EURO-MEDITERRANEAN GUARANTEE NETWORK

REPORT

EMGN 2020 Annual Conference

Beyond Crisis Mitigation: the Role of Mediterranean Credit Guarantee Schemes in Boosting the Post-COVID-19 Recovery

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Summary

The Euro-Mediterranean Guarantee Network (EMGN) has been working through the pandemic with its partner institutions to share best practices and experiences on the role of Credit Guarantee Schemes (CGSs) in mitigating the socioeconomic consequences of the COVID-19 pandemic. It has created a platform for members to learn, brainstorm and think about the future of Mediterranean economic resilience. With this objective, the EMGN devoted its first Annual Virtual Conference*, "Beyond Crisis Mitigation: the Role of Mediterranean Credit Guarantee Schemes in Boosting the Post-COVID-19 Recovery"* to discuss the future prospects for CGSs as well as possible tools to improve their impact on local economies. This virtual event revolved around two main issues, dealing with CGSs' role in post-Covid-19 recovery and the possibility to implement Counter Credit Guarantee Schemes in the Mediterranean region.

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 2020 Annual Conference, introducing reflexions and prospects about the devastating socio-economic effects that the COVID-19 pandemic has had on the region, and the important role Credit Guarantee Schemes have been playing in providing liquidity and credit to vulnerable businesses, particularly Micro, Small and Medium-sized Enterprises (MSMEs).

Opening the discussion, Nagla Bahr presented the background and objectives of the EMGN, stressing its privileged position and relevance as a network which fosters the exchange of experiences, which has been crucial during the current economic crisis.

The Southern Mediterranean countries are behind in financial development and financial inclusion, situation that it has been aggravated by the current COVID-19 pandemic. In this context, the role of Mediterranean CGSs has acquired an added value to help economic recovery in the region by securing liquidity and credit influx to maintain jobs and avoid fragmentation risks in the society, but also by boosting sustainability in the region while closing the gap of access to finance to MSMEs. The current economic recession compelled public authorities and central banks to intervene with initiatives to facilitate access to finance and devise comprehensive responses in terms of guarantee schemes, which have proven crucial to channel credit to mitigate the direct socioeconomic and financial consequences of the COVID-19 pandemic.
Beyond the COVID-19 crisis, CGSs are crucial to alleviate the region's structural constraints for MSMEs to access to finance. This is why H.E. Ambassador Nasser Kamel recalled that the objectives of the EMGN are in full consonance with the mandate of the Union for the Mediterranean and invited the network to apply to the UfM label.

Introduction – Brief update on the role of Credit Guarantee Schemes in the region and the consequences of the pandemic in both society and economy.

The COVID-19 economic effects on the region, including economy slowdown and rising unemployment, have accelerated interdependences between both shores of the Mediterranean. Multilateral and regional cooperation is key to pursue a Mediterranean collective response, given the unprecedented weakening of the productive fabric as a consequence of the COVID-19 pandemic.

Almost all countries in the region have deployed an array of monetary, tax, social, health and financial policies to mitigate the impact of the pandemic. Fiscal policies have been devised to soften the blow to households and businesses through fiscal tools such as off-budget measures, property exemptions, land taxes deferrals, inceptions on declarations, payment of individual and corporate taxes and suspension/reduction of government fees and penalties. In terms of social spending measures, government initiatives have been focused on strengthening unemployment benefits, devising cash transfers to low-income households and informal sector, and boosting the capacity of the health sector.

In addition to these fiscal and social measures, most of the governments in the Mediterranean have realised the crucial role played by guarantee schemes and provided them with the necessary financial support. Credit guarantee institutions have provided subsidized interest rates and rescheduled loans to MSMEs and businesses, while risk and loan coverage have drastically increased. In this context, CGSs have become more flexible and adaptable to a fast-changing situation with new financial initiatives and tools aimed at compensating the severe effects of the current crisis. They have also become essential actors in the national post-COVID-19 recovery plans which have been unveiled throughout the past months.

Against this background, the virtual EMGN 2020 Annual Conference proved to be a useful exercise with speakers from Mediterranean credit guarantee institutions, as well as representatives from the European Commission and the European Investment Bank (EIB), presenting the public guarantee initiatives and financial instruments that Southern and Northern Mediterranean countries and international organisations have implemented throughout the last months to counter the effects of the COVID-19 pandemic. During the first session, participants also discussed how these CGS will accompany upcoming national and regional economic recovery plans and to what extent CGSs will be used to boost sustainable growth in the region.

