

REPORT

EMGN 2021 Annual Conference

The Future of Credit Guarantee Schemes in the Mediterranean: Opportunities for a Strengthened Role

24 January 2022

Summary

The Euro-Mediterranean Guarantee Network (EMGN) has been working throughout the pandemic with its member and partner institutions to share best practices and experiences to alleviate the region's structural and current constraints for MSME's access to finance. It has become a platform for members to learn, brainstorm and think about the future of the Mediterranean guarantee industry. The role that Credit Guarantee Schemes (CGSs) played during the COVID-19 crisis resulted crucial in mitigating the socioeconomic consequences of the pandemic, supporting access to finance for Micro, Small and Medium-sized Enterprises (MSMEs). CGS's have therefore become a key instrument to address financial market failures and are expected to adopt a consolidating position in future market developments, particularly in the Mediterranean area considering the region's constrains on MSME's financial inclusion.

Against this background, the Euro-Mediterranean Guarantee Network (EMGN) dedicated its second Annual Conference, "*The Future of the Credit Guarantee Schemes in the Mediterranean: Opportunities for a Strengthened Role*", to discuss ways to consolidate the CGSs, their mission, and their impact on the Mediterranean economies. The event, held virtually, was structured across three main pillars: the financing needs of SMEs in the aftermath of the COVID-19 crisis, the need to review and upgrade the CGSs' business model and, lastly, the need for more risk-sharing mechanisms.

Report of the conference

Opening and welcoming of participants

Nasser Kamel, Secretary General of the Union for the Mediterranean (UfM), and **Nagla Bahr**, Managing Director of the Credit Guarantee Company in Egypt, and Lead Representative of the Euro-Mediterranean Guarantee Network (EMGN), opened the EMGN 2021 Annual Conference by highlighting the devastating socio-economic effects of the COVID-19 pandemic on the region and the important role that CGS have played in providing liquidity to MSMEs and keeping the economy flowing.

Opening the session, Nagla Bahr introduced the importance of the network in its contribution to the development of the CGS's models across the Euro-Mediterranean region. In the same line, Nagla Bahr explicitly remarked the key role of the EMGN and its adaptation capacity in a year where, contrary to what was expected, there was a major step back in the control over the pandemic, including a global supply chain crisis and an increase of inflation rates, among other socioeconomic consequences.

Nagla Bahr highlighted the crucial role played by CGSs to mitigate the impact of the pandemic and support MSMEs, however, this is expected to result in defaults in CGSs portfolios. In that sense, Nagla Bahr mentioned the importance of starting a process of restructuration as regards to the current approach of addressing financial market failures, which will considerably help EMGN members through the upcoming journey towards the post-pandemic recovery. As Nagla Bahr noted, the main lesson that EMGN must extract from this crisis is the need to construct a more robust and resilient credit guarantee model that is able to anticipate and overcome upcoming disruptions in the market. It is for this reason that the introductory speech of the Lead Representative of the EMGN ended with a message of encouragement to all members to continue working in this direction and take advantage of the opportunities that 2022 will offer.

In the same line, H.E. Ambassador Nasser Kamel acknowledged the work done by the EMGN and its role in closing the finance gap of MSMEs in the Mediterranean space, particularly during the pandemic crisis. Moreover, H.E. Ambassador Nasser Kamel welcomed the initiative in the framework of the UfM activities to boost regional integration and business development, and highlighted the CGSs' added value to help boost the post-COVID-19 economic recovery in the region by securing liquidity and credit influx to maintain jobs and avoid fragmentation risks all over the Mediterranean.

Introductory Session – SMEs' Access to Finance in the post-COVID-19 Mediterranean: An Assessment of the Needs and Challenges

Opening the session, Roger Albinyana, Managing Director of the European Institute of the Mediterranean (IEMed), highlighted that, in a moment when governments are envisaging strategic policies to promote an inclusive and resilient economic growth in the Mediterranean region, it becomes crucial to place MSMEs at the centre of the public policy, considering that MSMEs represent up to 95% of the economic tissue in the region and employ two thirds of the labour force in the formal sector. Moreover, MSMEs are considered a driver of sustainability and regional development, as well as a tool to create long-term employment, emphasising the need to instrumentalise the right mechanisms to help their growth and success in a context of uncertainty.

