LATIN AMERICAN
AND CARIBBEAN
ECONOMIC SYSTEM

Ministerio de Economía, Industria y Comercio

Financing and guarantees to support SMEs in Central America. Pre-feasibility study on the creation of the Regional Guarantee System for SMES in Central America

Economic and Technical Cooperation

Seminar on Financing and Guarantees to support SMEs in Central America
San José, Costa Rica
3 and 4 September 2015
SP/SFGA-PYMES-CEN/DT N° 2-15

C O N T E N T S

F O R E W O R D

This document was prepared by the Permanent Secretariat of SELA for the main purpose of carrying out a pre-feasibility study on the creation of a Central American Regional Guarantee System through a sustainable counter-guarantee mechanism for National Guarantee Institutions. The system is created with the aim of sharing risks, diversifying it, increasing capacity and optimizing resources of the local guarantee institutions. The expected result is to contribute to increase credits from the Financial Institutions to SMEs in the countries of the region, while favouring the consolidation and creation of new Guarantee Systems that benefit as many SMEs as possible.

The first chapter provides a description of the main guarantee systems in the region, including a briefing on the problems faced by the guarantee and reconsolidation systems, considering the poor participation by smaller sized companies in private sector credit or their access to credit under adequate conditions, and the possible "market failures".

The second chapter provides a market survey of the guarantees for SMEs in Central America, based on information provided by representatives from the existing national or local guarantee systems in each eligible country.

The following chapter includes an assessment of the minimum conditions for creating a Regional Guarantee System in Central America, considering that one of the main conditions that should be respected when developing a financial instrument is that it should be sustainable in time, enabling expansion of the capacity to grant guarantees from the local guarantee systems, and/or share the risk with them. An important element is that it should have its own assets and be constituted, managed by a professional and technical institution that inspires confidence in the financial system.

Finally, the fourth chapter provides a proposal for operating the Regional Guarantee System for Central America which considers that its dynamics should be based on counter-guaranteeing the guarantees issued by the NGSs for MSMEs, for which a counter-guarantee contract is established as well as the conditions of how these are implemented in each guarantee granted to each MSME credit. Its operation is also subject to the rules of each local Fund, which should be adequately flexible.

The Permanent Secretariat of SELA expresses its recognition to Alessandro Bozzo for his work as a consultant in charge of conducting this study.

EXECUTIVE SUMMARY

The purpose of the project was to conduct a study on the pre-feasibility of developing a Central American Regional Guarantee System through a sustainable counter-guarantee mechanism for National Guarantee Institutions. The system is created with the aim of sharing risks, diversifying it, increasing capacity and optimizing resources of the local guarantee institutions. The expected result is to contribute to increase credits from the Financial Institutions to SMEs in the countries of the region, while favouring the creation and consolidation of new Guarantee Systems to benefit as many SMEs as possible.

To achieve the proposed objective, a study was carried out on the existing Guarantee Systems in each country of the region. Surveys were sent out to those interested and information was gathered from different sources, including that managed by the consultant himself on previous jobs in certain countries of the region. After that, the supply and demand for financial guarantees were estimated. The current supply of guarantees is defined to the guarantees that are committed (live guarantees). At the same time, the maximum supply of guarantees is estimated as the capacity or maximum supply of guarantees that each system can offer according to their current resources (including leveraging of their capital). The demand for guarantees can be very high and is therefore determined as the potential demand for credit guarantees with regard to the figures from the financial system of existing SMEs. Various assumptions are made for the estimation of supply and demand to finally quantify the possible capital that a Counter-Guarantee Fund could have, considered as sustainable in time. This capital should begin with a pilot plan to be later expanded according to the major demand and initial successful experience.

The counter-guarantee system considers a business model based on the performance of first floor guarantee operators, that is, where national guarantee institutions (public, private or mixed) grant direct guarantees to supervised financial institutions which in turn are in charge of the assessment of the final clients and of the credits to the SMEs. This mechanism enables access to the SMEs in a direct manner and at a low cost, sharing the risk with the national guarantee system which in turn shares it with the International Financial Institutions. It refers to a counter-guarantee that is similar to insurance and reinsurance. In the case of guarantee systems, guarantees are granted with 100% cover for risks of SME credit, so the Counter-Guarantee Fund partially guarantees the security granted by the local guarantee system. Both the local guarantee systems and the participating International Financial Institutions should be supervised.

