BAYES BUSINESS SCHOOL
CITY, UNIVERSITY OF LONDON

(formerly Cass)

Importance of Risk Management for Strategic Decisions in Credit Guarantee Companies

Professor Barbara Casu

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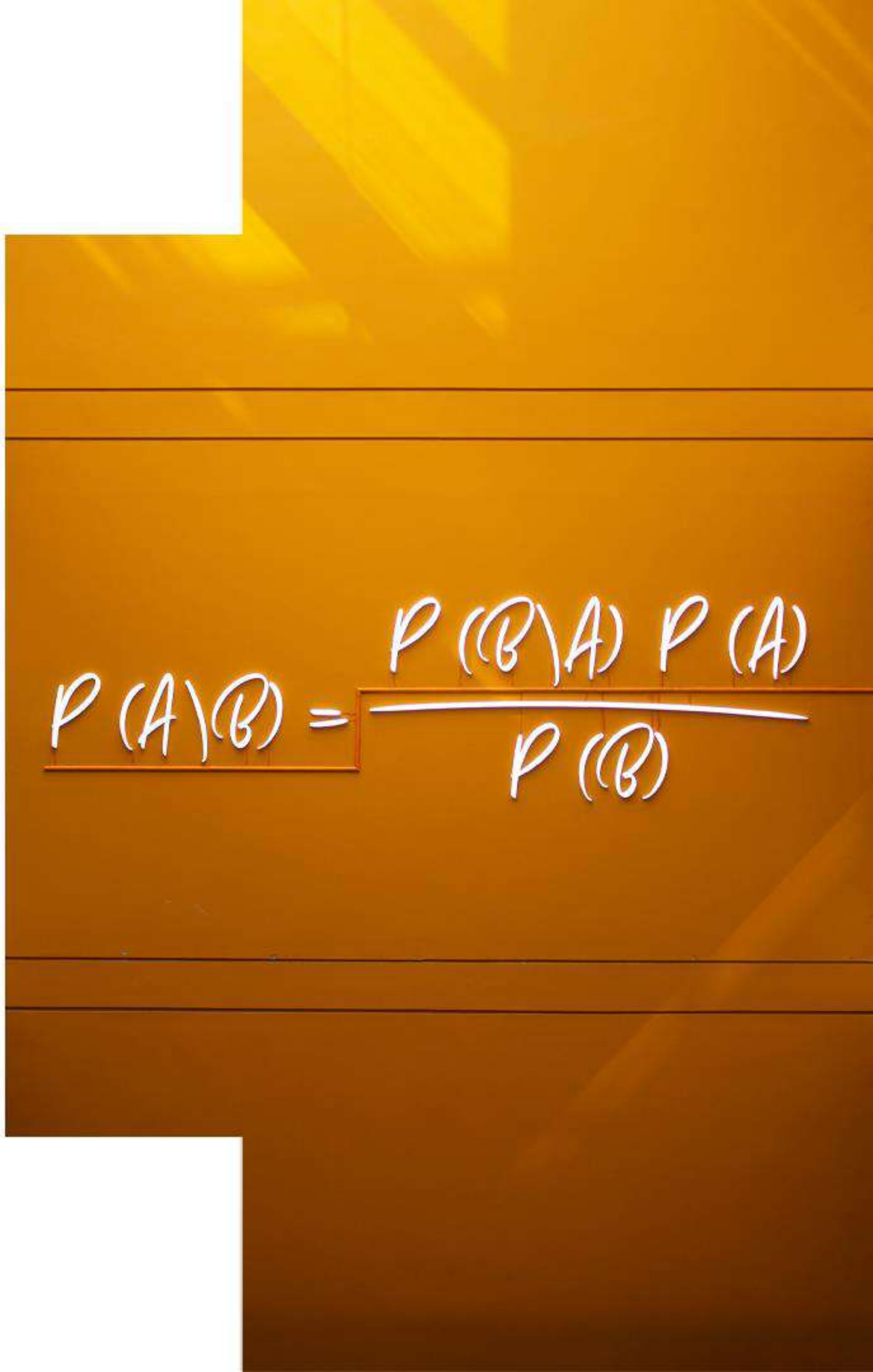
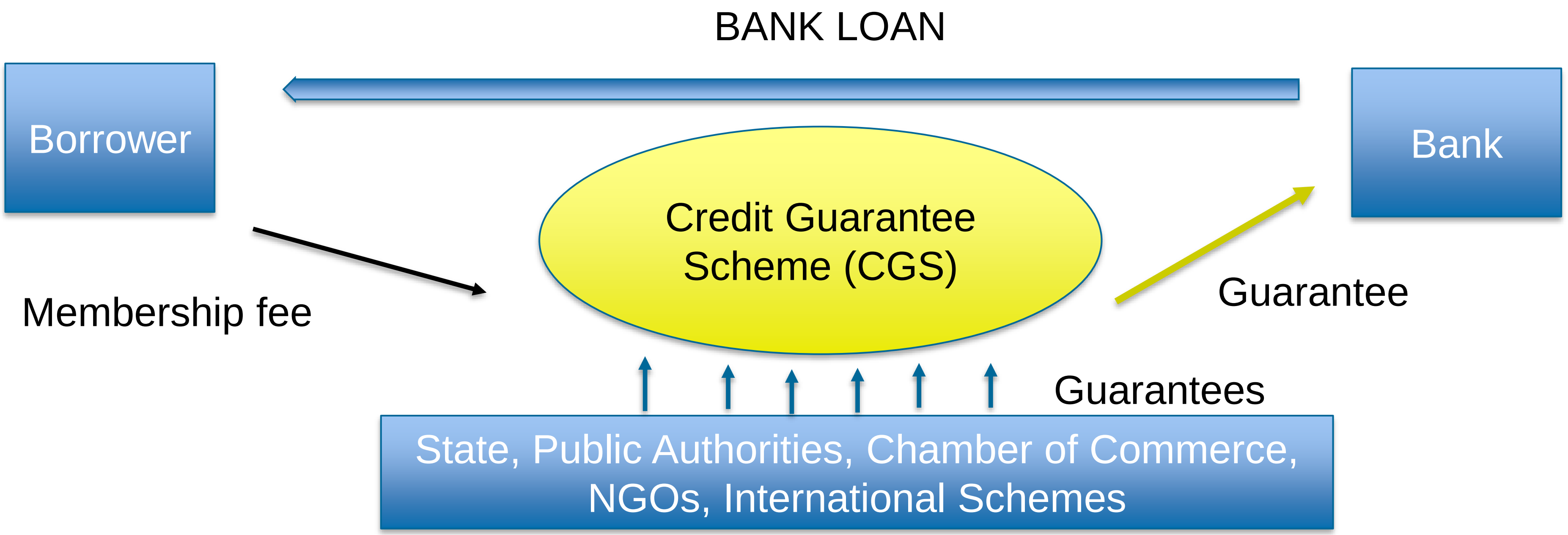
[bayes.city.ac.uk]