Notwithstanding, MSMEs have faced severe challenges and constraints during these last months as a consequence of the negative impacts of the economic crisis, general lockdowns and reduction of trade exchanges. Against this adversity, the credit guarantee industry has resulted significantly instrumental to improve the situation of MSMEs in the Mediterranean region by enhancing access to finance while softening part of the credit restrictions that directly affected enterprises. In this context, the task developed by the EMGN network during the pandemic, and which focused on assessing and disseminating the prospects and opportunities for the industry to help alleviate the socio-economic pitfalls, must be recalled as particularly relevant.

Union for the Mediterranean (UfM)

Abdelkader El Khissassi, Deputy Secretary General in charge of Economic Development and Employment at the UfM, acknowledged that MSMEs constitute the backbone of economies across the globe, as they account approximately up to an approximate 70% of employment and 50% of the GDP worldwide.

Particularly in the Southern and Eastern Mediterranean countries, MSME's are estimated to generate 7 out of 10 jobs in the formal sector. Parallely, Micro, Small and Medium businesses play a key role in achieving the 17 United Nations Sustainable Development Goals, not only as regards economic growth, but also by boosting industrial innovation and infrastructure, promoting socioeconomic inclusion, and advancing the green and digital transitions.

For this reason, tackling the challenges posed by the pandemic on access to finance has become a major priority for government officials and policymakers across the region. On a general level, the constraints that derived from the COVID-19 crisis severely affected financial stability, thus increasing the risk of insolvency of many enterprises. The Southern Mediterranean region has been especially vulnerable to the negative impacts of the pandemic, especially women and youth, as the region was more exposed to disruptive challenges due to its large number of labour-intensive companies. The liquidity squeeze produced during the outbreak of the pandemic increased therefore the difficulties to access finance for many entrepreneurs. The fact that some of the governments in the region have put in place strategic investment initiatives enabled a smooth transition towards a more sustainable and inclusive recovery and helped secure liquidity and credit to business while maintaining jobs and avoiding fragmentation.

Additionally, encouraging peer-to-peer learning and showcasing good practices between countries and societies have proven key to provide multimodal approaches that help overcome strategic challenges in the region. In this context, the UfM made an effort during the pandemic to bring together policymakers, academics, think tanks and representatives from the banking and financial sectors to explore ways to broaden access to finance for MSMEs. For instance, a UfM Conference on "MSME finance during and after COVID-19" was held last June 2021, which put an emphasis on good practices around the region while highlighted recommendations to support MSMEs towards the recovery process including utilizing CGSs, digital financial services, and financial literacy. Moreover, MSME's access to finance is part of the UfM work programme and a core topic within the regional strategy for the period 2021-2024.

Kredi Garanti Fonu (KGF) - Turkey

Özge Demir Kuzucu, General Coordinator of the Kredi Garanti Fonu (KGF), pointed out that in Turkey, MSMEs provide approximately 73% of total employment, 64% of the total turnover of enterprises and 56% of the total exports. In particular, MSMEs account up to 99% of the enterprises accessing finance in the country and were already facing difficulties related to the lack of collateral, high loan costs, payment plans and maturity mismatch. As a result of the global impact of the pandemic, the supply-demand balance experimented a strong deterioration, which led to a radical change in the workflow process to transform companies, in Turkey as in the rest of the world. In order to overcome the effects of the pandemic crisis with the least amount of damage, it became important to protect workers by regulating the cashflow and being able to benefit from foreign loans and support. Specifically, 25% of the increases in expected bankruptcy all over the world occurred during COVID-19. Over 450 million businesses worldwide have been affected by the slowdown of the economy and the restrictions to combat the pandemic, including 232 million operating in wholesale and retail, 111 million in manufacturing, and 51 million in accommodation and catering.

