



**WORLD BANK GROUP**



# Implementation of Principles for Public Credit Guarantee Schemes for Small and Medium Enterprises

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# Process and Milestones for the Principles

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- World Bank Group and FIRST Initiative convened and provided secretariat support to a Task Force representing the following international associations:
  - Ibero-American Guarantee Network (REGAR);
  - Arab Monetary Fund (AMF);
  - Asian Credit Supplementation Institution Confederation (ACSIC);
  - Association of African Development Finance Institutions (AADFI);
  - European Association of Mutual Guarantee Societies (AECM);
  - Institute of International Finance (IIF).
- Principles officially launched in December 2015.
- Publicly available on the World Bank Group website.

# Objectives of the Principles

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- Provide a generally accepted set of best practices to represent a global reference for CGSs in the world – voluntary.
- Reflect appropriate legal, regulatory, governance, risk management and operational arrangements, which can lead to outreach, additionality, financial sustainability.
- Advance knowledge of CGSs and their role in the economy while improving their performance.
- Guide existing and new CGSs in the design, implementation and evaluation of their activities, and help inform any related policy, legal and institutional reform at the country level.

# Outline of the Principles

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- The Task Force identified four key areas for the success of public CGSs:
  - A. Legal and regulatory framework;
  - B. Corporate governance and risk management;
  - C. Operational framework; and
  - D. Monitoring and evaluation.
- 16 Principles and Explanatory Notes in total.

# The Principles at a glance

DIMENSION	IMPORTANCE	PRINCIPLES
Legal and Regulatory Framework	Foundations for a CGS	1 – 4
Corporate Governance and Risk Management	Building blocks for effectively designed and independently executed strategy aligned with CGS mandate and objectives	5 – 8
Operational Framework	Provides essential working parameters	9 – 13
Monitoring and Evaluation	How CGSs should report on their performance and evaluate the achievement of policy objectives	14 – 16

# What has happened since the Principles?

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- 2016 - Global survey on implementation of the Principles: 60 CGSs across 54 countries, both developing and advanced
- 2017 - Toolkit for Impact Evaluation of PCGs for SMEs
- Diagnostics of PCGs based on demand, and WB financing solutions for PCGs

# Objectives of the Global Survey

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- Provide evidence on the level of implementation of the Principles around the world based on self-reporting by CGSs.
  - Assessing implementation of the Principles is a useful tool for measuring a CGS' adherence to an effective and efficient legal, regulatory and operational framework.
  - Signals to policymakers needed reform areas for improved effectiveness.
- Paper available at:  
<http://documents.worldbank.org/curated/en/730551469021300941/Assessing-implementation-of-the-principles-for-public-credit-guarantees-for-SMEs-a-global-survey>

# Summary of the Survey Findings

- Overall a fairly decent level of implementation of the Principles across different income and regional groupings, especially
  - Legal basis
  - Ownership entity in legislation
  - Supervision
  - Mandate and eligibility rules
  - Claim management process
  - Performance evaluation
- However gaps remain, in particular:
  - Sources of funding not identified in legislation
  - Minimum capital adequacy standards
  - Limits on budget appropriations not set in legislation
  - Board appointment process unclear
  - Limited use of credit risk management instruments
  - Limited risk based pricing
  - Prudential regulatory recognition of guarantees



# Why a Toolkit for Impact Evaluation of PCGs for SMEs

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- To identify a set of uniform methodologies for assessing the financial and economic impact of public CGSs as systematically and objectively as possible.
- To provide guidance to CGS managers, policymakers and stakeholders on how to design and implement an effective and efficient CGS impact evaluation.
- To ensure comparability across time and countries, and therefore provide a global reference for impact evaluations of CGSs.
- The Toolkit reviews a variety of impact evaluation techniques and proposes a selection process for an impact evaluation framework that is rigorous, credible, and at the same time practical, straightforward, and relatively inexpensive to implement.

# Hypotheses and Indicators

## *Hypotheses to be tested*

- CGS entails first-time SME borrowers to enter the formal financial system.
- Guaranteed SME borrowers obtain higher volumes of credit than non-guaranteed SMEs.
- Guaranteed SMEs pay lower interest rates than non-guarantees SMEs.
- CGS allows guaranteed SMEs to obtain longer loan maturities than non-guaranteed SME borrowers.
- Guaranteed SME borrowers benefit from reduced collateral requirements.
- Guaranteed SMEs generate more investment, sales, export, jobs etc. than non-guaranteed SMEs.

## *Outcomes to be measured*

- Financial additionality – (short-term impact)
  - Loan amount (\$).
  - Loan collateral (\$ or %).
  - Loan interest rate (%).
  - Loan tenor (months/years).
- Economic additionality (long-term impact)
  - Firm employment (number).
  - Firm investment (\$).
  - Firm sales (\$).
  - Firm exports (\$).

# From Experience on the Ground: Impact of the Principles

- WB supports implementation of the Principles with diagnostic assessments, advisory inputs, and/or financing solutions.
- The Principles are informing the design/ redesign of PCGs in several countries the WB is supporting: eg. Jamaica, Argentina, South Africa, Egypt, Ghana, Saudi Arabia, and others.
- Jamaica: Access to finance project for SMEs (WB financing support for capitalization of PCG)
  - Principles advanced discussions with the regulator (BoJ) to provide capital relief to the guaranteed portions of the loan
  - Revisions of operational guidelines
  - Improved qualification criteria of BoD members of the CEF
  - Development of an external and internal audit function
  - Automated MIS

# From experience on the Ground: Impact of the Principles

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- Argentina: Diagnostic assessment (based on the Principles) of the previous FOGAPYME, informed the design of FOGAR
  - Revised legal framework for FOGAR and SGRs
  - Enhanced operational framework (timely process for payment of guarantees in cases of default, and an efficient and automated process of claims)
  - Revised governance structure
  - Efficient MIS
- South Africa: Diagnostic assessment of Khula based on the Principles
  - Duplication of documentation and analysis at banks and Khula.
  - Interest rates: lending rates to borrowers capped, creating a disincentive.
  - Lengthy claim pay out process: only after legal channels have been exhausted; could take years.

# Conclusions

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- Principles provide a framework for other risk sharing mechanisms beyond SME financing, eg. Infrastructure financing – replication effect.
- The use of the Tool Kit for Impact Assessment is encouraged to assess whether PCGs have achieved intended goal of improving access to finance and contributing to economic development; and ensure effective use of public resources.
- Further diagnostics of CGSs based on the Methodology for Assessing Implementation of the Principles (on demand).
- In the future, principles can be refined, but focus should be on impact assessments and diagnostics, which will inform any future enhancements of the principles.
- Continuing coordination and consultation at the international level is desirable for ensuring continued relevance.

# Obrigada!

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