AECM

Association Européenne du Cautionnement Mutuel
Associacão Europeia de Caucionamento Mútuo
Europese Vereniging voor Onderlinge Borgstelling
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Europäischer Verband der Bürgschaftsbanken
Kölczönar Garanciabistositók Európai Egvesülete
Asociación Europea de Caución Mutua
European Mutual Guarantee Association[1]

GUARANTEEING LOANS FOR SMALL AND MEDIUM-SIZED ENTERPRISES

Sharing Credit Risks, An Incentive For Investment And Growth…

THE GUARANTEE SCHEMES MEMBERS OF THE EUROPEAN MUTUAL GUARANTEE ASSOCIATION

Presentation and Comparison

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Ladies and Gentlemen,

On several occasions, and in particular in the work of the Basel Committee, I could realise that the European guarantee systems are not always well known and that they thus suffer from a lack of recognition, which I think is not deserved.

Indeed, our societies play a major role in the financial economy for the benefit of their preferential partners, the SMEs and the banks: by sharing their risks, they enable access to credit for numerous business projects developed by craftsmen, traders, small industrialists or members of professions who would like to set themselves up, grow, or modernise.

It is a system that has decades of experience, one that proves its value each and every day and that can be disseminated in economies that are looking for a path to prosperity by strengthening their small and medium-sized enterprises.

The AECM Board of Directors has decided to instigate a study that would enable all stakeholders to have a clear and complete view of our financial industry.

That is the subject of this work that has been carried out by our General Secretariat.

This work resumes and develops a study made in 1996 with the support of the European Commission.

Meanwhile, the European context has been enlarged and AECM has opened it doors to new country members, in parallel with the progress of their political adhesion. As far as their economies are concerned, these new partners have to be enjoying a market economy capable of confronting competitive pressure within an internal market that has recently being reinforced by the Euro. One of the great issues is to increase the density of their SME base and their Guarantee Societies will contribute to this. Dovetailing this step with the Commission's dissemination policy, AECM has welcomed their largest societies on a selective manner.

It therefore appeared helpful for us to update the earlier study and to present it on a transversal model facilitating the "benchmarking" of the societies.

I would like to thank the members that have assembled the clear and accurate data for constructing this work. I hope that they will find in it complementary matter for reflection, for our philosophy is to share our experiences in order to progress through comparison.

I also hope that a complete, informed view, which would open the way to new forms of co-operation with our business organisation, might be imparted to all readers.

Italo Calegari,
Chairman

FOREWORD

Mr Erkki Liikanen, European Commissioner in charge of Enterprise & the Information Society

If today, the European Mutual Guarantee Association (AECM) includes some 30 members from 16 European countries, either members of the Union or accession countries, it is without any doubt due to the quality of AECM's facilitation.
It is also due to the fact that it is meeting a particular need: the exchange and dissemination of good practices among guarantee professionals.

Indeed, AECM not only aggregates Mutual Guarantee Societies and Guarantee Funds, but also Public Development Banks and Co-Operative Banks: it has become a privileged arena where European guarantee professionals gather, be they private, public or mutualists.

It also accommodates organisations that are nearly a hundred years old, and others that are not yet ten.

They have all contributed to establishing the major role of the guarantee as a "financial fact"" and a technical solution facilitating SME access to funding. Indeed, in particular in the applicant countries, access to funding is difficult for SMEs because of their limited capacities in terms of securities. This insufficiency can nevertheless be overcome thanks to guarantees provided by public, private or mutual guarantee societies.

Each contributes in its own particular way to reducing the existing gap between business credit supply and demand, in particular in the applicant countries where the needs are particularly important if SMEs are to be able to start up and to develop.

For my part, the European Union has, for many years, been guiding the efforts of the Mutual Guarantee Societies towards recognition that is each time more marked.

- Since its creation, in 1992, the activities of the European Mutual Guarantee Association have been encouraged by the Commission, which wanted to have a better understanding of how the existing practices within the Union were evolving.
- Then, at the time of the Third and Fourth Round Table between Bankers and SMEs, the AECM took an active part and was able to advocate the Mutual Guarantee Societies' point of view.

- Moreover, financial support was granted to the AECM's dissemination activities in the years 1995-1997, followed by a pilot operation during the years 1999-2001.
- In addition, one must also pay tribute to the operations carried out by the European Investment Funds (EIF) in the context of the 1998-2000 "Employment and Growth" initiative. The SME counter-guarantee facility has had considerable impact: in all, some 125,000 SME have been able to benefit from this facility, which, managed by the EIF, involves EU expenditure of some €155 million.

  This effort is all the more significant as it is continuing over the 2001-2005 period, thanks to the instruments of the "Multiannual Programme for Enterprise & Entrepreneurship 2001-2005", for SMEs in particular.

With regard to the current economic and financial situation, these instruments have a counter-cyclic action. They meet the needs of the market, in particular because of their diversified range of available guarantees: SME, micro-loans for IT and communication equipment, and equity.

The opening of these instruments to the applicant countries is both a priority and a challenge for the Commission. It will be accompanied by technical aid and training operations for the benefit of the guarantee societies of the applicant countries, as well as a certain BEST project.

This project is aiming to stimulate reflection on the existing guarantee practices within the Union and in the applicant countries, in order "to establish a typology, to present good practices on the subject and to formulate recommendations for the benefit of all."

That is why the dissemination effort made by the AECM by means of this book chimes perfectly with the Commission's activity with regard to SME access to funding.

Our hope, furthermore, is that this book will provide the elements of reflection that might promote a better recognition of mutual guarantee practices from the supervisory authorities and from the financial community as a whole.

INTRODUCTION

Guarantee Schemes And Their Positioning In A Globalised Economy

Pablo Pombo[2] – Alfredo Herrero[3]

From the initial intention of providing SMEs with a constructive framework for easier access to loans via guarantees, an essential point can be observed: one question is to have "guarantee societies"; another is to formulate a truly national guarantee scheme. We would like to say that it is not enough to create a company, but above all a sound, credible and solid scheme must be designed which is addressed to the financial system as a whole

The guarantee is a rare asset.

The financial system is probably the most regulated economic sector. In addition to national legislations, there are the international standards of the "Basel Accord" which determines the appropriation of the banks' assets and ascribes a degree of importance to the collaterals and guarantees that sustain them, according to which they are well or badly qualified and weighted. Therefore the quality and the value of the guarantee as a support for the cover of the financial assets conditions and influences the profit and loss accounts of the financial sector entities.

In addition, there are public and private schemes in the commercial and financial markets that have special guarantee standards (the public counter-guarantee, for example).

Therefore the monetary flows of the financial channels move, in search for well-secured investment assets, making the guarantee a rare asset, especially if it is liquid and incontrovertible. A proof of this is that virtually 80% of the demand for credit from micro businesses at the world level is without response, and that even in the European Union, the banks reject numerous projects for want of securities. The World Bank asserts that companies' inability to offer collateral can reduce a country's GNP by 2%, creating systematic failures in the financing of micro and small businesses in terms of the availability and cost of financial products.

Objectives of a National Guarantee Scheme.

Thus, the end objective of a guarantee scheme will be the integration of the SME into the formal financial circuit by creating an institutional relay towards the credit market and a tool for enhancing the conditions of this access.

In addition, a national scheme has to organise technical performance guarantees and ancillary advice for companies. Efficient SME access to the financial markets will be

[2] Pablo Pombo Gonzales, Founder Chairman of AECM, he has held management positions in the Spanish CESGAR network. He is an international consultant is terms of guarantees, especially in Latin America. He is, with Alfredo Herrero Calvo, the author of "Los systemas de Garantia para la Micro-y le Pyme en una Economia Globalizada", DP Editorial, 2001. He is a holder of the order of Civil Merit in Spain.

[3] Alfredo Herrero Calvo is the Director-General of IBERAVAL SGR, in Valladolid. He is a manager of the REGAR Network of Latin American guarantee schemes.

achieved by starting from a national or international financial market, in a defined manner, without this being a temporary or limited measure, and through an identified transparent, universal and non-discriminatory network.

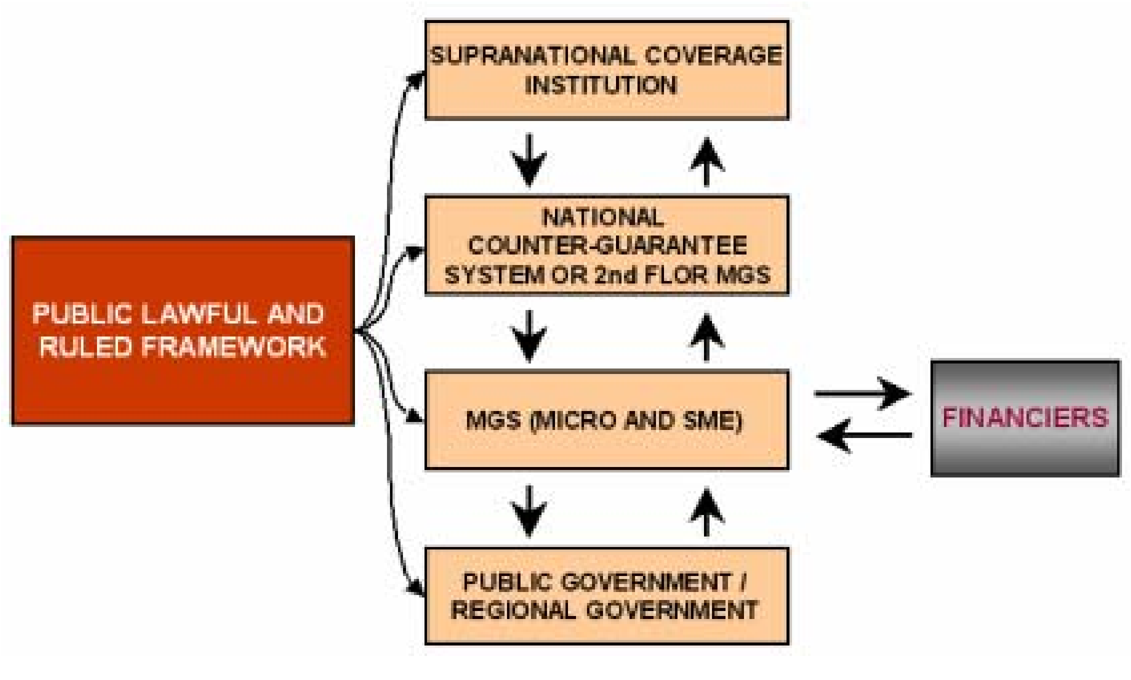
Principals That Support A Quality National Guarantee Scheme: For A Legal, Secure, Stable And Accepted Environment

Guarantee Scheme must first of all come from and be part of a considered, co-ordinated *Public Policy* in favour of the SME, intended for each entrepreneur. It is therefore not a question of short-term measures or the expression of a particular government's political wish, but a State consensus that is both genuine and permanent. We are not talking of a "fashion": there are, in the world, stabilised schemes that are enjoying full growth, some of which have 80 years of existence, including certain European schemes.

Secondly, an "**alliance**" has to be established between the economic agents involved (Public Administrations, financial entities and SME organisations) with legislative developments and operational achievements that enable each partner to address its own legitimate objectives and interests.

This indication of long-term assent will lift the level of installation and efficacy of the National Guarantee Scheme in a way that will be marked by quality and security. We refer to the findings of the 3d European Congress of Mutual Guarantee Societies, organised by AECM in Lisbon in October 1995.

The constitution of this legislative environment of the National Guarantee Scheme involves legal security (legal and formal), a refinancing mechanism, a qualification of the guarantee giving it a banking weighting, and its subordination to the financial sector supervision and discipline.It is only in this context that a National Guarantee System can be developed, as illustrated in te following graphic.



Models And Forms Of National Guarantee Systems

There are various forms of these: Guarantee Funds, Guarantee Programmes and Guarantee Societies. These models are heterogeneous, varying in quality, security, efficacy and relevance. They have existed from a distant past (80 years), and are intensively used in the more developed countries (see graphic).

The model guarantee society is the one that associates the greatest number of beneficiary companies (73%) and volume of activity (86%) at the world level : in Europe (EU) and in the northeast of the Asian continent (Japan), this is the predominant model.
In fact, it is the configuration itself of the guarantee scheme in the perspective of whether it is a public or mixed "private/public" tool that determines the form that is ultimately chosen:

- Under the public form, guarantee programmes are to be found such as those in the Small Business Administration in the United States.
- Under the mixed but predominantly public form, the Japanese JASMEC companies are to be found.
- Under the mixed but predominantly private form, there are mutualist companies known as Mutual Guarantee Societies (MGS) or Reciprocal Guarantee Societies (SGR) where the beneficiary entrepreneur is associated, either directly or by Entrepreneurial Circles. It is predominant in Europe.

Legal Form, Sector	Guarantee Fund	Guarantee Programme	Guarantee Society
Public	Guarantee Fund (Africa and Central America, Europe outside EU)	United States (SBA), Canada, Holland, UK, Malta, Mexico, Chile...	Japan, Colombia , Argentina, Peru, Lithuania, Estonia, Austria, etc.
Private/mixed	---	---	Germany, Belgium, Spain, France, Italy, Portugal, Hungary, Switzerland, Turkey, etc.

By a way of illustration, the table below shows the main benefits expected by the partners of a good quality National Guarantee Scheme, in the model of Mutual Guarantee Societies (MGS or SGR).

SME	Public Administrations	Financial Institutions
Better access to credit...	Promotion of the SME	Cover by a liquid guarantee
at...long-term low interest rates	Increased investment	Qualified and weighted guarantee
Access to performance guarantees	Increased employment	Less provision for risk and better recourse
Access to consultancy	Increased competition	Increased customer base
Enhanced competition	Better recovery of tax	Reducing analysis costs
Access to information	Channelling policies	Less monitoring cost
Integration of entrepreneurial networks	Better efficiency / transparency	Securitisation of the guaranteed portfolio

Situation Of Guarantee Schemes At The World Level And Their European Positioning

From all this, certain conclusions are evident. It is in the more developed countries that the guarantee schemes with more intensive volume of activities are to be found, and these are the most appropriate instruments for channelling public SME support policies.
Let us cite the case of the United States (Federal Reserve) which has outstanding amounts in the order of USD 12 million and Japan (national agency and local authorities), where 30% of SMEs have recourse to an active amount of guarantees worth USD 400 billion. There is strong public involvement.

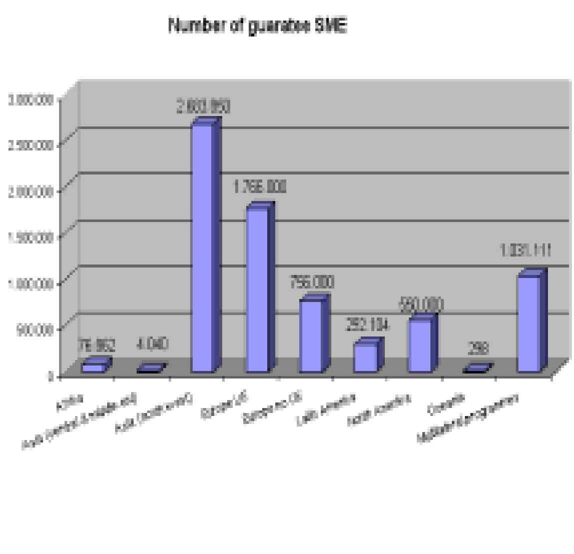
In Europe, in view of its historical tradition, the emphasis is on a mixed system.

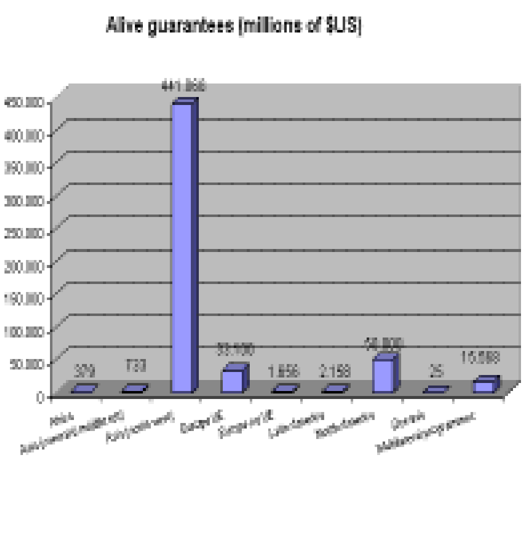
Guarantee schemes are not a "fashion" : they are dedicated and organised with the volition of permanent integration of the financial system, covering the financial guarantee of loans, performance guarantees and associated financial consultancy.

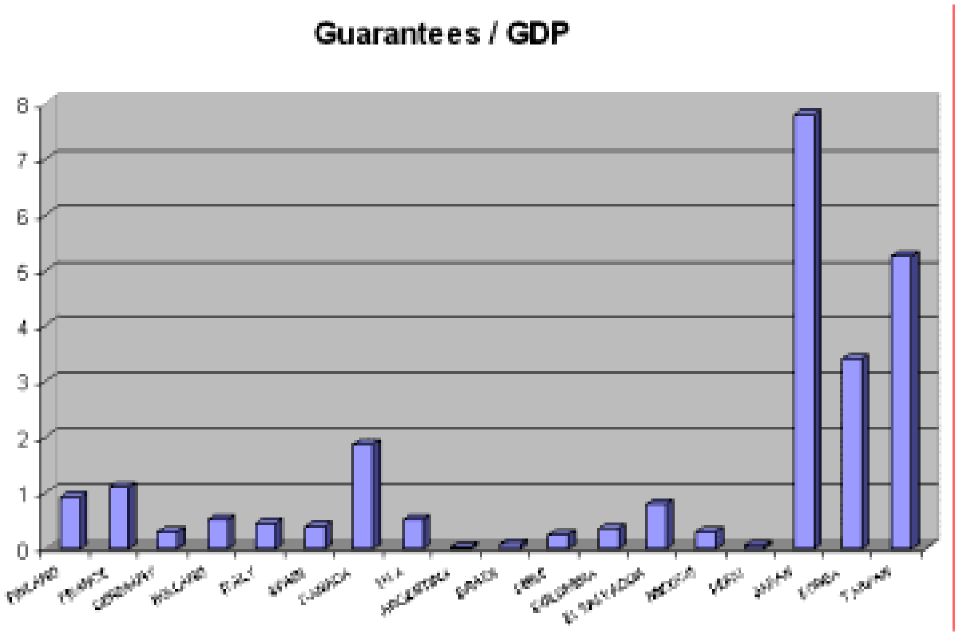
The European Union is the only world economic area where a supranational cover mechanism of National Guarantee Schemes is in existence, via the European Investment Fund (EIF).
There is little to be added in terms of raising awareness of the role of the guarantee. But, mindful of the power of the American and European schemes, it must be agreed that the European Union is lacking at the level of world dissemination, even though it has the most appropriate system and the one that is by far the most propitious for transfer.

The "associative" or "mutualist" European model is characterised today by the possibility of a major presence of the private sector, by the contribution of its skills and experience to the management of National Guarantee Schemes.

As far as the future is concerned, there are in Europe, at this time, two themes of reflection of major importance: "Basel 2" which will appropriate the qualification and weighting of guarantees, and the continuity of the European Investment Fund's policies, which will provide permanent support for and value of the underlying SMEs.







Source: “Los sistemas de garantía para la micro y la pyme en una economía globalizada”, Pablo Pombo y Alfredo Herrero. 2001 et statistiques AECM.

In recent years, legislative development and review comprising elements of harmonisation have begun to assume great importance, in Latin America and also in the candidate countries of the European Union (thus, Spanish legislation in 1994 has profoundly influenced countries such as Argentina –1995-, Venezuela –1999-, El Salvador –2001-, Uruguay –2000-, Brazil –1999-, etc. in Latin America/in Portugal –1998).

We shall conclude by saying that the importance of National Guarantee Schemes needs to be identified, pursued and recognised.

This would involve:

a) Confirming that the guarantee is only of worth in an integrated scheme, national in character, that is reliable and solid, qualified, endorsed and fully integrated into the local financial circuits.

b) Considering the importance of the European schemes for their homogeneity of purpose and their operational diversity, and their tangible alliance between the private and public sectors. AECM has a wealth of information about this.

c) Taking the lead with a supranational risk cover scheme, to be developed via the European Investment Fund and the European Structural Funds.

d) Proposing that Europe should take a role in disseminating its model at the world level through consultancy and via the financial operations of its institutions (European Investment Bank -EIB, European Investment Fund -EIF, Commission Relex DG -External Relations, European Bank For Reconstruction ad Development -EBRD, etc.)

SYNOPTIC 2003 0F THE EUROPEAN MUTUAL GUARANTEE ASSOCIATION

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  Tf 0039 06 47 25 104, www.
  - *Fincredit-Confapi*, Via della Collona Antonina, 52, 00186 Roma
  Tf 0039 06 69 01 53 12

- **Lithuania** *:* - *UAB emès ükio paskolu Garantiju Fondas (Rural Guarantee Fund)*,
  Blindziu Str., 17, 2004, Vilnius, Tf 00370 52 608 406, www
  - *INVEGA*, Gedimino pr., 38/2, 2600 Vilnius
  Tf 00370 52 608 406, www.invega.lt

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  - *Sociedades de Garantia Mutua*, *c/o SPGM*
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  Tf 00351 21 383 60 00, www.iapmei.pt

- **Romania** *:* - *Romanian Loan Guarantee Fund for Private Entrepreneurs (RLGF)*,
  Matasari Street, 46, District 2, Bucarest, Tf 0040 21 252 32 20
  - *Rural Credit Guarantee Fund (RCGF)* 5, Occidentului Street., District 1,
  Bucarest, Tf 0040 21 31 25 3318

- **Slovakia** : - *Slovenská Zárucná a Rosvojová Banka (SZRB)*, Stefanikova, 27, Bratislava 814 99, Tf 00421 2 572 92 241, www.szrb.sk

- **Spain : -** *Confederación Española de Garancia Reciproca (CESGAR)*, Carranza, 25, 4°, 28004, Madrid Tf 0034 968 35 53 20, www.cesgar.es

- **Turkey : -** *The Union for Credit and Guarantee Cooperatives for Tradesmen and Craftsmen (Teskomb)*, Anafartalar Isiklar Caddesi, 142/2, Ulus-Ankara Tf 0090 312 32406 40
  - *Kredi Garanti Fonu (KGF)* , Adakale Sokak, 28/1, 06420 Ankara Tf 0090 312 324 06 40, www.kgf.com.tr

AECM has friendly relations with a starting-up guarantee scheme :

- **Suède** : - *Sveriges Kreditgarantifönerung for Lokal Utveckling (Credit Guarantee Fund for Local Development)* , Sätra Bykarlvägen, 8, 795 91 Rättvig Tf 0046 248 173 50

Chapter I

THE EUROPEAN MUTUAL GUARANTEE ASSOCIATION

The European Mutual Guarantee Association is the only European business organisation responsible for the exclusive representation of the interests of the Societies that guarantee loans for SMEs.

It was founded in 1992 by the Mutual Guarantee Societies of Spain, France, Italy, Belgium and Germany in order to give them a European dimension.

Constituted according to the Belgian law for international non-profit associations, the AECM's purpose is:

- To represent the common interests of its members.
- To consolidate and develop the role of Mutual Guarantees as an instrument for promoting SMEs.
- To promote the harmonisation of the legal and regulatory contexts and to improve the companies' working procedures.
- To stimulate the exchange of information and know-how among members.
- To suggest ideas and proposals for various political intervening parties, including the European Authorities.

AECM functions as an open, democratic organisation that is independent of any financial or political group. In 2003, it represents 26 societies or federations that are active as a network of guarantee systems in 16 countries of the European Economic Area.

AECM is marked by the evolution of the macro-economic and financial problems that its members are faced with, and by the powerful imprimaturs of its Chairmen.
Its successive chairmen have been:

- Pablo Pombo Gonzales (Sp), 1992 -1996[4].
- Thomas Garcia (Fr), 1996 - 1999[5]
- Guido Verhaegen (Be), 1999 - 2002[6]
- Italo Calegari (It), from 2002, with his mandate envisaged to end in 2005[7].

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[4] Pablo Pombo Gonzales : op.cit.
[5] Thomas Garcia is a business leader in the automobile sector in the Pyrenees. Chairman of the Socama Midi Pyrénées, he is also Honorary Chairman of the Fédération Nationale des Socama.
[6] Guido Verhaegen is a lawyer and an honorary senator. He has devoted his union struggle and policy to the defence of SMEs within the UNIZO trade organisation. He has been Chairman of the Flemish Guarantee Fund and Chairman of a bank specialising in SME loans.
[7] Italo Calegari is a business leader in the heating/stroke air-conditioning sector. He is Chairman of a Mutual Guarantee Society in Bergamo. Two times President of Fedart Fidi, he is a leading member of various Guarantee Schemes and SME organisations.

- **Representation Operations**

AECM acts within a circle of institutions concerned by the access to credit of private SMEs in a market economy.
This goes from European organisations, which take first place, to international bodies. In this context, AECM participates in information and training operations.
AECM does not interfere in its members' national operations and it only acts in this sphere when requested by its members to do so on specific points.
AECM only focuses its positions and comments on the financial concerns in which its members and their SME partners are involved, without considerations of other kinds.

- **Dissemination Operations.**

AECM supports initiatives creating Guarantee Societies with no pursuit of profit and with a clear code of ethics.

  - It completely respects the will of the promotors, and draws attention to factors of success and failure by taking advantage from the variety of its experiences and from its opulent technical archives.
  - It expresses a marked preference for systems designed to promote the private economy and for the mutualist participation of the entrepreneurial circles as shareholders or / and decision makers.
  - A basic handbook "Creating a Guarantee Society" was drafted in 1999 and then enriched on several occasions.

In 1994, AECM contributed its know-how to the Portuguese initiative of creating an SPGM.
From 1999 to 2001, AECM conducted a dissemination operation with the Enterprise Directorate-General of the European Commission, starting with the Potsdam Seminar "Disseminating Mutual Guarantee Societies in Central European and Eastern Countries : Obstacles And Good Practices".
AECM's participation in the Third and Fourth SME/Bankers Round Tables, organised by the European Commission, provided further opportunities for disseminating the concepts and the technical principles.
Among other technical contributions of AECM and its members, the work of the Austria Wirtschaftservice (Au) and Iberaval (Sp, especially in Latin America), should be mentioned.
Not all such projects have been successful, and in the United Kingdom and Ireland, one can only deplore that legal and regulatory barriers have been set up, which have had an ancillary effect of making it impossible to collect the necessary resources.
Founding a guarantee system is certainly a complicated and laborious process, and AECM refuses to replicate a standard model on so diverse national situations.

- **Information Operations Seeking To Share Experiences Between Members.**

Learning from best practices is the best way of making progress: everybody can give and receive and there is nobody who cannot benefit from this.
Several media have been put in place for this purpose.

The www.aecm.be website is the place where the more formalised communications appear, such as its annual report or seminar helpful contributions. The website includes a description of AECM, its organs, and a business profile of its members.

Flash bulletins, which are issued from time to time, are the channel for passing on varied and occasional information, mainly news from the European scene and executive summaries of Members' Annual Reports.

Seminars were initially opportunities for introducing ourselves to each other. Since then, they have taken on a role of technical training, incorporating question and answer sessions and discussion forums.

The technical subjects that have been tackled until now have included:

- European Regulations And Opportunities For Guarantee Societies (Brussels, May 2000)
- Young Entrepreneurs In Disadvantaged Areas (Manchester, April 2001)
- Venture Capital Guarantees (Bologna, September 2001)
- Guarantees In The Social Economy Sector (Bologna, September 2001)
- Modes Of Setting Guarantee Premiums (Vienna, March 2003)
- Equity Reinforcement And Counter-Guarantee Systems (Vienna, March 2003)

Subjects on the drawing board relate to the enhancement of the operational relationship with SMEs and banks and the question of the succession and/or transfer of SME ownership.