With regard to the proposed institutional framework, the basic idea is not to develop new institutions that can have high costs for creation, administration and long constitution periods but should rather use the present existing institutions that allow viable operation of the responsive counter-guarantee mechanism, at low cost and massive use, that generates trust in the actors involved and with results that would enhance the financial systems in benefit of the SMEs. An alternative is to use the capacities of certain multilateral organizations and their knowledge of guarantee issues. Institutions such as the CABEI seem to have ideal characteristics, capable of creating an area for administration of guarantees within said institution, or even use their conception of Central American Multilateral Organization (serious and of low risk) to facilitate the operation of the Fund. Regarding the financial resources of the Fund, these can be administered on a trust fund basis by the centralized organization itself or as an alternative that is delivered to fund trust administration in each of the participating countries, thereby facilitating the cash flow between payment of guarantees, collection of commissions, recovery of paid guarantees and return on investments, among others.
The capacities that the Fund Administration should develop include risk assessment of the credit portfolios guaranteed by the national guarantee systems, in order to understand and estimate the

risk of each guarantee entity over time. In return, the Fund Administration should design a system to collect the commission for the counter-guarantee, which should be fully in line with the risk of the guarantee portfolios of the participating entities, the commission always being ideally greater than the risk.

Depending on the operation modality of the local guarantee systems and the percentages of guarantee cover that they offer, a specific counter-guarantee mechanism will be applied. That is, the way in which a national guarantee system is guaranteed can be different from the way in which a second system is guaranteed. Counter-guarantee will always be to the guarantee operation(s) granted by the latter and not to the guarantee entity itself. The professional experience and capacity of the Fund Administration shall be crucial in this aspect.

The proposed counter-guarantee modalities depend on the type of guarantee system to be counter-guaranteed and correspond to the proportionality criteria and/or partial coverage on excess of disasters or losses expected by the local guarantee system.

Eventually, it is possible that in countries where there are no guarantee systems, the Counter-Guarantee Fund may grant guarantees directly to the local Financial Institutions that qualify, but the former should be done only in the mentioned scenario.

The prefeasibility assessment includes an Excel file with a 10 year cash flow of the Fund operation, with gradual progress, to a level of 10,000 operations per year at long term. The assessment carried out considers a mix between the previously mentioned counter-guarantee mechanisms (proportionality and excess of losses), which will depend on the analysis of the local guarantee system, the expected risk and the counter-guarantee cost, as well as the proposed objective (share risk, grow, solve long periods of risk passing economic cycles, etc.). Any different or intermediate operation modality can drastically modify the parameters and, as a result, the expected flows in the model presented. The Fund flow is positive as long as the commissions finance the risk.

Along with the proposed model, the main conclusions and recommendations of the project are provided, pointing towards the development of a simple administration system, of low cost, massive use and implemented by a prestigious institution that generates confidence and security to the financial system and with the capacities of managing the Fund in a sustainable way over time. In order to facilitate reduced costs, massive processes and the maintenance of counter-guarantee efficiency to the system, development of technology systems is recommended for managing the flow of information between Administration and the guarantee systems and IFI.

The final recommendations include the proposal to begin with a small pilot project, with two national guarantee systems that have different objectives. The former seeking to share risks and "ally itself" in a management that enables mitigation of risk and capital, and learning from the hand of a solid and well-managed counter-guarantee institution. The second institution would be that requiring resources to grow, which can be done jointly with the Counter-Guarantee Fund, and also benefit from the contributions of the alliance.

INTRODUCTION

The purpose of this report is to submit the results and proposals from the consulting work commissioned by the Latin American and Caribbean Economic System (SELA), comprising a pre-feasibility study on the creation of a Regional Guarantee System for micro and SMEs in Central America. The countries considered in this analysis are Costa Rica, El Salvador, Nicaragua, Honduras, Guatemala, Panama and the Dominican Republic.

The main objective is to develop the basis for the creation of a regional Central American system for counter-guarantee of operations that enable diversification of risk and optimization of resources from the national guarantee systems in each Central American country at a controlled cost and risk. According to the mandate, this implies greater access to credit by the SMEs and improvement in the credit conditions (interest rates, periods and amounts in all its segments, etc.). This type of mechanism could encourage the development of new guarantee systems in the countries of operation and, at the same time, strengthen existing systems through the partial reinsurance of their commitments.