Session 1: The role of credit guarantee schemes in the post COVID-19 recovery in the Mediterranean

Jordan – Financial measures and the role of CGSs

Due the limited budget and high-level deficit prior to the crisis, the current COVID-19 situation put Jordan in a very difficult financial position to maneuver the socio-economic impacts of the pandemic and to set up economic and financial mechanisms. Nevertheless, an array of measures was devised by the government, in collaboration with the Jordan Central Bank, focusing mainly on safeguarding jobs and fight the rise in the unemployment from 19% before the pandemic to 24% in December 2020.

The Fund of the Social Security Corporation has been used to provide salaries up to the minimum wage to those citizens who lost their jobs or were partially unemployed. Moreover, the Central Bank of Jordan reduced the required reserve on the monetary policy, which mobilised around 500 million Jordanian dinars (JD)[1] of loans to support lending to businesses and MSMEs from the banking sector, reduced the interest rate of all monetary policy tools by 150 basis points, established a maximum interest rate of 2%, and compelled banks to postpone the payments on the loans provided to retail borrowers for 3 months.

This scheme also included a credit guarantee component with the Jordan Loan Guarantee Corporation (JLCG) securing loans up to 400 million JD[2], under the particular condition to be used to meet businesses' operational expenses, thus excluding capital investments.

These measures helped release some financial obligations in those sectors most affected by the pandemic. The key objective of these credit guarantee initiatives has been to ensure that MSMEs keep running while maintaining the jobs of their employees, which proved to be successful to safeguard around 62.000 jobs in the labor market.

These measures show the important role that CGSs played in Jordan and its importance to mitigate some of the negative implications of the pandemic in both the economy and society. In this context, it was stressed the Central Bank of Jordan and JLGC, in collaboration with the World Bank and GIZ, were working to design a financial and credit guarantee programme that would target the micro businesses segment up to a coverage ratio of 85% on all loans under this new facility.

Tunisia – Financial measures and the role of CGS

The COVID-19 pandemic had severe effects on the Tunisian economy, with the unemployment rate exceeding 20%, and the budget deficit skyrocketing to 11,4 points, compared to 3,4 points in 2019. In this context, the Tunisian government adopted economic and financial measures to directly help vulnerable households, businesses, and individuals to mitigate their urgent liquidity during the current social and economic crisis.

As regards to businesses and enterprises, the government accelerated compensations, gave back production overflow (surplus), and delayed the payoffs of social taxes. At the same time, the Central Bank delayed the payoffs of the loans up to 10 months, softened the conditions for re-funding enterprises and reduced the percentage of managerial interests. Moreover, a special mechanism especially devised to re-fund the enterprises that have been especially hit by the pandemic was set up by the Central Bank.

[1] Approx. €586 million
[2] Approx. €486 million

Additionally, Tunisia has implemented two comprehensive credit guarantee mechanisms, one dedicated to enterprises and the other one focused on the tourism sector. This CGS covers the use of exploitation loans up to 25% of dealings in 2019, with limit until 1 million Tunisian dinars (equivalent to 250.000 USD). These loans will finance the needs of workers and exploitation expenses on the condition that they should be spent from March 2020 to December 2020, and from March 2020 to the end of March 2021 for the tourism sector.

As regards the post-COVID-19 recovery, the Société Tunisienne de Garantie (SOTUGAR) is currently designing a new financial mechanism, with support from the World Bank, which will expand the scope of intervention of CGSs in Tunisia while improving the screening of new files and dealing with claims and compensations in a more efficient manner. Moreover, another financial initiative will be put in place in 2021 and will provide a credit guarantee scheme for housing loans, including residential houses and buildings.

The Tunisian case has shown that credit guarantee schemes are very effective and guarantee mechanisms should work in times of crisis as mechanism to boost economic recovery.