Various technical booklets have been prepared as a follow-up to these meetings:

- A comparative manual between five countries on management and the accountancy follow-up of guarantee commitments
- A financial diagnosis tool intended for young entrepreneurs.
- A guide of guarantee products intended for start-up loans for young entrepreneurs
- A digest of good guarantee practices supporting micro credits.

- **Members' interests Defence Operations**

On numerous occasions, the European Commission has restated its faith in an economic system based on a dense, prosperous SME base. A statement of this policy initially appeared in the Regulation of 12 January 2001, which, at Clause 5, represents SMEs as having a *"decisive function for the creation of jobs, social stability and economic dynamism"*, but also as having *"difficulties of access to credit and information concerning markets and technology".*

In September 1991 the role of the Mutual Guarantee Societies was welcomed by the Commission, on the advice of the Economic and Social Committee: *"Because of the Unification achievement and the recent development in Central and Eastern Europe, competition for financial resources will become even more intense. Despite numerous initiatives in all Member States and at the Community level, the complaints of the SMEs and the analysis of independent research specialists show that the SMEs are continuing to experience difficulties concerning access to sources of finance and the cost of credit. One of the most effective ways of helping SMEs to overcome such difficulties resides in Mutual Guarantee Societies"*[6].

The conclusions of the Third SME/Bankers Round Table returned to this theme in 2001 in its first recommendation: *"The European Union should address the inequality of SME access to credit in banks and other financial institutions. This could be achieved by reproducing the guarantee facility* *of the European Investment Fund, a significant growth of the budget intended to facilitate SME guarantees, an invitation to SME support institutions to offer guarantees, an expansion of the guarantee mechanism for micro credits, transnational investments, company transfers and successions, and venture capital".*

Our Societies, with AECM, are following with interest the European work on the progress to be achieved in order to improve the SME management and funding environment.

AECM is organised in four Committees, each chaired by a member of the Board

- "Relations with European Authorities", chaired by G. Rebeyrole (Fr)[7]
- "SME Relations", chaired by R. Gonzales Rosalia (Sp)[8]
- "Bank Relations", chaired by H.H. Strombeck (Ge)[9]
- "Internationalisation", chaired by H. Dorn (Au)[10]

The most important questions that are currently being tackled are:

FINANCIAL INSTRUMENTS

The European Investment Fund and the European Structural Funds are the European Union's main financial arms. Mutual Guarantee Societies apply to them with two main kinds of problems: (i) sharing their guarantee commitments and (ii) reinforcing their financial capitalisation.

On the Commission's behalf, the European Investment Fund manages a major counter-guarantee programme, whose first achievements (Employment and Growth) were a success (118,000 SMEs were beneficiaries of it by the end of April 2002) and whose second instalment (Multiannual Programme) was opened by the publication of the Official Journal of 29 December 2002..

For the Structural Funds, Rule 9 of the Commissions' Regulation 1685 of 28 July 2000 envisages that they *"can co-finance the capital of guarantee funds … namely instruments that guarantee venture capital funds and loan funds against losses resulting from their investments in small and medium-sized enterprises… The funds can be … commercial management funds with private sector partners, or funds entirely financed by the public sector"*.

A new draft of the programme will take place as from 2006 in an enlarged Europe, in which the Guarantee Societies hope to take part.

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6 "Le rôle des systèmes de Cautionnement Mutuel dans le Financement des PME de la Communauté Européenne", SEC 91 1500 end.

7 Gilbert Rebeyrole, a craftsman baker at Limoges, is a member of the Board of Directors of the Banque Populaire du Centre Atlantique. Chairman of the National Federation of the Socoma, he holds several positions in SME trade organisations including the Chairmanship of the Limoges Chamber of Trades.

8 Ramon Gonzalez Rosalia is an entrepreneur in the mechanical industry. President of the CESGAR Federation, he is also Chairman of SOGARCA SGR and of the Torelavega Chamber of Commerce.

9 Hans Herbert Strombeck is Managing Director of the Bürgschaftsbank NRW at Neuss. He chairs the German Verband Bürgschaftsbanken.

10 Helmut Dorn is an Authorising Officer at the Austrian Wirtschaftsservice in Vienna, in charge of internationalisation operations and venture capital.

COMPETITION POLICY

In Clause 87 paragraph 1 of the Treaty, it is stipulated that *"In the absence of derogation from the Treaty, aid granted by the States or by means of State resources in any form whatsoever that distorts or threatens competition by favouring certain enterprises or certain productions are incompatible with the common market, insofar as they affect exchanges between Member States"*. Several rules have been adopted to interpret this principle and to apply it to state aids that forms part of guarantee mechanisms.

Our Guarantee Societies are essentially coming up against the administrative burden that this regulation represents, in comparison with the economic benefit that could result from it, as it is a question of small companies and small amounts of aid. The non-existence of a records file, maintained by the public sector, of the aids granted from various sources places an unacceptable responsibility on the market operators with regard to the potential financial consequences of exceeding the "de minimis" rule. Finally, the cover of acceptable aid does not include working capital needs, which are an absolutely essential complement in a majority of SME investment programmes.

On the other hand, the situations experienced by our Guarantee Societies relate to access to sources of funds on reasonable terms and in compliance with market criteria, as will be indicated at a later stage.
The Guarantee Societies are petitioning for flexibility, for which the simplest way would without doubt be a group exoneration for micro entreprises that form the vast majority of European Companies.

BASEL 2 ACCORD AND ESTABLISHMENT OF PRUDENTIAL STANDARDS FOR FINANCIAL INSTITUTIONS

With regard to their prudential status, Guarantee Societies can be either banks, corporations, or public agencies. On the one hand, the first have to comply with the regulatory requirements of minimum equity. On the other hand, all three can reduce the weighting of SME credit portfolios managed by lending institutions and lower their supporting capital requirements.

During the long process of finalising the new prudential framework, AECM expressed its positions on and its claims for:

- The treatment of risks on SMEs, emphasising not only the prudential question but also the relatively difficult access to credit that a definition of this portfolio would give, the internal or external ratings approaches, the treatment of weightings and of mitigation techniques. The principal preoccupation concerned start-ups, rapid-growth companies or companies in an innovative phase, thus covering situations where a major contribution is made to economic development and where the greatest reluctance to lend is encountered.

- The qualification of the guarantees, strongly criticising Basel for its failure to recognise our management practices and its unrealistic recognition criteria. Basel was completely placing our Societies, professional guarantors, in the hands of bankers by imposing unconditional and irrevocable guarantees, executable on the banker's will and therefore leaving us no possibility of managing our commitments.

Nowadays, AECM maintains its interest in everything than has been put in place by the Accord, namely the application of rating techniques, the scope and content of disclosures and the general improvement of the treatment of information, fully subscribing to the initiatives that will for our societies constitute progress in their management.

Fundamentally, the wish of our Societies is:

That their role of guarantor be explicitly recognised in the Accord and EU Directive: the quality of their protection for portfolios deserves that their strong guarantor solvency be underlined.

- That the direct and unconditional counter-guarantees that their commitments receive from States, Regions, Public Authorities or the European Investment Fund be taken into account in portfolio weighting.

ENLARGING THE UNION AND SUPPORTING THE TRANSFER OF GOOD PRACTICES

Twenty-six Mutual Guarantee Societies from 16 countries, current or future members of the European Union, are associated within the AECM with, in particular, the objective of sharing their good management practices.

A concrete operation has been undertaken in favour of partners from the accession countries, not only by ad hoc advice but also by participation in their events (Prague, May 2002, Budapest, August 2002, Tallinn, September 2002, Vilnius, June 2003, to mention just a few recent examples).

In the past, active support has been received from the Commission's Enterprise Directorate-General, especially from the 1999-2001 dissemination programme, as well as by the AECM's participation in the Third and Fourth SME/Bankers Round Tables.

Our hope is that the complexity of the Commission's administration will not impede the development of new co-operation on common themes of interest, especially the transfer of ideas and technologies to the new countries, the question of business transfers and succession, the new working modalities of the Structural Funds or other points.

To bring our thoughts on the AECM role to an end, it can be succinctly summarised by recalling the Joint Declaration made at the celebration of the tenth anniversary of our business organisation.

On the occasion of the AECM's 10th anniversary in Madrid, this 13 June 2002, its Members unanimously support the following declaration:.

MADRID DECLARATION

1. Value of the SME in a market economy

By their number, their dynamism and their wide adaptability, SMEs represent a decisive contribution to growth and employment in any market economy. Citizen businesses, they participate in the democratic life and in local and regional development.
As partners of the SMEs, the Guarantee Societies ask that the representation of the SMEs and their specific interests be taken into account at each level of national and international decision-making.

2. Profile of the Guarantee Societies

At this time when exchange and investment flows are being globalised, and when a tidal wave of mergers is inundating many sectors, the Guarantee Societies want to maintain human proportions that enable them to relate directly with their preferential partners, the SMEs.
They ask that honest behaviour and ethical values prevail in an increasingly bipolar economy, where great conglomerates benefit from natural economies of scale that are authorised by corrector mechanisms, including adapted and well designed State aid.
They affirm the strength of the mutualist concept of co-operation without forfeiture of responsibility.
They are positioned as a link suitably located in a context of cultural and geographical proximity for relaying the needs for the companies to the public and financial circles and for attracting financial means and support measures for SME investment projects.
They will pool their experiences and their good practices for the creation and promotion of guarantee tools in economies deprived of such instruments, especially in the transition countries.

3. Relations with SMEs

The Guarantee Societies are at the service of SME's on a non-profit-making basis.
On the strength of their guarantees, they want to facilitate SME access to good quality credit in terms of rates, periods and sustainable repayment programmes.
They are committed to supporting economically viable projects, especially those emanating from companies at key moments in their life cycle: birth, expansion, internationalisation or take-over.

The Guarantee Societies conceive their support by a mutual exchange of reliable and genuine information, by the appreciation of qualitative elements concomitant with rationalised risk-taking, as well as by accompaniment and advice.
They recognise that SMEs, subjected as they are to so much incertitude, may experience difficult moments. As long as confidence in their viability exists, they undertake to maintain their guarantee support for them.

4. Relations with financial partners

It is the business of the Guarantee Societies to share the credit risk with the credit providers on a clear and transparent contractual basis.
They undertake to declare their true solvency situations and to conduct the management of their commitments and their cash flows in such a way that that they can at any time face up to the guarantor responsibilities that they have assumed.
They would also like the international banking supervision rules to maintain the qualification of their guarantee at a level that enables lenders to adopt genuine risk policies and to limit the use of own funds as back-to-back credit for their SME portfolios.

5. Relations with national and European authorities

The Guarantee Societies recognise that the public pillar is essential for what they do because of the supervision of their operation and their control, as well as their policies of support via co- and counter-guarantees.
In turn, the Guarantee Societies will add their forces to the realisation of policies designed to promote the SMEs.
Similarly, at the European level, the Guarantee Societies want to be seen as reliable, loyal partners for achieving the objectives of Enterprise policies, the Internal Market, regional Development and the widening of the Union.

Chapter II

SMEs AND ACCESS TO CREDIT

I. THE EUROPEAN CONTEXT

1. The European Economic System Sets A Premium On The SME

In 2002, on the current territory of the European Union, there are, according to the l'Observatoire des PME Européennes[11] 20,445,000 companies, of which 20,415,000 are SMEs within the meaning of the European definition. The average size of the European company is 6 employees, against 10 in Japan and 19 in the United States.
The accession countries will add some 6 million companies, even smaller in stature.

The SMEs[12] forming 99% of the economic base employ 80,790,000 people, or 65% of total private labour. They contribute some 55% of GNP.
SMEs take their place in the economy with some specific characteristics.

2. The SME Is An Irreplaceable System, But Specific In Terms Of …

- Value-Creation
  - The SME contribution to the GNP of our economies is significant because of their added value and their investments. The average added value per job is €65,000, versus €115,000 for the large companies.
  - SMEs insert themselves into the economic system by relays that are inaccessible to large companies: they occupy niche markets that are narrow in terms of geographical scope and limited in terms of solvent demand.
  - They contribute flexibility to productive activity by offering subcontracting opportunities to large companies.
  - By the business networks that they secure in a local environment, SMEs are a catalyst for local and regional development.

- Job generation
  - SMEs are first of all an opportunity for individuals to create their own employment, thereby achieving their personal development aspirations. 29% of entrepreneurs are women.

[11] Observatoire des PME européennes, 2002, document I SBN92-894-4878-4, "SMEs in focus". The various statistical references in the text refer to this publication.
[12] In the new European definition, SMEs are companies occupying less than 250 employees with a turnover lower than €43 Mio.

- They also create jobs for wage earners: according to the European Observatory, with 1988 as its base of 100, the employment index was, at the end of 2001, 107 for micro-businesses, 103 for small enterprises, 99 for medium-sized enterprises, and 98 for large companies.
- They call upon the employment market for extremely diverse qualifications: they demand good manual labour (training programmes emanating from special branches of contract apprenticeship and professional training) or higher technical qualifications. The lack of qualified labour is one of the main impediments to their development.
- They demand good prior operational preparation from their labour forces and offer them flexible organisation of work relations and jobs enabling each individual to demonstrate work autonomy and responsibility.
- They contribute to the development of the service sector by calling on numerous forms of external co-operation (accountancy, insurance, counsel, marketing, computing…).

- <u>Progress And Innovation Factor</u>
    - SMEs are the place where proximity is greatest between the development of innovation and its operational implementation. For the SME, the innovation adventure commences as soon as it has to introduce processes in its techniques, products and markets that are new to it.

      Generally, SMEs are not really ready :
        - To devote disproportional resources to innovation / research in relation to the means that ensure its survival.
        - To throw itself into programmes that present a horizon of concretisation in terms of markets that are too distant or too uncertain.
    - Innovation happens within them by the implementation of innovative programmes within existing companies, but also by the renewal of the economic base induced by the numerous creations and successions of SMEs.

- <u>Stabilisation Of Democratic Values</u>
    - The SME is the citizens' company par excellence because it is integrated into its regional microcosm, where it is a responsible player at the same time as a beneficiary of the prosperity of the whole.
    - The SME represents initiative acting in a competitive world, values on which political democracy is founded.

3. <u>The SME Is A Vulnerable System…</u>

"Human companies are worth what the men that run them are worth"…

As an SME can be a fact of a single man, a family, or a limited group of individuals, it is not possible for it to be the receptacle of all technical, commercial, financial, managerial or administrative skills that are asked of it as keys to its success.

- The relative loneliness of the entrepreneurial man makes him subject to the vicissitude of a personal nature (sickness, divorce…) that are added to the usual problems of doing business.
- Its reduced size makes it difficult to accommodate the numerous administrative and regulatory duties that an increasingly complicated society imposes on all its members.
- Assembling equity is hampered by a limited personal asset base, especially for young originators. Assembling financial capital beyond the F.F.F. universe (family, friends and fools) is often a challenge that in turn makes it not particularly attractive for lenders…
- The weakness of self-financing in investment projects is reinforced by the frequent absence of real securities (mortgage or pledging of financial assets), and the low presumed value of realising professional securities (equipment, debts receivable…). "Reputation" only comes into consideration as a credit lever by means of a convincingly solid history of management and profitability.
- The severity of taxation and the complexity of fiscal matters are obstacles to expansion and lead to a proliferation of grey economic practices.
- The SME, designed as an independent cell, is poorly prepared to present itself, to formulate reports that would make it better known within its environment. Particularly, the absence of clear, transparent information is injurious to stable and confident financial relationships.

This vulnerability is compensated by

- A greater sense of managerial responsibility and flexibility – avoiding exposure to costs, profiting from market opportunities, and seeking out niches.
- A great capacity for hard work in terms of time invested in numerous corporate tasks: the head of a small company "does not count his hours".
- The possibility of limiting income: the income from invested capital is virtually not priced and the income from labour is often reduced to that which the business allows to be withdrawn. In periods of less propitious economic circumstances, the heads of small companies will tighten their belts before laying down their arms!
- The powerful motivation to be "one's own boss" "to fulfil oneself" is the focal point of the entrepreneurial spirit.

This is not astonishing, as the SMEs declaring an ambition of growth only amount to 29%; only 9% of them aim for increased profit and 7% pursue innovation.
On the other hand, 20% are struggling for survival and 21% are looking to consolidate their situation.

The entrepreneur must therefore find his way with measured audacity in a universe made of constraints, opportunities and risks

II. THE FINANCIAL ENVIRONMENT IS EXPERIENCING FUNDAMENTAL CHANGE

1. The Institutional Chessboard, In Brief.

a. The Bank.

In the past, the bank has been the sole financial contact for the SME and it is still its main one today. Bank credit represents 70% of external SME funding.

What are the characteristics of the change?

- The European banking systems are experiencing a wave of mergers and acquisitions.

  For the SME,
  - There are less and less possible interlocutors
  - The decision centres are becoming further away from the field in which the SMEs operate
- The banks, now larger, are oriented towards big companies, whose information systems are more sophisticated, which means that the risk is easier to evaluate, and whose size of operations enables greater availability for listening and analysing.
- The banks are run with "Return on Equity" preoccupations and under the controlling dictatorship of their "Cost-Income Ratios"[13]. The incessant search for productivity pushes them into partially dehumanising their local service network (branch versus electronic banking).
- It is true that the bank has specialist SME "middle management" teams in "front office". But the SME question often remains unfathomable because of the difficulty of putting a number of management variables into the equation, and because of the non-linearity of the risk.
- The banks are refining their management and risk measurement techniques: for individual businesses that could be considered as private individuals and micro-businesses, the scoring system enables rapid decisions. For the small and medium-sized enterprises, the rating of the risk becomes a tool that each financier sets up from his or her own experience, meeting the banks' new requirements for calculating the "economic capital". Only the large company is entitled to an in-depth individual analysis.
- The review of the solvency prudential rules by the Basel Committee will have an incidence on the credit portfolios for SMEs: some of them (start-ups, rapid growth companies…) are going be penalised by the difficulty of modelling the risk in closed scoring systems and by the cost of having to constantly update them.

b. Public Development Agencies

These, with the limited financial means at their disposal, have turned away from the infrastructure towards large company installation and then towards the relocalisation, the financial needs and the support services for medium-sized enterprises.

[13] This ratio measures the proportion of operating expenses in the intermediation margin

Public Development Agencies are a tool of public power. They nevertheless adopt market behaviours and are assuming an increasingly regional accent.
These agencies are interested in the medium-sized enterprise that displays growth capabilities or by start-ups whose strategic and/or technological value (connections with universities, research centres…) is a promise of industrial reconversion or of strengthening the growth areas.
They can often act to taper back the risks and make room for the intervention of conventional financial partners.

c. Specialist Financial Institutions

The SME is profiting from its gradual exit from the banking monoculture towards more varied financial engineering.

- Leasing has taken a prime place as a specialist and flexible relay to financial banking. Its place is nonetheless limited to equipment and, to a lesser extent for SMEs, to real estate investments. Often, leasing companies are subsidiaries of the banks, but their commitment philosophy is entirely their own, attenuating the question of security of the operation thanks to their relationships with the equipment supplier vendors, by the size of the payment on account and the end-of-contract options and by the recovery of the equipment in the event of loss. It is not the investment programme that is taken into account but the acquisition of the material property without complementary alimentation of the working capital.
- Factoring is useful for companies that have in their balance sheets customer receivables payable at term and of which the average invoiced outstanding is large enough to compensate for the cost of this technique. Factoring accelerates the rotation of balance-sheet values and provides security for the management of commercial relationships.
- Micro credits, practised by various institutions, are a first choice technique for micro firms (self-employed, micro-businesses). They only have to provide a sufficient financial base for a prudent start. Or, appearing as virtual equity (subordination clause), they increase the solvency platform on which their indebtedness through credit is constructed.

The SME is, modestly, getting ready for mezzanine finance.

d. Venture Capital Funding

This warhorse has become particular apparent with the emergence of the "new economy". It is in fact indispensable for certain types of activity where high levels of capital have to be associated with a long delay between the investment and its return.
Its speculative nature, in the sense of the financial opportunity (the concretisation of the profit by exit), is clear.
Sharing ownership and management remains something of a question mark for a number of starters or of familial businesses.

The size of venture capital operations is increasing: the cost of analysis and monitoring does not fit with small scale operations and excludes more than 95% of SMEs.
The question of seed capital still stands, and if it is resolved, the transition towards the second investment round remains problematical.
The principle of prudence will increase insofar as the economic climate is driven by less favourable winds. The procyclitality of the technique is such that a well-confirmed recovery must be expected for venture capital to take its projects out of mothballs.

e . Mutual Guarantee Societies.

These claim their place on the financial chessboard by occupying an intermediary position between the company and the banker. The next chapter has been devoted to them.

2. National And Regional Disparities

To the particular question of the SME can be added the question of the national or regional environment in which it operates.
The economy has a natural tendency to create spirals of growth in development areas, thereby illustrating the Perroux theory (the "Dublin" phenomenon in Ireland).
This spiral is not triggered in rural areas far removed from the great infrastructure nuclei, or in places where the demand is little concentrated and the purchasing power more restricted. The spiral can be reversed in areas of old industrialisation or reconversion, and in pockets of poverty and rarefied economic initiative. One should also make reference to large parts of territory of the candidate countries, the enlargement of the Union being a major enterprise that will characterise the start of this millennium.
The "fall of the wall" has accelerated globalisation by doing away the traditional confrontation between capitalist and communist systems.
But it has opened a timid path towards a European model, based on the concerted complementarity of private/public sectors attempting to give a better place to the individual as a player in and beneficiary of the economic activity.
These new countries have, in ten years, had to make an extremely sharp turn in order:

- To apply the new legislative and regulatory supervision provisions that are appropriate for the new situation (private property, commercial and economic law, community rights…)
- Implement the rules of the private economy (shareholding, profitability, productivity, and so on) and the market economy (product policy, marketing) within the existing companies
- To increase the density of an SME base where the investment of private capital is too weak and where the active entrepreneurs show willing but lack experience.

They have achieved good progress, so far, in a short timespan.
Thus, great regional disparities also create extremely variable conditions for the health and prospects of the SMEs. In these cases, the SME is a motor, but one that needs fuel enriched by public policies that are not policies of assistance but policies of support.

III SOME CONSTRAINTS TO ACCESSING FINANCE...

SMEs experience difficulties in amassing the necessary capital for their creation and or their development. This statement is something of a truism, for want of being easily demonstrated, despite the numerous studies devoted to the question.

- A Eurochambre survey conducted in December 2002 indicated that 62% of companies are dissatisfied with their banks, and that 32% have suffered a rejection of their credit application…
- The European SME Observatory in 2002 gave a percentage of 65% of companies satisfied with the services received from their bank, while 84% stated that they had received the requested loan. If their request was rejected, it was mainly for lack of collaterals (23% of the responses) or because of the banker's dissatisfaction with regard to the shown performance (7%) or the information received (5%)
- The third edition of April 2003 of the KfW Economic Observer and 16 industrial associations in Germany indicated that 20% of companies had received a refusal of their investment credit application and that for 45% of the entrepreneurs, the loan conditions had deteriorated.

On the other hand the difficulty of access to sources of finance can emerge either from a refusal of the solicited contribution, or by its being granted, but in less favourable market conditions, by the cost, by the short loan maturity or by the significant levels of personal collateral required by the lender from the applicant.

By revisiting the various main observations, one can give a synthesis – non exhaustive – of the factors that are impeding the easy obtention of financial support. We will not deal with the major cultural differences that separate the various Member States of the Union.

SME Structural Factors

- Risk on a single person or on a small team, multiplying the unforeseeable failure factors (sickness, family conflicts…)
- Less equity capitalisation by the founder-manager's personal means[14]
- Tendency not to make a clear distinction between private wealth and professional assets (a grey area of overlap).
- As a corollary, higher average recourse to external debt, particularly to short term capital that destabilises the working capital structure.
- Insufficiency ce of assets capable of being offered to the lender as collaterals.
- Inferior knowledge of the small company situation, the financial reports being more evasive, belated, or even missing.
- Inferior ability of the SME to communicate, to make its position transparent.

[14] See the 6th 2000 Report of the European Observatory, indicating the share of own equity in company balance sheets, according to their size.

Turnover	Austria	Belgium	France	Germany	Italy	Portugal	Spain
< € 7 M	13%	40%	34%	14%	26%	31%	42%
€ 7 Mio < € 40 M	27%	38%	35%	22%	25%	40%	43%
> € 40 M	31%	39%	35%	31%	28%	51%	37%

- Less visibility of the future, the business plans being formulated on opportunity mechanisms rather than on strategic planning.

<u>Factors Relating To External Venture Capital Sources</u>
- Difficulty for the entrepreneur to share power with an external partner.
- Reduced capacity to prepare dossiers, business reports and financial statements.
- Large average size of equity investment proposals by institutional investors, coming up against the cost of the feasibility examination and the cost of monitoring for small SME projects.
- More difficult exit for the investor, the only potential buyers being the family shareholders.
- Major vulnerability of SME research-development investments, which are precisely the ones that institutional investors are rather looking for because of their greater potential added value.

<u>Factors Relating To External Sources Of Loan Capital</u>
- More comfort for the bank in orienting itself towards major operations with a large-scale borrowers. The usefulness, nevertheless, for the banks to maintain a sort of middle-market characterised by a need for varied products (cross-selling of credits, payments, deposits, consultancy, and so on)
- Conflicts of interest between the small company and the bank highlighted by the Third SME/Bankers Round Table of the Commission's Enterprise Directorate-General. In particular the conflict between the SME's need for personal contact/ individual treatment and the bank's trend towards standardisation and automation. One can also mention here the expectation, or even the requirement of flexibility of entrepreneurs in relation to credit mechanisms that embody intrinsic inflexibility and constraints.
- The significant difference of power between the "dwarf" (SME) and the "giant" (the bank) in the credit negotiation process, creating instinctive distrust and a subjective aftertaste of dissatisfaction.
- Frequent incomprehension due to the difference between the banker's financial jargon and the entrepreneur's working language.
- Inferior stability and reliability of the financial appreciation of the SME's credit risk criteria.
- Inferior provision of recent, reliable data to substantiate an analysis dossier.
- Difficulty of approving the forecast and business plans of beginners.
- Little security offered to bankers on business assets with a real chance of recovery in the event of insolvency; little confidence in the personal guarantees of the SME borrowers – even though this engagement is very generalised; little recognised value of business assets – machines, equipment, debts receivable – that the Basel Committee has also minimised, despite current market practices.
- Low propensity to commit to the medium and long term, because of the greater instability of the SME, subject to numerous vicissitudes.
- In the micro credit sector, these difficulties are aggravated. They can be summarised by noting:
    - The disproportion between the costs of examining the dossier and the weak customer relationship created.

- The important charge of fixed credit back-office costs (registration of data, drafting the credit contract, the physical constitution of the guarantees, and so on) in relation to the interest margin expected from the low amount of credit exposure.
- The weakness even absence of collateralss proposed by the SME applicant that would be appropriate for the banker's search for security.
- The refusal to treat these applications as company credits, placing them in the portfolio of loans to individuals, on inappropriate terms and conditions.

Chapter III

MUTUAL AND PUBLIC GUARANTEE SCHEMES

1. Definitions

Mutual Guarantee Societies are initiatives put in place by private socio-economic circles (Entrepreneurs, Chambers of Commerce, Trade Federations, SME niche Credit Institutions) in the financial services field.
They operate as private companies at the heart of three central partnerships: entrepreneurs, banks and public authorities.
They directly or indirectly federate the interests of SMEs into a mutually minded company society and give entrepreneurs an opportunity of participating in management bodies by contributing good decision making with their professional experience.

The Public Guarantee Funds have been created under the financial umbrella of the States or the Regional Authorities as guarantee tools taking their place in the panoply of political measures in favour of SMEs.
They are either public services without legal personality (guarantee programmes) or commercial public-law companies acting as players in the market (Guarantee Funds).

