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EUROPEAN ASSOCIATION OF GUARANTEE INSTITUTIONS

Financial and economic additionalities a mandatory process, difficulties and solutions

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INTRODUCTION

- **Credit guarantee schemes : greater importance in SME financing, and greater obligations**
- Crisis gave guarantors greater importance, better recognition, larger outreach,
Still, questions are raised about the measurement of public LGS impact, for many budget constrained countries:
- Governments and stakeholders demands to demonstrate the reality of impact
- Two possible critics on the guarantee activity:
 - deadweight effect?
 - Affecting competition between supported « zombies » (non sustainable) and sound enterprises?
- World bank study 2017: 16th principle for the management of public loan guarantee schemes
 - “The performance of the CGS—in particular its outreach, additionality, and financial sustainability— should be systematically and periodically evaluated, and the findings from the evaluation publicly disclosed”.

Performance is indispensable to see public stakeholders carry on supporting the LGS. EIF for instance operates a “360 degrees approach” , and demands that lessons learnt help improving future support programs

I / EVOLUTION OF EVALUATION : FROM OUTREACH TO IMPACT MEASUREMENT

- The outreach, initial form of measurement for the financial additionality.
- allowing access to finance for credit constrained categories is truly the first level;
- detailed reporting on the volume of activity. Simple, and easily obtainable from the guarantor's database.
 - volume of granted guarantees, of supported loans, the number of files and number of supported SMEs were the main elements of such observation.
 - qualitative approach of the profile of end-beneficiaries check that they belong to credit constraint categories, creating thus the incentive effect of the guarantees.
- • Different forms of financial additionalities can be recorded:
 - obtaining more financing as percentage of the investment program
 - obtaining longer terms for the credit
 - obtaining a lesser interest rate ...
 - obtaining credit with lower bank demands for traditional guarantees

ECONOMIC ADDITIONALITY COVERS A MUCH WIDER SCOPE

- more precise measurement of the direct and indirect benefits of their interventions, which leads to economic additionality.
 - Direct Economic additionality can be defined as consequences on each enterprise:
 - Employment (jobs, wages, benefits, hours worked...)
 - Value Generation (amount of sales, profits...),
 - Business Formation (start-ups, expansions...)
 - Business Growth (Mergers & Acquisition, , new markets...)
 - Innovation (Patents, Trademarks, publications...)

INDIRECT MACRO ECONOMIC IMPACT LEADS TO POSITIVE CONCLUSIONS

- Indirect macro-economic impact is computed as the aggregation of fiscal benefits, added value (GDP) and social contributions from created jobs of all supported SMEs on a given period
- This reveals the real “business model” of the guarantee activity, from the point of view of public authorities which include guarantee funds as key element of their SME support policies.
- The accounts of guarantee schemes (fees collected, financial returns of invested funds) are the smallest part of the returns obtained by public authorities under the form of the additional taxes and social contributions that result from the success of supported projects.
- Confirmed by academic studies and macro economic models, the returns are the strongest favorable argument for the development of guarantee programs.
- Still, these positive contributions cannot be totally related to the delivery of guarantees. The techniques of evaluation have to go further into the matter, by comparing performances between supported and non supported populations,

ENLARGING THE SCOPE OF EVALUATION: THE ESG APPROACH AND RATING

ESG IN A NUT SHELL

Environmental(E) It covers topics such as climate risks, the scarcity of natural resources, pollution and waste,as well as environmental opportunities.

Social (S) It includes labor and productability issues, risks such as exploitation, data security,and opposition from interest groups.

Good governance (G) It includes elements related to corporate governance and the behavior of the company,such as,awareness,involvement and the quality and effectiveness of the board.

The ESG Rating is a system for evaluating the company's relationship with its social and environmental environment and its management model, which rates the Added Value of companies. It assesses the relationship of companies with their environment in an objective, verifiable, quantifiable and comparable way. The Corporate Sustainability Reporting Directive (CSRD) is a new EU legislation that requires companies, both large and small, to report on their environmental social and governance impact activities.

PROGRESSIVE APPLICATION OF THE ESG RATING

- Large enterprises, including financial intermediaries are already under obligation to report in detail on all aspects of the ESG methodology

Each element has to be rated by a common methodology (definitions and level)

The importance of the report means specific developments affecting IT systems,
dedicated staff and specific training of all employees, and computation of hundreds of indicators,

- SMEs will also be under obligation later, but after a period of preparation of the adapted simplified frame of investigation and reporting
- Representatives of SMEs advocate to lessen the administrative burden which will be imposed to them

II / CONSTRAINTS AND DIFFICULTIES FOR GUARANTORS

- **Impact assessment raise the point of difficulties in obtaining and managing data:**
 - Measuring all the above elements means obtaining data on elements of appreciation, going far beyond what LGS record in their data bases
- data bases are generally built to contain essentially information related to liabilities management
- Usual Data requirements are the following Unique Identifiers (Alphanumeric codes) on each and every person or firm; and/or Supplemental Identifiers: Name, Address, Telephone Number, Website, etc.
 - Data on Services rendered (AKA Administrative Data)
 - a) Type (Loan & Guarantee Type, Terms, etc.);
 - b) Intensity (Loan & Guarantee Value, maturity, etc.);
 - c) Timing (dates on: Application, approval; distribution, status..);
 - d) Participants' Characteristics (lender, borrower).
 - Data on Control/Comparison (Statistical/Secondary Data)

LGS OWN DATA BASES USUALLY FALL SHORT OF EXPECTATIONS

- Some of the necessary data may exist in individual paper files, but (i) portfolio guarantee programs often do not provide paper files; (2) all needed data is not entered in data bases and (3) their validity can be sometimes questioned
- All provisional elements : expected revenues, oreseen added value (GDP) and other outcomes of the investment program are estimated.
- But even if it exists, even if it is entered in data bases, such ex-ante information and expected figures cannot measure with acceptable robustness (as a valid proof) the real impact of supported SMEs
- information in application forms would not be sufficient; the variation of the value of each parameter or indicator can be analyzed only after a reasonable period (time for investments to bring results).
- • Traditional surveys (questionnaires, interviews) give limited answers to the data requirements
 - Sample analysis done either by guarantors themselves or service providers, on qualitative factors, are costly and considered as unreliable.