France – Financial measures and the role of CGS

Social, regulatory, sanitary, tax and financial measures have been adopted by governments across the Southern and Northern Mediterranean countries during the COVID-19 pandemic, including the French government. Among those financial measures, France issued debt finance-related measures, devised a comprehensive CGS untitled *"Prêt garanti par l'État" (PGE),* and leveraged export credit insurance to support exporting businesses. The CGS run by Bpifrance and the Central Bank of France was designed to secure up to 90% of a loan's principal, under the unique condition that the businesses and SMEs were sufficiently healthy according to EU principles on 31st December 2019. As regards loans, exemptions for all existing schemes were applied, including restructuration without fees eligibility extensions and guarantee coverage up to 70%.

These measures aimed at compensating the severe effects of the COVID-19 pandemic, will be followed by national and European recovery plans. At the EU-level, in July 2020, Member States agreed on an economic recovery plan named "Next Generation EU", worth €750 billion divided between loans (€360 billion) and grants (€390 billion).

In line with these EU financial measures, France adopted last September 2020 a €100 billion national recovery plan, of which €40 billion will be financed through the Next Generation EU recovery plan. In this context, the financial recovery plan will stand on three main pillars, namely green transition (€30 billion), competitiveness (€30 billion) and social and territorial cohesion (€35 billion). The triple objective of this comprehensive national recovery plan is to accelerate the green transition of the French economy, support the development of high added value activities in France and job creation, as well as prevent social and territorial inequalities generated by the socio-economic impact of the pandemic. In this context, Bpifrance plays a key role in supporting these financial measures and accelerating the economic recovery by mobilising €2.5 billion to directly finance the ecological transition of companies and businesses, supporting innovation of deep tech start-ups and financing the acceleration of territorial industry projects through an additional grant of €250 million.

Bpifrance has worked hand in hand with the French government to coordinate both CGSs and the recovery plan. For instance, Bpifrance has helped to extend the eligibility and the guarantee coverage in all current credit guarantee schemes, which will support those sectors most hit by the current economic crisis such as the tourism and automotive sectors.

An evaluation on the impact of the financial measures adopted by Bpifrance has not been conducted yet. Nevertheless, official numbers show that €100 billion were provided in liquidity through the PGE mechanism since the beginning of the pandemic.

European Commission – Financial measures and the role of the EFSD+

Since the beginning of the pandemic, the EU has worked very closely with the European financial institutions to redirect EU's guarantee schemes aiming at responding to the socio-economic impacts of the pandemic. In this context, the European Fund for Sustainable Development Guarantee+ (EFSD+), it was announced that the new version of the EFSD, has being programmed during these the last months to be shortly released.

This new programme was presented as much larger and wider than its predecessor, as it includes both blending and guarantee facilities, as well as it provides a worldwide coverage of €45.6 billion, including not only neighboring regions under its guarantee scope but also other regions in the world. Moreover, this new comprehensive credit guarantee system has a twofold open architecture, which includes a first component dedicated to all international financial institutions (IFIs), and a second component reserved for the European Investment bank (EIB), which will, at the same time, replace the current credit guarantee called "External Lending Mandate".

Limited fiscal space in Member States combined with high national debt makes the EFSD+ even more necessary than before to cope with the financial and economic struggle of Member States' economies. In this context, it was highlighted that the EFSD+ will be stablished under the so-called Neighbourhood, Development and International Cooperation Instrument (NDICI), and will mainly provide EU budgetary guarantees to the EIB and other partner IFIs to support public and private investments aligned with the priorities of the EU and its partner countries.

The representative of the European Commission highlighted that the EFSD+ is aimed at boosting job creation, improving market structures through private sector financing and supporting sustainable and innovative project structures. This credit guarantee scheme will specifically provide support to three types of investment: State-funded investment, non-commercial sub-sovereign investment (municipalities and regional entities), and EIB investments. Moreover, it is a remunerated CGS which covers mostly borrower's defaults, but also private and private sector risks, such as expropriations or lack of collateral requirements, according to expected losses calculation.

When assessing the impact of the current EFSD mechanism during this pandemic, it was stressed that the EFSD refocused its guarantees to target in particular SMEs, especially those led by youth and women, while broadening its scope to provide access to finance to healthcare-related businesses, especially testing labs. Besides, under the scope of the EIB and the European Health Platform, which is worth €438 million, financing constraints for accessing vaccines were reduced in neighboring countries and Africa, while enhancing health diagnostic services for low-income populations, in particular in Sub-Saharan Africa.