These definitions, taken at the two extreme ends of the scale, should not obscure the many **intermediary situations of public/private co-operation,** including partnerships in capital, financial support to provision funds, subsidiation of the guarantee premium, counter-guarantee programmes or the subsidisation of the guarantee commission.

All Guarantee Societies, as financial intermediaries, pursue an identical aim with various management tools : to encourage access to business credits for the viable projects of small and medium-sized enterprises when the latter do not benefit from the desired securities wanted by credit providers for the construction of a stable long-term banking relationship.

According to the historical context of their foundation, the national legal and regulatory environments, the local structure of the financial sector... various models of guarantee schemes, form diversified, modern and efficient tools at the service of SMEs in a changing environment.

2. The Guarantee Society Roles

On their SME aspect, Guarantee Societies are on the permanent lookout for a better partnership with Trade Federations, with Chambers of Commerce, or with the entrepreneurs themselves.

They deal with all economic sectors, with certain main targets:

- By their guarantees, they procure better access for small companies to external financial means used for handling their needs of funding, against very modest premiums.
- When analysing the risk, they take account of the intangible and qualitative aspects of the application (the entrepreneurs' experience, training and skill, the commercial and technical value of their project, its prospects, and so on).
- They add to this information from the field about the sector, the competition, the foreseeable developments in terms of technology or marketing, and so on.
- They reconcile the language of the entrepreneur with the banker's financial jargon to enable each to gain a better understanding of the other's intentions.
- They stimulate initiative and entrepreneurship by positive assistance and a professional environment: advice and supervision in financial matters.
- They look for an appropriate financial structure for the company and attractive credit conditions (rate, period, exemption period…)

On their "Financial System" aspect, Guarantee Societies are more oriented towards specialist banks in the SME niche sector, and also towards the European Financial Institutions.

- They contribute to the preparation of a solid, made-to-measure financial dossier whereas currently, the main trend is one of seeking efficiency and productivity by simple, standardised credit procedures.
- They enable the bank's SME clientele to be enlarged, by reducing the chances of an adverse selection.
- Their qualitative appreciation criteria of the project complete the banker's approach, which is often more financial and more quantitative.
- They externalise credit risk beyond the perimeter of the bank's financial responsibility (transfer of a part of the loss credit to the Guarantee Society in case of default).
- They seek counter-guarantee mechanisms that divide the risk of loss, thus stimulating more audacious commitments.
- When the Guarantee Societies are themselves credit institutions or public agencies, they can reduce the weight of the Capital Adequacy Ratio[15] of the credit portfolios and thus provide a leverage for the expansion of the bank's balance sheet.

[15] Banks must have at least €8 of equity to sustain €100 of assets weighted according to their credit risk and their operational risk.

3. Guarantee Society Market Positioning

With the proviso that the business project is sustainable in the market, here is an overview of business situations where the guarantee is used to the full.
Six families of criteria have been considered in the table below:

- **Sector:** all sectors should be eligible for guarantees. Nevertheless, some of them benefit from sectorial specialisation.
  For example, agriculture and the rural economy often form a particular target.
  Or indeed there are exclusions/limitations, due to national policies (personal care, insurance and financial services, sometimes the real-estate sector…) or due to European competition policies (transport, fishing, coal, steel, etc…)

- **Entreprise Life Curve:** the support of the guarantee is linked to a less evident probability of success of certain segments of the normal life curve (business start-ups, rapid turnover growth, financial reorganisations or management changes…) or to the non-availability of track records (less than 3 years of existence).

- **Company Size**: the self-employed are clearly faced with possible personal risks ; micro-businesses have management rules that appeared to be insufficiently clear and overly linked to the owner/manager's personality; unbalanced situations with small organisations supporting large volumes of assets are also considered to be vulnerable.

- **Technology:** situations in which firms have to engage in new technological processes or overcome challenges of innovation are considered with suspicion.
  Intangible assets do not in themselves offer any cover to the lender.

- **Credit Purpose**: investment is always synonymous with a change of environment. The more difficult situations are business start-ups (global projects in which there is no certitude as to the optimal amount to be invested and the amount liquidity to be re-serviced), investments creating a "sudden jump" in the volume of tangible and intangible assets and a heightened need for working capital, research investments (financing of costs which are activated as intangible assets while awaiting to be depreciated against new and at times uncertain revenues), and the financing of pure and simple liquidity needs.

- **Loan Collateral Securities** : crucial situations are those where assets without real resale value in the market are offered to the lender or where existing assets are already pledged as collateral for other commitments.
  A source of frustration is the estimation of their value : the banker will always consider their value when there is recourse in a distress situation (sale when insolvent or under legal protection…), whereas the entrepreneur will consider their current market value or their current contribution to profitability.

SECTOR	LIFE CURVE	COMPANY SIZE	TECHNO-LOGY	CREDIT PURPOSE	CREDIT SECURITIES
Retail trade	Idea/no history	Self-employed	Traditional technology	Global start-up programme	Not guaranteed
Services	Start-up/ no history	Micro-business (1-9 Jobs)	Mature technology	Replacement/ renewal of fixed assets	Partially guaranteed by personal pledges
Professions	Slow growth	Small company + low turnover	Technology new for the firm	Expansion by additional assets	Guarantees on intangible assets
Construction	Rapid growth	Small company (10 - 49) and average turnover	High tech innovation	Conquest by new market / products	Guarantee < 50% on equipment and property
Craftsman-ship	Succession and takeover	Medium sized enterprise (10-250), and average turnover	Research process	Specific liquidity needs	Guarantee > 70% on equipment and property assets
Industry	Distress	Medium-sized enterprise and high turnover		Research and innovation	Complete securities

One could add other situations to this table where the guarantee proves its full value:

- **<u>High Indebtedness:</u>** the financial ratios of "equity/total assets" or "equity/debts of more than a year" are to be stored among the key elements of the financial toolbox. Sometimes, a minimum of 30% of equity is required for financing a project. On the other hand, Guarantee Societies will often come under this threshold and mature systems will go to a minimum of less than 10%.

- **<u>Personal Qualifications and Local Situations:</u>** The Guarantee Societies, especially if their Commitment Committee is composed of entrepreneurs, will probably give greater consideration to personal success factors or to local market situations.

- **<u>Long-Term Strength Of Company/Bank Relations</u>** : it can happen that credits are accepted by the banker, however with reluctance. Granting credit does not represent a strong relationship of confidence but an "OK, let's give it a try". As soon as the situation deteriorates, the banker will cut the cord and try to recover his money. If, on the contrary, an external guarantor reinforces the situation, there are better chances that the company will manage to stabilise its banking relationship, in a context of transitory weakness.

- **Obtaining Better Credit Conditions:** the recourse to a Guarantee Society can also provide a path to better loan conditions. In powerful guarantee systems, the Guarantee Society negotiates good credit conditions : right type of credit (term credit, overdraft), adapted duration, favourable interest rates and posibly, a grace period before repayment installments.

4. Imperatives of a successful SME financial policy

1. Mutuality From The Aspect Of A World Economy

Globalisation has placed the economy in the iron grip of capitalism. It focuses on the profit objective and dividend, obtained not only from profitable production but also from capital gains. Even at the detriment of a high social cost or a widening of the inequality gap, or the suppression of the role of public authority	*Guarantee Systems provide an answer, which, without denying the values of the private enterprise (profitability, initiative, and freedom) adds an aspect of solidarity, without removing responsibility.* *Private and public systems can entertain joint actions of co- or counter-guarantee, an excellent complementarity to create a leverage effect without burdening mechanisms.*

2. No Money Given For Lost Equity…

Our Societies advocate measures for SMEs that create a propitious environment for risk-taking and investment rather than measures for distributing financial aid. "Less subsidies paid, more revolving support", would be the principle. The business project must always be in keeping with the market reality, in such a way that its medium- to long-term viability can be reasonably assumed.	*Contrarily to "one shot" subsidiers, Guarantee Systems use their funds on a revolving way. They cover viable investments financed by credits, repayable over an agreed programme. Their equity is only affected by the failure of projects that entail indemnification of the guaranteed financier.* *Losses do not dispense failed entrepreneurs from contributing, within the limits of their means, to the repayment of the guaranteed credits. The system does not remove responsibility.*

3. Efficient Distribution Channels In Support of SMEs

Our Societies would like public policies to rely on existing channels giving direct access to businesses without having to incur the additional cost of information and the complication of having to create new paths of access to businesses.	*Guarantee Systems are appropriate action and information vehicles : they are well established and present at a regional level close to companies; without sector exclusion, they are close to other financial operators; they are consulted at the precise moment when companies are looking for a financial relay.*

4. Bringing The Investment and Funding Decision Points Closer

Several developments are tending to distance financial head offices where financial decisions are made from the places where the SMEs plan their investments.

In the end, this risks insulating the projects and solutions from each other even more.

The know-how of the Guarantee Systems results from a context of proximity, from their knowledge of the people and the field, which ensures genuine added value for their decisions, anchored in regional, even local, contexts. Even those that are founded on a national base seek to follow a decentralised structure model. The proximity of the investment and funding head offices can only be to the SMEs' advantage.

5. Considering SME Investment As An Overall Project

Measures of financial support should accumulate the particular advantages of the various funding techniques.
However, today's political messages are placing heavy emphasis on venture capital, to the detriment of loan finance.
In the practice, an SME has an overall expenditure programme that is tied to its project : creating a business, taking over business assets, acquiring a controlling capital majority, exporting, expanding, innovating… Each operation involves investment needs and working capital.
It is not enlightened for each contributor to the funding to provide a partial contribution according to his own financial arsenal without the coherence of the whole being validated.

Guarantee Systems will commit to a project that has been comprehensively examined, based on
- the qualities of the entrepreneur, his training and his personal experience
- the project's overall, balanced investment and funding programme, and its micro-economic aim
- the financial structure where the weight of indebtment is tempered, but where the solidity of the working capital is essential
- a profitability enabling the existing and requested loan to be serviced (recourse to prospects is not infrequent)
- local market data,including an appreciation of the technology, the competition, etc
Their endorsement is entirely in keeping with the market criteria, directed to bank loans, leasing, or, increasingly, venture capital.

6. Focusing Financial Action On The Company's Key Moments

Recent tendencies observed in the mirror American market have led to a preference for the new economy, created by companies in the information and knowledge sector.
Without denying the need for the emergence of the quaternary economy, the Guarantee Societies have no desire to create a scale of value low-tech or high-tech

Guarantee Systems consider the problem of a company by placing less emphasis on its economic sector than on its particular phase on the entreprise's life curve.The position of the company on this curve enables an appreciation of the type of risks that it runs, the scale and type of financial products that it needs.
Guarantees are essential at key moments:

companies. They offer a different angle of vision of companies that is not based on a sectoral approach.	*creation, second investment round and sale/take-over, as well as crisis periods stemming from accidents, launching export drives or innovation..*

7. Accompanying SMEs With Pre- and Post-Investment Advice

Many tutoring measures are implemented at the very moment of the investment decision making. Many advisers formulate the battle plan… But, the entrepreneur, the active combatant must still be given the tools for taking stock when his many daily tasks remove him from the general, controlled and oriented supervision that constitutes genuine management.	*Guarantee Systems offer to accompany a just started-up company or a company having crossed a growth threshold.* *Many of them offer an accompaniement, dialogue instruments that are simple, drafted in an understandable language, constituting a "tool box" for immediate use.* *The entrepreneur is expected to do the supervision work himself, but he can call for support that will be given between partners.*

5. Guarantee Society Management Criteria

- In the first place one must recognise the need of a serious and effective prudential control environment: the relationship between the Guarantee Society and the bankers who install a portfolio guarantee up to 10 times the amount of the own funds will only inspire confidence if the guarantor's management is solidly supervised by rules that attest to the health of its portfolio, the monitoring of risks by adequate provisions and the permanent availability of the means of payment in cash.

- Sufficient Capitalisation. An sufficient amount of equity has various uses:
  - To give sufficient extension of the portfolio, and herewith to create a good diversification of the risks
  - To heighten the level of confidence in the guarantee institutions
  - To enhance the activity' professionalism with, if need be, consultancy and advice assignments
  - To establish the breakeven point at a high volume of activity that allows to hire sufficient numbers of qualified staff
  - To reduce sensitivity to loss, providing a safer financial cushion
  - To add financial income to the P&L Account, via revenue on the invested capital.

- Attitude To Profit. Guarantee Societies are profit-orientated commercial companies. Hence the need to set the level of income at a threshold that would adequately cover operational expenses and foreseeable losses. Nevertheless the attitude of the shareholders vis-à-vis the use of the profit has to be clear: no distribution. The profit must enable growth of the general provisions, growth of the reserves and retained earnings, and by means of accrued equity, growth of the activity itself.

- Risk-Sharing Principle. A well-run Guarantee Society achieves an equitable share of risk with the provider of the credit. It does not provide complete cover of the credit. On the contrary, it enters into partnership with a sufficient percentage of protection to give the SME a lever of access to credit, without creating for the banker a policy rendered imprudent by the removal of its financial responsibility.
  Similarly, the Guarantee Society's intervention does not exonerate the borrower from the final responsibility of his or her obligations. In the event of loss, the entrepreneur who has had the support of the guarantee remains obligated to repayment, even for the part of the loss that has been beared by his or her guarantor. This involves subtle mechanisms of "non-solidarity" with the debtor and with the other private persons who accepted to share the credit-risk with the main borrower.
  Downsream the Guarantee Society, risk-sharing boils down to "re-insurance" by public partners or international organisations.

- Added Value In The Decision. The essential difference between a Guarantee Society and a guarantee programme resides in the decision-making taken by each partner for the credit application. A guarantee programme, such as SBA in the United States or BBMKB in The Netherlands, delegates the decision to the banker, without the guarantor's knowledge of the conditions of the commitment. This system demands a 100% guarantor covered by the State, a great maturity of the user banking system and a distribution of quotas per user in an annual budget.
  The essential added value in Guarantee Societies resides in the presence of entrepreneur representatives, on the commitment committees, bringing to them a different vision from that of the bankers.
  Finally, in all cases, the Guarantee Society should not create additional bureaucracy by the requirements of a particular dossier and by complexities of examination.

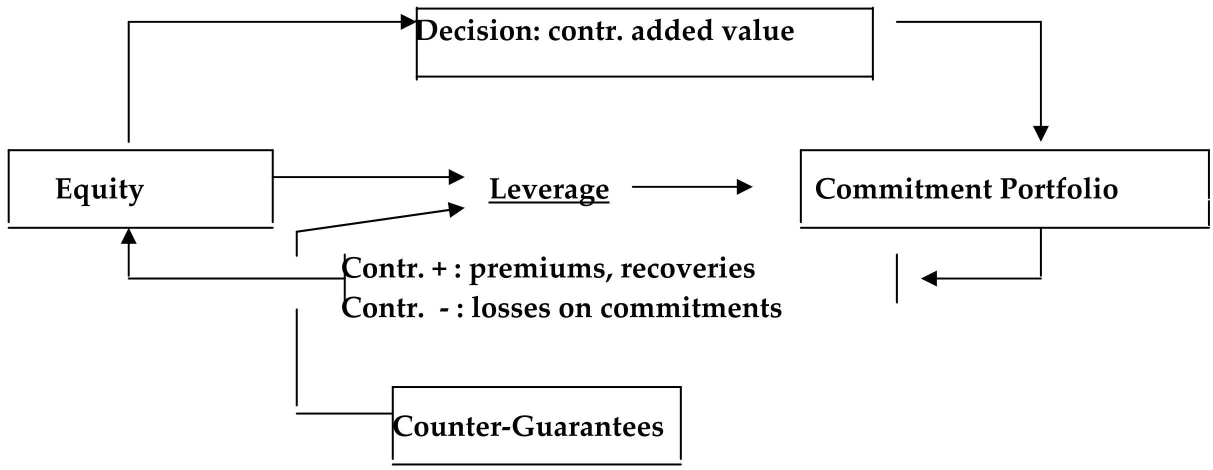
- Rigorous Management Of The Outstanding. This involves verification of the lever between the equity and the commitment portfolio ,a measure of the portfolios granularity and an appropriate accounting system.
  The management also requires the classification of each individual exposure in an account category in order to obtain qualitative collection of pools : using rating scales where the risks are positioned and updated.
  Finally, provision accounts will be posted with amounts that take account of this quality, going from low general provisions on a healthy portfolio to individualised provisions that are adequate for doubtful commitments.

- Loss Management. Risk management requires that the banker should supervise the credit, with a rapid, good-quality reporting system to the guarantor.
  In the event of loss, the payment will be made at the opportune time, without waiting for the end of the legal recourse period against the other credit collaterals. However, being unaware of what will be finally recovered, the payment will be made on a provisional basis before the final adjustment to the procedure of recoveries.

An essential question is the possibility for the guarantor to withdraw its cover in case of a fault characterised in the management of the account by the banker (revocable guarantees).
Lastly, after the final payment, if the guarantor is subrogated into the rights of the credit provider, it will be incumbent upon it to make sure that, after the default payment, it obtains recovery that will attenuate the loss.

- Contract Transparency And Clarity. All these procedures are only effective and incontestable if the contract between the guarantor and the banker is clear, explicit and incontestable.
  The difficulty resides in definition the key moments of the contract. What is a default? A loss? When to pay? Who will benefit from any recovery?
  The information management system embodies the terms of the contract.

- Summary: the following diagram summarises the mechanisms and highlights the interconnection between the management variables.



6. Guarantee Society Operational Process

Guarantee Societies are midway between credit supply and demand. What are the operating modes of this relationship?

The most common routing of the application (Diagram 1) is its presentation to the banker, for a feasibility decision that identifies its good value but its unacceptability by the bank because of insufficient guarantees or a certain fragility of the dossier. The bank then consults the guarantee organisation, which offers its protection. On the strength of that commitment, the bank can grant the loan.

Another approach, (Diagram 2), which is less customary, is consultation with the Guarantee Society in the first instance. In possession of the guarantee, the customer can then contact the lender. This diagram, frequent in Italy and constant in Spain, is also practised in Germany in the "Bürgschaft ohne Bank" mechanism.

In both cases, the eventual public support (subsidisation of the premium or counter-guarantee) is part of the operational process, without being part of the decision-making circuit.

Diagram 1.

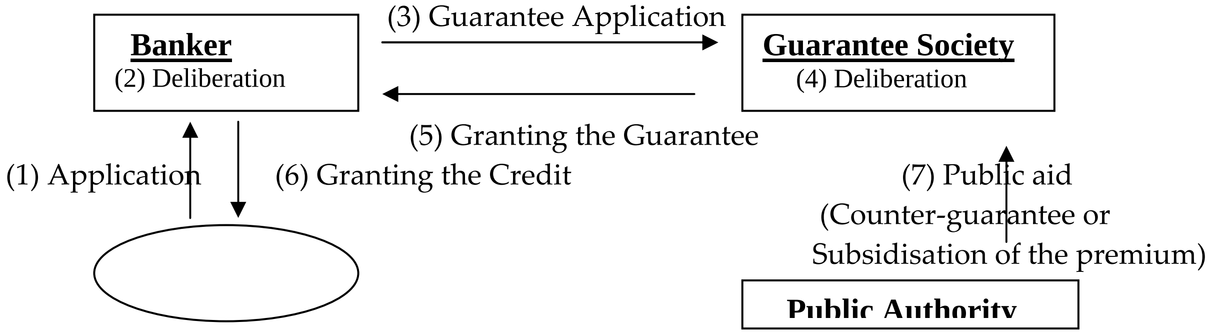
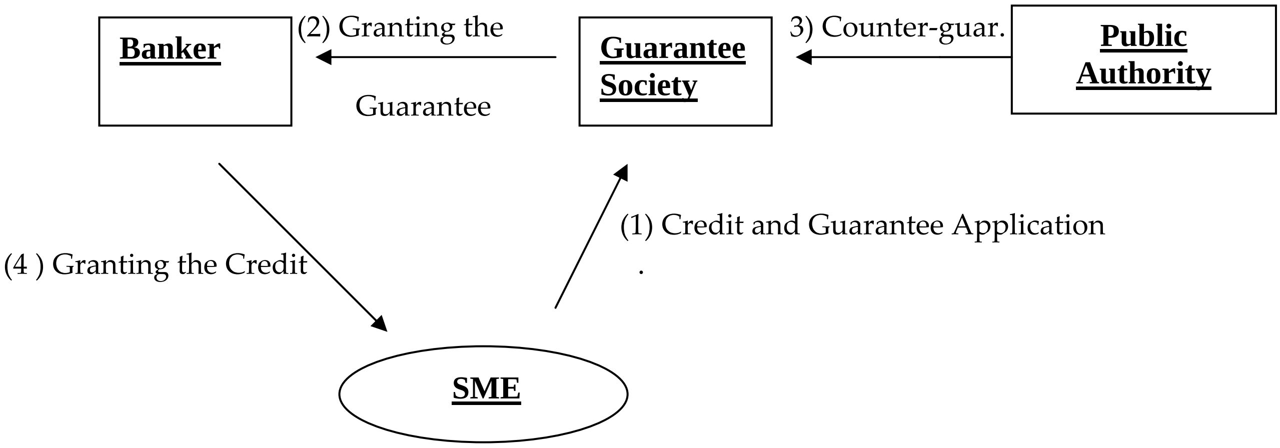


Diagram 2.



Chapter IV

THE EUROPEAN GUARANTEE SOCIETIES

A Brief Presentation Of The AECM Members

This chapter gives a horizontal summary presentation of the members of the European Mutual Guarantee Association. These are thus all the member countries and their societies that will be reviewed from the view point of their creation, their legal structure, their market, and their operation.

Guarantee Societies

Profile 1 : Verband des Bürgschaftsbanken, Germany
Profile 2 : Austrian Wirtschaftsservice, Austria
Profile 3 : Kreditgarantiegesellschaften, Austria
Profile 4 : Cautions Mutuelles / Onderlinge Borgstellingskassen, Belgium
Profile 5 : Sowalfin, Belgium
Profile 6 : Kredex, Estonia
Profile 7 : CESGAR, Sociedades de Garantia Reciproca, Spain
Profile 8 : Finnvera, Finland
Profile 9 : Socama, France
Profile 10 : SIAGI, France
Record 11 : Hitelgarancia, Hungary
Record 12 : AVHGA, Hungary
Profile 13 : Confidis, Italy
Profile 14 : Invega, Lituania
Profile 15 : Rural Loan Guarantee Fund, Lithuania
Profile 16 : SPGM, MGS, Portugal
Profile 17 : Cesko Moravska Zarucni a Rosvojova Banka, Czech
Profile 18 : Slovenská Zárucná a Rosvojová Banka, Slovakia
Profile 19 : Rural Credit Guarantee Fund, Rumania
Profile 20 : Romanian Loan Guarantee Fund for Private Entrepreneurs, Rumania
Profile 21 : TESKOMB, Turkey
Profile 22 : Kredit Garanti Fonu, Turkey

Financial Institutions and Guarantee Society Protectors

Profile 23 : Banque Fédérale des Banques Populaires, France
Profile 24 : IAPMEI, Portugal
Profile 25 : Hungarian Foundation for Enterprise Development, Hungary

PROFILE 1

BÜRGSCHAFTSBANKEN - GERMANY

- There are 24 guarantee banks in Germany forming a network that is co-ordinated by the Verband, in Bonn. This network was formed from 1949 to 1955 with the aim of encouraging post-war reconstruction and industrial redeployment by SMEs. A second wave was the reunification of Germany: new guarantee banks were founded in the former East Germany to stimulate private initiative there.

- The Bürgschaftsbanken are GmbH companies with a banking status. They are owned by financial institutions (Banks, Saving Banks, Insurance Companies…) and by SME organisations (Chambers of Craft and Industry) that have accepted to work on a non-profit basis in support of SMEs.

- The Bürgschaftsbanken are oriented towards all branches of industry, but they have a sustained interest in the creation of new companies, which accounts for nearly half of their portfolio. They work across the entire country: each Land has its own Bürgschaftsbank, since the restructuration of the Eighties.
  They support investment, working capital, company relocation and financial restructuration. 44,000 SMEs are their beneficiaries.
  They have no specific product: the Credit Committee, on the basis of a dossier sent by the Hausbank, examines each application on merit.
  Nevertheless, an experiment is underway of "Bürsgschaft ohne Bank", by which the company can address the Guarantee Bank to obtain a guarantee bond before finding a lending bank.

- The German financial system is one of the most powerful in Europe, with commercial banks, federative banks and public banks. The beneficiary banks look for three reinforcements in the guarantee;
  - The sectorial expertise of the guarantee banks
  - A substantial reduction of their risk
  - A lightening of the prudential ratio, the Risk Asset Ratio.

- The Bürgschaftsbanken cover up to 80% to the credit risk (average between 50 and 80%) and offer very low commission rates (from 1.6% for a first operation to 0.8% for the following, average 1% p.a.). There is also a commission for examining the application (0.75%). The guarantee can last 15 years (average 10 years).
  This very favourable policy is linked to the good support received from the Public Authorities :Central State (Bund) and Regional States (Länder). The support consists of counter-guarantees and certain tax advantages (exemption from corporation tax).

- The guarantee banks are capitalised to the extent of €280M and cover a guarantee portfolio of €5,100M. The lever is 18 x.

PROFILE 2

AUSTRIA WIRTSCHAFTSSERVICE - AUSTRIA

- Austria Wirtschaftsservice GmbH is the result of the merger of several public institutions in November 2001.
  Among these, FGG, a guarantee institution for large companies, and Bürges Förderung, a guarantee institution for SMEs.
  The "Bürges Förderung" fraction had been created in 1954 to accelerate the development of the post-war economy by supporting SME investment through guarantees and the distribution of public subsidies.

  AWS does not have a banking status and is controlled as a public company. AWS has also support missions for the creation of Guarantee Societies abroad. It has contributed its aid for example to the foundation of Guarantee Societies in the Czech Republic, Slovenia … In 2003, it pursued projects in Russia and Saudi Arabia.

- As far as its market is concerned AWSG's most important characteristic is the segmentation of its targets by specific programmes:
  - The investment guarantee
  - The saving programme for future "Young Entrepreneurs", with the Chambers of Commerce
  - The internationalisation of Austrian companies
  - The venture capital guarantee
  - The innovation guarantee

  Another product is the guarantee of a maximum interest rate (Interest Rate Cap), which, in the current economic circumstances, is less meaningful because of the lower level of interest rates. This offers security for investors.

- AWS works with all the Austrian banks from a single head office: it has no regional network. On the other hand, there are, as companies independent of AWS, Guarantee Societies that work in consideration of regional needs. The Austrian banking system is extremely developed and the entire economy is SME-oriented, especially in key sectors such as tourism.

- The size of guarantee per operation of the "Bürges Department" is very dependant on each programme. The guarantee premium, which is linked to the extend of the risk of the applications is also variable. The theoretical guarantee is over 10 years and for a maximum of €2M.

- A public company, AWSG benefits from State support and especially from a share of the losses on interests beared by the funds of the ERP company.

- In 2001 the "Bürges Förderung" statistical data was: equity €66M and portfolio €430M.

PROFILE 3

KREDITGARANTIEGESELLSCHAFTEN - AUSTRIA

- The Austrian economic system attaches great importance to the SME, which is the foundation of the entrepreneurial base in numerous sectors, especially industry and the hotel business, not to mention the usual sectors of trade and service.

- In the overall design of the creation of the Austrian guarantee system, alongside the KGG (Kreditgarantiegesellschaft 1977), in charge of the large companies and the Bürges Förderung (1954), which manage SME programmes at the national level, a place has been reserved for the Bürgschaftsgesellschaften (Credit Guarantee Societies) for a sub-regional role, in closer contact with a region's particularities. The programme has not been completed because certain regions have not been equipped with the facility while it was established in Lower Austria, Upper Austria, the Vienna Region, Salzburg and the Tyrol.