Brief introduction to Credit Guarantee Schemes (CGSs)

Credit guarantee schemes (CGSs) are financial mechanisms established (by governments or private FIs) to facilitate and enhance access to credit for businesses, individuals, or specific sectors that may face difficulties in obtaining loans due to insufficient collateral or perceived credit risk.



Brief introduction to Credit Guarantee Schemes (CGSs)

BENEFITS FOR BORROWERS

- Increase access to credit
- Reduce cost of credit
- Reduce collateral requirements
- Compensate for weak creditor rights

BENEFITS FOR LENDERS

- Reduce administrative costs
- Decrease credit risk

BENEFITS FOR SOCIETY

- Economic growth (additionality)
- Financial stability (countercyclical tool)
- Covid-19 example

POTENTIAL PROBLEMS

- Adverse selection
- Moral hazard

KEY ISSUES

- Identification of purpose (access to finance issues, causes, market failures)
- Eligible firms
- Services offered
- Legal and regulatory set-up
- Corporate governance

Risk management in CGSs

- **Trade-off: long term viability and supporting the maximum number of SMEs**

- Key concepts:

- Firm eligibility
- Coverage ratio
- Risk sharing order
- Leverage ratio
- Financial sustainability

COSTS	REVENUES
Cost of funds (initial capital funds and additional funding)	Fees
Operational costs (admin expenses, infrastructure costs)	Returns on financial investments
Losses on guarantees	Income from other services (recoveries, advisory, credit bureau)

Bayes Business School
(formerly Cass)
106 Bunhill Row
London EC1Y 8TZ
Tel + 44 (0)20 7040 8600
www.bayes.city.ac.uk