During the past two years, the KGF supported Turkish companies in a context of instability by postponing check payments, providing loan guarantees with affordable interests and support packages for enterprises in the tourism sector, among others.

In order to cope with the effects of the pandemic, policymakers and central bankers have delivered liquidity injections and offered support for households and companies affected by the pandemic by postponing tax payments and loans, increasing state-backed availability, extending the maturity of loans, and providing

minimum wage support. Accordingly, the KGF has supported SMEs with liquidity needs and lack of collateral offering guaranteed loans (coverage rate of 80%), through programmes funded by the Turkish government to ensure business continuity.

Société Tunisienne de Garantie (SOTUGAR) - Tunisia

Tahar Ben Hatira, Chairman and General Manager of the Société tunisienne de Garantie (SOTUGAR), stressed that, given the persistence of the consequences of the pandemic crisis and the weak economic growth, the need to support Tunisian enterprises remained key to advance the post-COVID-19 recovery. Relevant measures have been implemented to alleviate the financial constraints for SMEs in Tunisia. For instance, important efforts were made to establish favourable fiscal and financial measures for the MSMEs, such as the deferral payment of social security contributions and taxes, as well as the deferral of credit lines in the period 2020-2021 with renewal of guarantees. Moreover, a budget line was put in place for refinancing credits – around 100 million dollars - and the bonification of credit interest rates for MSMEs was successfully implemented. In this same line, two guarantee mechanisms were provided specifically for the tourism sector, while conditional credit concessions were envisaged for other sectors. In particular, 1,4M\$ of credit support were put at disposal of MSMEs, of which 0,43M\$ went through guarantee mechanisms, helping more than 2,600 professionals and companies palliate the effects of the pandemic crisis with the support of the KfW.

Prior to the pandemic, between 2018 and 2019, the SOTUGAR started a collaboration with the World Bank to improve the credit guarantee mechanisms provided to Tunisian MSMEs, which considerably helped alleviate some of the hardest impacts of the crisis. The main objectives of this partnership were to expand the field of the eligible activities, boost the digitalisation of procedures, foster the partial guarantee of an automatized portfolio and rise the compensation of 70% of the guaranteed quota. Nowadays, the Central Bank of Tunisia and the Ministry of Finance -in joint action with SOTUGAR- are currently working on a new line of finance for the restructuration of MSMEs' credit operations to set a path for the country's economic recovery, for instance, with high guarantee ratios up to 60 and 70% and low cost of guarantees of 1% instead of 2,6%.

Discussion

Before putting an end to the introductory session, panellists were asked about the impact of the pandemic in their home countries and the prospects for the development of new financial products that guide MSMEs' recovery, in conjunction with regulators and domestic central banks.

Despite being an international organisation with a limited capacity to promote CGSs, the UfM is conducting relevant initiatives in this topic, such as the official labelling of the EMGN initiative. For the UfM, the EMGN is a key and fruitful initiative to help MSMEs, and especially young and women entrepreneurs, in closing the finance gap in the Mediterranean region. In this line, SOTUGAR highlighted the importance of establishing new and innovative credit guarantee models to face the significant challenges of the post-COVID-19 socio-economic recovery and encouraged the EMGN members to continue exchanging best practices and lessons learnt that can have an impact in the region.

Session 2: Looking into the Future of the Mediterranean Guarantee Industry: New Business Models for an Enhanced Role

The second session of the EMGN Annual Conference was opened by Virginie Poncet, Head of International Expertise Activities of Bpifrance. Virginie Poncet highlighted the crucial role of guarantee funds and promotional banks in the rebound in Europe during 2021, a year that ended with a 5% of economic growth

globally. Moreover, Virgine Poncet highlighted that, in the aftermath of the crisis, credit institutions and promotional banks will have to be prepared for a phase of economic rebound, while fulfilling their social responsibility and facing risks such as climate change impacts, inflation, the cost of energy and the shortage of supplies. Accordingly, it is of utmost importance that credit guarantee institutions rethink their role, put forward new propositions, and adopt strategies of resilience that provide them with a bigger capacity of adaptation and anticipation to contemporary risks and challenges.

