Principles For Public Credit Guarantee Schemes

A Quick Guide on the Principles for the Design, Implementation and Evaluation of a Public CGS

Why Credit Guarantee Schemes Matter

Access to Finance, in particular to credit, is a critical enabler for the growth and development of small and medium enterprises (SMEs).

SME credit markets, however, are notoriously characterized by market failures and imperfections.

THE TRILLION DOLLAR GAP

In emerging markets and developing economies, between 55 to 68 percent of formal SMEs are either unserved or underserved by financial institutions, leading to a total credit gap estimated in the range of $0.9 to $1.1 trillion.[1]

To address this challenge, governments intervene through public credit guarantee schemes (CGSs), which provide third-party credit risk mitigation to lenders.

CGSs are becoming increasingly popular as they typically combine a public subsidy with market-based credit allocation.

It is important that CGSs are properly designed and operated to achieve both outreach and additionality in a financially sustainable way.

The Principles are expected to guide country authorities in the design, implementation and evaluation of existing and new CGSs.

[1] IFC Enterprise Finance Gap Database (2011).

LEGAL & REGULATORY FRAMEWORK

1. Establish the CGS as an independent legal entity.
2. Provide adequate funding and keep sources transparent.
3. Promote mixed ownership and treat minority shareholders fairly.
4. Supervise the CGS independently and effectively.

CORPORATE GOVERNANCE & RISK MANAGEMENT

5. Clearly define the CGS mandate.
6. Set a sound corporate governance structure with an independent board of directors.
7. Design a sound internal control framework to safeguard the operational integrity.
8. Adopt an effective and comprehensive enterprise risk management framework.

OPERATIONAL FRAMEWORK

9. Clearly define eligibility and qualification criteria for SMEs, lenders, and credit instruments.
10. Ensure the guarantee delivery approach balances outreach, additionality, and financial sustainability.
11. Issue partial guarantees that comply with prudential regulation and provide capital relief to lenders.
12. Set a transparent and consistent risk-based pricing policy.
13. Design an efficient, clearly documented, and transparent claim management process.

MONITORING AND EVALUATION

14. Set rigorous financial reporting requirements and externally audit financial statements.
15. Publicly disclose non-financial information periodically.
16. Systematically evaluate the CGS' performance and publicly disclose the findings.

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