ESG RATING CREATES A „ DATA UNAVAILABILITY PROBLEM“ FOR GUARANTORS

- As financial institutions, guarantors have to report on their impact evaluation, as well as on the ESG rating.
- SMEs, constituting most of their clientele, are not concerned with the mandatory report of ESG matters, and have no intention nor capacity to provide the necessary data to the guarantors.
- Banks do work on ESG principles, collect data, but do it through their own IT systems, for the whole of their customers;
- In order to work on banks data, the LGS would have to combine their own IT system to a large number of partner banks and financial intermediaries, and face difficult confidentiality matters, related to some information
- Even in the progressive digitalization of both SMEs and LGSs, covering such an objective will mean adapted strategies.

III / ADAPTED STRATEGIES TO OBTAIN IMPACT ASSESSMENTS

- Rationale: Need for a detailed and complete methodology, based on targeted objectives,
- 1) Evaluating is based on adoption of causal hypotheses, and observation of variation of indicators that can be attributed to the issue of the guarantee.
 - A faster growth?
 - A higher resilience ?
 - Improved long term development (e.g. in terms of innovation, productivity)?

As a reference, EBRD measures impact according to satisfaction of policy objectives: six “Transition Qualities”: competitiveness, inclusion, economic resilience, good governance, markets integration, green economy

- 2) Importance of the length of the observation period
- outcomes should be observed for a sufficient amount of time. If not, the full measure of impact might be missed, as investments can bring their effects only after a certain period of time,

CONTROL GROUPS

- **Following World Bank researches, the use of control groups (a population of SMEs similar to the supported ones) appears as necessary to compare performances, and to prove the positive impact of the guarantees.**
- The impact evaluation study will consider the difference in the outcome between the two populations (or representative sample, selected to allow a valuable comparison). Supported SMEs should perform better than the non-supported group.
- The difficulty is to constitute a valuable control group, of SMEs selected by using a large set of analysis features,
- Beyond similarities in figures, a SME depends on qualitative analysis factors, such as management, market situation, specific features and business opportunities... not recorded in the guarantors' data bases, on the one hand, and impossible to find in business data bases on the other hand.
- There are limits in the scientific approach of constitution of “truly similar” control groups; still, studies accept the possible bias, as only his method does help to get some meaningful central tendencies.

Several methodologies can be used for the comparison; the most common being “difference in difference”,

observing if the supported group shows higher progression on main indicators than its control counterpart,

MODERN APPROACHES AND PRACTICES TO OBTAIN THE NECESSARY DATA, AT ACCEPTABLE COST

- A considerable amount of data is needed, and complex econometric approaches have to be used.
- But the development of Fintechs and data providers have enlarged the potential of accessible information. A world with “big data” has changed the context considerably.
- Two positive trends help: the digital transformation, and the structuring of rich data providers, either as public administrations or as data banks collecting financial from huge populations of enterprises
- A new source of information called “Secondary data” provides data originating from social networks’ messages and internet service providers, providing visibility on entrepreneurs and consumers behaviour.
- • From the experience of the US Small Business Administration, the cost can be reduced by using Administrative Data, when linked to Secondary Data. with the help of statistical agencies: large micro-level data from data bases of Public Health and Education is available to Certified Researchers.
- The use of a “proxy” data can sometimes be chosen, if it lessens the cost for collecting a non-accessible information.

LEGAL FRAMEWORK CONSIDERATIONS

- The legal framework conditions for impact management must include a robust legal frame of laws and procedures for the need to regulate the use of technologies regarding data management.
- It should include dispositions on three essential aspects:

Privacy that outlines which data is collected;

Confidentiality that outlines the allowable users and uses these data

Security that outlines the excluded users and uses of these data

A set of standard conditions also resort from the “Operating principles for impact management,” issued as a market standard for impact investing by a group of Development Financial Institutions organizations, including EBRD and IFC, and adopted by 60 organizations.

- Artificial Intelligence is also opening new fields of progression for the service providers, and will require the adapted frame and limits in the management and use of data.

LONG TERM COLLABORATIONS WITH EXTERNAL SKILLS ARE NECESSARY

- Experienced and reliable service providers are essential for such evaluation studies; high level external capacities in the techniques of data mining and econometrics, in order to complement the IT skills available in the LGS
- Gathering necessary skills and adapted profiles, and getting knowledge on “state of the art” (existing studies on the topic) leads to research of aspects of cooperation from specialists and academics.
- Universities and sometimes Business schools are collaborating with Spanish, Portuguese and German LGS, ensuring transparency of the methodology and inserting peer appreciation are additional values to support the credibility of evaluation processes

A Steering committees including Public treasury, OECD, academic members (as co-producers of studies) assists BPI in France

- Even with such partners, the evaluation process is an on-going progression

4 successive evaluations for the Portuguese, three for the German Guarantee banks show the trend of improvement,

THANK YOU FOR YOUR ATTENTION

Jean Louis Leloir

Special Adviser to the Board of AECM

jean-louis.leloir@aecm.eu

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Over 5 million SMEs are presently benefiting of AECM's members guarantees