- The following are AECM members at this time, as representatives of the private regional facility:

    - Oberösterreichische Kreditgarantiegesellschaft, in Linz
    - Niederösterreichische Kreditgarantiegesellschaft, in Vienna.

- The societies are limited companies (GmbH) that have banking supervision, in such a way as to serve the banks in two respects: the partial cover of portfolios and the reduction of the need for capital, under the rules of Basel 1. They are interested in pursuing this double service when the Basel 2 rules come into force.

- The societies are owned by and have close relations with the banks (7 banks for NÖKBG) and the Chambers of Commerce.

- They issue guarantees for diverse operations: working capital, equipment and real estate investment, and intangible investments. The maximum guarantee is 80% of the principal amount of the loans, but only 20% on the interests and charges that compose the outstanding of defaulting credits.

- As they benefit from protection of their losses by counter-guarantee, they can practise advantageous guarantee rates, which do not exceed 0.5 to 1% as annual premiums and 0.5% as commission for examining the dossier. The duration of the operations goes from 5 to 10 years, in concordance with the economic logic of the underlying investments.

- The operations have a limited size.

PROFILE 4

CAUTIONS MUTUELLES - BELGIUM

- This is an older system, composed of mutualist-type co-operative societies (the beneficiary entrepreneurs are the shareholders). It was in difficulty as from 1996:
  - By the loss of the supervisory trusteeship of the public bank, which was nationalised
  - By the menace that public counter-guarantees should be lost in Wallonia.

  The system had to find another supervision model. Several MGS have been merged with their reference banks or have merged between themselves.

- Currently the system is in a restructuration phase. There will be four 4 societies remaining in 2004.

- The MGS are focused on very small companies, from all sectors. They have a very local/regional field of operations. They bring their knowledge of local situations to the banks and enhance the professionalism of the project and the competence of the applicant.

- The MGSs work especially with the banks of a specialist network, but they are also open to other private banks in collaboration with the public guarantee funds (SOWALFIN in Wallonia). Under conditions, they are automatically guaranteed to the level of 50% without any formality.

- The credit market for SMEs in Belgium is very open and competitive: the MGS must really provide a "plus" for the bank, which otherwise will do without their intervention.

- Their rates must also be very low: with less than 1% p.a. on the outstanding guarantee amount and protecting medium- to long-term credits, the guarantee premium does not cover gross losses. The MGS nevertheless enjoy positive profitability because
  - As with the former system, there is good capitalisation and therefore good financial income
  - They are active in post-default recoveries of their losses, even several years after the "defaulting"
  - The overheads are very low and the Board of Directors is almost honorary.

- The MGSs in general cover 75% of the credit for its entire duration but they also have, in Flanders, a system of covering a part of the credit maturity. This increases their risk, but reduces the amount of the commission.

- Statistics: with €17M of capital, the Belgian MGSs were covering about €48M of commitment at 31/12/2001.

PROFILE 5

SOWALFIN - BELGIUM

- Public Guarantee Funds in Belgium have a long history: the National Fund was created in 1959 and, with the evolution of the institutional landscape, greater and greater emphasis was placed on "regionalising" economic policy.
  There are today three Regional Funds, and here we are concentrating on Sowalfin, the Walloon Fund, an AECM Member.

- Sowalfin is called the copula of the SMEs : it is a so called “one stop shop” created by decree by the Walloon Government on 11 of July 2002. It combines the activities of
  - Monitoring of the sub-regional Investment Holdings (financial organisations combining private and public capital with European structural funds to provide venture capital and mezzanine credit for SMEs)
  - Granting SME loans complementary to the banking sector
  - Granting direct guarantees and counter-guarantees to Mutual Guarantee Societies.

- Its capital is €36M, held by the Regional Government,. The guarantee is a delegated mission of the region in such a way as it is the latter that is responsible in the last resort for losses up to €500M resulting from the commitments.
  However, the government is not the operator and has created a well-defined perimeter of responsibilities entrusted to A Board of Directors, working within the constraints of market laws.
  Sowalfin started work in October 2002, thus taking over the commitments of the guarantee organisations that had preceded it.

- Sowalfin works with all the Belgian banks that make an application to it on the basis of a precise contract that lays down each party rights and obligations.
  It is interested in the entire SME market, within the European definition: in Wallonia, there are 72,000 SMEs, 59,200 of which employ less than 10 people.
  All are eligible for the guarantee with the exception of some sectors, among which those excluded by European regulations.

- Its guarantee at most covers 75% of the credits, with a ceiling of €2.5M.
  It is subsidiary to the collateral given by the entrepreneur: it is therefore a question of a system of loss-sharing.
  On the same principle, automatic re-insurance is organised for the Mutual Guarantee Societies that work on smaller dossiers and are 50% reinsured.

- The cost of the guarantee is 1% p.a. calculated on successive annual outstanding amounts but paid in totality as soon as the cover agreement comes into effect.

PROFILE 6

KREDEX ESTONIA

- As in many economies in transition, financial resources were rare and costly after the country's independence in 1991. The State established various supports for companies and conducted a liberal economic policy, based on privatisation and the ability to attract foreign investors.
  In 2000, the State re-evaluated the situation and simplified its support institutions. It was in this context that KredEx was born (Estonian Credit and Export Guarantee Fund), founded by the State with three principal missions based on the guarantee system:
  - Developing SMEs
  - Export growth
  - Housing for young families

  The basic capital of €15.5M has been topped up by a PHARE grant from the European Union (€700,000).

- For SMEs, the main objectives are financing start-ups and growing companies by guaranteeing investment and working capital. The maximum guarantee is 75% of the loan with a ceiling of €450,000 per customer.
  KredEx would like to specialise its operations and offer particular products for micro credits, leasing and venture capital, over an above export, as already mentioned.
  The commission rate goes from 1.5 to 3% p.a. on the outstanding.

- It is most interesting to note that, although KredEx is a public institution, the Committee that decides the guarantees is composed of two representatives of the State, two of SMEs (including the Chamber of Commerce and Industry) and two of the banks. Furthermore the Managing Director takes part in the deliberation.
  It is therefore a very professional Committee and the voices of all parties are heard.

- KredEx works with all the Estonian banks, in a very concentrated sector that is in the hand of foreign groups, mainly Swedish and Finnish. KredEx has made particular marketing efforts to have its mission known and understood and to create confidence in its ambitions. The market response has been rapid and favourable.

- KredEx started its activity in March 2001. By the end of 2002, €43.3M had been granted, of which €14.7M are still in portfolio, in view of the number of short- term engagements.
  KredEx will be making a rapid growth and cares in attracting complementary financial means that will enable it to cope with the increase of applications from a dynamic market.

PROFILE 7

SOCIEDADES DE GARANCIA RECIPROCA - SPAIN

- The network of 21 regional companies has been associated into its union body, CESGAR. It covers the all country with a lesser presence in Catalonia. The SGR were created in about 1979, after Spain's entry into the European Union had initiated an economic policy of openness and productivity.

  The companies have a particular legal form that meets the legal definition of the SGR : it is a mutualist system with participating associates (60,000 SME members and beneficiaries, 55% of the equity) and protector associates (autonomous Regions and other public powers : 29% of the capital – finance companies : 12% of the capital and SME bodies, Chambers of Commerce : 4% of the capital). The SGR are controlled like banks.

- The SGR address all SME sectors: industry: 33% - services: 33% - commerce: 16% - construction: 15%. Unlike other Guarantee Societies, the SME contact the SGR directly to obtain 100% guarantees on their credit needs. They give their own collateral to the SGR (35% of the commitments are counter-guaranteed by real securities). They receive financial advice in order to obtain optimal funding. Armed with guarantees and advice, they then turn to the lending bank. 80% of the guarantees are for less than €60,000. 48% of them are for a period of more than 8 years. The SGR also give many "good performance guarantees" and "good contract fulfilment guarantees".

- The Spanish system is the most developed and the best thought out, the result of a long legislative process from 1979 to 1998. After ineffective legislation giving a public counter-guarantee in the case of SGR insolvency that was not operational, the law has organised a very complete system with:

  - Tax advantages (constitution of tax free provisions)
  - Premium grants by the Autonomous Regions for certain programmes (women entrepreneurs, for example)
  - A public counter-guarantee run by the CERSA companies since 1994: 30 to 70% of the losses (33% on average at end 2002) are borne by CERSA, according to the political sensitivity of the programmes (higher for innovation or young entrepreneurs). The premium paid for the counter-guarantee depends on the quality of each SGR's portfolio: a poor portfolio is penalised by a higher commission.
  - Certain counter-guarantees are given by the Autonomous Regions.

- Statistics: the Spanish system is enjoying strong growth: + 16% in 2001, + 11.5% in 2002. The equity of the 21 companies amounts to €304M and guarantees a portfolio of €2,210M. The lever is 7 x.

PROFILE 8

FINNVERA plc - FINLAND

- FINNVERA is a state owned public limited Company which is the result of the merger of the Finnish Guarantee Board, created in 1963, and the loan company KERA, with the public mission of facilitating SME access to funding. It is a development bank (with micro credits representing 90% of this market, loan guarantees to SMEs, export guarantees, also for the large companies). Finnvera addresses the needs of SMEs via a network of 16 regional offices.
  Under the control of the State, Finnvera does not have banking status, but the company's management wants to follow the banking indicators of solvency as sound, desirable management criteria.

- Finnvera, for its guarantee activity, addresses all SMEs of all sectors of the domestic market. There are 22,300 micro-business customers, of which +/- 5,500 are provided with guarantees. The average guarantee for small companies is €24,000.
  Finland was known for having a fairly low entrepreneurial spirit and the role of the public authorities was to stimulate the creation and development of companies. The challenge was further characterised by regional development needs in the rural areas in the outlying regions of the country.

- Finnvera works with the entire Finnish banking network (330 banks and 1,500 agencies). Its financial role was marked by the financial crisis of 1993, which made the banks very wary of commercial and industrial risks. There is therefore a strong additionally of guarantee for the banking system.

- The guarantee, at Finnvera, responds to an economic calculation on a case-by-case basis and not to the application of standard model. The aim is:
  - To share the risk fifty-fifty (maximum 75%) with the lender. FINNVERA takes counter-collaterals on the customer, generally less strong than the securities from which the bank benefits.
  - To calculate the premium on the basis of the risk of default of each case. There are more than 100 business analysts at FINNVERA, located in the regional offices. The commission therefore depends on the risk, which is modelled in a rating system (from 1 to 4%/average 2%). There are annual administrative costs (+/- 0.9%) and an examination commission of 0.4%. The portfolio contains a large number of short-term guarantees.

- In order to stimulate Finnvera, the State partially compensates losses (from 40 to 65% according to whether SME is in a assisted or non-assisted region). Europe (Structural Funds, EIF) has also supported various action programmes.
  Finnvera's equity of €330 sustains its various programmes, including domestic guarantees for SMEs to the tune of €491M.

PROFILE 9

SOCAMA - FRANCE

- The SOCAMA are a system of 42 mutual co-operative societies whose origin dates back to 1917. Their members (280,000 at the end of 2002) and their Directors of Boards are entrepreneurs who have to buy a share of the capital in order to benefit from SOCAMA's services. The Boards who are responsible for these funds manage them prudently and responsively because the co-operator can demand the repayment of his shares at the end of his credit. At the 2001 Annual Congress in Deauville, the SOCAMA embarked upon a refoundation operation in order to integrate businessmen better into the functioning of their companies, to increase their interest therein and to become the true contact base for the Banques Populaires in this market.

- They are craftsman-oriented. They process 25% of the credits intended for this sector, within average commitment per dossier of €21,000. Many small operations - investments (79% of dossiers and 61% of the amounts) and take-overs (15% of the dossiers and 31% of the amounts)- which gives security to the portfolio.

- The SOCAMA are connected with the Banques Populaires network (AECM Associate Member) the largest French bank group for SMEs. They work exclusively with them and consolidate their balance sheets for the calculation of their prudential equity. They legally have a bank status.

- The credit market in France has become far more open during these last ten years and several banking groups have embarked upon struggles of conquest. The SOCAMA have been creative in their products and their activity. Today, they do not want to lose their element of proximity, but some financial reinforcement: mergers are possible in the years ahead, while maintaining local decision- making committees by and for craftsmen.

- Their guarantee covers from 80 to 100% of the credit. The guarantees on the credit applicant (often very light) are taken for the benefit of the bank and the SOCAMA. Many Banques Populaires enrich the SOCAMA loans by a write-down of interest going from 0.25 to 0.80%.

- The guarantee rates are low: there is the co-operator capital share (+/- €15, repayable), the participation of the Common Guarantee Funds (repayable) and the annual management fee.

- With €70M of equity, the SOCAMA had, end 2001, a portfolio of €1,445M in guarantees. The leverage of 21 x is high and the system has no public counter-guarantees.

PROFILE 10

SIAGI - FRANCE

- The SIAGI is a nationwide company, constituted in the form of a business company with variable capital (Act of 17 November 1943). After a first initiative in 1953, SIAGI was created in 1966 by the Chamber of Trades and its capital is entirely owned by the latter. Its Board of Directors is composed of 24 Chairmen of the Chambers of Trades. According to French legislation, SIAGI has a bank status and is, as such, subject to the law controlling credit institutions.

- SIAGI has 100 employees and 6 regional offices with 28 regional seats. It positions itself as a "neighbourhood expert".

- SIAGI partners are small sized businesses of craftsmanship (+/- 48%) and commerce (+/- 45%). Its main market is the company take-over market (60% in 2002), development (29%) and creation (11%). By sector, it is above all the service industry, food (bakery, butchery…), building and small industry that make up its portfolio. Many small operations that came in variety of forms with particular products:
  - SIAGNOSTIC is a risk prevention tool and an instrument of monitoring and advice for the entreprise: the beneficiary of a guarantee receives the possibility of obtaining management advice and support for a banking recourse in the event of possible difficulties.
  - CARE 2001, a guarantee product enabling the nearest and dearest of the entrepreneurs, often solicited to give their personal guarantees for credits, to limit their commitment and partially to transfer it to the SIAGI. It is therefore a heritage protection for the borrower's family.

- SIAGI is the professional guarantor for eight large French banking groups. As it is more solicited for dossiers of good value, but with riskier prospects, (take-overs, creations), it must permanently provide added-value to the bank dossier by its knowledge of the sectors and by the identification of the required skills needed by the applicant to bring his or her business project to a successful conclusion.

- It tries to obtain a well balanced share of the risk, offering a guarantee, which, if it can culminate at 70%, is on average amongst to 45% of the medium- to long-term credits. It has entered into a co-guarantee partnership with the SOFARIS company.

- SIAGI works with its own equity, but in addition manages a mutualised Guarantee Fund, an off balance sheet record, which constitutes its largest reservoir for covering losses. In all, the equity of the managers of €57.7M in 2002 cover guarantee commitments of €674M in favour of 45,000 small companies. Annually, more than €400 Mio credits receive a protection.

PROFILE 11.

HITELGARANCIA, HUNGARY

- This Guarantee Society is a joint stock company, owned by the Hungarian Government and the main banks and SME organisations. It was created in 1992, when Hungary had to face up to a market economy with poorly trained candidate entrepreneurs, above all with little personal wealth, and with banks that were showing little awareness in SMEs.

- The system is now enjoying constant growth, thanks to the very enlightened policy of its management, which is not only interested in benefiting from the best foreign experiences, but also guarding its national particularities, and a marketing policy that is not particularly aggressive, but efficient and bank-oriented.

- The market is one of SMEs with up to 250 employees in all sectors. In number of dossiers, 63% of the guarantees are for companies of less than 9 people. 84% of the dossiers are for less than €80,000.
  The operations cover investments and working capital (the guarantee of a credit card for business payments is going to be launched).

- Hitelgarancia works with many banks, including Hungarian subsidiaries of foreign banks. It was able to develop its operations two years ago by a rapid decision-making system, simplified administration and advantageous commissions.

- In Hungary, the SME credit market is becoming increasingly open, and successive governments have been most attentive to it. The country has enjoyed good rates of GDP growth.
  In 2002, Hitelgarancia was able to participate in an operation of fighting against a cycle made less favourable by the reduction of exports and less foreign direct investments. The SMEs have a large role to play in the national economy.

- In its policy, Hitelgarancia is closely linked to governmental policies:
  - The Ministry of Finance allocates a budget to compensate the payment of guarantee premiums (50%), which reduces the amount due by the entrepreneur (from 0.5% p.a. for credits of less than 1 year to 1.6% p.a. for credits of between 6 and 10 years).
  - The Ministry also covers a part of the losses incurred by Hitelgarancia by an annual budget allocation.

- Statistics: the capital of €83.5 sustains commitments of €502M. The leverage is 6 x, and the highest in the candidate countries. The portfolio has grown 83% in 2 years.

PROFILE 12

AVHGA - HUNGARY

- Agrar-Vállalkozási Hitelgarancia Alapítvány (Rural Credit Guarantee Foundation) was established on 07 August 1991 by the Hungarian Government and five banks together contributing €11,000, adding to the €10,000 of the European PHARE program.
  It is a foundation, equipped today with €56,941,713 of equity held by public authorities and banks.
  This means that the activity has been able to accumulate reserves and provisions to sustain its growth, in support of an outstanding guarantee amount that is continuously increasing: it had reached €114,489,000 at the end of 2002.

- The Foundation is intended for agricultural companies: cereal production, breeding, flowers, fruit and horticulture. But the growth of the activity is also manifested in the food production, catering and transport sectors. Furthermore, one should mention the infrastructure and services for the rural communities.
  The geographical distribution is spread across the whole territory, outside Budapest, with particular installation in the provinces of the South and the East of the country (seven regions of strategic development support). One can therefore describe the activity as tending to rural development and the stabilisation of populations in country areas.
  The beneficiary must furthermore be a Hungarian resident or an SME with a majority of national shareholders.

- During recent years, AVHGA has been oriented towards improving its services, with an interest in obtaining ISO certification and creating an intranet with its banking partners for an acceleration of decisions and a reduction of transaction costs. AVHGA therefore works with a dense network of banks and, especially with the 129 local Savings Banks.
  Further progress in terms of co-operation is still possible and desirable.

- AVHGA, as a public institution, receives the support of the government, which is enshrined by intervention of 70% in its losses and, for the benefit for entrepreneurs, by a subsidy of 4% of the guarantee premiums.
  It can therefore work with modest contributions from the beneficiary.

- The guarantee, which can be as high as 80%, costs the entrepreneur a commission that varies with the amount and the period: under €80,000 it is 0.25% p.a. for a period of less than one year, 0.50% for 1 to 7 years and 0.75% up to 15 years.
  Small operations are targeted: the average amount of a guarantee operation is €34,000 and the average duration is 4.4 years.

PROFILE 13.

THE ITALIAN CONFIDI NETWORKS

- The first Confidi dates from 1957. Their development stretches over the entire 1960 to 1980 period, especially during the oil crises, which aggravated inflation, increased interest rates and reduced SME access to credit.
  The Confidi are a joint, spontaneous reaction of small entrepreneurs in the face of a state of financial inferiority. Legislation has rather followed the development than accompanying it, but has not provided them with a clear framework, which penalises an extremely dynamic and original system. The Italian Regions, which are responsible for their economies, have, for their part, supported the Confidi well by allotting risk funds to them, without participating in their capital.
  The Italian Confidi system has therefore kept a 100% mutualist character, under the responsibility of its entrepreneur managers.

- The Confidi are, according to law, financial rather than banking companies. They have two principle forms:
  - Guarantee co-operatives
  - Consorzifidi, which are a non-profit associative contract for the support of the members and with the creation of a syndicated fund.

- The 600 Confidi are grouped into 5 National Federations which are described hereunder. Their organisational structure is often at two levels:
  - The first level, very local, involves a strong entrepreneurial relationship, with a large commercial base and with the onus of examining the guarantee dossiers and issuing the guarantee. This local knowledge is the reason for the good scrutinization of the dossiers and therefore for the lower rate of default (average lower than banks)
  - The second level, regional, appears more as a consolidation level: it gives a counter-guarantee of 50% to the local Guarantee Society and carries out joint services with it. It can also give direct guarantees to the businesses.

- The banks want to maintain strong contact with the Confidi, which bring 900.000 entrepreneurs together. They operate on a contractual basis:
  - With better rate conditions for “Confidi” customers
  - With the deposit in the bank of a “monetary risk fund”, on which the bank has the right to reserve guarantee ceilings (from 10 to 20 x).

  The financial cover of the loans is usually 50%, shared with the bank. The commission is low (0.5 on average) because the portfolio, very well balanced, contains a majority of short-term operations (from 50 to 60%).

The statistics are impressive. Together, the Confidi have €1,362M of combined equity, 940,000 members and €13,200M of outstanding guarantees.

FEDART FIDI

This is a craftsmen's network (Federazione Nazionale Unitaria dei Consorzi e delle Cooperative di Garanzia dell'Artigianato), constituted in 1994 by the desire of the craft confederations to join forces on the guarantee sector.
It contains 341 operational Confidi, 18 of which are regional Confidi for the consolidation of local company operations.
It associates 633,000 entrepreneurs, or 42% of the entire crafts sector.

FEDERCONFIDI

The network is one of the operational sectors of the powerful Confindustria. It has been federated since 1972 and has 82 member Confidi, including 5 bodies of a regional nature, in Lombardy, Ligurie, Emilie Romagne, Marches and Lazio. It contains 43,4000 companies, that together employ 877,000 people. It is therefore clearly a tool for medium-sized enterprises in the industrial sector.
It is an active network, with a will to advance on subjects of quality, conscious of the size of its societies for facing up to a more consolidated banking world.

FINCREDIT CONFAPI

The small industrial companies of the API (Associazione Piccola e Media Industria) belong to this national organisation, which was federated in 1992. A relaunch of the national movement occurred in 1999, for the benefit of the 30 affiliated Confidi, present throughout the entire national territory with 25,000 companies. The confederation is a relay of national defence, co-ordination, and distribution of information coming mainly from the European Association.
Fincredit in 2002 ran the Secretariat of the National Italian Coordinamento.

FEDERASCONFIDI.

This Federation involves Confidi of the commerce, service and tourism sectors that participate in the national Confcommercio operations.
It has a nationwide presence through 74 Confidi and has created a national structure for counter-guarantee, quality promotion and facilitation of mergers and groupings, the Fin Promo Ter. This tool has associated 52 Confidi and began its operations in May 2003.

CONFESERCENTI

Confesercenti is also installed in the commerce/tourism/service sectors.
This is a national association dating from 1993, with 43 Confidi. It has entered into three national agreements with the major Italian Banks (Monte Passchi, Intesa, BNL) which serve as reference for the entire network, in addition to the very many agreements signed by each Confidi with its regional financial partners.
It runs Commerfin, a mixed national company for consolidation by counter-guarantee, for operations of less than €50,000.

PROFILE 14

INVEGA - LITHUANIA

- Investiju ir verslo garantijos (Investment and Business Guarantee Society) was founded on 29 November 2001 with the status of a private limited company. It was a continuation of a loan insurance company, SMELI, run by the Lithuanian Export Insurance Agency. Its founder is the Government of the Republic of Lithuania, which is also its sole shareholder. The capital is about €5.8M.
  The Minister of the Economy is its supervisor.
  The INVEGA role is twofold:
    - To procure guarantees for investment credits seeking to improve competitiveness and create jobs.
    - To administer the distribution of public subsidies, the duration of which is linked to the period of the guarantee.

- In terms of guarantee, INVEGA procures cover that can be as high as 80% of the loan and for that asks for the payment of a single premium of 5%.
  The ceiling of its intervention is €16,000 for investments and €72,000 for working capital operations.

- The State support for this company, still in its launch phase, is effective.
  This includes:
    - The subsidisation of the premium, leaving as the charge to be paid by the entrepreneur only 1% of the guarantee commission.
    - Intervention in the losses, 90% of which are included in the Ministry of the Economy's budget.

- Invega addresses all sectors of the economy and is looking for maximum geographical extension.
  The Lithuanian economy can offer good development opportunities, with the capital Vilnius and the port of Klaipeda connected by a motorway that can provide access for the hinterland of Byelorussia and Russia. There is good SME dynamism, but with initiatives that rest on low self-financing possibilities and few possibilities of providing bankers with the necessary securities for their loans.
  On the other hand, the banking sector is very modernised and anxious to establish relationships with the business world (growth of the credit portfolio of 17.8% in 2001 then 21.9% in 2002). This is a concentrated sector, with 3 banks holding 73% of the market. Interest rates are very affordable (6.1% at end 2002). The average rate of non-performing loans is 5.8% (against 2.76% for the European banking industry).

- The initial 2002 statistics for INVEGA are encouraging.

PROFILE 15

RURAL GUARANTEE FUND - LITHUANIA

- The restoration of national independence demanded major public effort for steering the rural economy towards new objectives.
  At the end of 2001, the number of people employed in agriculture and its complementary sectors was still 18% of the active population. There were still 67,500 farms cultivating an average area of 12.6 hectares of land.
  In addition to the preoccupation of the sector's productivity, there was also the development of adjacent activities: ecological farms, rural tourism, and rural area equipment. To create a new job, it was estimated that a minimum investment of €25,000 was required. It was therefore going to promote privatisation followed by investment, and therefore give access to credit…

- Zemes ukio paslolu garantiju fondas (Rural Credit Guarantee Fund) was promoted by the PHARE programme in 1995.
  It was constituted as a private company where the Government alone contributed to the capital (Resolution 912 of 08/97) and where PHARE added €2M.
  It began its operations in the course of 1998, with the aforementioned objectives and also in order to guarantee the purchase of agricultural surpluses from the farms.

- The guarantees have a maximum term of 12 years for equipment loans. Commitments with higher average value are also given in favour of the Regulation Agency for Agriculture and Agricultural Products (in 2002, €36M).
  Since the beginning of 2002, the Fund has been contributing to the fulfilment of the objectives of the European Sapard programme. It was authorised to accommodate non- agricultural entrepreneurs from the rural areas. It can also provide for working capital needs, which is most essential in a sector where a long period of time can elapse between the exposure to production expenses and the sale of the harvests. There are therefore far better prospects.

- The Fund co-operates with the country's main banks.

- The guarantee covers 70% of the loan, in which the investor will have made a personal contribution of at least 10%. The system began with 100% guarantees, but it had to be amended after two years (Resolution 1026 of 09/99). The guarantee premium (5% for the period of the credit) is subsidised at 80% by the government.

- The Fund has embarked upon a major qualitative work, notably by the classification of customers in rating scales, which enables a view to be taken of possible defaulting and borrowers to be systematically monitored.

PROFILE 16

SPGM PORTUGAL

- In Portugal, SPGM Sociedade de Investimentos was created in reaction to the competitive shock created by the arrival of a free market economy, integrated within the European Union: its purpose was to strengthen small and medium-sized enterprises, to modernise them and improve their performance via the solution of sustaining them by guarantee.
  In 1994, it was in the context of the PEDIP II project that IAPMEI, the SME support body, launched this initiative as a pilot project, supported by public funds, including a European allotment. A preference was expressed for a system developed under the Spanish influence and AECM was one of SPGM's technical promoters.

- SPGM was conceived as a pilot project that should gain experience, be completed by counter-guarantee arrangements, and then be rolled out towards regional companies of a higher entrepreneurial base. A difficulty to be overcome was the setting up of a prudential frame of reference, under the control of the Bank of Portugal.

- The project was respected, with
  - A constant growth of commitments, which led SPGM to be managing a portfolio of €100M at end 2002.
  - An attraction into the capital of the main Portuguese Banks and of the entrepreneurs benefiting from the guarantees (mutualist character)
  - The organisation of a public Counter-Guarantee Fund, managed by SPGM, but with its own accounts and covering 50% of the portfolio. This fund has entered into a contract with the European Investment Fund in order to have a second level of protection (50% of 50% of the basic commitments). There is therefore a strong dispersion of risk, which favours the decision.
  - The operational creation, from January 2003, of 3 Mutual Guarantee Societies which will hencefort have the supreme power of decision-making and which, established locally, should take greater interest in small projects than in medium-sized enterprises. The latter were the basic target at the time of the launch.