It is important to note that the Latin American and Caribbean Economic System (SELA), like other international bodies, is making constant efforts to develop and consolidate the guarantee and financing systems for SMEs in the Central American and Caribbean region. Through the organization of forums and seminars the entity has sought to attract experts and generate knowledge for the region.

This prefeasibility study is being carried out in parallel for the countries of the Caribbean, both projects having the same objective. Upon culmination of both studies, SELA has contemplated carrying out an international activity comprising a “Seminar on financing and guarantees to support SMEs in Central America”, which will be held in San Jose in Costa Rica on 3 and 4 September 2015.

The following is the prefeasibility study from the Guarantee System or Counter-Guarantee of Central America. The work includes the description of the main existing guarantee systems in the region, both Latin American and Central American, together with a synthesis of the supply and demand of guarantees currently existing in the countries of Central America. In the study, a proposal is presented for the creation of the system, describing the conditions that should exist in order to have a system of this nature. Finally, the final conclusions and recommendations on the consulting work are included.

Lastly, it is important to mention the availability and actions carried out by SELA in favour of the SMEs, contributing concrete proposals to the smaller business sectors of the economies of the countries included in Central America and the Caribbean. Along with the above, special thanks for the confidence placed in the consultant to carry out the important initiative. It is important to note that the success of this initiative is not possible without the participation of the national guarantee entities.

I. MAIN GUARANTEE SYSTEMS IN LATIN AMERICA: LESSONS THAT CAN BE LEARNED

1. Brief introduction to the problem of the guarantee and counter-guarantee systems

The poor participation by smaller companies in the private sector credit o their access to it in adequate conditions is a problem that affects, to a greater or lesser extent, all the economies in the world whether developed or not. Numerous studies have been carried out on the access to financing markets and their conditions and its possible "market failures". The smaller the economic units, the more difficult it is to access financing and, if accessed, their conditions are less attractive. The arguments to explain this low participation are of different natures. One of the main arguments is based on the existence of failures in the performance of credit markets, mainly insufficient information available to the financial institutions for risk assessment and the cost associated with this calculation. The information asymmetries, moral risks and adverse selection are in repeated studies as an important part of the cause of the financial access problem. Following the access to financing, other issues and barriers are added that relate to the conditions in which financing is provided which, many times, end up being a block instead of constructive assistance to the SMEs. In return, on the part of the creditors or finance grantors, they face different restrictions or conditions to provide loans which, added to the above, such as regulation of the formal financial systems and prudential risk criteria with regard to the supply, demands and capital that should be maintained and that are related to the category of the credit beneficiaries. Other relevant aspects are the informal agents, the difficulty in accessing atomized clients, the high investments and operational costs with regard to the amount of the credits, etc. The number of credits channelled is also influenced by the predominant method of selecting the beneficiaries; this depends, on the one hand, on the information available and, on the other hand, on the characteristics of the entities operating the market.

In spite of all the above, over the last 10 years notable progress has been observed in both public and private banking which has developed specialized platforms and has learned lessons on how to attend the SMEs in a profitable manner. Development of the microfinances was a significant innovation in this regard and showed that in the area of finance there are possibilities of following useful development instruments and with impact on the population. Likewise, it could be said that the credit guarantee systems have played an important role in supporting both the access and the improved conditions to access financing. The growth of these systems in Latin America (not mentioning the Asian and European countries that continue to intensify their use) demonstrates this and, gradually, several countries are beginning to rediscover these instruments that for years have either been unused or used in a poor professional manner and, in many cases, politically and not under technical criteria (as in public or development banking). The guarantee systems have continued being developed or created in many countries, of varied kinds, public, private or mixed (the majority of the capital tending to be public). Together with the appearance or growth of local guarantee systems, different kinds of counter-guarantee have been emerging in such a way to support the guarantee systems. Counter-Guarantee is an analogic issue to insurance and reinsurance, or to financing on the first floor and financing on the second floor (usually there are no first floors if there are no second floors). To these assertions it can be added that, on financing issues, the credits are tradable among the financial entities (that is, instead of financing among floors, financing is done on the same floors or levels among institutions), that is to say, the scale of financing is on first and second floors but also among pairs. In the case of insurance and reinsurance, this is much less clear but there can be co-insurance and possibly consortia insurance between more than one insurance entity. This is a possible line of development for the guarantee and counter-guarantee systems, and may be a new line of innovation for the markets if it is proven that it solves real needs which, on issues of finance to SMEs, are many. The fact is that, the more markets are developed and strengthened, more security and greater access can be provided for the economic units. All this exists or is created when there is a final beneficiary in the chain. In this case, thoughts are on the SMEs even though, in general terms, the beneficiaries in the economies are all the economic units.

