

Tackling the impacts of the COVID-19 through international cooperation in the Mediterranean: assessing measures for guarantees

EMGN Webinar 2

2 June 2020, 14:00 – 16:00 (CET)

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Summary

This webinar, organised by the Coordinating Unit, was intended to follow up on the first EMGN webinar dedicated to the role of Credit Guarantee Schemes (CGSs) in mitigating the dire socioeconomic and financial consequences of the COVID-19 pandemic, it will discuss the role of the EU and other international stakeholders in assisting southern and eastern Mediterranean countries, in particular the measures to support MSMEs in the framework of the Global EU Response to the COVID-19. In this regard, representatives of European and international organizations focused on the EU instruments to support the economic recovery in its southern neighbourhood.

Webinar notes

Opening and welcome

Welcome of participants: highlighting the importance of international and regional cooperation to fight the effects of the pandemic particularly on MSMEs.

Introduction – Brief update on the socioeconomic consequences of the COVID-19 in Mediterranean countries and the role of the Credit Guarantee Schemes / Presentation of EMGN:

Opening the discussion, the objectives of the EMGN and its relevance during the current economic phase have been presented.

The COVID-19 economic effects on the region (including economy slowdown / rising unemployment) have been highlighted too. The economic slowdown and the tragic effects that the virus is having on sectors like transports and tourism compelled public authorities to intervene with initiatives to facilitate access to finance. Throughout the pandemic, regional governments and central banks have realised the crucial role played by Credit Guarantee Schemes (CGS) and provided them with the necessary financial support.

CGSs as the main hub for channelling credit, underwent profound changes in their usual businesses. Risk appetite and loan coverage have drastically increased, from an average of 70% to 90% and even 100% in certain cases (e.g. tourism) in addition to increasing guarantee caps. Entry fees and issuance processes were relaxed, whereas guarantees' duration has been extended. CGSs applied more digitized operations and included mid-large corporates under the guarantee coverage. This has a clear impact on the size of CGSs business. Generally speaking, CGSs have been forced to adopt a flexible approach, meeting high expectations while adapting to a fast-changing situation with new products responding to active market dynamics.

In this context, the EMGN has so far provided a crucial platform where regional guarantee institutions have shared their best practices and ideas. In this case, the webinar proved to be a useful exercise where exponents from relevant bodies of the EU commission presented some of the initiatives and instruments from which the southern neighbourhood could benefit shortly soon.

The Role of the EU - Presentation of the EU global response to COVID-19:

Representative of the EU highlighted that once the dimension of the health crisis with its related economic consequences was clear by the end of March, the EU decided to remobilise resources dedicated to existing projects. In what is now termed the Team Europe approach, the EU commission devolved a total of €20 billion for Covid-19 assistance, of which €1.4 billion made available for the

southern neighbourhood. This assistance aims at three main areas: short term emergency response (e.g. medical equipment or medicines); strengthening health systems with a focus on research and eventually delivering a vaccine; support for the socio-economic consequences of the crisis which includes short-term emergency needs in terms of liquidity and the longer-term structural impacts on economies and societies. Economies will be hit very badly, expected recession in the region due to shocks in global demand, slowdown in key income generating sectors, interruption in value chains, pressure on public finance, stress in financial markets, lack of remittances, and the decline in oil prices for oil exporting countries.

The private sector and particularly the MSMEs will be the most impacted by the crisis, and these enterprises had a problem with access to finance even before the pandemic. The government support system tends to be insufficient, hence in addition to Team Europe the commission is working with partners to come up with a coherent financial package to support MSMEs, the main vehicle used for that is the neighborhood investment platform which will focus on and prioritize guarantees.

The EU's external investment plan that sets the frame for the European fund for the sustainable development guarantee have been presented too. The EIP is built on three different pillars: Funding investments that consists of blending (2.6B) and the guarantee (1.5B); technical assistance; work on policy dialogue and reforms with regards to investment climate and business environment. The EFSD guarantee is provided through eligible financial institutions such as EIB, EBRD, KfW, and AFD, and focuses on scaling up capital mobilization for innovative/risky operations. The guarantee's investment windows include: renewable energy and connectivity, MSME financing, digitalization for development, sustainable cities, agriculture, rural entrepreneurs and agro-industry. The major part of the 1.5B will be reoriented towards Covid-19 response related operations. As for access to finance, the EU initiative for financial inclusion is concentrated on helping MSMEs focusing on women led, youth, and remote areas which resulted in 260,000 loans provided 60,000 jobs created, and 250,000 jobs sustained.

Perspectives from the Arab Monetary Fund (AMF):

Financial inclusion is exceptionally relevant within the Arab region, for its potential to reduce poverty, increase employment and, now, recover from the current economic turmoil.

The work done by the AMF on financial inclusion has been introduced and the progress achieved in recent years in terms of account ownership. FIARI's objective is to build a strategic platform in the region among stakeholders and policy makers to support the promotion of financial inclusion focusing on women, entrepreneurs, start-ups, and MSMEs. The importance of digital financial services to accelerate financial inclusion as highlighted by the crisis has been stressed as well. Regarding MSMEs access to finance AMF provided a financial support facility.

The current crisis has highlighted the need to speed up the digital financial transformation, build a resilient financial sector that better serves SMEs and CGS play a crucial role in such circumstances. One of the key challenges / questions is how CGSs can reach unbanked firms.

Discussion

The complementarities between FIARI and EMGN have been emphasized, and the need to strengthen the cooperation between these networks, future collaboration between other GIZ supported initiatives could improve their overall output in the region.

Representatives of EMGN asked whether CGS or institutions from the Southern Mediterranean countries can apply for the EIP guarantee instruments. The EU's representative clarified that the European and International institutions are their partner institutions, however other partners can team-up with the financial institutions. As for the eligibility criteria for partners to be eligible to the funds mentioned, it has been clarified that the eligibility criteria relates to accounting systems, internal controls, asset management and other financial aspects before agreeing to work with financial institutions. The commission is slowly expanding to other types of entities / organisations to which it could delegate management of funds, such as fund managers.