European Investment bank – Financial measures and the role of European guarantee schemes

During this unprecedented pandemic, the European Investment Bank has been using comprehensive financial and credit guarantee mechanisms, such as the Investment Fund, and has signed with the European Central Bank an agreement to provide guarantees in grants and loans to SMEs up to €3.5 billion. SMEs in Europe have been able to benefit from this credit guarantee mechanism during the current economic crisis.

Moreover, some credit guarantee tools were developed in collaboration with the European Commission, that have been widely used by European countries, and were also extended to Tunisia during the first phase of the financial programme. In the same line, the European Bank has also invested up to €5 billion in the framework of the European financial mechanisms, providing support through loans and other grant mechanisms to vulnerable businesses and SMEs. Likewise, under the framework of the European Recovery Plan, the EIB will be able to leverage an array of financial mechanisms and guarantee schemes to the Mediterranean region through partial guarantees and loans.

By devising these comprehensive credit guarantee schemes and financial mechanisms, the EIB, in collaboration with the European Commission and the European Central Bank, has been able to support businesses and enterprises and provide them with the liquidity needed to maintain jobs and economic activity. Its role will be equally essential to boost the post-COVID-19 economic recovery.

Discussion

Representatives of EMGN members asked whether counter guarantee schemes and institutions were eligible under the EFSD+, and if national guarantee institutions could benefit from this mechanism. The representative of the European Commission clarified that counter guarantee instruments (provided they were pillar-assessed) could apply for the new EFSD+ while national CGS were currently requested to apply through an international or European investment institution such as the European Investment Fund. She stressed that cooperating with the EMGN is an issue to be put on the agenda.

Moreover, it was asked if an African country can benefit from EU cooperation programmes to create a national guarantee institution, for example to raise initial capital. The representative of the European Commission highlighted that European cooperation mechanisms can provide technical assistance and expertise to help setting up such mechanisms but not to raise initial capital liquidity.

Session 2: Enhancing risk-sharing instruments in the Mediterranean: is a regional counter-guarantee mechanism a viable solution?

Opening the discussion, Prof. Rym Ayadi (president of the Euro Mediterranean Economists Association) presented the importance of risk-sharing instruments including counter guarantees to mitigate risks and enhance the capacity of the guarantee schemes to facilitate access to finance to MSMEs. Despite being operative in certain European countries (e.g. Spain, Portugal), Counter Guarantee Schemes are absent in Southern Mediterranean Countries. This session addresses the feasibility of such schemes in the Southern Mediterranean countries particularly in the context of the post-COVID-19 economic recovery marked by an increased risk exposure. The EMGN established a working group to assess the need for national or regional counter guarantee mechanism in the region.

European Association of Guarantee Institutions (AECM) – European experiences of counter guarantee schemes

In Europe the use of counter guarantees mechanisms is common to increase the capacity of guarantee schemes. The counter guarantee is particularly important as a risk mitigation tool when the guarantee scheme portfolio consists of high risk valuable projects such as start-ups of innovation, and in times of economic downturns. The principles of the counter guarantee agreements include; sharing a common objective between the parties, and sharing the risk at a certain percentage for a given maximum amount of a portfolio of liabilities. Some counter guarantees in Europe are backed by public national authorities and some by regional parties (EU), and the main actor is the EIF. The main programs support competitiveness, innovation, and creative sectors. The counter guarantees given by the EIF to AECM members at the end of 2019 amount to about one billion Euros. The conditions of counter guarantee agreements include eligibility factors, size, sector, financial profile, type of supported projects, financing, fees, cap, and operational rules.

Banco Português de Fomento (BPF)

The mutual guarantee system in Portugal has 26 years of activity with the mission to improve access to Finance to SMEs. The Portuguese guarantee system consists of a private-public partnership model. The guarantees are issued by autonomous mutual guarantee societies (MGS), in which SMEs hold a stake, and then a counter guarantee mechanism is provided through the mutual counter guarantee fund managed by SPGM. The counter guarantee is compulsory and works as a second level guarantee of all mutual guarantee portfolios, it reduces the risk incurred by the MGS, reduces the required provisions, and has a multiplier effect on their ability to provide guarantees. The mutual guarantee fund is subject to the central bank supervision.