Continuing with the analysis, different guarantee and counter-guarantee systems have been developed according to the needs of each country, achieving a greater integration of SMEs by increasing access to credit, better contractual conditions, and more flexibility on the part of the International Financial Institutions (IFI) and other benefits, both objective or quantifiable and subjective less quantifiable. In Europe there are local or national guarantee systems in diverse types of institutions and with capitals whether mutualistic or public-private. Serving the guarantee systems there is usually a counter-guarantor of public origin at a national level and, in the European Community, we have the European Investment Fund (EIF) which counter-guarantees on the third floor.

Among the countries with more outstanding systems in the region, or where there is a greater number of systems, the following can be mentioned: Mexico, Colombia, Argentina, Brazil, Peru and Chile. However, the most developed are Colombia, Chile and Mexico both in number and in the amount of operations. Among the emerging countries and where initiatives are being developed with substantial potential of growth, outstanding is Peru with a plan for strong increase of private initiative supported by public-private resources through the creation of reciprocal guarantee partnerships which are added to the offer developed by the Guarantee Fund for Loans to Small Industries (FOGAPI) in the country. Table 1 shows the different guarantee entities that have been created in the Latin American countries.

In some Latin American countries there are co-existing guarantee and counter-guarantee systems, as in the case of Chile with the State Guarantee Fund for Small Entrepreneurs (FOGAPE) and the Reciprocal Guarantee Partnerships (SGR). Outstanding in Colombia is the National Guarantee Fund (FNG), which has obtained counter-guarantee from Multilateral Organizations but also from private reinsurance companies. These two countries have a stronger structure with regard to guarantee and counter-guarantee systems. This results from diverse factors such as antiquity and experience in such programmes, good management, professionalism and regulation of funds. These systems and countries lead statistics among guarantee systems (number of live guarantees in millions of dollars), number of guaranteed SMEs; and quotient between guarantees and GDP of each country, etc. The Latin American media presents great difference to the developed countries as in the case of Japan and Korea and some European countries whose public policies are strongly focused on encouraging and developing SMEs and guarantee systems as relevant instruments in the plans. The main Latin American guarantee systems are described as follows.

Mexico

Nacional Financiera, or National Credit Institution, (NAFIN-SNC) is a Development Banking Institution in Mexico that operates in accordance with the rules of its own Organic Law. The programme of the Nacional Financiera (NAFIN) is aimed, in the first place, at facilitating access to finance by the maximum number of companies; also, to encourage participation by the intermediaries in financing those projects that, although viable and profitable, are perceived with greater risk. FAFIN operates two trust funds that integrate the National Guarantee System. One of them is supported by its own resources and the other acts as administrator of the Economy Secretariat, its main mission being to counter-guarantee its operations.

Trust Funds Instituted in Relation to Agriculture (FIRA) is integrated by four trust funds, one of them being the Special Technical Assistance and Guarantee Fund for Agricultural Credit (FEGA) constituted in 1972. The resources it administers are 100% public and acts through financial intermediaries covering credit operations granted by FIRA or by other financial intermediaries that serve the intended public of FIRA. There is also the National Guarantee Fund for the Agriculture, Fisheries, Forestry and Rural Sectors (FONAGA), operated by the Secretariat of Agriculture, Livestock, Rural Development, Fisheries, and Food (SAGARPA), created in 2003 as a second level entity to ensure the portfolios of various financial intermediaries.

Brazil

The Brazilian Service of Support for Micro and Small Enterprises (SEBRAE) operates vigorously since 1995 by means of the Loan Guarantee Fund for Micro and Small Enterprises (FAMPE) and, more recently, to encourage the creation of credit guarantee partnerships in Brazil. It is a non-profit organization, outlined as autonomous social service, created in 1972, and whose objective is to "foster competitiveness and sustainable development of micro and small enterprises and encourage entrepreneurship". Through diverse activities, programmes and projects of business training; access to financial services, markets and technology innovation; public policies; and forms of individual and collective attention, it articulates and contributes to the development of favourable environments for small national businesses.

