# The Role of Guarantee Societies

Workshop on “European Fashion Industries”

Session II - Access to finance for fashion industries: problems, solutions and perspectives

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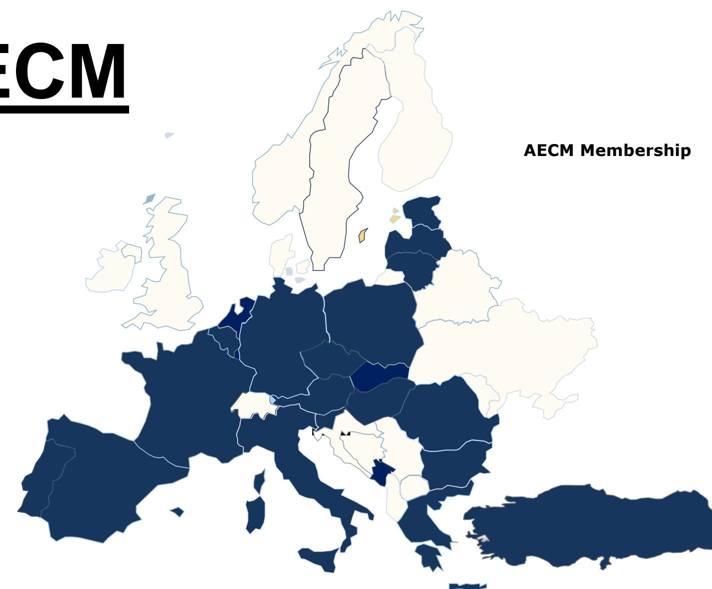
# Some figures about AECM




***37 guarantee systems in 22 countries***

*AECM key figures (31.12.2011, provisional)*

| | | |
|---|---|---|
| – | Own funds | € 9,4 billion |
| – | Guarantees issued in 2010 | € 27,6 billion |
| – | Guarantees in portfolio | € 83,7 billion |
| – | Multiplier effect | ~ 9 x |
| – | Beneficiary SMEs | 2,7 million |

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# Why guarantees ?

- **Credit finance is important to SME in the EU, as they**
  - Have no or little access to venture capital, mezzanine capital, bond issues, etc
  - Have weak own funds positions => limited capability to auto-finance investment or working capital needs
  - Rely predominantly on loan finance
  - Usually have a relative lack of bankable collateral

  ⇒ Risk of unrealized GDP and employment growth

  - **AECM members facilitate access to finance by providing credit default guarantees for SME that:**
    - Are economically healthy
    - Have an economically meaningful project but at the same time do not dispose of sufficient collateral to access bank credit

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# What are guarantees ?

- **Main aspects of the Guarantee instrument**
  - Risk sharing agreement between the bank and guarantee institution:
    - Bank has a promising investment proposal but cannot grant the loan for lack of collateral
    - Guarantee institution issues guarantee to substitute missing collateral (up to a maximum of 80% of the loan amount)
    - The banks remains responsible for at least 20% of the loan
    - In case of default, the guarantee institution pays the bank the agreed share of the outstanding loan amount on first demand
    - Additionality: Only operations that the bank could not do on its own - Banks are encouraged to lend

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# What types guarantees exist ?

- Generally: Credit default guarantees for SMEs:
  - Offered for all stages of SME life-cycle (Start-up – Transfer)
- But also other types of guarantee products offered by some Guarantee schemes:
  - Guarantees for:
    - » Micro loans, leasing, factoring, mezzanine finance, risk capital, internationalization, projects, EU funding, etc.
    - » All sectors, fashion industry included

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# How to apply ?