Banco Português de Fomento (BPF) - Portugal

Beatriz Freitas, President of The Ibero-American network of guarantees association (REGAR) and Chairwoman of the Board of Directors of the Banco Português de Fomento (BPF), introduced The Banco Português de Fomento (BPF) as a Portuguese promotional bank recently created from the merging of several state companies that delivered capital and debt instruments to national companies. The BPF is currently supporting Portuguese companies to recover from the pandemic effects and is in particular financing strategic projects through credit guarantee schemes, capital instruments, and innovative services. Moreover, and since its creation, the BPF has also promoted the incorporation of Environmental, Social and Governance (ESG) criteria in its operations, in light of the increasing relevance of sustainable finance and the growing number of industries, investors and funds that are applying ESG criteria to their activities. In this context, ESG criteria is guiding the task of BPF as a promotional bank, and many efforts are being made to attract investors and collect ESG data for risk-modelling purposes.

Due to the consequences of the pandemic crisis, the BPF has adopted a new relevant perspective regarding the future of credit institutions, which was an excellent opportunity to remodel the credit guarantee system in Portugal. The large amount of government resources that supported the economic recovery in Portugal allowed the institution to put aside some investment models lacking sustainability, enabling BPF to create a new decision-making process to allocate funds within CGSs. The change of paradigm that emerged from the creation of BPF was accompanied by a shift in the requirements and combinations imposed by credit institutions, increasing the flexibility, resilience, and modernisation of the credit guarantee schemes in Portugal.

Regarding BPF's role during the pandemic crisis, the institution was able to increase its portfolio up to six times as a result of a process of weekly consultations with its regulator. The main goal of this initiative was to calibrate the balance sheets of the country's companies, reaching capital ratio levels similar to a pre-pandemic scenario through capital products. Moreover, BPF is nowadays helping the Portuguese economy to pursue environmental goals and drive its society towards the digital and green transformation, being innovation, decentralisation, and green finance among the institution's top three strategic priorities.

Jordan Loan Guarantee Corporation (JLGC) - Jordan

Mohammed Al-Jafari, General Director of the Jordan Loan Guarantee Corporation (JLGC), highlighted that the rebound from the pandemic crisis must be carefully approached, as the speed of the recovery will be highly determined by a country's socioeconomic development. Developing countries are moving at a much smaller pace towards recovery. In the Mediterranean countries of North Africa and the Middle Eastern region, the speed of the recovery is significantly slower than in advanced economies, as there is a smaller margin of action for policymakers. Moreover, the increase of the level of oil prices will enable producing countries to return to a faster economic growth than expected, while oil importing countries like Jordan, Egypt, Tunisia, and other countries in the region will be negatively affected in their recovery process. Predicting the future and speed of the recovery in the coming years becomes therefore highly difficult and calls for a careful assessment.

For instance, a determining factor in measuring a country's capacity to recover from a cyclical crisis and an economic slowdown are monetary policies. Small economies such as Jordan do not have the fiscal space to implement expansionary monetary measures to speed up the country's recovery. At the same time, the cost of the monetary policies which had been taken by advanced economies has already started to translate into an inflationary pressure, the costs of which will be shared globally. Hence, the next year will reflect an important increase in inflation rates, also because of the structural changes in the demand and the disruption generated in the supply chains all over the Mediterranean region.

Particularly, in countries where the prospects for recovery are low, a strategy based on credit guarantee schemes and risk-sharing needs to be put in practice in order to mitigate the consequences of the global crisis and provide support for SMEs. During the past two years, many credit guarantee institutions have implemented important changes in the design of their guarantee products and the delivery model of loans. In addition, coverage levels have increased, premiums have decreased, and decisions have been delegated at the highest level and a portfolio approach has been progressively instrumentalised. Despite being implemented in a short amount of time, these measures have proved to be effective in alleviating the countries' economic constraints. For this reason, and specifically in the case of emerging economies, more support will be needed in the future from donors in order to increase the level of leverage and the overall economic and social impacts.