The Credit Guarantee Association of Serra Gaucha (AGC) is a pilot Project in the country, of a credit guarantee association and was based on the mutualistic guarantee system models existing in Italy known as Confidis. On the other hand, the Guarantee Fund for Employment and Income Generation (FUNPROGER) was created in the year 1999, initiating its activities in the year 2000. It is meant exclusively to guarantee part of the risk of the credits granted by official federal financial institutions, directly or through other financial institutions, in the area of the Programme for Employment and Income Generation (PROGER), Urban Sector, and of the National Programme of Oriented Productive Microcredit (PNMPO).

Colombia

The National Guarantee Fund S.A. (FNG), is an anonymous society of mercantile nature and mixed economy. The social objective of the FNG is exclusively the granting of guarantees and the development of activities directly related to this function. The main activity of the FNG is to issue guarantees for credits granted to micro and small and medium enterprises. This activity represents around 95% of its guarantees. Additionally, the FNG guarantees credits for housing of social interest and higher education. In general, the FNG grants coverage of 50% of the credit risk for the SMEs and the commissions collected are between 3.5% and 4% of the guarantee.

The Agricultural Guarantee Fund (FAG) was created to facilitate access to credit, especially to those producers who do not have sufficient guarantees to obtain it. The guarantees are issued on two large groups of operations: the first, to secure the loans granted through the agricultural credit system and the second, to safeguard capital market operations through the Agricultural Products Exchange.

Chile

In Chile, the State Guarantee Fund for Small Entrepreneurs (FOGAPE) was created by Law No. 3.472 of 1980 and is audited by the Superintendency of Banks and Financial Institutions (SBIF). The Fund is self-sustainable and its income is obtained from commissions, recoveries of guarantee payment and investments. Its main function is to grant guarantees through tenders to financial institutions to provide loans to micro and small entrepreneurs, including exporters. Since the year 2007, FOGAPE also operates granting partial counter-guarantee of the guarantee certificate issued by the Reciprocal Guarantee Institutions, which are supervised by the Superintendency of Banks and Financial Institutions, presently recording a total of 15 authorized Institutions and with risk classification.

The Production Development Corporation (CORFO) is responsible for providing resources aimed at promoting development of Reciprocal Guarantee Societies (SGR, authorized by Law No. 20.179 of 2007). To do so, the Corporation offers long term financing to the Guarantee Funds that are constituted with mixed capitals with the sole objective of financially supporting the obligations that the respective IGR guarantees to different financial creditors.

On the other hand, the Reciprocal Guarantee Institution (IGR), created in Chile and which are currently 15 institutions, operate a stock of guarantees of approximately US$ 700 million. The guarantees granted by these are 100% of the risk of each operation, which should lead to better financing conditions for the local SMEs.

At the initiative of FOGAPE, in the year 2007/8, the proposal was made to create a Guarantee Fund complementary to FOGAPE that could cover the risks of medium enterprises and of other operations which FOGAPE could not cover. This implied the creation of FOGAIN, a Fund managed by CORFO and which is very similar to FOGAPE. Its evolution has been mainly from January 2011 when FOGAPE topped its capacity of committing guarantees, reaching a Leverage slightly over tenfold and an amount of committed guarantees of US$ 2.650 billion, for credits of more than US$ 3.200 billion. Today, FOGAPE and FOGAIN coexist, having between them a relevant percentage of guarantees with regard to the national financial system, to which that of the SGR is added. Between both public instruments, a stock of guarantees is estimated at over US$ 4.000 billion, and a peak exceeding US$ 5.000 billion.

2. Lessons to be learned

The existing guarantee systems in Latin America have taken very important steps in their administration and growth. The current administrations include the definition of objectives and key strategic plans to support access to credit by the SMEs. Added to this focussed administration are the development of knowledge and expertise in portfolio risks of guaranteed credits to SMEs, as well as exceeding unfavourable economic cycles with satisfactory results. The models of risk prediction and of supplies, the leverage calculations and the commissions for the use of guarantees are among the most outstanding practices that have been developed by the Latin American systems. Today, they present great credit portfolios, massive, atomized and confiding in the management of the financial operators who assess and grant the guaranteed credits. In turn, the development of data base management systems and their interface with the financial operators have enabled a strong increase at low cost. The clearest example of this is FOGAPE which, through five persons and externalized services, manages credit portfolios with peaks exceeding US$ 3,500 million.