- Usually: Bank is distribution channel for guarantee:
  - SME customer submits loan application to bank
  - Bank submits demand for guarantee to the guarantee scheme
  - Guarantee scheme performs own (qualitative) analysis

    => upon positive decision, issues guarantee to bank on behalf of SME customer
  - Guarantee fee and processing fee paid by SME

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# Guarantees  and SME support policy

- **Guarantee schemes' philosophy :**"Help for self-help" principle – non-profit orientation
- **Important element of public support policy**
- Regardless of whether they are private or public, guarantee schemes  function as a transmission chain of SME policy
- Therefore, they usually benefit from public support via counterguarantees
- **The guarantee , a highly efficient  tool:**
    - Revolving instrument
    - High multiplier effect of public resources
    - Guarantee volume in portfolio of 9 x own funds
    - Multiplier effect of the public counterguarantee

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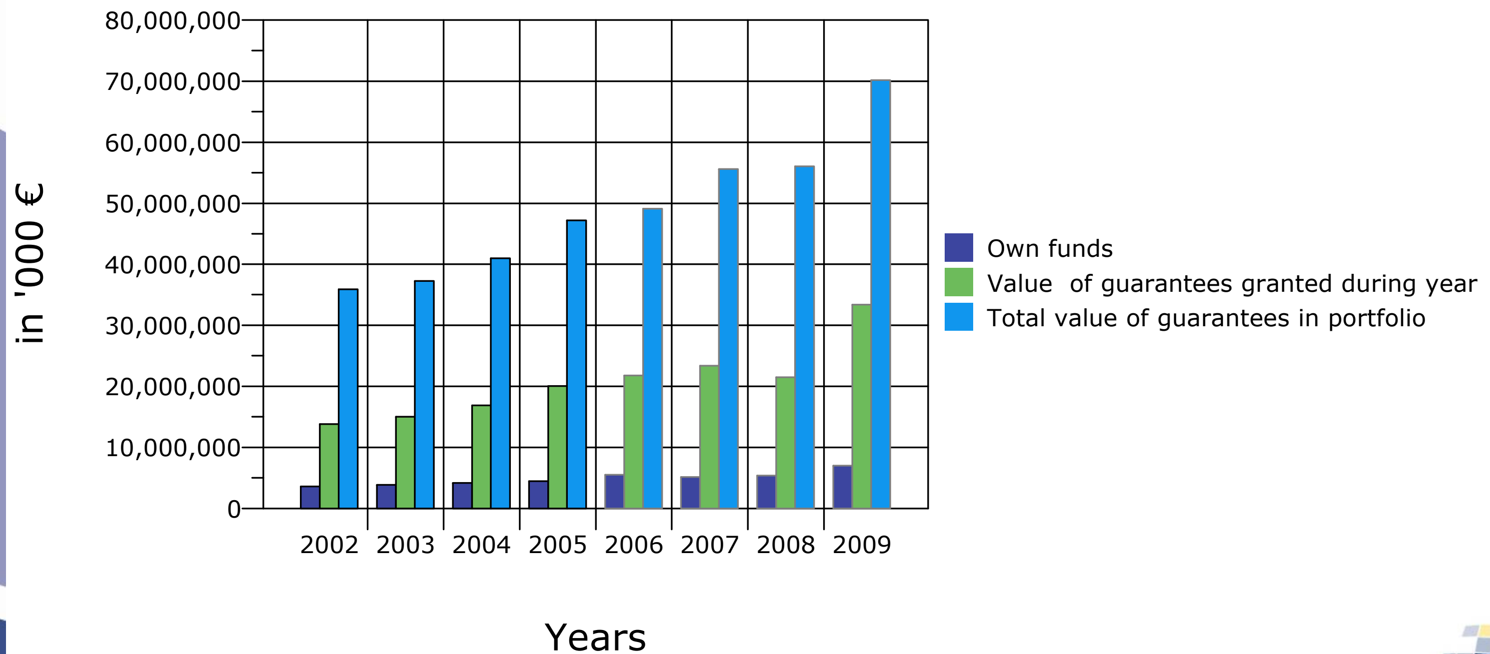
# Evolution of guarantee volumes



- Crisis or no crisis, there is a continued need for guarantees:
  - Overreliance of SME on loan finance – disadvantages in relation to larger companies
  - Market failure for SME access to finance exist all over the EU, independent of business cycle and relative economic development of the market
  - Rising interest rates and more selectivity to be expected:
    - Basel III implementation
    - Banks are already adapting to regulation and sovereign debt crisis by tightening credit conditions

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