Added value of the scheme for the SMEs includes access to finance and additional support and expertise, for banks it includes reduction of risk exposure, additional expertise, and high level of liquidity in case of default, as for the public authorities it provides a counter-cyclical policy tool that is cost effective and results in a high leverage effect. Generally, the Portuguese Mutual Guarantee system plays a vital role in the national economy in terms of increasing access to debt, decreasing cost of debt, increasing debt maturity, and in turn increasing investment and employment.

Banco Português de Fomento (BPF) activity aims to tackle five key market focus areas; SMEs financing, innovation projects, green finance, social impact, and infrastructure. BPF aims to provide a comprehensive set of products including; guarantees, equity products, lending products, advisory, and special projects.

In the context of COVID, credit lines with public guarantees allowed for an increase in credit to companies with low risk and most affected by the pandemic.

Caisse Centrale de Garantie (CCG) – Morocco

Caisse Centrale de Garantie (CCG) has a previous experience in counter guarantees supported by the European Union and the Moroccan government. The counter guarantee scheme provided a coverage of 60% of their portfolio, it was free, and after the program ended the remaining funds after paying the claims were injected in the guarantee scheme. This experience helped the scheme develop reporting practices.

Limitations to setting up a new counter guarantee scheme include cost considerations as CCG is non-profit institution and fees are relatively low (for example the highest risk guarantees are free, and the COVID-19 products which offer 95% coverage charge 0.1% flat of the credit amount). Additionally, the cost of borrowing from international intuitions is lower than counter guarantee fees. However, counter guarantees can be useful in reducing the cost of regulatory capital requirements and risk exposure.

CCG activities has developed and grew significantly during the recent years, driven by high risk guarantee products including COVID-19 products.

Landt-Group

In Germany, loans are 80% covered by guarantee banks, these banks are state level and private. A study of these banks provides evidence of additionality in terms of investment and sales generated by guaranteed businesses. As for the counter guarantees the study shows that the macro-economic impact created in terms of GDP growth and employment exceeded 7 times the cost of counter guarantees.

For the Southern Mediterranean region, there is a rationale for a regional counter guarantee approach rather than a national one due to the fact that most of the counter guarantee schemes in the region are public hence having a national counter guarantee scheme will not “share” the risk with a different non-state entity particularly in the context of COVID. Other justifications for having a counter guarantee scheme include; leverage multiplier / strong additionality, diversification of risk and reduce concentration on certain sectors, create incentives for national guarantee schemes to improve performance to attain favorable terms of counter guarantees, improve recognition of national guarantee schemes. Additionally, having a regional counter guarantee can balance growth trajectories post COVID, promote performance benchmarks that foster the transfer of best practice among guarantee schemes, and mitigate currency risk.

Key design considerations to be addressed when setting up a regional counter guarantee scheme include; prerequisites and objectives for the use of counter guarantees as national guarantee schemes have varying needs, cost considerations and pricing (should be subsidized), regulatory and supervision frameworks, capacity building to improve performance, operational aspects (in terms of due diligence / level of automation / data sharing), funding, ownership and management, and possibility of creating a blended approach (to bring in private investments).

Discussion

Cooperation between guarantee schemes and other entities including ministries and central banks to support MSMEs is needed for their growth.

More work has to be done on counter guarantees in the Southern Mediterranean region, and there is a need to assess the feasibility of a national or a regional counter guarantee fund for risk sharing and diversification.

Closing session - European Institute of the Mediterranean (IEMed) / Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

This year marks the 25th anniversary of the launch of the Barcelona process that aims at strengthening the relationships between the Mediterranean countries in which a shared socio-economic prosperity is of particular importance. The Euro-Mediterranean Guarantee network (EMGN) can play an important role in sharing best practices and assessing opportunities to support MSMEs financing particularly in times of crisis such as the COVID pandemic and the recovery phase. Such networks are more necessary now than ever to transform challenges to opportunities.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) also highlighted that an inclusive financial system is a prerequisite for an inclusive growth, and credit guarantee schemes can make a difference in including more MSMEs in the financial system, and their role has been emphasized by the COVID-19 pandemic. EMGN provides CGSs with a platform for peer-to-peer learning and has the potential to drive innovation in the future.