Together with the development of guarantee systems, mainly partial guarantees, other modalities have emerged, such as those systems in which assessment is done by the guarantee institution itself, covering the risk by 100%. Fundamentally, these models arise from the European-Spanish model, but with diverse adaptations, generally less mutualistic. This new type of instruments add a better chance of accessing better financing conditions for SMEs. The partial guarantees favour the access to a large volume of operations but the guarantees with 100% coverage tend to better the credit conditions. On the part of the partial guarantees, as more companies access credit and markets become more competitive, the credit conditions also tend to improve (on average), given that the guarantee systems operate as an incentive to the supply of finance to those that do not have sufficient guarantees. Between both models, partial guarantees and guarantees at 100% (in the case of Chile private and with mixed capitals), the SMEs have better possibilities of access and better finance offers.

Following this evolution of models, the following stage has been the necessity of a second floor of guarantees, as that of counter-guarantee and, in this sense, diverse initiatives are being launched in Latin America, as those existing in Europe, both national and supranational. Today, the Latin American guarantee systems have greater strength and stability, resulting from the experience gained over the years of operation. Also, all this has been studied and is being supported by several prestigious organizations, spreading practices and knowledge. Other initiatives that encourage learning and exchange of knowledge are the various groupings of guarantee entities and the yearly forums held, such as AECM (European Mutual Guarantee Association), REGAR (Ibero-American Guarantee Network), ACSIC (Asian Association of Guarantees), ALIGA (Latin American Association of Guarantee Institutions), as well as organizations such as the WB, IMF, IDB, CAF and others that encourage good financial practices in guarantee systems. Of late, the recent "Task Force" of guarantees stands out, created in June 2015 by the World Bank for the purpose of spreading good practices for guarantee systems around the world.

The following are a few organizations with interesting projects of this type, which can be used in the implementation of the Central American and Caribbean project.

FLAG

The Latin American Guarantee Fund (FLAG) consists in a proposal for the possible creation of a trust fund administered by CAF. Its main objective is to counter-guarantee national guarantee institutions in order to cover credit risk through counter-guarantee of guarantees intended to guarantee credit operations to small and medium-sized enterprises. The project considers an initial capital between US$ 200 and US$ 400 million per country, and its four founding countries are: Argentina, Bolivia, Ecuador and Uruguay, and Peru has acceded.

FLAG's operations are limited to the territory of the Latin American and Caribbean countries that have made contributions. FLAG would be open to adhesion of Latin American and Caribbean countries that meet the conditions for their adhesion, as well as other countries or entities that decide to contribute to it.

ALIGA

The Latin American Association of Guaranty Institutions has the mission of promoting the development, competitiveness and stability of guarantee institutions in Latin America and the Caribbean, with the aim of consolidating a regional system of guarantees. It fosters the consolidation, expansion and use of guarantee systems.

Outstanding among its objectives are the dissemination and consolidation of regional guarantee systems, fostering the internationalization of SME activity and promoting the creation and consolidation of counter-guarantee systems. ALIGA was founded in Santiago de Chile, during the XII Ibero-American Forum organized by FOGAPE. The current ALIGA presidency is held by FOGAPI from Peru.

CAF

CAF is a development bank founded in 1970, comprising 19 countries: 17 from Latin America and the Caribbean, Spain and Portugal, as well as 14 private banks in the region. It encourages a sustainable development model by credit operations, non-reimbursable resources and support to technical and financial infrastructure of projects from the public and private sectors of Latin America.

The Guarantee Fund of MERCOSUR is also an initiative for granting guarantees in supranational areas but, to date, it is not operative.

There are also several other organizations that are not fully described (besides SELA itself) as it is not the objective of the project but they play an important role in financial systems such as the IDB, WB, IMF, CABEI, SELA, ALIDE, and cooperation organizations from Europe, North America, etc., many of which also contribute to issues related to this project and, to some extent, may result at some point in support for the project.

II. MARKET ANALYSIS OF GUARANTEES FOR SMEs IN CENTRAL AMERICA

This study sought to contact the respective national or local guarantee systems in each eligible country. The main difficulty in this regard was in the level of activity of the existing systems and the level of development of guarantee systems, reflected in insufficient international statistics. The main sources of information has been presentations by Ibero-American Forums, the experience of the consultant himself in Guatemala, Nicaragua (including Haiti), and El Salvador, as well as documents prepared by Pablo Pombo[1] and associates. In several countries there are also laws and regulations that authorize the creation of guarantee systems and even of SGRs, although they have not been created or are not operative, nor do they have resources to be projected or they are at a minimum level of operation. In certain countries there are local Development Banks but guarantees are not a mechanism often used for the SMEs as they favour direct financing. All this inhibits availability of sufficient relevant information for projections with a certain level of confidence. Countries such as El Salvador and Costa Rica distinctly stand out among the rest, as can be seen in this report.