In this context, initiatives such as EMGN become key drivers of knowledge, as they provide a platform that contributes to share best practices and expertise while enhancing the level of cooperation, especially in times of crisis.

Additionally, a counter guarantee scheme is becoming more and more important to address the issue of limited capital and outreach of guarantees in the region.

Hellenic Development Bank SA (HDB) - Greece

Athina Chatzipetrou, CEO and President of the Board of Directors of the Hellenic Development Bank (HDB), introduced HDB journey and business model. Established in 2004 and being fully owned by the Hellenic Republic, the Hellenic Development Bank (HDB) is the national promotional institution authorised in providing leverage. The institution's main role is to design financial products and tools that counterpart financing gaps and promote access to finance, as well as to create value for shareholders and generate positive economic, social and environmental benefits in the region. In 2020, the HDB started a process of profound restructuration of the institution at all levels (operating model, organizational chart, product pipeline, digital transformation and corporate governance), setting at the same time ambitious financial targets.

The financial reorganisation of the institution was articulated through three main pillars: co-financing products (senior loans and mezzanine loans), guarantees (capped portfolio and new guarantee schemes) and interest rate subsidies and grants. HDB launched in the past two years two successful credit guarantee financial schemes. On the one hand, the "COVID-Enterprise Guarantee Fund 19" was launched as a capped portfolio guarantee facility composed of 6.10 billion euros, granting an 80% guarantee rate per loan. On the other hand, the Entrepreneurship Fund II (TEPIX II) co-financed the capital of a loan between the Fund (40%) and the Bank (60%) and accounted for 1,90 billion euros. From 2020 to the end of 2021, there was a 2.57% of annual increase in the volume of loans, resulting in 36,000 loans approved and a total sum of 8.3 billion euros expended in loans. Facilitating the access to finance, HDB was able to address short-term liquidity shortages by tackling deteriorating operating cashflows, therefore reducing the risk of insolvency in the country. By adding a non-dismissal clause, 15,600 additional jobs were also created and safeguarded.

Parallely to these activities in 2021, HDB established a regional programme named the West Macedonia Regional Guarantee Fund, developed the Capped Guarantee Fund for Public Works Contractors and put in

place the Audio-Visual Productions Guarantee Fund, which aimed at tackling the finance gap in this sector for younger generations. Considering the opportunities and challenges presented by 2022, the new investment strategy from BPF is correctly centred on mainstreaming green finance and investments for a sustainable development and recovery, expanding eligible companies under the frameworks of CGS and financial products, as well as on boosting digitalisation, innovation, entrepreneurship and growth. Moreover, a new Innovation Unit has been created aiming at building up an operating model to support all stages of MSMEs evolution and extroversion, specifically through the provision of both financial and non-financial services to support MSME's recovery process. Complementarily, non-financial products have also been delivered through the creation of "InnoAgora", an e-community initiative that provides members with financial advisory and the opportunity to exchange relevant information in that matter.

In terms of ESG, HDB incorporated ESG into the eligibility criteria, developed a mechanism for monitoring ESG, and provide a package of green financial instruments among other initiatives.

The World Bank Group

Pietro Calice, Senior Financial Sector Specialist at the World Bank Group, stressed that MSMEs are fundamental drivers of development and key players in the global reduction of carbon emissions towards the achievement of a net zero economy. Even though their contribution to the environmental footprint might not be large on the individual level, it becomes very relevant on the aggregated level. As a fundamental component of the economy and employment, many business opportunities for MSMEs will be unlocked through the green transition.

According to the World Bank Group, mainstreaming climate action within CGSs can be pillared in four objectives: committing to climate strategies, managing climate-related risks, promoting climate smart objectives and accounting to climate performance.

As regards to committing to climate strategies, it is important that CGSs are increasingly seen as a crucial pillar for a government policy framework towards a greener economy. In that sense, it becomes relevant to adopt a clear and stable green mandate in the design of the strategy, as well as embedding climate-related considerations, ensuring capital resources and building an effective governance and management structure. However, when it comes to climate-related risks, it is of outmost importance to start identifying, assessing, and addressing these shared risks in the GCS's existing portfolios and operations to anticipate and mitigate its impact on CGSs.