- In the current structure, SPGM will be the systems' holding company, the administrator of the technical functions (accounting, financial, reporting…) of the MGS and the manager of the counter-guarantee fund. In short a role of consolidation and leadership, while the marketing function will be lodged in the regional societies. It could be said that SPGM is in a position of providing a unique experience for the launch of Guarantee Societies in new countries.

- SPGM and the future MGS are looking for a 50/50 share of the banking risk (maximum 80%), an offer at an affordable cost for the company, without taking additional securities.

PROFILE 17.

THE GUARANTEE AND DEVELOPMENT BANK OF CZECHIA-MORAVIA – CZECH REPUBLIC

- CMZRB is a company founded in 1992 as a limited commercial company with a participation in the capital of 72% by the State and 28% by commercial banks. Its goal is to stimulate the private economy in an economic system that is being opened up to new needs by liberalisation and privatisation.
  CMZRB is a development bank where the guarantee is an essential branch, alongside public investment and employment subsidies or the financing of infrastructures for local and regional communities.
  It behaves as a bank responsible for its commitment, concerned about a balanced and profitable development at the same time as the fulfilment of its public mission.

- In the SME part, the main tools are subsidisation, soft loans and micro credits, and guarantees, which are taking a bigger and bigger place. All sectors are concerned: industry (55%), construction (11%), craftsmanship, services and trade (20%).
  Entreprises are brought closer to the decision centres by the presence of 6 regional offices. The guarantee represents about 55% of the amount of the underlying loan.
  The preoccupation of balanced regional development is fully present.

- The Czech banking system, which was in crisis after several years of free economy, is undergoing qualitative improvement and a trend to concentration.
  It is more and more interested in SMEs because the entrepreneurs are numerous and dynamic, but lack the private wealth to give sufficient collaterals.
  Currently, the banks are protected against losses by CMZRB to the tune of 35% for maturity dates within 8 months following the default, 50% for the 24 months thereafter and 70% for the 48 months after that, according to the choice they freely make of the most appropriate indemnity system for each situation.

- Concerning State assistance, the system has looked for its way by successive different modalities.
  The current public support involves the subsidy of the guarantee premium.
  The latter is calculated on the risk of default and on the operational cost, as a true market price. The State pays a part of the premium to the borrower, in order to make it affordable. Example: if the total cost of accepting the risk is estimated at 9.5% and if the State intervenes for 9%, the residual charge for the company would be 0.5%.
  This is an original but transparent system.

- Statistics: CMZRB owns total equity for €100,000 and supports *inter alia* a guarantee portfolio of €200,000 (70% long-term).
  The system is experiencing good growth (+21% from 2000 to 2001).

PROFILE 18

GUARANTEE AND DEVELOPMENT BANK OF SLOVAKIA

- The Slovenská Zárucná a Rosvojová Banka started its operations on 01 September 1991, as an initiative of the young Republic's Ministry of Finance.
  Its capital of SKK 800M is held by the State, which entrusted it with development missions.
  - With the SME target, there are guarantee programmes (7 products), loans (including micro credits) and subsidies in priority areas.
  - Infrastructure funding includes the support to local community programmes or environmental protection investments.
  - Social housing for young couples and handicapped persons.
- The institution, which is subjected to an important influence of public control, follows normal international banking standards.
  It employs 125 people and is established in 6 regional offices.
  For its funding, it enjoys international co-operation with interesting conditions: the Bank of the European Council, KfW, PHARE.
- The need of a specialist SME institution is very great in the Republic of Slovakia: SMEs employ 60% of the active population and contribute 30% of the exports. They represent 30% of the sectorial income of industry, 77% of construction, but more than 90% of commerce, transports and services.
  SZRB is also involved in agriculture, the dominant sector within its portfolio.
- The guarantee is linked not to the credit, but to the amount invested, being able to cover up to 65% of it for the acquisition of tangible assets and 40% for intangible assets, with a maximum maturity of 10 years.
  To do this, SZRB co-operates with 14 banking networks, having a solid relationship with 3 large institutions.
  It also maintains close relations with the Entrepreneurs Association, the SME Union and the Small Enterprise Chamber.
- By its programmes, SZRB contributed in 2001 to the creation of 19,400 new jobs and supported investments for SKK 23 Billion, including 12 Billion of "guarantee" activity.

PROFILE 19

THE RURAL GUARANTEE FUND - RUMANIA

- The Rural Guarantee Fund of Rumania was established in 1994 (Act of 31/1990), on the initiative of the Rumanian Government with the support of four commercial banks and the European PHARE programme.

- Its fundamental role is to facilitate the transition of the country's rural economy by facilitating operations of privatisation and improving the farms productivity.
  There are considerable issues behind these missions, which come in the form of acquisition of land, purchase of modern equipment and increasing the size of the exploitations. The future revenue of the farmers is conditioned by their ability to invest at a time when their situation does not enable them to go to the banks in order to obtain credit.
  The Fund therefore has to reverse the economic mechanism while ensuring its long-term stability and the protection of its shareholders.
  This is a difficult, but essential task.
  In 2002, there was in addition participation in the European SAPARD programme for the stimulation of investments by rural communities.

- The difficulty of the task takes on a particular aspect in the knowledge that the National Bank of Rumania does not recognise the value of the guarantee: the banks cannot invoke the provision of their risk by this external guarantor as a defence against their legal requirement to make such provision themselves. There is therefore a form of double cover of the risk, which is not encouraging the financial world to co-operate with the Rural Fund. Clarification would be welcome.

- The Fund has signed co-operation contracts with 8 banks. It relies on the National Agricultural Consultancy Agency for its regional extension of operations.

- The Fund guarantees medium-term operations for farmers and rural companies, short-term operations for private farmers, and leasing operations.
  The guarantee can amount to 70% of the loan with a maximum of €250,000. Personal securities from the applicant are required.
  The average per long-term operation was €51,000.

- The Fund has been allotted €12,719,000 of capital and covers a commitment portfolio of €9,089,000. The financial reports are showing annual profits.

PROFILE 20.

LOAN GUARANTEE FUNDS FOR PRIVATE ENTREPRENEURS - RUMANIA

- The RLFG was created in 1993 by the State with Canadian, Austrian and Italian advice. Through various capital increases, it has become a limited company owned by Romanian financial companies.
  In this evolution, the institution has not lost its spirit, which is the support of Rumanian SMEs via guarantees and consultancy (drawing up business plans, feasibility studies, advice to Rumanian and foreign investors, …).
  RLGF has a single office in Bucharest but works on the whole territory by means of co-operations with the Enterprise Development Centres, Chambers of Commerce and Regional Development Companies, which recommend RLFG to their customers.
  RLFG is not subject to a national prudential system.

- RLFG addresses all sectors.
  In 2000, the industrial sectors were dominant (manufacturing, textile, mechanical and electrical construction, and transport).
  In 2001 commerce and services took a good place in the annual statistics and smaller enterprises became more apparent (moving from 18% to 41% of the portfolio).
  A problem for mini-businesses is the validity of their financial data and their ability to provide a proper credit analysis.
  SME management also needs to be improved at the financial level. It is for this reason that RLFG has added a consultancy/training department to its basic guarantee activity.
  As in several countries that have transformed their economic systems, the stability and growth of the society remains conditioned by the solidity and permanence of the legislative and legal systems.

- RLFG works with 5 partner banks that are looking to develop their share of the Romanian SME credit market.

- RLFG guarantees a ceiling of 70% of the bank credits (investment and working capital) in the form of a risk sharing of the final loss.
  As there is no state support, nor any counter-guarantee system, the society has the obligation of balancing its accounts by a prudent selection of risks and by a premium that covers the risk of default. It amounts on average to 3 to 3.5% p.a., depending on the category of risk.
  Examination of the applications costs 1%.

- The 2002 statistics indicate a capital of €5.2M and an outstanding portfolio of €4.03M. The guarantees granted in 2002 amounted to €2.9M.
  There is a great deal of room for the development of a valid institution in Rumania by stronger co-operation between the private and public sectors.

PROFILE 21

TESKOMB - TURKEY

- Teskomb is the Central Turkish Association of Credit and Guarantee Co-operatives for Traders and Craftsmen. It is the central body of an organisation that contains 32 Regional Co-operative Unions and, beneath them, 970 local Co-operatives.

- The first credit and guarantee co-operatives were founded in 1951 in order to promote the development of the small production plants that are so numerous and so necessary for a domestic market of 65 million consumers.
  In the main economic sectors, (agriculture and its downstream market, textile and mechanical industry), the SMEs are the most flexible entities, and the best prepared for internal development. Tourism and construction are other strong areas.

- Within the AECM, TESKOMB, created in 1970, represents this powerful network that is geographically in close proximity to its members; it is the third level of the structure that includes local co-operatives, and then the regional unions.
  This strong and close connection explains the large number of member companies.
  Teskomb's penetration rate in the entrepreneurial world was evaluated at 25% in the year 2000.

- The objectives pursued are:
  - To reinforce the existing network of credit guarantees
  - To improve the conditions of access to credit by better rates and sufficient periods to obtain possible reimbursement of the investments
  - To provide SMEs with an infrastructure of welcome, enabling them to improve their markets and the input of a modern technology in their production.

- Teskomb is governed by an Executive Board of 32 members.

- Teskomb is traditionally linked to the SME specialist bank, the Türkiye Halk Bankasi (Turkish Popular Bank).
  The scheme operates by an annual evaluation of the revolving credit needs for the members and a "reservation" of these credit lines in the bank, with a search for the best lending conditions.
  The supported credit products are: discount credits, working capital credits, establishment credits, modernisation and expansion credits, and support credits for the development of employment and export credits.

PROFILE 22

KREDI GARANTI FONU - TURKEY

- KGF is a Guarantee Society that is owned in equal measure by
  - The Confederation of Traders and Craftsmen, TESK
  - The Union of Chambers of Commerce and Industry, TOBB
  - The Foundation for the Support of the Middle Classes, Tosyöy
  - The Foundation in Support of Entrepreneurial Training MEKSA
  - The State SME Support Organisation, KOSGEB
  - The Turkish Popular Bank, HALKBANK

- It is therefore a private institution and association of financing, consultancy and guarantee partners, in close relations with business circles, run by a Board of Directors and conducting an independent policy.
  KGF has two offices: one in Istanbul (region that accounts for some 40% of its business) and the head office in Ankara (the centre of the country accounting for about 30% of the current business).

- The Guarantee Society works with Halkbank, the SME public bank and 3 other banks wishing to develop within the SME funding sector. This enlargement of bank contacts was envisaged mainly for the purpose of increasing the prospects of funding when the public bank's resources were reduced by the Turkish economic situation.
  KGF indeed remains prepared to be a partner at risk, but two years ago there was a severe reduction of private investment. This was essentially a temporary measure in the expectation of a slowdown of inflation.
  As was shown by the partners of the European Bankers-SME Round Table in the Istambul session, overly strong inflation has consequences on companies' working capital (the impact of the increased prices on turnover does not always compensate the inflation on supplies and costs) and on equity (it is proportionally diluted in the company's overall balance sheet).
  One must therefore count on a strengthening of the recent upturn, which is announced by the 2002 economic data, for an effective relaunch of the guarantee instrument.

- KGF can cover up to €400,000 of credit, with a guarantee rate that is 80% up to a threshold of €200,000, then 70% for the rest. There is therefore modulation according the size of the operation and bankers are more accountable on the larger outstandings. This is logical in terms of the examination of the credit application, which should be more flexible for smaller amounts.

- KGF is above all active in industry (90% of its business). Until 2001, about 600 annual guarantees had been issued for about €36 Million of annual volume and underlying credits of €45 Million.

PROFILE 23

THE GROUP "BANQUES POPULAIRES" - FRANCE

- The Groupe Banque Populaires is a co-operative group whose shareholders are the 22 Regional Popular Banks, themselves fully owned by their clients-company members. They control the Banque Fédérale des Banques Populaires, the central organ of the network and the parent company of Natexis Banque Populaire listed on the first Euronext market of Paris.

- The organisation relies on 3 dimensions:
  - The co-operative dimension, since the customers are members of the "regional banks structure" which also comes in many forms in allied associated networks, including the SOCAMA.
  - The federal dimension, at the level of the Banque Fédérale, which is the central body where all the tasks of central control, strategic and commercial leadership and common financial activities are to be found.
  - The capitalist dimension, with Natexis, quoted on the stock exchange and involving integrated financial businesses and services.

  The Banque Populaire, in the evolution of the financial industry, has been able to take an international place, without losing the founding principle that presided at its creation in 1917 as a co-operative credit institute for commerce and craftsmanship.

- Some of the groups key figures and the end of 2002:
  - Equity: €12.5M
  - Total balance sheet: €193.6M, including €101.5M of credits
  - 2,200 branches, 2,000,000 members, 5,500,000 customers
  - RoE : 13.2% and solvency ratio : 8%

- In the business market, the Banques Populaires want to further increase their market share and increase the equipment in financial products of its clientele acquired in good conditions of security: they are banking on proximity, relying on the expertise of 3,000 specially trained business advisors and on the SOCAMA network. One in three of the Banques Populaires customers is a craftsman. These are their historical partners.

- Special products have been created, such as the Express Loan, in collaboration with the SOCAMA. 22% of the French entreprise "start-up loans" (PCE) are distributed by its network. In commerce, one company in four has an account at the Popular Bank and the service is based on the quality and rapidity of secure electronic payments. The French Banques Populaires are the first SME-SMI bank, with an overall market penetration rate of 30% on this target.

PROFILE 24

IAPMEI - PORTUGAL

- L'Instituto de Apoio ás Pequenas e Médias Empresas e ao Investimento is the Public Institute of reference for Portuguese SMEs, which has a own independent legal structure.
  In Portugal, SMEs mean about 99.4% of a total universe of 216,000 companies, with an 85% contribution to the volume of private employment in the country.
  The sectorial distribution is: Commerce (37%), Services (24%), Industry (18%), Restaurants-Hotels (10%) and Construction (10%).
  IAPMEI is oriented towards the industrial and service sectors.

- The SME market is therefore essential for the Portuguese economy.
  Since its creation in 1975, IAPMEI has placed particular emphasis on implementing the policies of the Ministry of the Economy, with particular regard for the impetuses of the European programmes.
  It has been remodelled according to the current needs of the State and the economy, without losing its role.

- It is on the one hand an organisation for economic research and understanding of the entrepreneurial phenomenon: diffusion of entrepreneurship, and management good practices, with a special focus dedicated to SME creation. (A particularly interesting paper was presented to the AECM's Manchester Seminar on this subject).

- But it is above all a technical operator, capable of providing financial and operational impetuses. IAPMEI manages incentivisation tools with a view to giving impetus to private investment on the basis of sustainable development strategies.
  Its objectives concern the modernisation of companies by the use of information technologies, re-capitalisation and the capitalistic sizing of new and existing companies by venture capital and access to credit via guarantee techniques.
  Its tools are donations and subsidies, financial interventions managed in venture capital funds and in guarantee instruments.

- A far as the guarantee is concerned, IAPMEI in 1994 ran the project of creating SPGM, in which it is the main shareholder.
  It provided the financial resources for the Counter-Guarantee Fund and, in 2002, it increased its own means.
  It also provided capital for the launch of some Mutual Guarantee Societies. We should emphasise that, in all cases, its attitude is to integrate itself completely into a system of private management, respecting market needs and market laws.

- IAPMEI is a highly valued AECM partner, as an associate member affording protection for Guarantee Societies.

PROFILE 25

HUNGARIAN FOUNDATION FOR COMPANY DEVELOPMENT

- The role of the Foundation (MVA) is:

    - To support SME activity in order to raise their level of knowledge and skill, and to reinforce their market position and their financial capability.
    - To facilitate the establishment of new companies
    - To develop entrepreneurship in the Hungarian economy.

- It was constituted in 1990 by the Hungarian Government, in co-operation with the main banks and professional entrepreneurial associations.
  It is a non-profit-making, independent association, under the leadership of a Board of Directors that provides the society with its strategic orientations.

- It is the implementation agent of the European PHARE policies, for which it distributes resources for the benefit of the Hungarian economy.

- The Agency's central element is the regional network at the disposal of businessmen (LEA). Those agencies are foundations that associate all the support partners.
  On the basis a revised annual examination of the situation, the network provides consultancy and advice, training, business information, and financial assistance.
  Other programmes have been conducted:

    - The guarantee of loans for starting new businesses, a programme that today has been taken up by other Hungarian guarantee bodies, but which was started with the funds of the German DtA Company. This Fund is not issuing any new guarantees at this moment.
    - Micro-credits by a 5-year loan, at a preferential rate for new entrepreneurs. The purpose was the purchase of equipment. This programme was run for a 3-years period.

- The central pillar of the foundation is finally the network of 20 consultancy agencies.
  The Foundation serves 110 towns in the country and, since its constitution, more than 100,000 entrepreneurs have had recourse to this service.
  In countries of recent access to the market economy, advice is absolutely fundamental, in order to offset the lack of experience of potential entrepreneurs wanting to launch their own business.

Chapter V

EUROPEAN GUARANTEE SOCIETIES

A Transversal Analysis Of Their Characteristics

In 1996, AECM presented a study of its members, with the support of the Commission, the Enterprise Directorate-General. At the time, there were 9 countries, comprising 16 societies or federations.

In 2001 the book of P. Pombo and A. Herrero "Los Systemas de garantia para la micro y la Pyme en una Economia globalizada" was published, which was an important and very documented digest of guarantee schemes in the entire world.

This part focuses on the AEC Members and updates the information for the 16 current countries, with their 26 federations and societies. It has opted not to give a description by society, in a vertical approach, but rather a comparison between them, according to chosen criteria and in a transversal approach in the following viewpoints.

- A historical reminder focusing on the conditions in which the guarantee schemes were founded, which, to a large extent, explains their objectives and their characteristics.
- The AECM Members appear thereafter in their various legal forms and in the ownership of their capital.
- The company purposes and activities constitute the next angle of approach.
- The following tables compare the relationship with the State from two points of view:
  - The ways of ensuring their prudential supervision
  - Public support measures under various modalities.
- The commercial networks and the upstream and downstream co-operation with the SME bodies and the financial institutions are summarised.
- The method of granting the guarantee is tackled simply, in two parts:
  - The limits of the guarantee and the targeted sectors
  - The annual cost of a guarantee

Its usefulness is that is allows comparative characteristics to be advanced. Without doubt, this will not give an impression of any great homogeneity. In effect, we are in situations that reflect a diversity of approaches.

This malleability gives guarantee schemes considerable ability to adapt in a changing world. However, one must observe the emergence of unification factors, stemming from the emergence of international regulations. It is clear that the application of the Basel 2 rules, the existence of the European competition rules, the participation in European counter-guarantee programmes of the European Investment Fund represent a great deal of convergence of the management principles, the implementation of information systems and the design of operational procedures of our societies. No doubt the European Commission would do a useful job by collecting all this information and providing the general regulatory framework that it is contributing to create.

It is also diversity that makes the AECM role and the utility of its experience in highlighting good practice.

List of abstracts used in the tables

Abstract	Country	Dénomination	AECM membership
Bürg.Bank	De	Verband der Bürgschaftsbanken	1992
AWS	Au	Austrian Wirtschaftservice	1995
Bürg.Ges.	Au	Bürgschaftsgesellschaften	1995
SCMOB	Be	Cautions Mutuelles / Onderlinge Borgstellingen	1992
Sowalfin	Be	Sowalfin	2003.
KredEx	Ee	Estonian Kredit and Export Guarantee Fund	2002
SGR	Es	Sociedades de Garantia Reciproca (CESGAR)	1992
Finnvera	Fi	Finnvera pl.c.	1997
Socama	Fr	Fédération nationale des SOCAMA	1992
Siagi	Fr	SIAGI	1992
Hitelgar.	Hu	Hitelgarancia Rt	1995
AVHGA	Hu	Rural Credit Guarantee Fund	1995
Fedart	It	Fedartfidi	1992
Feder	It	Federconfidi - Confindustria	1992
Fincredit	It	Fincredit - Confapi	1992
Federas	It	Federasconfidi - Confcommercio	1992
Confeser.	It	Federfidi - Confesercenti	1994
Invega	Lt	Invega	2003
Rural Fund	Lt	Zemes ukio paskolu garantiju fondas	2000
SPGM-SCM	Pt	SGM Sociedade de Investimento / Soc. Caucion Mutua	1995
CMZRB	Cz	Ceskomoravská Zarucní a Rosvojová Banka	2000
SZRB	Sk	Slovenská Zarucná a Rosvojová Banka	2001
FGCRural	Ro	Rural Credit Guarantee Fund	2002
RLGF	Ro	Romanian Loan Guarantee Fund for Private Entrepreneurs	2002
Teskomb	Tu	Turkisk Central Association of Credit and Guarantee Cooperatives for Tradesmen and Craftsmen	2000
KGF	Tu	Kredit Garanti Fonu.	2000

Financial Institutions, protecting Guarantee Societies

Fr	Banque Fédérale des Banques Populaires	1992
Pt	IAPMEI	1994
Hu	MVA Hungarian Fundation for Entreprise Promotion	1995

I. The Creation of Guarantee Societies

Main events	Creation of Guarantee Societies
2004 : Enlargement of the European Union	2002 : launch of MGS in Pt
	2001 KredEx (Ee), INVEGA (Lt)
	1997 : Rural Credit Guar. Fund (Lt)
	1994 SPGM (Pt), Rural Cr. Guarantee Fund Ro
	1993 Rumanian Loan Guarantee Fund
1992 CREATION of AECM	1992 CMZRB (Cz), Hitelgarancia (Hu), MVA (Hu)
1990 Fall of the Berlin Wall	1991 KGF (Tu), AVHGA (Hu), SZRB (Sk)
1986 : Portugal and Spain into EU	1979- 85 Sociedades de Garantia Reciproca (Es)
1974-1977 : Oil crisis	1970 : Teskomb as centre of the network (Tu***)***
	1966 : SIAGI (Fr)
	From 1965 to 1990, Confidis (It)
	1963 : Creation of the Finnish Guarantee Board (Fi)
1960 Credit access crisis for Italian SMEs	
1957 : Treaty of Rome	1959 : Belgian Guarantee Fund (+ MGS counter-guarantees)
	1954 Bürges Förderung (Au)
	1949 - 1955: Bürgschaftsbanken (De)
1946 – 1950 Post-war reconstruction	1951 Creation of the Turkish Co-operatives
	1950 SCM relaunch in Be.
1930 Great Depression	First SCM in Belgium (Specialist SME banking network)
1917 MGS law in France	SOCAMA (Fr) created in a specialist banking network
1848	First Credit Union in Belgium.

I. The Creation of Guarantee Societies

Comments

The creation of Guarantee Societies has never been a matter of chance … On the contrary!

If the difficulty of access to credit is a constant factor among SMEs, there are special moments of the economic cycle or the politico-economic development of a country where urgency demands that a financial instrument be developed that will support stronger SME participation in investment and growth.
The full hoped-for sequence is well known: investment ◎ growth of GNP ◎ additional income ◎ additional employment ◎ innovation via new arrivals and investment… Nothing other than the Keynesian policy, with the combined effects of multiplier and accelerator.

Therefore, "magical moments", which have come to pass in several countries, in order to favour the birth of Guarantee Societies.

- Before 1930, the intervention of the State in economic life was still limited: the players in the field took their development in hand on mutualist and self-supporting principles. The oldest schemes are the Mutual Guarantee Societies in France.

- In France the Act of 1917 put the Banques Populaires into orbit, together with a network of Mutual Guarantee Societies for craftsmen.

- The Great Depression accentuated the defensive reflexes of self-employed and small businesses through solidarity.

- In Belgium, the law set up a public body specialising in investment loans for SMEs, which affiliated small private financial institutions, interested in the small business lending, and in consolidating their loans: the Crédit Professionnel and its associated network of mutual credit and guarantee associations. At the same time, the banking law of 1935 removed from banks the medium-term lending option. The new public /private mechanism intelligently brought together the providers of credit and, as protectors, the Mutual Guarantee Societies.

- The post-war period showed, on the ruins of old Europe, enormous needs of reconstruction, to which all the economic players were invited to contribute. Among them, SMEs… The legislation was encouraging the creation of a new wave of Guarantee Societies.

- In Germany, the Bürgschaftsbanken were born with effect from 1955. The report to Parliament in 1949 underlined: "*The economic situation requires every possible effort to maintain the existing activities, … the problem of refugees and the unemployed… the Land undertakes with the banks to create an Institute, which, by the provision of guarantees, will provide companies with the additional guarantees that they need in order to benefit from credits…*".
- In Austria, the State founded the Bürges Förderung in 1954, giving it a role of credit support, its financial means and a protection via the EPP funds (Economic Reconstruction Fund).

- Belgium created a public Guarantee Fund in 1959, which was given the mission not only of directly guaranteeing SME bank loans, but also of consolidating the commitments of the Mutual Guarantee Societies by an automatic counter-guarantee for 50% of their losses.

- In the period of relief of the Fifties, Europe was formed into a custom's union and an economic community: the European Community was born in 1957 from the Treaty of Rome as an aspiration for a common market, with free exchange on the one hand, but also formalised on a supra-national level. In this opening policy, new societies were created.

- In 1966, SIAGI was born in France, as an initiative of the Chambers of Commerce
- In Finland, the Finnish Guarantee Board, placed under State control, was founded in 1966.

- Another factor of an economic nature assumed particular acuity in Italy: the extreme difficulty of access to credit for small enterprises, across all sectors, the difficulty of receiving loans, and if yes, at high interest rates and with limited repayment periods.

- The Confidi were therefore developed as a spontaneous and purely mutualist reaction of the entrepreneurial world, led by local or provincial associations. The movement, launched in 1965 in a very piece-meal fashion was nourished by the success of the first arrivals, by the grant of public subsidies in the form of provision funds increasing their equity. It was accelerated by the crises of the Seventies that had brought interest rates to usurious levels.
- The proliferation of the Confidi occurred therefore in the Seventies and Eighties. As it was a question each time of particular local initiatives and because the regulation of the scheme took time to be established, it assumed heterogeneous aspects in terms of statutes, size, and financial ambition. Nevertheless it was inspired by such extraordinary internal dynamism that it did not fail to be of interest for bankers and numerous contracts were signed between guarantors and lenders. The Confidi then grouped themselves into National Federations, according to their sectorial affinities and their alliances within SME circles. For example, Federcondi in 1972, Fincredit in 1992 or Fedart in 1994.
- On a similar way, this was also the path followed by Teskomb, Turkey being a country of great entrepreneurial dynamism founded on craftsmanship and commerce, rather than on big companies. The foundation, started in 1951, developed until it reached 450 companies in 1970 and 970 today.

- From its 6 original members, the European Community was of interest to many partner countries and began to diffuse its model through new members. Countries that had been politically isolated from the European stage had to prepare themselves to face the competition of companies from other countries already open to internationalisation…

- Spain (1976) launched a programme of constructing Sociedades de Garantia Reciproca.
- Portugal joined the European Union. It followed the same path of promoting its SME sector. In the programme entitled "Incentivation Systems for entreprises financial engenering", the economic Institute IAPMEI gave the impetus. With the technical support of AECM, based in Spain at that moment, the SPGM was created in 1994 as a pilot project intended for medium-sized enterprises. The project rapidly proved its

value, being completed by a counter-guarantee fund and finally rolling out in regional Mutual Guarantee Societies in the year 2002.

