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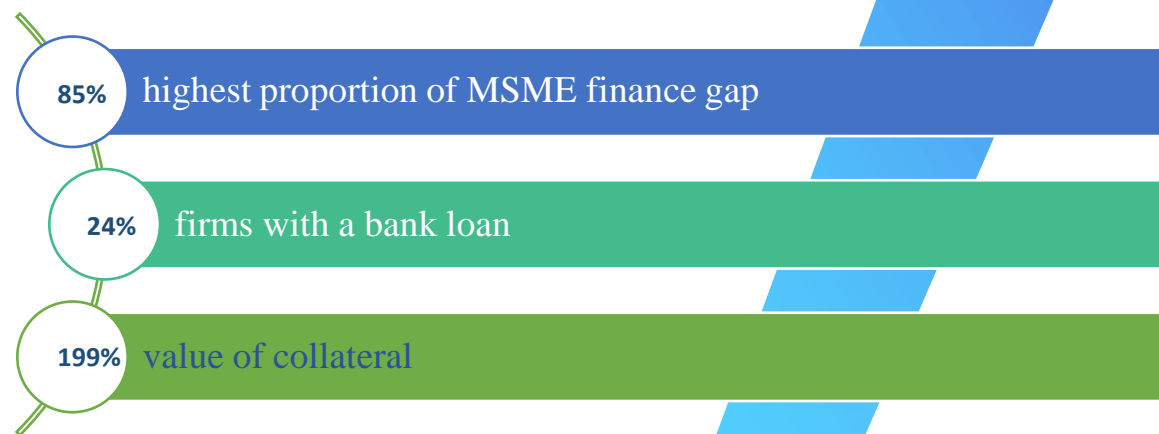
The Role of Counter Guarantee Schemes in Promoting Financial Inclusion

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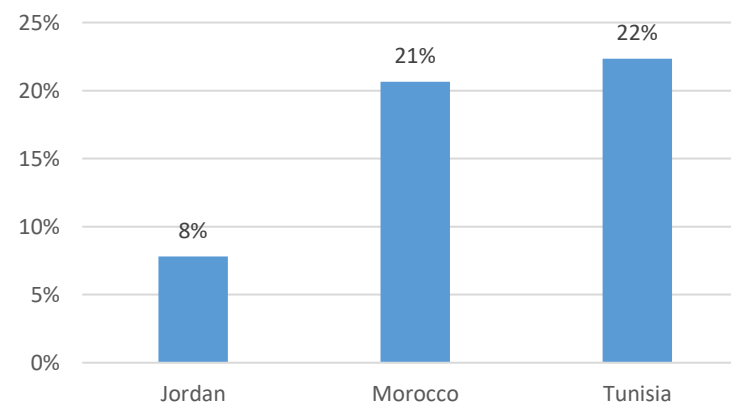
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MSMEs' Financial Inclusion in MENA

- MSMEs remain significantly underserved by financial institutions in the region



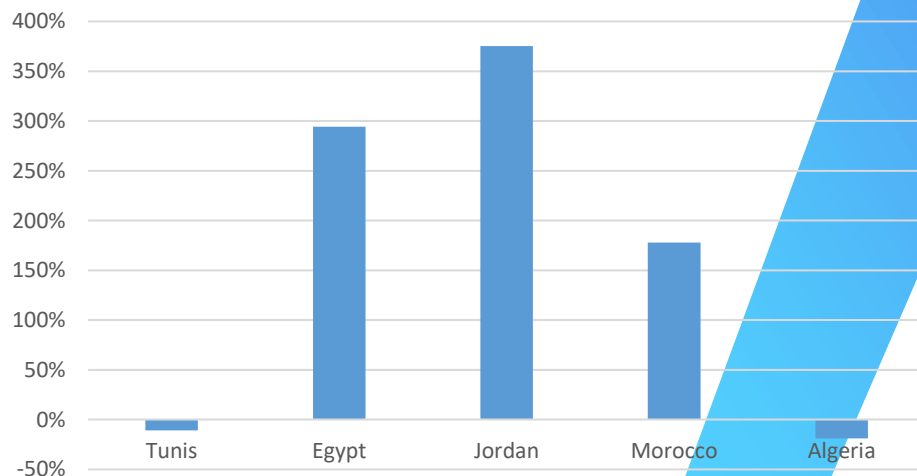
Outstanding loans from commercial banks to SMEs % of total outstanding loans from commercial banks (2022)



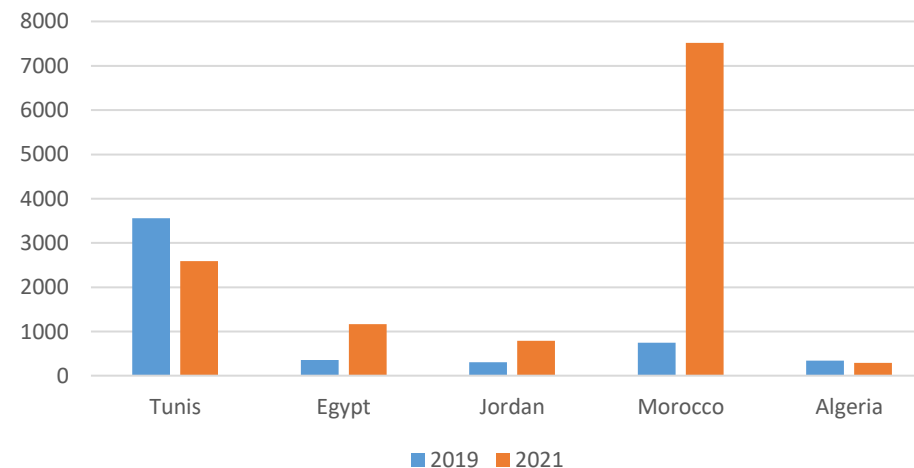
Role of Credit guarantee Schemes

- CGSs have been effective in mobilizing credit and easing access to finance for a larger population of MSMEs
- Significant growth in CGSs' portfolios in the region