Regarding the promotion of climate smart objectives within CGSs, it becomes also crucial for the delivery of financial products to be aligned with a green mission and strategy. Aspects such as the eligibility criteria, the use of proceeds, the characteristics of borrowers or the development of new products must be guided by climate-related considerations. Moreover, working with lenders and stakeholders to create opportunities for increasing climate smart investments will be also key to guide the post-COVID-19 MSME's recovery.

Lastly, it is important that CGSs set up a proper monitoring and evaluation framework to measure and report climate performance. At the same time, it is also crucial to promote active client engagement to bridge data gaps, disclosing the carbon footprint of the guarantee portfolio and aligning with international and national guidance.

At the global level, The World Bank developed specific guidance to complement the Principles for the Design of CGSs. At the regional level, it is identifying and quantifying climate related risks in the current portfolio and surveying existing market practices. As for the country level, the World Bank is engaging in policy dialogue with governments and stakeholders on the green transition.

Discussion

As mentioned before, the challenges for developing economies to align with the green transition objectives are more daunting than in the case of advanced economies. Nevertheless, the green transition must be considered as a global priority according to all speakers, and especially due to the lack of time, all countries must work from now on towards this objective regardless of the evident socioeconomic differences.

When asked on the benefits that derived from the merging of a national promotional bank and CGSs in a context of short resources, both BPF and HDB agreed on the fact that acting as a unique institution allowed both of them to deliver government financial instruments to the society in a more efficient way. Moreover, guarantee debt and equity activities simultaneously have a more comprehensive perception of the economy and market failures, as well as a potential larger impact. For this reason, it was highlighted that CGSs in countries like Tunisia and Morocco are also moving towards the same direction.

Session 3 – Meeting the Needs for More Risk-Sharing Arrangement

Prof. Rym Ayadi, President of the Euro-Mediterranean Economists Association (EMEA), introduced the final session by highlighting the role of CGSs as mitigators of the socioeconomic consequences of the COVID-19 pandemic in the Euro-Mediterranean region. According to Prof. Ayadi, the balance sheets of credit guarantee in developed and developing countries have experienced a considerable growth, with exposures that might end up non-performing. The deteriorating quality of assets will put further pressure on CGSs and on the banking sector overall. In order to avoid an upcoming economic and financial crisis, support from governments will be further required.

However, in Southern Mediterranean countries fiscal space is not available and stocks of debt are piling up. Because of the increase in CGSs' balance sheet, additional mechanisms like counter-guarantee schemes and other risk-management techniques are ought to be put at the centre of the debate and will eventually need to be recognised by the current regulatory frameworks (Basel Committee) both at the international and national level.

Central Bank of Egypt

May Abu-El-Naga, Subgovernor of the Central Bank of Egypt (CBE), highlighted that MSMEs are the engine of economic development and sustainable development in Egypt and in the region. That is why, supporting MSMEs stands up at the centre of Egypt's national vision (Egypt 2030), and it has become one of the most important objectives for the Central Bank of Egypt (CBE), especially given their important role in terms in job creation and catalysation of the economic and social welfare of the society. In Egypt, CGSs have always played an important role in assisting the Egyptian banking sector to reach the underserved and vulnerable segments of society.

During the last couple of years, the Central Bank of Egypt has dedicated strategic efforts on the strengthening and development of the role of the Credit Guarantee Company (CGC) of Egypt, as a prominent tool to credit growth and access to finance for MSMEs and the society in general.