- Meanwhile the countries that already had guarantee schemes were going back to the drawing board: the changes were likened to failures whereas they were simply market adaptations.
  - Turkey gave a structure of local co-operative network existing since 1951 and the TESKOMB association was founded in 1970. The local network experienced major growth.
  - France moved from national single-sector Mutual Guarantee Societies to a multi-sectorial regional model: the Socama, which also ushered in a period of bank supervision.
  - Spain developed its regulations in a very coherent whole, reworking the complete legal background with a solid legal base, a banking supervision and by associating the partnership of businesses, regions and the State.
  - In Germany, profound consolidation and reorganisation took place on a regional basis.
  - In Belgium, the regionalisation of the economy also led to the National Guarantee Fund's being splintered into three Regional Funds at the end of the Eighties. This situation developed still further, and in Wallonia, the Walloon Government decided, in 2001, to create a "one stop shop" for SMEs, called Sowalfin, with several missions delegated to it, including direct guarantees for SMEs and counter-guarantees for the Mutual Guarantee Societies.

- In Eastern Europe, the wall fell in 1990 and economies fenced into a system where competition, profitability and risk were not dominant values, had to struggle along a difficult path towards a market economy.
The economic initiative had to be relaunched at the most individual level; the great conglomerates therefore had to move towards international mergers, privatisation, productivity investments, and so on and so forth.
The States made decisions, with extreme rapidity, to create development agencies where the guarantee would be a substitute for the low level of private assets which are used as customary loan collaterals.
  - Hungary and the Czech and Slovakian Republics (from 1990 to 1992), were the major players in this rapid reaction.
  - Rumania provided an example of public initiative, propelled by international promoters and sponsors (EU for RCGF, the Rural Fund , and under the World Bank for the RLGF, the SME Fund) where the relay was taken by banks (RLGF).
  - The Baltic countries were only a short way behind, with Lithuania (Rural Fund in 1997 and Invega in 2002), and Estonia (KredEx, in 2001).

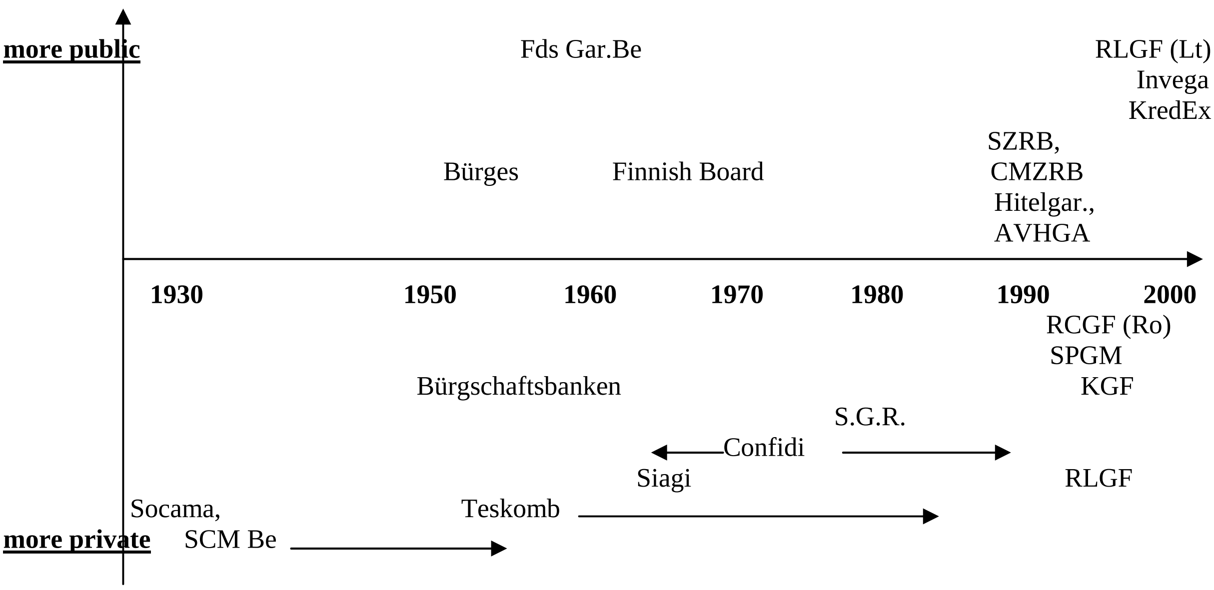
- Certain countries have not yet equipped themselves with the guarantee instrument.
For reasons of financial culture, the mirror effect of the successes of the organisations in place and AECM's dissemination efforts were not always crowned with success, despite the persevering support of the European Commission.

- In Ireland and the United Kingdom (the latter applies a guarantee programme run by a State department), both the prevailing financial culture and the negative attitude of the authorities have scuppered the attempts of launching Mutual Guarantee Societies.
- Sweden has preferred the technique of small loans from the public company ALMI, levelling down the risks of bank credits. A recent new impetus given to the guarantee is being followed with a great deal of attention and hope.
- In Greece, the public will and the support of the Thessaloniki business circles (expressed to the AECM in about 1996, subsidised for that by the European Commission), has not been extended to the operational level by the local partners.
- In Slovenia, after an initial unsuccessful public attempt, initiatives of mixed economy are being born, but in a somewhat dispersed fashion.
- In Latvia, the legal shell of a guarantee society has been formed, but the start has been delayed..
- In Bulgaria, Cyprus and Poland, projects are on the drawing board.

- This historical panorama indicates how much remains to be done to consolidate, organise and refocus on the target. For all and sundry…

- The graphic below situates the creation of companies on the time line, positioning them on an axis that indicates the extent of the involvement of the private and public partners.
This positioning is for information purposes only, therefore fairly subjective.

<u>Indicative positionning</u>.



II. Legal structure and shareholding of the Guarantee Societies

		Composition of the capital					
	Juridical Status	Entrepreneurs	Ch. Commerce, SME	Banks, Financial Sociéties	Central and Regional States	Other Public Authorities	Donors, International Bodies
Bürg.Bank De	GmbH	---	60%	40%	---	---	---
AWS Au	GmbH	---	---	---	100%	---	---
Bürg.Ges. Au	GmbH	---	---	100%	----	---	---
SCMOB Be	Coop. Cy	100%	---	---	----	---	---
Sowalfin Be	Limited Company	---	---	---	62,5%	37,5%	---
KredEx Ee	Public Ltd Company	---	---	---	100%	---	---
SGR Es	Special private status	55%	4%	12%	0,1%	29%	---
Finnvera Fi	Public Limited Cy	----	---	---	100%	---	---
Socama Fr	Soc. Coop.	100%	---	---	---	---	---
Siagi Fr	Soc à Cap. variable	---	100%	---	---	---	---
Hitelgar. Hu	Limited Cy	0%	6,5%	29,5%	50%	14%	---
AVHGA Hu	Foundation	---	---	7%	93%	---	---
Fedart It	Coop / consorzi	90%	10%				
Feder It	Coop / consorzi	96%	3%	0,67%	---	---	---
Fincredit It	Coop / consorzi	90%	10%		---	---	---
Federas It	Coop / consorzi	100%	---	---	---	---	---
Confeser. It	Coop / consorzi	90%	10%	---	---	---	---
Invega Lt	Private Limited Cy	---	---	---	100%	---	---
Rural Fund Lt	Limited Cy	---	---	---	100%	---	---
SPGM-SCM Pt	Limited Cy	12%	---	40%	---	48%	---
CMZRB Cz	Joint Stock Cy	---	---	28%	72%	---	---
SZRB Sk	Public Joint Stock	---	---	---	100%	---	---
FGCRural Ro	Joint Stock Cy	---	---	100%	---	---	---
RLGF Ro	Joint Stock Cy	---	---	100%	---	---	---
Teskomb Tu	Coop. Cy	100%	---	---	---	---	---
KGF Tu	Limited Cy	---	66%	17%	---	17%	---

II. Legal Structure and Shareholding

Comments

1. Our Guarantee Societies are dressed in all kinds of "**legal clothes** "
One can mention a few major categories and quickly review them:

- Co-operative company
- Private capital company
- Public commercial companies
- Others: Foundations, Consorzi, etc…

1.1. In the first place, the **limited responsibility co-operative company** has proved to be the most appropriate for accommodating mutualist initiatives.
Indeed, their capital contains a minimal fixed part and a variable part. This flexibility enables members to enter and exit without legal complication. The entreprises benefiting from the guarantee have to subscribe to a (small) share of capital and are unable to resign for as long as their credit commitment pertains.
Furthermore, their basic capital was historically set at a relatively low amount, which facilitated their start-up without overly large contributions having to be amassed.
The co-operative is, essentially, an "intuitu personae" company, which is particularly compliant with a benevolent and joint action of its founders. The co-operators could become managers, as members of the Directory Board and Credit Committees.
The powers are well defined by the founding contract: the General Assembly elects a Board of Directors, which is the executive power, acting under the authority of the Assembly and with a clear distribution of powers.
Finally, the limited responsibility of the associates limits their commitment to a fixed amount, without exposing their personal wealth to the corporate risks.

- One finds these companies in France (Socama, for craftsmen), in Belgium (SCM for the self-employed and micro-businesses), in Italy (Confidi, with federations by professional sector) and in Turkey (co-operatives based on the Teskomb network for traders and craftsmen).
- SIAGI presents the particular modality of a business company with variable capital owned by the French Chambers of Trades and the APCM (Act of 17 November 1943).

1.2. Behind this historical form of "persons based companies", the most common legal structure, with variants relating to national rights, is the **capital based company : limited company, joint stock company.** It enables
- The company to be provided with an important financial potential, without which the requirement of the beneficiary banks, that need for clear and sustainable security, could not be met.
- The founding parties, for which they act conjointly and on a clear contractual project, to be brought together in a sustainable manner.

- Strong organs to be constituted, based on the execution of missions restrictively defined in the Company's purpose: Annual General Meeting, and a Board of Directors that can delegate its powers to Committees and Supervisory Bodies.
- Partners coming from very different horizons to be associated on a clear base: from the public sector, from the banking sector and from entrepreneurial circles.

- These private capital companies exist in Germany (GmbH), Austria (Bürschaftsgesellschaften = GmbH), Portugal (Limited Investment Company), Rumania (Joint Stock Company), Czekia (Joint Stock Company) and Turkey (KGF = Limited Company).
- In Spain the MGS are founded on the main characteristics of Limited Companies (Decree 188/1978 and Act of 01/1994). The capital of these commercial companies is variable and the associates' responsibility is limited to their investment. As far as the associates' rights are concerned, the mutualistic character is predominant: the initiative comes from the SMEs that are the "participating associates". Alongside them, there are "protective associates" that belong to other sectors (private/banks…- and public/independent Regions, Communities) and that are, in this role, not profit-oriented. For the creation of an MGS, the administrative authorisation of the Ministry of the Economy and Finance is necessary. The societies are registered in a special register of the National Bank of Spain.

1.3. As for States, they have been able to create **commercial companies with purely public shareholding**, in order to localise a financial tool in a specific independent structure.
The transparency of their accountancy, the clarity of their decision-making structures and the responsible management of their commitments are ensured outside the ordinary budget of the public power.
It is a form of ownership of a capital company, where the public sector is the exclusive shareholder.

- In Estonia, KredEx is a society under the full tutelage of the Ministry of the Economy, which controls its Supervisory Board. This Board delegates powers to the Management Board and to a decision-making Committee composed of two delegates from Ministries, two bankers, two SMEs and the Company's CEO.
- Other examples: SZRB (Republic of Slovakia) is a financial institution established by decision of the Ministry of Finance (Nr 4,1990), with capital completely held by that Ministry, with organs consisting of the Executive Board (three members appointed by the public powers) and the Supervisory Committee.
- We could also mention AWSG (Au), INVEGA (Lt), and the Rural Credit Guarantee Fund (Lt).

1.4. In Hungary, AVHGA appears as a **foundation**, a system inspired by the World Bank at its creation. The foundation is a closed system with a well-defined objective and a strict decision process for accepting new participants. The founders, who remain party to the decision (the Curatorium) can no longer consider their holdings as their own assets (by their donation) and in the event of liquidation, the asset base would be transferred to an institution with a similar purpose and would not be returned to the subscribers.

1.5. In Italy, there is also the **consorzio**, which appears more as a contract of association than a corporate form.
This is a commercial partnership with a precise objective (in this case, to provide mutual guarantees), which brings a variable number of participants together. The latter provide no cash investment, but give a commitment to pay a limited amount if funds should be called in order to pay defaulting commitments (Syndicated Funds). This formula has been chosen for its flexibility and its tax advantages.
However, as it has no capital, the consorzio cannot theoretically generate a powerful financial company.
Major exceptions: Eurofidi (Fincredit), based in Torino is a consorzio whose capital is, for the entrepreneurial part, a "commitment" and not a cash payment, and for the part subscribed by the Piémont Region, the banks and the trade organisations, an amount paid into capital. This is the largest Italian Confidi. Eurofidi is affiliated with the Fincredit network.
-Artiancredit Emilia Romagna, for example, is also a "second-level" Consorzio.
In the Federasconfidi network, 15 Confidi out of 74 are Consorzi : 49 are out of 85 for Federconfidi; 9% of Fedart's Confidi are Consorzi.

1.6. **Purely public initiatives** have been embodied in Administrations depending on Ministries of Economics or Finance, without taking a corporate form. Thus the Flemish Guarantee Fund, the Loan Guarantee Fund in the United Kingdom, BBMKB in The Netherlands or in Cyprus.
In this case, Pablo Pombo makes judicious use of the expression "Guarantee Programme".

2. There we have the legal structures. But how do the **shareholdings** break down?

In co-operatives, the capital is 100% contributed – or almost – by the beneficiary SMEs (Fr, Socama – Be, Cautions Mutuelles – It, Confidis)

In the purely public companies it is of course the State (Ministry or a public agency) that provides them with the totality of their capital.

Mixed formulae of various participants are very common and the table reviews their shareholdings : SGR (Es), Hitelgarancia (Hu), Bürgschaftsbanken (De), SPGM (Pt), KGF (Tu) or AVHGA (Hu).
For example in Turkey, KGF was founded with the support of the Confederation of Traders and Craftsmen (TESK), the Union of the Chambers of Commerce (TOBB), the Foundation for the Support of the Middle Classes (TOSYOV), the Foundation for Training (MEKSA), the State Organisation in Support of SMEs (KOSGEB, contributor of DEM 4,600,00) and the Public Bank HALKBANK, while German Technical Co-operation added DEM 3,500,000 (+/- €1.75 million).

3. Finally it should be well noted that these companies indeed have the possibility – and the economic obligation – to make profits, but not to remunerate the capital by paying dividends. This last type is only found in Rumania, Slovakia and Czechia (CMZRB, where the RoE is a strongly highlighted management criterion, in view of the banking shareholding).

III. Corporate purposes and activities of Guarantee Societies

Systèm	Issue of Short term Guarantees	Issue of Long term Guarantees	Garantees of "contractual good	Advises and Consultancy	Subsidies to SMEs	Loans to SMEs	Other guarantees , activities regarding regional
Bürg.Bank De	1%	99%	X	X	---	---	---
AWS Au	1%	99%	X	---	X	---	---
Bürg.Ges. Au	15%	85%	X	---	---	---	---
SCMOB Be	15%	85%	---	---	---	---	---
Sowalfin Be	5%	95%	---	---	---	---	X
KredEx Ee	15%	85%	---	---	---	---	X
SGR Es	18%	23%	58%	X	---	---	---
Finnvera Fi	50%	50%	X	X	---	X	X
Socama Fr	10%	90%		---	---	---	---
Siagi Fr	0%	100%	---	X	---	---	---
Hitelgar. Hu	60%	40%	X	---	---	---	---
AVHGA Hu	40%	60%	X	---	---	---	---
Fedart It	35%	65%	---	X	---	---	---
Feder It	70%	30%	---	X	--	--	--
Fincredit It	49%	51%	---	X			
Federas It	40%	60%	---	X	X		---
Confeser. It	40%	60%	---	X	---	---	---
Invega Lt	15%	85%	---	---	---	---	---
Rural Fund Lt	30%	70%			X		
SPGM-SCM Pt	20%	80%	X	X	---	---	---
CMZRB Cz	25%	75%	X	---	X	X	X
SZRB Sk	---	100%	X	---	X	X	X
FGCRural Ro	80%	20%	---	---	---	---	---
RLGF Ro	75%	25%	---	X	---	---	X
Teskomb Tu	90%	10%	---	---	---	---	---
KGF Tu	80%	20%	---	X	---	---	---

Specific Guarantee Programmes

Start-ups	**Ventre Capital**	**Innovation**	**Micro-crédits**	**Internationalisation Export.**
Siagi-Fr AWSG CMZRB	AWSG – Au Finnvera – Fi CMZRB	AWSG CESGAR	Socama MVA-Hu SGR- Sp KreDex	AWSG-Au KredEx Finnvera

III. Corporate Purposes and activities.

Comments

The basic activity of our societies consists of course in granting guarantees to SMEs : it is a question, by using market criteria, of facilitating the access to credit of small businesses that have creation, take-over or development projects.

1. Behind this general concept, one must first distinguish between guarantees intended for

- Loan applications addressed to lenders and particularly to bankers (in German, "Bürgschaft"). Among these, it is again important to subdivide between
  - Short-term operations, in support of working capital
  - Medium and long-term operations, in support of investment.
- Certification to a co-contractant of the proper accomplishment of a performance obligation (in German, "Garantie"). This technique is widespread in the construction and real estate sectors or in contracts with Public Authorities. It represents for example 50% of the distributed guarantees of the Spanish MGS in 2002.

One should emphasise the guarantees for short-term loans: intended for working capital, they add "fuel" to the "car" that the investment guarantee has helped to buy. To support the second operation without authorising the first would condemn the "car to remain in the garage"… SZRB (Sk) is somewhat suffering from an overly strict interpretation of the European rules on competition and State aid. If the Slovakian scheme is being penalised, the other schemes are also hampered.

2. The guarantee can be a <u>generic activity</u>, not dedicated to particular business situations, and supported by two "technical pillars", which are
-the legal framework of the guarantee as a security and
-the micro-economic analysis techniques of a business.
But some institutions have <u>arrayed their products</u> according the special objectives that the company might pursue. In this case, the company can find its way more clearly and the Guarantee Society can attach special provisions or prices to specific situations.

Here are some examples :

- AWS (Au) offers a full range of guarantee products in operational programmes, associated with particular modalities: for innovation, internationalisation, venture capital or savings capital for future young entrepreneurs.
  This range is particularly welcome as it meets precise needs with dedicated products.
- Finnvera (Fi) goes in the same direction with programmes oriented towards export and capital risk, investment/working capital, employment and growth (with the EIF), and micro-credits.
- Kredex, a young modern institution like its country, Estonia, is also oriented towards specialising in operations for exports, micro-credits and venture capital and AECM is happy to contribute to its reflection.
- SIAGI (Fr) is the originator of a good practice: a guarantee seeking to alleviate the heavy private financial responsibility of the entrepreneur's parents or spouse, whom

the bank has drawn into the credit risk by means of their personal solidarity with the main borrower.

- SZRB (Sk) has 7 guarantee sub-programmes, which are in fact budgetary and sectorial qualifications rather than operational qualifications.
- Socama (Fr, the Express-Loan) and SGR (Sp, Fund@plus) are resolutely launching themselves into the protection of micro-credits by very flexible programmes that are much exposed to risk.
- Socama also has a guarantee of "environmental loans", which relates to investments intended to satisfy the European standards of hygiene, safety, and the recovery of useable waste (garage, dry-cleaning, restaurant and food processing sectors).
- RCGF (Ru) was accredited in 2002 by an Agreement between the EU and the Government to provide its guarantee for the subsidy projects of the SAPARD programme.
  The same is existing at the Rural Guarantee Fund of Lithuania.
- RCGF can guarantee loans granted for acquiring shares in privatised companies on the recommendation of the Privatisation and Public Participation Authority (APAPS) and the Administration of Domains (ADS).
- Teskomb supports 6 types of operations: discount credit, credit for working capital (especially), establishment, modernisation, employment support and export support.

3. Close to the guarantee, one finds <u>advice and consultancy</u> as a purpose for Guarantee Societies
The result for certain schemes is to add a commission that is not related to the risk and which provides supplementary income to the profit and loss account.
But the decisive advantage is that the Guarantee Society can broaden the field of its co-operation with the beneficiary in a way that reduces its risk. By orienting the entrepreneur in the credit application phase, or by advising the company after the issue of the credit, the Guarantee Society has a tool of follow-up of its risk with the possibility of having early-day information on possible arrears or defaults.

- RLGF (Ru) provided consultancy for 180 foreign investors in 2001, and for numerous Rumanian promoters: an "INSOMAR" survey showed that 86% of Rumanian Companies were applying for support and 71% considered this to be a factor of success.
- The SGR (Sp) also have a financial advisory role, guiding the entrepreneur through the sometimes complicated channels of public subsidies and advising the most appropriate form of credit for each project.
- In Germany, under the promotion of the Bürgschaftsbank Schleswig-Holstein, a pilot project is seeking to evaluate newly-created companies, after one year of activity: at the Guarantee Society, an assessment is made to determine whether the company is on a dangerous path and, if necessary, to redirect it on to the right road. The result is that losses could be reduced.
- SIAGI utilises the "Siagnostic" product, which enables the entrepreneur to perform a rapid diagnosis-assessment on his own, to consult credit guarantee specialists and to obtain advice or support in negotiating and rescheduling credits with their lending bank.

4. Mainly public societies have a wider range of missions than just granting guarantees: loans and subsidies are other missions to perform.

- In Estonia, KredEx, which is the result of a merger, must also encourage the acquisition of housing by young families, as well as export guarantees.
- In Finland, Finnvera, which is a development bank, also grants micro-loans, which level down the risk and enable the banker to set up his own loans with a greater degree of security.
- In Czechia, CMZRB also belongs to the category of "development banks". It is a more complex institution. It fulfils as well purely public missions such as distributing and managing loan subsidies to SMEs on behalf of the State or supporting infrastructure programmes for territorial communities (municipalities…), while behaving in a pure banking philosophy.
- The same model is to be found in Slovakia, with the SZRB: guarantees, direct loans and loans via banks, distribution of public subsidies, credits for the co-operative housing sector, financing of municipal development or environmental protection programmes and, since 2001, the management of assets that previously were entrusted to the Consolidation Bank.
- In Turkey, TESKOMB attaches its guarantee to the distribution of loans from the Halkbank, which are subsidised by the State, reducing the commercial interest rate from 44% to 30%, in these high inflation years of 2002-2003.
- In Austria, the merger of KGG and Bürges Förderung, to form AWS, has broadened the company purpose, including guarantees for SMEs, but also for big companies ; it also distributes loan subsidies.
- Sowalfin, the PME financial specialist, has three axes of activity: the supervision of the sub-regional Investment Holdings (mixed regional venture capital and mezzanine credit companies), the issuance of subordinated loanst to entreprises (Financière Wallonne des PME) and also the guarantee of bank loans.
- The Rural Funds are becoming increasingly associated with the activities of the European SAPARD programme, which seeks to support rural initiatives, especially community policies and local infrastructures. This is the same case of the Rural Fund of Rumania, since 2002.
- Federfidi and Federasconfidi manage loan subsidy funds for entreprises of the commerce/service/tourism sector granted by certain Italian regions.

IV Relationship with Public Authorities

1. Prudential supervision

Mere Banking Law	Specific Rules related to banking supervision	Specific legislation disconnected to banking rules	Direct Control by Public Authorities	No supervision
Bürgschaftsbanken Socama Fr Siagi Fr SPGM Pt Hitelgarancia Hu CMZRB, Cz Bürg.Gesells. Au AWSG Invega	SGR (Es) SPGM (Pt)	Confidis It SCM Be	Fonds de Garantie Be Finnvera Fi AWSG Au Hitelgarancia Hu AVHGA HU Invega Lt KredEx Ee Rural Credit Fund Lt Sowalfin Be AWSG TESKOMB Tu	FGCR Ro FCGR Ro Teskomb Tu KGF

Companies where a revisor is not compulsory.	RCGF, Ro

IV. 1. Relations with National Authorities – Prudential Supervision

Comments.

Control is an essential function in every financial company.

With the exception that proves the rule, it can be deplored that the value of the guarantee is not recognised by the Bank Supervision Authorities in Rumania, in such a way that the provisions of the Guarantee Bodies, unendorsed, have to be duplicated by the banks' own provisions. One can understand that such conditions hamper an attractive financial role to be played!

Control is exercised at several levels [9]

- Internal control, organised by the company's specialist staff, in order to control the proper execution of procedures and the reliability of that execution. All companies have, in different ways and to different extents, internal audits that verify the quality of the commitments and establish the requirements of provisions. To our way of thinking, this is essential!
- External control, entrusted to an external auditor who certifies the reality of the accountancy information contained in the annual accounts and the Directors' Annual Report. This control exists everywhere, except in the Rural Fund of Rumania. In some countries, as in France, at the SIAGI, it is duplicated by the presence of a Government Auditor.
- Prudential supervision: we will devellop this special point.

Prudential supervision is a stage of control that goes beyond internal control and the external control of an auditor.

As the word indicates, it examines, in a legal framework, how the company is meeting the principles of sound and prudent management that is enshrined by principles of accreditation, managerial competence, liquidity, solvency, and so on. It is therefore essential to create the confidence of the Guarantee Society's market partners, and, in particular of the banks that have recourse to it. This confidence is all the more necessary when the Guarantee Societies accept commitments that reach or exceed many times their own funds covering commitments.

Supervision is organised by the law.

1. Certain States cannot imagine putting guarantee mechanisms into practice without a supervisory framework: this was the case in the United Kingdom where the attempt to found Guarantee Societies failed because of the public authority's refusal to form a specific framework of activity.

This was also a serious threat for Belgium, where the SCM were, in 1996, deprived of their control umbrella by the privatisation of the public bank previously charged with their accreditation and verification. Without this umbrella, the directors of the SCM were warned that henceforth they would be assuming the risks personally. More than three years were required to reconstitute a legal environment that enabled the continuation of a scheme that had meanwhile been severely weakened.

In Rumania, the society could be launched without supervision and therefore the recognition of the scheme was lessened.

2. The main form of supervision is banking legislation, although Guarantee Societies do not call upon public savings and work exclusively with their own funds.

The banking legislation results from the national transposition of a European directive dictated by the Basel Committee.

[9] See the Basel Document: The Relationship Between Banking Supervisors And Bank's External Auditors, January 2002.

Its broad strokes are the supervision of the management, especially of the solvency. The main indicator of solvency, in the Basel 1 Accord of 1988, was the "risk asset ratio", specifying the amount of equity necessary for the support of bank assets weighted by risk categories.
The new Basel 2 Accord, which will come into force in 2007, will not change the "capital adequacy ratio" standard (Own funds more than 8% of weighted assets) but it will fundamentally review the calibration and weighting of the risks, with new concerns for Guarantee Societies.
This Basel 2 Accord is absolutely essential because it will provide the required conditions of qualification for the guarantee to be an instrument mitigating bank SME credit portfolios.
In modalities that are to be revealed in the final Accord, the guarantee could for example be a direct and irrevocable, callable when required. The qualification of guarantor could be claimed by sovereigns, banks or corporates, provided that their solvency is superior to the covered portfolio.

3. Concerning the key issue of a supervision, attention should be paid to the Spanish system that has designed a complete specific framework.
If the visible aspect is the control by the bank of Spain in a banking mode – which does not enable SGR to escape from the consequences of Basel II – there is behind it a complete legislation organised by the Act 1/1994, the Royal Decrees 2345/1996, 1644/1997 and the ministerial regulations of 12.02.1998.

4. In Belgium, for the Mutual Guarantee Societies, the review of the prudential pillar is based on a particular legislation organised in the context of the law of "promoting the independent company".
The regulation is oriented towards a specific, non-banking context.
The headlines of the control are the accreditation of the societies, the skill and independence of the organs, the maintenance of liquidity capable of meeting any disbursement requirements relating to defaults, the minimum solvency rule, the risk provisioning techniques, and the maximum extension of the commitments portfolio. The society is obliged to provide complete, accurate information and the controller enjoys decisive executive powers (to send in a special auditor or to impose a recovery plan or an obligation to merge or to liquidate in the event of difficulties).