Growth in total amount guaranteed (2019-2021)



Number of guarantees per million (2019-2021)



- CGSs estimate that 70-90% of MSMEs would not have been able to receive a loan without a guarantee

Role of Counter Guarantee Schemes (1/3)

- Counter guarantees as a form of reinsurance / risk sharing tool could address constraints faced by CGSs
 - **Growth limitations** related to capital, concentration, and provisioning restrictions
 - ✓ offloading a portion of the risk to a counter-guarantee would enable the CGS to transact more and improve a scheme's risk appetite
 - **Management of the scheme's portfolio risk**
 - ✓ the ability to diversify risk (regional counter-guarantee scheme: individual country risks, sectoral risks, and concentration risks)

Role of Counter Guarantee Schemes (2/3)

- **Lower pricing:** a risk transfer will allow lowering the risk premium charged against the guarantee
 - ❖ (However, risk transfer also comes with a cost)
- **Innovation in lending practices:** with the safety net of a counter guarantee, lenders might be more inclined to innovate in their credit assessment methods
 - ✓ using alternative data to evaluate credit worthiness

Role of Counter Guarantee Schemes (3/3)

- **Creating a meaningful impact**, if the counter guarantee was set up with a dedicated and focused sustainable development mandate, it could promote financial inclusion of underserved sectors
- Examples:
 - ✓ Green / energy efficient projects
 - ✓ Women entrepreneurs
 - ✓ Microfinance expansion
 - ✓ Agricultural sector financing

Role of Counter Guarantee Schemes (In sum)

❖ This risk mitigation tool :

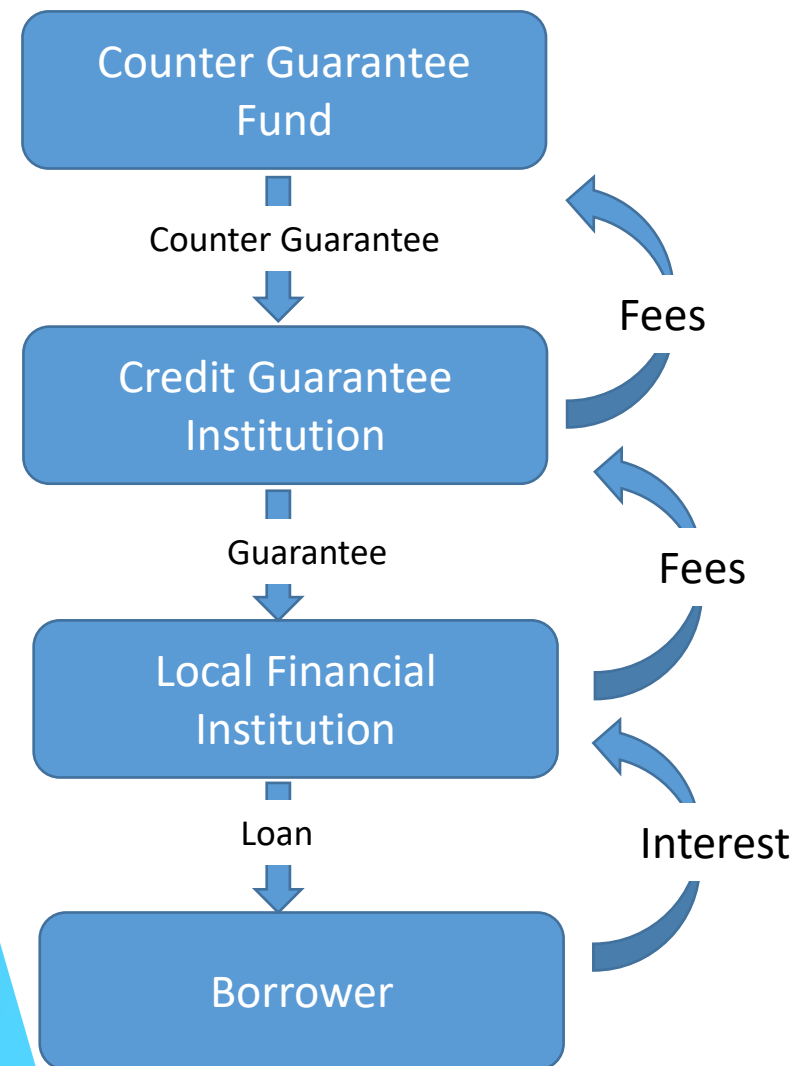
- ✓ provides CGSs with a leverage effect
- ✓ can foster CGSs' outreach, impact, and credibility
- ✓ can play a role in economic empowerment and job creation

❖ Good practices:

- Regional: EIF Counter-guarantee Mechanism (effectively boosted firm growth)
- National: Spain, Spanish Company for Rebuilding (CERSA) / Portugal, the national Counter-Guarantee Fund (FCGM) / Chile, Small Enterprise Guarantee Fund (FOGAPE)

Considerations

- Cost of a counter-guarantee scheme
- National Vs regional
- Capital funding
- Regulatory aspects



Thank you

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