Initially, before its restructuration in 2016, the CGC was providing credit guarantees mainly for MSMEs (3 billion EGP to cover credit facilities of 7 billion EGP) on a case-by-case basis. However, afterwards, an important restructuration of the CGC's activities and management took place, through a comprehensive assessment and due diligence analysis of the organisation and providing a clear roadmap to restructure its mission within a renovated credit guarantee framework. In this context, revamping CGC's operational model led to the adoption of innovative guarantee schemes that met the market's needs such as the portfolio

guarantee scheme, which took special relevance in a post-COVID-19 scenario. Moreover, the CBE issued regulations providing special treatment for CGC's guarantees and provided advantages to banks dealing with the guarantee by decreasing their provisioning and core requirements. These regulations essentially acted as the basis for encouraging banks to deal with marginalized and underserved segments. The Central Bank of Egypt has also issued a pledge of a guarantee of about 31 billion EGP to the Credit Guarantee Company to support businesses in various segments. Finally, the restructuring of CGC has proved to have substantial impacts on its activity: in December 2021, the company was operating with an outstanding of credit guarantees reaching 120 billion EGP and covering 178 billion EGP of credit facilities. As a consequence, banks' loan portfolio targeting MSMEs has grown exponentially from December 2015 to September 2020, amounting 280 billion EGP, representing an exceptional growth rate of 230%.

European Association of Guarantee Institutions (AECM)

Guy Selbherr, President of the European Association of Guarantee Institutions (AECM), clarified that the risk-sharing arrangement in the guarantee system is generally based on four pillars: the entrepreneur provides equity to contribute to the financing of its project; a part of the loan is covered by the commercial bank issuing the credit; another share is covered by the guarantee institution; and finally the public sector re-ensure the guarantee via a counter-guarantee. The proportion of each pillar depends on the individual guarantee case.

As regards the counter-guarantee, it can take many forms (capped or uncapped, explicit or implicit, fully or partly provisioned), can have different prices (free like the COSME guarantee or with fees like InvestEU), levels of coverage and provision, as well as it can be granted by different government levels (from local to supra-national). However, the risk shared by guarantee institutions usually tops up public coverage secured by their own funds and can have a mixed basis (public, private or mutual). Counter-guarantee instruments are powerful instruments usually backed by more than one player.

When it comes to financing banks, they receive either individual or portfolio guarantees and usually bear a certain part of the risk. Moreover, financing banks receive capital relief for the share of the loan covered by the guarantee and the conditions of the loan might be constrained by the guarantee. In case of default, the guarantee institution usually intervenes on a pro-rata basis. The financing bank does not only benefit from the guarantee in form of risk reduction but also in form of regulatory relief. Lastly, entrepreneurs are required to contribute with their own or collateral funds, while remaining liable for their business activity. The guarantee institution is very careful to grant credit guarantee to viable firms only.

During the pandemic, AECM members adopted a vast range of measures to cope with the effects of the COVID-19 crisis, most of them backed up by the respective national or regional governments, including the European Union funds. These measures included, for instance, the increase of the guarantee capacity, an increase of the coverage rate, moratoria, reduction of fees and fast track procedures. An increase of coverage rates was only possible with the increase of counter guarantee coverage and a temporary loosening of EU state-aid rules. According to AECM's scorebook survey from the second half of 2020, AECM members- taken as a whole- experienced an explosion of credit guarantee volumes, caused by the rollout of the extensive support programmes for MSMEs. The increase of 81% in the number of MSMEs benefiting from credit guarantee schemes issued by AECM members in 2020 was a significant proof of the key anti-cyclical role played by guarantee institutions.

The COVID-19 crisis has shed light for governments on the importance of reinforcing and promoting CGSs at the national level. As a result, many guarantee institutions are conducting impact studies that prove the financial and economical additionality of their activity, in terms of beneficiaries' growth, impact on employment, and the overall cost-benefit relations of the guarantee system.

Global Network of Guarantee Institutions - GNIGI

José Fernando Figueiredo, Co-Coordinator of the Global Network of Guarantee Institutions (GNIGI), confirmed that CGSs have proved to be key anti-cyclical tools for the development of economies, as they allowed small businesses to access credit finance even after the outbreak of the pandemic crisis. The rapid involvement of many governments in assuming credit guarantee risk-sharing mechanisms has also played a prominent role in the mitigation of the financial and economic hardships that derived from the crisis.