5. Italian law has positioned the Confidi in the rank of non-banking financial companies.
In our eyes, it is the contract signed between the guarantors and the lending banks that represents the regulation of the activity. Indeed, by means of this contract the maximum guarantee amount is fixed, in exchange for deposit of an underlying risk fund in the banks books. Fedart obtains multipliers of between 16 and 20 times; Federconfidi-Confindustria and Federfidi-Confesercenti about 20 times. The degree of real use of this maximum leverage does not reach the contractual ceilings (50% at Fedart).
It is therefore the bank, by a contractual element, that gives the cardinal prudential rule.
This situation is the result of the history of that spontaneous movement of entrepreneurs in a company with a strong density of SMEs.
The law has not "caught up with" reality and the Confidi have had to make sure of their security themselves, which they have done, in particular :

- By banking contracts defining the limits of their commitments.
- By the organisation of Confidis at a second territorial level more amply equipped with capital, and providing the field (first level) Confidis, more disseminated and less capitalised, with counter-guarantees

The Italian colleagues are conscious of the need for a legal framework (legge quadro) and are in discussion with their banking association (ABI), their Central Bank and the political power. In the face of these different points of view, the normalisation process is appearing in the form of a compromise and medium-term structural adjustments.

6. In public schemes, special rules duplicate prudence by a control umbrella often entrusted to the Ministries of Finance.

- In Hungary, AHGA is required to deposit an amount of €20 million at the Central Bank.
  This is a protective "shield": if the company had to touch it for payment requirements, it would be an alarm signal given to the authorities concerning a possible structural weakness.
- In Belgium (Sowalfin) and in Lithuania (Invega), the State defines the amount of commitment for which it will accept financial responsibility:
  - Sowalfin has a maximum "full flight" portfolio possibility of €500 million.
  - Invega can commit the State for a maximum of €8.7 million for the year 2003.
- In the Slovakian Republic, if the State wants to reduce or increase SZRB's capital, it requires the authorisation of the National Bank of Slovakia (Article 4 of the Articles of Association).
  There is a Supervisory Board (with delegates from 3 Ministries), which is responsible for the proper observation of the statutory missions, good organisation, execution of the internal audit plan, and the approval of the external audit report.
  SZRB is also subject to banking law for the financial responsibility of its commitments (Article 16 of the Articles of Association).
- KGF is under public supervision via its shareholder company, KOSGEB.

In summary, control appears as a necessity at three levels: internal audit, external certification and prudential supervision.
This conclusion is also a warning to Guarantee Societies to be started: the existence of an appropriate supervision is a condition of a successful start.

IV. Relationship with Public Authorities

2. Public Supports

Systèm	The State is fully responsiible of the	Public Participation in the Cpatital	Public Participation in The Risk Funds and Provision	Counter-guarantee Pr ogrammes	Subsidiation of the Guarantee premium	Subsidies of the functionning costs and other advantages
Bürg.Bank De	---	---	---	39% Bund 26% Land	---	Taxes.
AWS Au		100%	---	ERP / Chambers Com, EIF		Taxes
Bürg.Ges. Au	---	---	---	80%	---	---
SCMOB Be	---	----	EU Fonds	50% Regional Guar. Funds	---	
Sowalfin Be	X	100%	---	---	---	---
KredEx Ee	---	100%	PHARE	---	---	---
SGR Es	---	Regions	---	30-70% CERSA, FEI	part. Régions	---
Finnvera Fi	---	100%	---	40 - 70% depending area , EIF	---	---
Socama Fr	---	---	---	FEI	---	very low
Siagi Fr	---	---	---	co-guar. Sofaris, Régions, EIF	---	very low
Hitelgar. Hu	---	50%	---	70% < Stae budget	50% (*)	---
AVHGA Hu	---	93%	PHARE	70% < State Budget	50% (*)	---
Fedart It	---	Regions	??	partly (Artigiancassa, Mediocredito), EIF	---	---
Feder It	---		47%	partly Law 266/97, EIF	---	---
Fincredit It	---	Regions	??	partly : Mediocredito, EIF	---	---
Federas It	---	---	??	State → 2000 / FinPromoTer	---	---
Confeser. It	---	---	+/- 15%	Commerfin	---	---
Invega Lt	X	100%	PHARE	90% , State budget	75%	---
Rural Fund Lt	X	100%		State budget	80%	---
SPGM-SCM Pt	---	48%		50% FCGM, EIF	---	---
CMZRB Cz	---	72%	---	---	90%	---
SZRB Sk	---	72%	PHARE	---	?	---
FGCRural Ro	---	---	EU	---	---	.---
RLGF Ro	---	---	PHARE	---	---	
Teskomb Tu	---	---	---	---	---	No Tax
KGF Tu	---	---	---	50% only subsidied loans	---	No Tax

IV. 2. Relations with National Authorities – Support Policies

Comments

A great majority of Guarantee Societies are part of a private/public partnership system.
Having encountered this interpenetration in terms of prudential supervision, it can also be observed in operational processes. One must see behind this a major political concern of many States to support its middle class by an instrument managed by an independent operator, within a responsible company and with respect for market standards.
The German colleagues use the judicious expression "Hilfe zur Selbshilfe".

In a SME public support policy, a Guarantee Society is also an instrument that is
- Revolving: the loan repayments create a margin for new commitments
- Demanding of little capital as there is disbursement only in the event of loss
- Having an important leverage between own funds and underlying supported credits.

- Paradoxically the private scheme that is least strongly attached to the public sector is a company founded by a government. It is the Rumanian Loan Guarantee Fund for Private Entrepreneurs, founded by the government on the recommendation of and with the assistance of international support, and which, through capital increases, has completely detached itself from its public base to become the property of banks. It is nowadays working without any support from the Rumanian State. It would without doubt be desirable for this credit access tool to find a better partnership.
- At a level that is hardly higher, one finds the French Socama, which also work only on their own solvency, fortified by their close integration into a solid banking group, the Banques Populaires. In certain French regions, they hardly have any **operational subsidies** from the region's General Council. In certain regions (Midi Pyrénées, Nord, Ouest) the Regional Council participates in the payment of the entrepreneur's management fees. This for a limited total, which is not exceeding €100,000 in all for the whole network. SIAGI benefits from the same measure, to a very limited degree.
- As other operational subsidies, mortgage tax does not apply to the operations of the AWS (Au) and the SGR (Sp).
- In Turkey, KGF and TESKOMB work with exemption of tax.

1. The first characterised form of support is that of a **public participation in equity,** either in capital or in the provision funds.

1.1. If a public authority, central or regional, provides provision funds, it does not receive representative shares of the capital and therefore is not active in the statutory organs: Annual General Meeting, Board of Directors or Commitment Committees.
It delegates an economic power to a tool where total trust is placed in its management. Conversely, no management responsibility is endorsed and the sum "to be lost" is limited to an absolute threshold. That is the Italian model.

- Taking the example of the industrial Confidi of FEDERCONFIDI, accurate statistics give €185 million of public money in provision funds in a total equity of €612 million.

- With Federfidi-Confesercenti, the estimate is 15% of equity in risk funds.
- With Artigiancredit Emilia Romagna, €12,598,556 represent a provision of the Risk Funds of the Region and the Chamber of Commerce, in total equity responsible for €15,365,605.

1.2. Many examples give evidence of participation in capital, a technique whereby a public shareholder assumes his share of responsibility in the exercise of proprietorial rights. The shareholder can be the State itself, a subordinated power or a public development agency.

There are numerous examples:

- Hungary, Czekia and Slovakia : State majority participation in the capital of Hitelgarancia, CMZRB and SZRB.
- Finland, Austria, Belgium, Lithuania, Estonia with a 100% participation of the State in Finnvera, AWS, Sowalfin, Rural Fund, Invega and KreDex.
- Spain with 24% coming from the Autonomous Regions and 3% from local Communities.
- Portugal with some 48% held by IAPMEI and the Tourism Promotion Board.

1.3. In the same order of ideas, there is the position of public donors.

In this model, the intervention takes place as a donation, at the moment of creation, on the basis a credible business plan.

This is the case with international donors where one finds the European Phare Fund or the American USAID.

- In Estonia, Phare intervened for EEK11 million alongside the public capital of EEK 261.3 million.
- In Hungary, €10 million Phare money have been added to an equivalent sum from the State.
- In Lithuania €6.4 million have been invested by Phare.
- In Rumania, the equity of the Rural Fund (RCGF) contains €12 million allocated by the European Union to a total of €12.7 million at the end of 2002.

1.4. One cannot put the participation of the Chambers of Commerce and Industry on the same footing, although, in certain countries, they are in the State orbit.

- As for the French SIAGI, 100% of the capital is held by the Chambers of Trades.
- In Federfidi Lombardia, the Regional Chamber of Commerce Union is a major player.

2. The public partnership is also expressed by **automatic counter-guarantee programmes.** In this case, protection is extended to the guarantee body, alone in charge of the analysis and the decision, by a partial intervention into the losses.

This technique is a characteristic of States with an advanced "Middle Class" policy. It is evidently very useful but presents for the counter-guarantor the disadvantage that, at the moment when the support is granted, nobody yet knows when and for how much it would be translated into a budgetary commitment. There are therefore very strict controls.

Here are some illustrations :

- Germany, where the Bürgschaftsbanken receive a joint counter-guarantee from the Bund and the Länder of 68% in the former West German Regions and 80% in the former East German Regions.

- Hungary, where the State covers 70% of the losses of Hitelgarancia and AVHGA, with an annual budgetary ceiling (70 million HUF concerning AVHGA).
- Belgium, with the automatic intervention of Sowalfin, amounting to 50% of the losses of the Mutual Guarantee Societies for investments made in Wallonia. The same percentage applies in Flanders and in Brussels.
- Spain: the CERSA, a body with a banking statute, subsidiary of the public Institute ICO, counter-guarantees the SGR, in a very precise regulatory context which goes from 0% to 30%, and 70% according to the priority established by the State for certain programmes (innovation : 70% / working capital : 0%). The average for 2002 is 35% of counter-guarantee.
- Austria: the financial revenues of €50 million from the ERP fund (Reconstruction Fund) can be used for the partial cover of AWS losses.
- Turkey: KGF has a public counter-guarantee of 50%, but it is limited to businesses that are eligible for public interest subsidies.
- Italy: the public programs managed by Mediocredito Centrale (outstanding counter-guarantee loans of €324 million in 2002) and Artigiancassa are used also and especially as "re-insurers" for the commitments of certain Confidis.
  At Fincredit, two Confidi (Eurofidi and Sardafidi) call on the Mediocredito Centrale, which covers their commitments to an extend of €120 million.
  The Federasconfidi-Confcommercio organisation creates a national level of protection in a FinPromoTer company that associates €1.3 million of private money with €13 million of public funds. It has been operational since May 2003, for micro-business loans, which, if they have recourse to it, are obliged to have their annual balance sheet reviewed by the Confidi.
  Similarly, Federfidi-Confesercenti has created the Commerfin as a dome of national protection for its network of 43 Confidi. Out €11 million of funds, €1 million comes from the Confidi and €10 million from the public purse. It will start its activity in September 2003.
- France: the SIAGI has public co-guarantee partnerships with certain Regions (Burgundy) and with the Sofaris.
- European Union: It is by the modality of counter-guarantee that the European Commission has chosen to provide specific aid for SME investment. A budget voted by the European Parliament is administered by the Commission, which entrusts its management to the European Investment Fund, a specialist body of the EIB group.

A general counter-guarantee contract is entered into with market operators, in modalities defined by sub-programmes (ICT facility, Loan Guarantee facility, Micro-credits facility).
The contract contains a fixed period in time and contains a maximum ceiling of intervention calculated on historical losses of each co-contractor.
At this time, the first "Growth and Employment" programme has sustained more than 119,000 SMEs, according to the EIF's annual report of 2002.
A concrete example: at Artgiancredit Emilia Romagna (Fedratfidi network) the outstanding guarantees of €370,624,112 at 31.12.2002 are partially assumed by the EIF for €106,596,722.

3. A particular modality of private/public co-operation resides in **subsidising the guarantee premium.**

Calculating the guarantee premium at the real rate of the possibility of loss in very exposed programmes, its cost can be fairly high. This could lead to attracting only high-risk dossiers into the scheme, to the detriment of the portfolio's overall balance.
The State can thus decide to provide a subsidy for the premium on the behalf of the SME. Doing so, the State limits its budgetary input to an amount that it spends in the year and leaves no carry-over effect in the budget of coming years.

- This political modality is to be found in the Czech Republic. The State subsidy is distributed to the beneficiary entrepreneurs and therefore does not directly benefit CMZRB, thereby enabling it to avoid the special European rules.
- Invega (Lt) has also a premium subsidy of 4%.
- The same is true of the Hungarian Guarantee Societies and the Rural Guarantee Fund of Lithuania.

4. Finally, certain States are **completely responsible** in the last resort for the commitments of their guarantee scheme, even if they do not assume its management.

- In Austria, the commitments would be assumed in the last resort by the State if the industrial operator (AWS) were unable to cope with the total losses.
  This is a form of terminal financial umbrella, which only makes sense for ensuring the banks of the security of their protection, without operational incidence.
- It is the same for Sowalfin (Be), the Rural Fund and Invega (Lt).

It should be noted that, in these cases, the State lays down the ceiling of the guarantee commitments that it is prepared to assume.

5. This review cannot fail to mention the conditions in which State aid is given and to indicate the extent to which they meet the rules of competition and State aid.

- In the decision process, the power of the State is not decisive.
- The guarantee decision is based on market criteria, on the project's viability in particular
- There is no discrimination between SMEs, which are all eligible for guarantee.
- Due to the target market (micro-businesses, small businesses), situations of dominant position abuse are not created that would breach inter-state commercial regulations.
- For the guarantee, an alignment of credit conditions operates between small and large companies. There is no distortion of competition in the financial markets.
- The operations are of small amounts and the public aid is very limited.
- The guarantee is not for free but gives rise to the payment of a risk premium.
- The intervention of the public sector is only partial and operates in a risk-sharing scheme between the provider of the credit, the guarantor and the counter-guarantor, while the entrepreneur retains final responsibility for his or her commitments.

V. Commercial Networks

	National Society with 1 national seat	National Society with regional branches	Fédération counting x active companies and regional	Commerial support got from SME business organisations	Number of beneficiary banks
Bürg.Bank De	---	---	24	Chambers Craft, Commerce, Indust.	200
AWS Au	1	---	---	Ch. Commerce + Consulting bodies	200
Bürg.Ges. Au	5	---	---	Ch Commerce	15
SCMOB Be	---	---	6	---	1(+3 attempt)
Sowalfin Be	1	---	---	---	15
KredEx Ee	1	---	---	Ch. Commerce, Eston. Assoc. SME	4 (all)
SGR Es	---	---	21	Ch. Commerce	150
Finnvera Fi	---	12	----	Accompaniement Cttees	all
Socama Fr	---	---	42	Toutes organis. artisanales et PME	1 network
Siagi Fr	---	28	---	Chambres of Craft	8
Hitelgar. Hu	1	---	---	Federations of Employers.	25 + 42 Saving coop
AVHGA Hu	1	---	---	---	10 + 129 Saving coop
Fedart It	---	---	341	CNA, Confartigianato, CASA	+/- 200
Federconfidi It	---	---	85	Chambers Commerce, Confindustria	267
Fincredit It	---	---	30	Chambers Commerce, Confapi	150
Federasconfidi It	---	---	74	Ch. Commerce, Confcommercio	180
Confeserc. It	---	---	43	Confesercenti	120
Invega Lt	1	---	---	---	9
Rural Fund Lt	1	---	---	Agricultural Unions, Chamber of Agriculture	11
SPGM-SCM Pt	1	---	3	IAPMEI, Tourime Promotion Agency	toutes (15)
CMZRB Cz	---	6	---	Ch. Commerce + Network Consutancy	20
SZRB Sk	---	6	---	Assoc. Entrepreneurs, Chambers SME..	14
FGCRural Ro	1	---	---	---	8
RLGF Ro	1	---	---	Ch. Com, Reg. Dev. Agencies	10
Teskomb Tu	--	---	32◎900	Confed. Commerce Craft, MEKSA	1
KGF Tu	---	2	---	Ch. Commerce, MEKSA	4

V. Commercial Network

Comments

The commercial network of the Guarantee Societies justifies in itself that particular attention should be paid to it.

1. The reason for this is the following:

a) The value of a risk evaluation by Guarantee Societies resides in the heavy weighting that is given therein to qualitative elements that are personal to the applicant and intrinsic to the project.

- The ability of the entrepreneur and his or her team (experience, training, motivation, reputation and fame…)
- The project's technical and economic value (for example for a new company through isolated creation, assisted creation, franchise, take-over, LBO, family succession…/ internal growth, external growth through internationalisation, innovation, acquisition of intangible assets…)
- Elements of the local market (local competition, accessibility and visibility of a shop, the characteristics of the success requirements, the local demand…)
- Knowledge of the key business ratios (for example the tonnage of flour bought by a baker as an indication of his turnover or growth margin… or the normal rate of stock rotation of a textile retailer as an indicator of the health of the stock…)

b) Such knowledge is more precise where proximity is greater between the Guarantee Society and the businesses that apply for its services. Mainly, where local entrepreneurs themselves are the most involved in the guarantee decision.

c) In this antagonist debate between a more fertile but more costly proximity and a cheaper centralisation, it seems, until today, and let us hope still tomorrow, that banks and Guarantee Societies are following opposite paths : the former are moving towards larger entities and decision-making offices further removed from the field; the latter are endeavouring to remain more local and more in tune with the players in the field: entrepreneurs, or Chambers of Commerce and Industry or SME business organisations.

2. In a majority of cases, national Guarantee Societies with a single headquarter are therefore established in a decentralised fashion.

Starting by the main exceptions, one would indicate AWSG (Au) or Hitelgarancia (Hu), not to mention Invega (Lt) or KredEx (Es), which are younger institutions.

Here are examples of societies that have based themselves a network:

- Sowalfin has entered into a risk-sharing agreement with the 5 Walloon Mutual Guarantee Societies for guarantees up to €150,000.
- SZRB and CMZRB have each created a network of 6 regional offices.
- Finnvera is working with 12 agencies spread across the territory and a Committee made up of field players gives consultative advice on the company's SME strategies.
- SIAGI has 28 branches in the French regions.
- KGF, after its Ankara office, has created a branch in Istanbul, the country's industrial heartland.

3. A very interesting example is that of SPGM (Pt). The society was created as a pilot project installed in Porto and oriented, during its learning phase, towards medium-sized enterprises. The intention was however, from the outset, to turn towards smaller companies in more regional offices. The objective has just been realised in practice by the launching, with effect from 01/01/2003, of 3 Mutual Guarantee Societies in Porto, Santarem and Lisbon, while awaiting other creations as time goes by.

4. The most ramified guarantee company networks are those of the Mutual Guarantee Societies.

- The Socama are 42 with 800 entrepreneurs sitting on the Decision Committees.
- In Turkey the local co-operatives of Teskomb are 970, grouped into 32 Regional Federations that are headed up by a National Union.
- In Italy there are more than 600 active co-operative societies and consorzifidi.
  This is both an element of strength and of weakness at the same time.
  Weakness of individual capitalisation of the Confidi that had obliged the creation of a second-level consolidation network.
  Strength of mutualist assembly since, in certain regions, more than 50% of the entrepreneurial population is affiliated to the Confidi: they all know each other and decide on the confidence to support each others on the basis of their managerial capacities. Result: extremely low loss rates (1.5% at Fedart from 1998 to 2001, 0.57% as the net historical rate at Federconfidi).
- In Spain, among the 21 SGR, Iberaval has 10 agencies; Valencia and Elkargi have 3. The Catalonian Region will soon have its own SGR.

5. Finally, upstream of the guarantor, there is the lender. The clarity of the rights and obligations of the one and the other require the conclusion of a clear, explicit contract between them.
Especially banks, but also leasing companies are interested.
The table indicates the number of agreements with banks that have been signed by the Guarantee Societies.

- The most significant observation is the large number of small regional banks, mutualist banks and co-operative banks in the network.
  - In Italy, the 85 Confidi of Federconfidi have 834 agreements with 267 banks, the majority of which being local banks or Popular Banks.
  - Fedart has 1858 banking agreements, an amount that increases each year (since 1999: 1671, 1740, 1858).
  - Federfidi-Confesercenti has 3 national agreements with Monte Passchi, BNL and Intesa, but the local Confidis of its network have numerous agreements with more than 120 local banks.
  - In Spain, 38% of the guarantees go through the local / regional Savings Banks and 6% via the credit co-operatives : private banks represent 22%.
  - In Germany, the Bürgschaftsbank NRW – Neuss, the Savings Banks are distributing 40% of the guarantees and the Credit Co-operatives 39%. The private bank share is 21%.

- In Hungary, 42 Credit and Savings Co-operatives are an important relay in Hitelgarancia's distribution network and AVHGA is in contact with 129 of them.

There is a "cultural complicity" between partners that share the same view of regional development as the SMEs.

- But large national banks also make use of the guarantee, more perhaps with the financial purpose to limit their losses.
    - In Belgium, the large Belgian banks concluded an agreement with Sowalfin as soon as it was launched.
    - In Austria, the large commercial banks have recourse to the Bürgschaftsgesllschaften for their operations of a regional scale.
    - In Rumania also, RLGF functions as a service unit for the benefit of the banks that are its shareholders.

- Finally, let us mention Socama, which relies on a allied network: the 25 Regional Banques Populaires. In this case, it is furthermore no longer a question of commercial relations, but a true partnership between institutions whose joint efforts seek to increase the loan portfolio and to develop marketing synergy.
  -Teskomb (Tu) and KGF work also in very close collaboration with Halkbank.

VI. Modes of issuing the guarantee

1. The extend and the sectorial targets of the guarantee

Systèm	Maximum amount per single guarantee in €	Maximum % of the credit cover	Max duration (in years)		Main Sectors of activity
Bürg.Bank De	1 Mio.	80%	15		All with focus on start-ups
AWS Au	1 Mio	50% à 100% (1)	20		All sectors, except tourism
Bürg.Ges. Au	750.000	80%	10		Very broad target ; mainly industry
SCMOB Be	150.000	75% / de 50 à 75%	10		All, focus on local micro and self-employes
Sowalfin Be	2,5 Mio	75%	--		All focus on middle-sized cies
KredEx Ee	450.000	75% (40% leasing)	15		All (food ind. 19%, commerce 14%, wood, paper 18%...
SGR Es		100%			All : services 34%, industry 32%, building 16%....
Finnvera Fi	variable	50%	10		All : industry 57%, tourism 9%, servces to entrepr. 21%
Socama Fr	100.000	80 à 100%			Craftsmen 90% (food, services...), Commerce 10%
Siagi Fr	300.000	50%	15		Craftsmen (47%), Commerce (46%)
Hitelgar. Hu	2,4 Mio	80% LT / 65% CT	15		All : Commerce 32%, Food Ind. 23%, Construct. 15%
AVHGA Hu	500.000	80% LT (*)	15		Agricultural (65%) and rural (35%)
Fedart It	300.000	50%	10		Craftsmen
Feder It	variable	50%	5		Industry (mécanichal, printing...)
Fincredit It	variable	50%	5		Small industry (mécanichal, textile, wood, leather...)
Federas It	variable	50%	5		Commerce, tourism, services
Confeser. It	variable	50%	10		Commerce, tourism, services
Invega Lt	232.000	80% LT / 70% CT	10		All sectors (industry, services)
Rural Fund Lt	350.000	80%	12		Agriculture, rural + Price Regualtion Agency
SPGM-SCM Pt	1.250.000	75%	8		Industry 58%, textile (30%) rather middel-sized Cies
CMZRB Cz	3 Mio	70%	15		All (industry, building., services)
SZRB Sk	1,58 Mio	65% of investment.	10		Industry 34%, commerce 6%, agriculture 45%...
FGCRural Ro	n.d.	70% LT / 50% CT			Agriculture and rural businesses
RLGF Ro	n.d.	70% / 70%			All / focus on services + industry Chemical, textile
Teskomb Tu	7.000	100%	2		Micro-entreprises of Craft and trade sectors
KGF Tu	400.000	80%	5		Middle-sized entr., focus on industry - services

VI. 1. The extend and the sectorial targets of the Guarantee

Comments

This table indicates the limits of the guarantee.

- Maximum amount per operation
- Maximum percentage of credit cover
- Maximum period of commitment

At the same time, it shows the sectorial distribution of the Guarantee Societies' SME market.

1. The part relating to the **intervention ceilings** per dossier is a little theoretical and requires some illustrations.
    - In principle, each society has intervention ceilings. This ceiling is never very high and, for example it is most frequently within the limits of the Basel standards (< €1 million exposure leads to a "retail" portfolio / only Federconfidi counts "small corporates" in its portfolio).
    - The response "variable" relates to federations of Guarantee Societies where each member has individual limits, established on its own solvency.
    - Reality can be far away from theory. For example here are the guarantee averages per deal in some countries:
        - CMZRB : actual average €200,000
        - SZRB : actual average €74,000 in 2001
        - Bûrgschaftsbanken : actual average €172,500 in 2002
        - SPGM : €135,400 in 2002
        - Hitelgarancia : €54,000 in 2002
        - AVHGA : €34,000 in 2002
        - Socama : €22,000 in 2002
        - Federconfidi : €54,600 in 2001
        - Fedartfidi : €19,000 in 2001
        - Siagi : €104,000 in 2001, after €99,000 in 2000
        - Rural Guarantee Fund (Lt): 5,448 in 2002

    It is therefore essential to note the low average per guaranteed operation.

2. The **maximum percentage of guarantee** on the credit does not exceed 80%.
The principle of risk-sharing – loss-sharing is the rule.
This percentage is fully compatible with the European rules in respect of State aids.
    - The Socama scheme of 100% of cover results from operational synergy with the 25 Popular Banks. The collaterals of the borrower are taken at parity for the Bank and the guarantee. This index expresses the will of joint risk management, with a legal processing of the loss that the guarantor usually entrusts to the good offices of the borrower.
    - In Spain, the 100% guarantee of the SGR results from the scheme's design: it is the SGR alone which is the administrator of the risk and the banker "is only" the purveyor of funds. This excludes any risk premium from his interest rate. If the

borrower has collaterals to be given, this is done in favour of the SGR (in 2003, 36% of the annual grants were covered by borrowers' real securities for the benefit of the SGR).
- In Lithuania, the Rural Fund started with a cover of 100%, but, after 2 years of activity, it has appeared that 80% was a more coherent maximum for a fair relationship with banks.

It should also be noted that the minimum rate of coverage does not descend beneath 50% (Italy, Portugal, Siagi Fr). Indeed, at too low a level, the guarantee loses its stimulating impact. The bank is not interested in consulting another intermediary for cover of a counter-party risk that is too low.

3. Normally, the period of the credit is linked to the period of life of the underlying invested asset and the **maturity of the guarantee** is associated with its economic duration.
The maximum maturity of the guarantee can therefore be long: 10, 15, even 20 years.
This option enables the guarantor to be a partner in risk for the whole credit exposure, especially for long-term credits, where visibility on the economic horizon is weaker.
- The Bürgschaftsbanken have long periods of commitments (1% of the portfolio is in short-term).
- The shorter cover period of the Italian Confidis should be noted. This is a majority of short-term credits that are covered, with a much faster rotation. At the Fedart, the average duration is 43 months.
- A special practice of the Flemish MGS (Be) is to cover not the entire period of the credit, but the first installments. For example if, on a credit of 100 over 10 years, the banker obtains a mortgage on a building that is worth 60 and nothing more, he can request a guarantee of 40 over 4 years. This method presents greater risks. On the other hand, it limits the payment of the premium to 4 years instead of 10 (less costly for the borrower) and gives as well a greater rotation to the portfolio.

