Europe	MENA	Western Hemisphere
<b>Delivery method</b>									
Individual	49%	70%	46%	38%	33%	50%	47%	55%	18%
Portfolio	10%	9%	17%	8%	0%	7%	0%	0%	29%
Both	41%	22%	38%	54%	67%	43%	53%	45%	53%
<b>Guarantee coverage ratio</b>									
Average	70%	75%	65%	66%	80%	73%	73%	69%	50%
Min	50%	50%	50%	50%	70%	50%	50%	58%	20%
Max	80%	80%	80%	80%	85%	88%	80%	80%	80%
<b>Capital relief</b>									
Yes	70%	74%	62%	75%	67%	62%	73%	64%	76%
No	20%	17%	25%	17%	33%	15%	14%	27%	24%
Don't know	10%	9%	13%	8%	-	23%	13%	9%	-
<b>Pricing</b>									
Average	2.4%	2.0%	2.5%	2.0%	2.4%	1.6%	2.3%	2.3%	3.0%
Min	1.0%	1.5%	1.0%	1.5%	1.0%	1.5%	0.7%	1.0%	1.0%
Max	2.3%	2.0%	2.7%	2.5%	1.0%	3.0%	2.5%	2.0%	3.0%

# Efficient claim management process

	Income				Region				
	All	High	Upper Middle	Lower Middle and Low	Africa	Asia	Europe	MENA	Western Hemisphere
# Days for submitting a claim (median)	120	120	105	120	30	90	90	135	315
Responsibility for debt recovery (%)									
CGS	64	30	4	25	67	23	21	9	12
Lender	19	57	70	67	33	46	57	73	82
Both	17	13	26	8	-	31	21	18	6

# Disclosure

- Does the CGS publish financial statements at least on an annual basis?

	MENA	AFR	EU	AS	WE
No	27%	0%	7%	8%	18%
Yes	73%	100%	93%	92%	82%
Total	100%	100%	100%	100%	100%

- Does the CGS publicly disclose non-financial information at least on annual basis?

	MENA	AFR	EU	AS	WE
No	30%	33%	13%	15%	35%
Yes	70%	67%	88%	85%	65%
Total	100%	100%	100%	100%	100%

## Performance evaluation

- Does the CGS evaluate the performance of its operations at least every three to five years?

	MENA	AFR	EU	AS	WE
No	0%	0%	7%	0%	0%
Yes	100%	100%	93%	100%	100%
Total	100%	100%	100%	100%	100%

- Does the performance evaluation of the CGS comprise an analysis of its financial and economic additionality?

	MENA	AFR	EU	AS	WE
No	20%	33%	29%	15%	18%
Yes	80%	67%	71%	85%	82%
Total	100%	100%	100%	100%	100%



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# Summary of the findings

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- Overall a fairly decent level of implementation of the Principles across different income and regional groupings, especially
  - Legal basis
  - Ownership entity
  - Supervision
  - Mandate and eligibility rules
  - Claim management process
  - Performance evaluation
- However gaps remain, in particular
  - Sources of funding
  - Minimum capital adequacy standards
  - Limits on budget appropriations
  - Board appointment process
  - Credit risk management
  - Prudential regulatory recognition of guarantees

## Next steps

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- Survey is a first step to shed light on implementation of the Principles but it is not a diagnostic.
- Follow up operational work (technical assistance) is needed to dig further and fill existing gaps (see Methodology for Assessing Implementation of the Principles).
- Additional analytical work in at least two areas
  - Develop a standardized impact assessment framework (with the Task Force).
  - Empirical analysis of the determinants of CGSs' performance to prioritize reforms.

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