The fast and effective reaction to the pandemic crisis avoided massive capital losses and protected balance sheets from external exposures. The sudden and exponential increase of portfolio guarantees will be inevitably accompanied by an increase of the non-performing loans. Central banks and governments should be ready to pay a part of the potential losses that was expected to happen as a consequence of the increase of guarantee portfolios. As mentioned by other panellists, it is thus vital for credit guarantee institutions to start a process of reinvention of the business models to adapt themselves to the challenges presented by the post-pandemic scenario, including the ESG criteria, the transformation to a green economy and the digitalisation. In this sense, the delivery process of the CGSs must be faster, their products should be diversified while keeping the proximity with the beneficiaries. Moreover, three key factors that would help ensure the continuity of the CGSs would be to allocate them more capital, as well as to advance in the processes of repayment for the collateral costs and the compensation of balance sheets.

Parallely, the joint action of governments and credit institutions in the development of risk-sharing mechanisms will be also a key factor for the post-COVID-19 recovery. To that end, two possible ways for governments to participate in CGSs risk-sharing mechanisms can be extracted from this crisis. For instance, governments can become the owners of credit institutions or promotional banks or can assume part of the risk in their operations without having the ownership of the credit institution through counter-guarantee risk mechanisms, which can be developed at different levels of governance. Both mechanisms can be implemented simultaneously, even though some countries such as Portugal or Greece have merged its credit institutions into a single promotional bank. In the MENA region, despite differences regarding local currencies and legal frameworks between countries, setting-up a pan-national instrument that could help the region's guarantee institutions to have some additional coverage offer great benefits.

Discussion

Tourism and the agriculture are examples of vulnerable sectors within the Egyptian economy that are greatly exposed to many external shocks, and therefore require credit guarantee support. At the same time, it becomes crucial that large corporations remain solid in order to have a positive impact on MSMEs through value chains.

Regarding the prospects for CGSs in a post-pandemic scenario, the Central Bank of Egypt foresees a significant increase in non-performing loans. For this reason, it is important for credit guarantee institutions to continue supporting the economy in order to preserve it from those risks.

When asked about the breakdown between Northern and Southern European countries in their involvement with CGSs as a response to the socioeconomic consequences of the pandemic crisis, the AECM mentioned that there was no evidence making a difference explicit. Rather, it was the strategy selected by each country to overcome the crisis that eventually determined the socioeconomic situation of the country. In countries where companies were less affected by pandemic restrictions because of their level of digitalisation, the need for financial assistance was minor. At the same time, it was recalled that Southern countries have made an efficient use of EU funded programmes to maintain liquidity injections to different sectors.

Against this background, the highest upcoming risk was highlighted by all speakers to be the lack of renovation of business models after the breakout of the COVID-19 crisis. Hence, it was agreed on the need

to redefine business models and to establish programmes of transformation, including sustainability and digitisation standards. All panellists concurred that guarantee instruments have proved to be key to tackle some of the hardest impacts of this crisis, while showing the potential to become a prominent tool in boosting the recovery in the region. Moreover, the greening of the economy and its transformation to meet sustainability criteria will require a massive involvement of the financial sector, carrying substantial risks in terms of payback period. This challenging environment will definitely demand more risk-sharing arrangements such as counter-guarantees.

Closing Words- Credit Guarantee Company, Egypt / Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

According to Nagla Bahr, Lead Representative of the EMGN, credit guarantee institutions have been forced to act in a highly complex environment for the past two years and are now facing a challenging journey of transformation. The current CGSs business models need to be transformed in order to deliver efficient financial tools that can palliate the consequences of the pandemic crisis. In this crucial context, initiatives like the EMGN take a special relevance, as it offers a key platform to showcase best practices, exchange of knowledge and enhance CGSs' importance in the region. The fact that the network has maintained its activities despite the difficulties presented by the pandemic must be conceived as encouraging with regard to the future.

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) also highlighted the necessity for the adoption of a new CGSs business model based on the green and digital transformations. The importance of the identification of new financial products and the promotion of better equipped equity guarantees and innovative risk-sharing arrangements was highlighted.