4. Finally one can be interested in the **<u>sectors</u>** served by the guarantee.
A first great distinction is that between agricultural businesses and the other SMEs.
- In the "agricultural" family, one would place AVHGA (Hu), the Rural Funds of Lithuania and Romania and, to a certain extent, SZRB (Sk). These risks are special, as described by the 2002 annual report of FGCR (Ro).
  -The agricultural economy is far or less predictable, because it is linked to weather conditions.
  -The farmers' incomes are very unequal in time, linked to the sale of the harvests.
  -The situation is difficult in transition economies, where agriculture has not achieved its mutation.
  The policies of agricultural support are also much marked by the European Union's Common Agricultural Policy. The trend is currently to broaden the agricultural support to the entire rural world (SAPARD programmes). Agriculture should therefore often be understood in its widest sense, with strong interleaving of agricultural business and other rural SME businesses. It is in this sense that the "rural" Guarantee Societies that are members of AECM are working.
- As far as the "ordinary" SME is concerned the Guarantee Societies take an interest in everything that is not forbidden: the banking sector, insurance, health care for

example or even a strong reluctance for transport (in Spain this sector has been hived off into a special SGR, Transaval).

- The social economy can be the purpose of a special company (Bürgschaftsbank fûr Sozialwirtschaft in Germany or OINARRI SGR in Spain). This sector comprises an interesting series of activities and AECM's Bologna Seminar in 2001 attempted to interest more of its members in this matter.

5. One thus observes in the table the **great variety of target markets**, with some possible annotations

- The Bürgschaftsbanken are strongly established in credit for creators (Existenzgründung, which represents 40% of their portfolio). This is one of the European schemes where the additionality of the guarantee is the strongest, but at the price of a greater sensitivity to economic circumstances, as indicated in their 2002 annual report.
- SIAGI, an emanation of the French Chambers of Trades, is oriented towards business transfers and company successions (58.7% of the grants of 2001). This is a specialisation in which the society is expending its expertise by specific sectorial studies (recent studies on the hotel industry, food and food craftsmanship show how the approach is pragmatic and grounded in reality…)
- TESKOMB and Socama are oriented towards craftsmen (and traders in Turkey).
- In Italy the Confidi are not multi-sectorial: Fedart has a craftsmanship clientele: Federfidi (linked to Confindustrial) of industrial businesses, Fincredit to small industrialists, Federasconfidi and Confesercenti to commerce, services and tourism.
  This situation is a heritage from the past, with ideological particularities that remain very much alive.

VI. Modes of issuing the guarantee

2. The cost of the guarantee

Systèm	Average annual rate of the guarantee premium paid by beneficiary SMEs	Application fees in % of the guarantee amount	Annual processing fee in % of the guarantee	Capital subscription	Repayable ?
Bürg.Bank De	1% (can be 1,2% for 1st operation , then 0,8%)	---	0,75	---	---
AWS Au	0,8 % / Venture Cap : profitability based	0,5%	---	---	---
Bürg.Ges. Au	1% p.a. on the annual guaranteed amount	0,5%	---	---	---
SCMOB Be	≈ 1% p.a. on guaranteed exposure	---	---	Yes	Yes
Sowalfin Be	1% p.a. on guaranteed exposure	---	---	---	---
KredEx Ee	1,5 à 3% p.a. on guaranteed exposure	---	---	---	---
SGR Es	Variable (Average 1,2%) on guaranteed exposure	---	---	Yes	Yes
Finnvera Fi	1 to 4% p.a. on guaranteed exposure	0,5%	0,9%	---	---
Socama Fr	1 to 1,5 % one shot whole duration	---	0,5%	0,01%	Yes
Siagi Fr	1,38% to 3,14% one shot whole duration	1,36 à 1,62 %	---	---	---
Hitelgar. Hu	1,2% <1 year maturity / and 2% > 1year, % p.a. on guaranteed exposure (State Subsidy)	---	---	---	---
AVHGA Hu	0,31% <1 an / 0,88% >1 p.a. on loan exposure (State Subsidy)	---	---	---	---
Fedart It	0,5% average, on loan amount	---	---	Yes	Yes
Federconfidi It	0,2 à 1% average, on loan amount	---	---	Yes	Yes
Fincredit It	1% - 1,5% on the guaranteed amount	---	---	Yes	Yes
Federas It	0,5% p.a. on guaranteed exposure	---	---	Yes	Yes
Confeserc. It	0,5% à 1% on the loan amount	---	---	Yes	Yes
Invega Lt	1% one shot for the whole duration (aver. 3 years) (State Subsidy)	---	---	---	---
Rural Fund Lt	1% one shot for maturity > 1 year / 0,5% for maturity < 1 year (State subsidy)	---	---	---	---
SPGM-SCM Pt	0,2 to 1,5 % on guaranteed amount	---	---	Yes	
CMZRB Cz	Variable : 0,5 to 2% (State subsidy !)	€80	---	---	---
SZRB Sk	variable with maturity			---	
FGCRural Ro	3% > 1 year / 2,5% <1 year	---	---	---	---
RLGF Ro	3 to 3,5 %	1%	---	---	---
Teskomb Tu	3% p.a. on guaranteed amount	---	---	Yes	No
KGF Tu	1 à 3% p.a. on guaranteed amount	---	---	---	---

VI. 2. The Cost of the Guarantee

Comments

The guarantee is a financial service with a price: its pricing can be modulated into annual premiums (or commission), a file cost and operational costs.
The table summarises these aspects:

1. The **pricing of the guarantee** obeys certain rules.

- On the one hand, the price has to cover the performance of the service, comprising operational and working charges. It is therefore not a question of profit margin available for remuneration of capital. But it could nevertheless be a question of a surplus that the company would allocate for the strengthening of its provisions and an enhancement of its solvency for a future that is still somewhat eroded by inflation.
- On the other hand, the remuneration of the service cannot be too high because, in this sense, it would only attract high-risk affairs into the portfolio. There would be a perverse effect that would risk pushing the cost even higher. But let's put things into perspective: "too high" is a fluctuating notion, which does not have the same meaning in an economy with an inflation rate of 3% and interest rates of 8% or in an economy with interest rates of 0.5% and a cost of commercial credit of 5.5%.
- Finally, an overly low price will attract weak affairs at a cheap price into the portfolio, without additionality and will oblige the "good" guarantees to subsidise too much the "bad" ones, which would not have paid a fair entrance price.

The price therefore plays a regulatory role for the composition of a sound portfolio.

2. It is on this concept that the innovative Austrian scheme of **"success based guarantee"** has been conceived.
This recent method has not yet shown its possible results, but it is interesting.

- AWS has linked the cost of the guarantee for so-called "difficult" operations (venture capital or innovation) to the company's performance. Each beneficiary is paying a basic rate, but a company made successful and profitable by the investment covered by guarantee will remunerate AWS further by a dividend on its prosperity. AECM is following this experiment with great interest.

3. Another way of adjusting the premium level is to create **products linked to different risk situations that are variously priced**. For example, the risk is different for an equipment renewal operation or for starting a business … or for overdrafts. The first could be more flexible and less expensive. The second could be more difficult to assess and more expensive. The third could be reviewed annually, and so on.

- At Siagi, the Guarantee Fund is alimented by a single commission of:
  - 3.14 % for creation
  - 1.91% for take-over
  - 1.38% for growth investments

4. Lastly, the **price of the guarantee** can be adjusted case by case. The price is therefore an individually estimated measure of the risk.

- An illustration is found at Finnvera (Fi), where the analysts only give a "price" after having aligned the particular risk factors of each operation and having weighted them in an IT system that has collected tFinnvera's business experience. Fluctuating between 1% and 4%, the premium is on average 2%.
- In Czechia, CMZRB is going in a similar direction and has equipped itself with a computer tool for measuring the "probability of default".

One will have to see whether, with the Basel 2 Accord (IRB approach), which, inevitably will popularise the risk ratings if the principle of a individualized commission is not to become a heavy trend. Certain schemes are getting ready for this: in Germany, the Bürgschaftsbanken and Creditreform have developed an analysis tool which is, still nos, for information purposes only and does not replace the Commitment Committee's decision. Nor does it give yet a compulsory cost pricing, but it is a decision guide and a management tool.

5. This concept is evidently not the desire of **mutualist schemes** that have very egalitarian principles. Same premium for everybody: that is the rule in the Belgian SCM, the French Socama and the Italian Confidis.
Evidently, these schemes are only viable if good deals feature in the portfolio as well as less good ones. This involves keeping the mutualist spirit very much alive. Since the 2001 Deauville Congress, the Socama have been devoting a great deal of effort to attracting a large number of good companies into their ranks (310,518 company members at the end of 2002, or + 12% in comparison 2001).

6. The premium being modulated on the risk, another factor of risk is the **duration of the operation**: a risk that is visible in the short-term has a lower price than a risk spread over a long period.
Many schemes thus fix the commission according to the credit's maturity. Let's take the example of Hungary with:

- Hitelgarancia : 1.2% for less than a year and 2% for more than a year.
- AVHGA : 0.31% for less than a year and 0.88% for more than a year.
- Conversely, INVEGA (Lt) calculates a premium of 1% for the entrepreneur no matter the period of the operation. It is true that the current average period of the credits is only 3 years. Could it still be the case with maturities of up to 10 years?

7. As far as the **moment of receiving the commission** is concerned, the periodicity is often annual on the successive outstanding amounts.
A fragmented portfolio leads to a burden of annual calculations and records in the company's books, plus the risk of "forgetfulness".
This is why certain schemes are oriented towards receipt of the total premium in a single payment, at the moment of the issuance (SCM-Be, Sowalfin-BE, SIAGI-FR or RLGF, Ro).
This one-off payment appears to the entrepreneur as an expensive contribution (however it is paid out off the credit amount), which is dissuasive for the "best" deals.
But on the other hand it is more convenient to manage. Entering into the Guarantee Society's cash flow, it provides additional investment possibilities.
Finally, this practice avoids interminable discussions on the responsibility of the guarantor if the payment of some annual premium had been "forgotten".

8. The complements of the guarantee commission are the **commission paid for the file analysis or for the follow-up of the dossier**.
The first is one-off: the second is annual. The first remunerates the credit assessment and back-office work relating to the application; the second remunerates the monitoring and accountancy work.
In general, it is a question of relatively low percentages and the formula – perhaps mistakenly, because it is economically logical – is not practised everywhere.

9. In the "cost" of the guarantee, mention must be made of the compulsory **subscription of capital**, which is peculiar to the mutualist schemes.
This is applied in Belgium (SCM), in France (Socama), in Italy (Confidis) in Spain (SGR) and in Portugal (SPGM and SCM).
The amount of the subscription is often fairly symbolic (e.g. : Socama-Fr : 0.01% / Fincredit and Federasconfidi : average of €50). It above all represents membership in the scheme and this sum would be lost if the Guarantee Society were to conduct its business badly. On the contrary, at the end of his or her commitments, the entrepreneur can ask for reimbursement. He or she will only be entitled to the nominal value, possibly with a small dividend, but there will be no entitlement to the reserves or the profits accumulated during his or her participation as a company member.
We should note that in France (SIAGI, Socama) following legal provisions, not only is the capital repayable, but also the so-called participation premium in the Mutual Guarantee Fund. "We are not mutualist without reason", is the slogan.

Chapter VI.

STATISTICAL DATA OF THE AECM MEMBERS

Table 1 **Partial data 31.12.2002, EN €1.000**

(en €1000)	Responsible own Funds (1)	Number SMEs beneficiaries	Commitment outstanding 31.12. (2)	Leverage (3)	Guarantees issued in 2002
Bürg.Bank De	280.000	42.880	5.112.670	18,3	923.068
AWS Au	22.500	9.619	575.600	25,5	129.700
Bürg.Ges. Au					
SCMOB Be (4)	16.641	5.343	44.156	2,7	15.874
Sowalfin Be	48.427	n.d.	78.359	1,7	9.573
KredEx Ee	17.354	278	83.899	4,8	40.826
SGR Es	304.827	63.793	2.468.127	8,1	1.021.556
Finnvera Fi	342.961	5.800	685.500	2,0	418.100
Socama Fr	67.625	310.518	1.501.879	22,2	543.800
Siagi Fr	57.676	44.000	673.948	11,7	419.318
Hitelgar. Hu	83.300	11.000	502.500	6,0	458.000
AVHGA Hu	56.941	13.000	114.488	2,0	68.925
Fedart It					
Federconfidi It					
Fincredit It					
Federas It					
Federfidi. It					
Invega Lt	5.823	94	3.798	0,7	4.701
Rural Fund Lt	12.600	402	44.200	3,5	39.800
SPGM-SCM Pt	13.381	500	99.663	8,0	36.000
CMZRB Cz					
SZRB Sk					50.944
FGCRural Ro	12.719		9.089	0,7	8.044
RLGF Ro					2.900
Teskomb Tu					
KGF Tu					

NB : Data provided by members under their responsibility. Data 2002 are not complete as by 30.06.2003.

(1) Responsible own funds : Capital, Reserves, Retained earnings, General Provisions for risks with a character of reserves (= Fund for General Banking Risk, in banks)

(2) Global commitment portfolio, with its outstanding in guarantees at the end of the year.

(3) Leverage : ratio "Outstanding Commitments" / "Ownd Funds", as a measure of efficiency

(4) : Belgium : data of 1 MGS out of 7 is lacking.

Table 2.

DATA 31.12.2001, in €1.000

(in €1000)	Responsible own funds	Number of SMEs beneficiaries	Total Outstanding of Guarantee Commitments	Lever	Guarant amount isued in the year
Bürg.Bank De	260.000	43.628	5.102.565	20 x	1.016.093
AWS Au	22.900	10.634	431.900	19 x	177.000
Bürg.Ges. Au (3)	12.840	445	42.000	3,3	n.d.
SCMOB Be	16.955	5.500	48.000	2,6	19.000
Sowalfin Be (2)	---	---	---		---
KredEx Ee	17.288	86	43.072	0,8	40.000
SGR Es	305.979	60.631	2.209.848	7,2	949.664
Finnvera Fi	326.472	5.500	549.000	1,7	376.300
Socama Fr	68.916	277.923	1.445.030	21	543.612
Siagi Fr	57.372	44.931	685.087	12	161.000
Hitelgar. Hu	74.147	8.526	408.900	5,5	354.000
AVHGA Hu	42.652	13.231	110.283	2,6	66.393
Fedart It	547.000	633.586	3.737.000	6,8	1.827.500
Feder It	401.670	43.396	2.212.432	5,5	1.563.535
Fincredit It	137.000	26.127	963.900	15,6	364.950
Federas It	211.162	183.800	987.078	9,5	1.357.500
Confeser. It	64.075	61.086	411.001	6,4	274.942
Invega Lt (2)	---	---	---		---
Rural Fund Lt	9.593	465	49.440	5,1	34.554
SPGM-SCM Pt	13.044	350	96.388	7,4	31.050
CMZRB Cz	100.000	2000	205.000	6	63.000
SZRB Sk	60.759	2.512	51.391	1	19.679
FGCRural Ro	12.386	319	2.928	0,2	1.032
RLGF Ro	5.262	207	3.711	0,7	2.237
Teskomb Tu (1)	63.300	600.000	633.061	10	601.075
KGF Tu	4.357	340	5.922	1,4	1.769
EU Countries	**2.445.385**	**1.397.537**	**18.921.229**	**8,15**	**7.956.246**
Candidate Countries	**389.744**	**604.929**	**1.516.664**	**3,85**	**1.183.739**
TOTAL	**2.835.129**	**2.002.466**	**20.437.893**	**7,56**	**9.139.985**

(1) : TESKOMB : data 2000.
(2) : Sowalfin et Invega were not yet AECM members in 2001.
(3) : Au : concerning NÖKBG et OÖKBG.

Table 3.

DATA 31.12.2000, in €1.000

(in €1000)	Responsible own funds	Number of SMEs beneficiaries	Total Outstanding of Guarantee Commitment	Lever	Guarant. amount isued in the year
Bürg.Bank De	250.985	43.754	4.952.169	19,7	1.054.169
AWS Au	22.300	8.752	392.400	17,6	181.700
Bürg.Ges. Au	12.500	400	41.000	3,3	n.d.
SCMOB Be	18.020	4.285	53.115	3	19.929
Sowalfin Be (1)	---	---	---		---
KredEx Ee	16.162	37	3.100	0,2	3.100
SGR Es	232.089	57.912	1.909.176	8,2	849.134
Finnvera Fi	300.306	5.000	470.000	1,6	307.945
Socama Fr	70.785	291.406	1.413.685	20	547.500
Siagi Fr	57.326	47.000	713.362	12,4	170.158
Hitelgar. Hu	64.222	5.908	306.955	4,8	255.760
AVHGA Hu	43.225	8.601	99.300	2,3	35.000
Fedart It	495.800	621.887	3.249.550	6,6	1.565.300
Feder It	370.820	39.710	2.056.090	5,5	1.304.055
Fincredit It	125.000	25.000	900.000	7,2	315.000
Federas It	170.270	195.520	1.038.096	8,6	699.302
Confeser. It	62.190	58.178	399.030	5,9	261.850
Invega Lt (1)	---	---	---		---
Rural Fund Lt	8.578	583	44.760	5,2	43.508
SPGM-SCM Pt	12.759	250	75.714	6,0	41.330
CMZRB Cz	75.900	1.503	163.900	2,2	57.700
SZRB Sk	56.791	2.247	20.000	0,4	2.682
FGCRural Ro (1)	---	----	---		---
RLGF Ro (1)	---	---	---		---
Teskomb Tu	63.300	600.000	633.061	10	601.075
KGF Tu	4.205	928	17.725	4,2	7.865
EU Countries	2.201.150	1.399.054	17.663.337	8,2	7.317.372
Candidate Countries	332.346	619.807	1.288.801	3,9	1.006.690
TOTAL	2.533.496	2.018.861	18.952.138	7,6	8.324.062

(1) : Sowalfin, Invega, FGCR et RLGF were not yet AECM members in 2000.

Statistial data on AECM Members

Comments

1. AECM represents 15 main active guarantee schemes (Societies or Federations) in the European Union and 11 active schemes in the candidate countries.
The statistics therefore do not include the whole of the European guarantee industry. The following in particular are missing: SOFARIS (Fr), Deutsche Ausgleichbank (De), Kreditanstalt für Wiederaufbau (De), Vaekstfonden (Dk), BBMKB (Nl), Small Firms Loan Guarantee Scheme (UK). Guarantee Societies dedicated to other aims than the cover of loans for SMEs do not therefore appear in this list.
The comments relate to the complete statistics of 2000 and 2001.
When reading them, account should be taken of distortions due to
- Beginning schemes and more mature schemes.
- Strongly-supported and weakly-supported schemes, in terms of public support.

2. In 2001 the **total equity** amounted to €2,835,129,000, split between €2,445,385,000 in European Union countries and €389,744,000 in the accession countries. In all, the capitalisation is important and mainly located in the reserve funds and the general provisions for risks rather than in the capital.

3. The **associated and beneficiary SMEs** are, in all, more than 1.4 million in the European Union, to be compared with 19.5 million entreprises on this territory.
-The Italian systems accommodate the most members, for various reasons:
- The entrepreneurial structure in Italy, which figures many micro-businesses.
- The presence of some 600 Mutual Guarantee Societies.
- The rate advantages that the Confidis give to the members for their credits.

-Turkey, with Teskomb, meets the same logic of attraction for a large number of local companies.
-On can observe the constant growth of the associates of the Spanish scheme.
-In the new countries of the European Union, the strongest penetration is in Hungary.

4. The **guarantee portfolio** reached €20,437,893,000 in 2001.
The corresponding outstanding amount in 2000 was €18,952,138,000.
Behind Italy, the Nr 1, comes Germany with a relatively constant outstanding amount of €5 million.
The growth performance is the best in Spain (€1,909 million in 2000, €2,260 million in 2001 then €2,468 million in 2002) and in Portugal (€75 million, €96 million and €99 million).
-In the new countries of the European Union, the fastest growth is being produced in Hitelgarancia –Hu ((€307 million, 408 million then 502 million), CMZRB - Cz (€164 million 205 million).
-Many start-up schemes (Estonia, Lithuania…) will not be slow to demonstrate their real potential, already materialised in 2002 for KredEx.

5. Concerning the annual **guarantees issued in 2001**, the total reached €9.1 billion in short-term and long-term commitments in 2001, after €8.3 billion in 2000.

Comparing the productions and the outstanding amounts, one would gain an impression of the importance of the short-term commitments, for example, in the Italian schemes.
One can also see, by the 2002-2001 productions, the extent to which the guarantee activity is less sensitive to the economic cycle. Based on the 2002 available data, one cannot notice a characterised decrease linked with weaker economic conditions. Levelling off can be seen here and there, but in proportions that are in no way comparable with the down turn in the economy.
Although there has been distinctly less investments, although the credit applications are normally in decline, the offer of guarantee has not been affected.
Two conclusions are possible: on the one hand, it could be that in a context of greater precaution, banks call on guarantees to a greater extent; on the other hand, the commitment modalities of the Guarantee Societies could not be so sensible to less promising macro-economic data.

6. The **leverage** is the ratio between the guarantee outstandings and the own funds, without taking into consideration counter-guarantee policies. This is more of an index than a measure, to be interpreted with prudence because:
a) Certain AECM members (Finnvera, SZRB, CMZRB) are Development Banks and their capital is a protective cushion for a larger range of activities: loans and subsidies. One should be able to make a calculation of the "notional equity" dedicated to the guarantee alone in order to establish a correct figure.
b) Certain schemes are in their launch face.

Nevertheless, the leverage gives a good view of the multiplier effect.

Country	**Crédit to a SME**	**Garantee as usual % of the credit**	**Observed level of the Guar. Soc.**	**Notional equity of the Guar. Soc. Covering the credit**	**Notional Equity requested from the counter-guarantor**	**Final leverage : Crédit / Equity requested from the counter-guarantor**
Italy - Fedart	€100	60%	6,8 x	60 / 6,83 = € 8,78	FEI /50% → €4,4	100/4,4 = 22,7 x
France Socama	€100	80%	21 x	80 / 21 = €3,80	Pas de contre-garant	----
Germany BüBa	€100	80%	20 x	80 / 20 = €4	Bund, Land 68%→ €2,7	100/2,66 = 37 x
Spain CESGAR	€100	100 %	15 x	100 / 15 = €6,66	CERSA : 33% → € 2,2	100 / 2,2 = 45 x
Hungary Hitelgarancia	€100	65%	5,5 x	65/5,5 = €11,8	Etat : 70% → €8,3	100 / 8,3 = 11,8

Chapter VII

GENERAL CONCLUSIONS

This study does not have the pretension of providing a complete panorama of this financial industry, which is the guarantee of loans for SMEs.

It aims to raise the level of consciousness and recognition of the companies that practice it, associated within their European network, the European Mutual Guarantee Association.

1. The work first of all seeks to indicate the importance of the system.

- For the member systems of the European Mutual Guarantee Association, it touches some 2 million companies.
- Its outstandings reach €20.5 billion, which provide protection for about €32 billion of credits.
- It is enjoying growth. New progress is still possible, to come from:
    - Operational progress to be achieved by the existing companies, from their interest for new target markets and their constant marketing efforts.
    - Developments of schemes that are still recent and that have not yet achieved full maturity in their national economies.
    - Creation of new companies in countries that still are not equiped with such facility. Let us mention Sweden, Ireland, Greece, Latvia, Bulgaria, Poland and Cyprus on the enlarged EU territory.

2. Some general conclusions can be drawn on the macro-economic and political levels.

- The guarantee is not a fashion. It is a stable industry, which has acquired its own experience and which has the ability to evolve in a changing environment.
- It takes its place in the diffusion of entrepreneurship. As was written by Joseph Schumpeter, "The essence of the entrepreneurial function is to be found in the trinity: decision making ability, execution of new combinations and credit".
  The guarantee is one of the leverages; it facilitates the risk taking decision to commit to new projects by improving access to credit. It is the notion of risk sharing that is central as element of additionality.
- The guarantee is not an improvised activity. Among its success criteria there is a good prudential supervision. The Basel 2 Accord can be either a genuine opportunity or a missed opportunity because of a misunderstanding of our management mechanisms, which have nevertheless been tried and tested since numerous years.
- The guarantor's decision must contribute added value to the lender's decision. The project therefore must be understood (a question of a community of language), well

analysed (a question of a qualitative asessment of the business) and seen as viable according to market criteria.
It should be noted that there is no scheme within AECM that is in deficit, or has subsidised operational losses, which, if so, would indicate a poor system of risk analysis or the support of “lame ducks”…
Thereafter, it is appropriate that the partnership in risks with lenders be transformed into an explicit contract and flexible and precise operational procedures.

- The guarantee only has a low cyclical effect. 2002, year of the economic slowdown and of collapse in venture capital operations, does not indicate substantial variation in our societies’ activities.
- On the other hand, Guarantee Societies have, at each moment of the cycle, need of solid fundamentals: contained inflation, accessible interest rates, co-operation with a mature and responsible banking system and existence of Courts and Tribunals correctly applying a well designed legislation on bankruptcy and on assets recovery.
- The guarantee is profiled as a good support instrument for SMEs by public policies.
  - The distribution circuits are in place and a policy relying on their channels would not require the installation of new networks.
  - There can be a variety of public supports: contribution in equity, premium subsidies or creation of counter-guarantees.
  -The results are positive : the funds are used in a “revolving” manner and with an important leverage on the underlying credits and investments.
- The guarantee requires flexible management.
  -The European Investment Fund manages its counter-guarantees with analysis and control tools that have been correctly thought out and applied to our satisfaction.
  -On the other hand when addressed to small businesses and small amounts, one could reflect on the costs - benefits of the application of the competition and State aid rules in their current formulation.
  -For Basel 2 in a situation of waiting, our societies in particular hope that the ratings proposed in the IRB approach will give a strong place to qualitative criteria in the appreciation of the company and will not give exclusivity to financial and quantitative criteria.
  They hope also that “reportings” and “disclosures” will not become an administrative burden.

3. With these objectives and these constraints, the Guarantee Societies present themselves to the economic decision-makers as loyal partners that obey market rules.

Each member is open to its national authorities.

By their European voice, AECM offers its co-operation to the EU Authorities. AECM appreciates the efforts made to give a strong content to the European policies of SME support, by the Parliament, by the Commission and its current Enterprise Directorate-General and by the European Investment Fund.
It offers its co-operation to the “Internal Market” (Basel), “Competition” (State aid rules) and “Region” (Use of Structural Funds) Directorates-General.

4. Concerning the comparative analysis of the existing schemes, the guarantee is like a good Italian pizza: everybody recognises the good round, coloured and steaming pastry on the plate. But each eats it in his or her own way: with seafood, cheese or Four Seasons.

The study has shown the diversity of the national societies.
One of the aims of the work was to reveal this variety, in order to remove confusion and to increase the level of understanding.
One of the consequences of this variety is the wealth of experiences assembled within AECM and the multitude of possible solutions enabling the choice of the right road by new schemes that could be created, instead of the "copy-/paste» application of a banalised standard.

5. The other fact is nevertheless that in recent years, federative elements are being set up; through :

- The qualification of the guarantee (Basel 2)
- The economic behaviour of companies (competition rules),
- The management quality of the portfolio, reports and disclosures (Basel 2 and EIF),
- The measure of performance and risks (Basel 2 and EIF),
- The role in regional development (Phare, Sapard, Structural Funds).

One could also study how the national legislations are developing, mainly on the field of the personal guarantee and bankruptcy laws, with, with, obviously more and more protection given to the debtor, greater facility of a fresh start after bankruptcy and clearer information on the scope of contractual commitments.

These are new fields of studies where a summary would be welcome, with the co-operation of the decision-making powers, European in particular, which are contributing to this harmonisation of guiding principles.

We arrive via this channel at one of the reasons for which AECM has been created: the definition of an acceptable guarantee framework that is operationally sustanable in the long term.

Brussels, July 2003.