The study also used online sources such as Internet (Web site of each identified system) thus enabling awareness of the basic principles of the sources consulted together with their most significant characteristics. While this information is important, it is not the same as obtaining it directly from the Fund administrators. Data such as current stock of guarantees, yearly losses, the number of operations and such data are not available on the Internet, so a direct contact with the sources with better and greater performance is relevant.

The assessment of the size of the local guarantee systems and the difficulty encountered is a part of this consultancy but it should not affect the final conclusions on this study. The methodology of this evaluation is based on the implementation of certain assumptions for the market assessment

[1] Technical Secretary of the Ibero-American Guarantee Network (REGAR).

but, fundamentally, what is conducted is a proposal to develop a counter-guarantee mechanism that encourages the creation of new entities and/or enhances existing systems and facilitates growth through accompaniment in time, risk sharing and contribution of counter-guarantee resources to facilitate growth, the final aim being in SMEs as discussed in many sections of this document.

1. Demand for guarantees to SMEs in Central America

Estimating the demand for guarantees is not a simple task considering that, from the six countries in assessment, only two have guarantee entities, whose level of operation stands out among the rest. The methodology for estimating guarantee demand is based on assessing the following factors:

- Number of micro, small and medium-sized enterprises existing in each country of the region
- Percentage of SMEs that can reasonably access this benefit
- Estimated average amount of guarantee for credits to micro, small and medium enterprises to be applied in the region

The level of effectiveness of the assessment of the factors is related to the quality of the studies on the existence of SMEs in each country, distinguishing between formal and informal enterprises, as well as their segmentation by size. The second factor is to estimate what percentage of enterprises and credits could access the guarantees in each country, assuming that each country starts the operation of at least one guarantee system and that it operates in a sufficiently massive and effective way. The third factor should be a projection of the amount of credit by SMEs and their corresponding coverage.

Number of existing SMEs

This point depends on the criteria used in each country to classify an enterprise in a specific size. The criteria differ among countries as well as among the different multilateral organizations. One or more criteria are normally used as, for example, the number of employees, the yearly sales, the assets and equity, among others. Although the criteria differ, what do not differ substantially are the percentages representing each business sector in the total number of companies of each country (see Table 2).

In countries where information is recorded, both in Central America and in the rest of Latin America, a similar proportion of SMEs is observed. More than 90% of the companies are MSEs and a small additional percentage is medium enterprises.[2] The large companies represent an average of 2% of the total, with variations according to development levels of the countries. To simplify the analysis, the ratios between the different business segments of the total companies, for the countries in which information is not available, (Guatemala, Honduras, Panama and the Dominican Republic), they will be equalled to the average ratios of the Central American countries in which information is available. That is:

$$\mathbf{R}_{\frac{s}{i}} = \frac{\mathbf{S}_{\frac{s}{i}}}{\mathbf{N}_{\frac{s}{i}}} = \frac{\mathbf{S}_{\frac{c}{i}}}{\mathbf{N}_{\frac{c}{i}}} = \mathbf{R}_{\frac{c}{i}}$$

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[2] See Table 2, in Annex.

Where:

$S_{\frac{s}{i}} =$ Number of enterprises of a business segment S of a country where information is not available.

$N_{\frac{s}{i}} =$ Total number of enterprises of said country where information is not available.

$S_{\frac{c}{i}} =$ Average number of enterprises of the business sector S existing in the Central American countries where information is available.

$N_{\frac{c}{i}} =$ Average number of enterprises of the Central American countries where this information is available.

This assumption can be sustained by observing the Chilean case in Table 4.[3] The percentage variation in the number of enterprises in Chile from 2005 to 2013 has remained almost constant, enabling validation of the previous point.

Another important issue to highlight is that the information obtained from census and other sources is not used and this can prejudice the assessment. For this, it is assumed that the proportion between the number of enterprises and the population of the country remains constant over the years. This assumption is also supported by the Chilean case, which shows a low variation in the ratio of formal enterprises to the total population between the years 2005 and 2013. Mathematically, what is meant is:

$$R_t = \frac{S_t}{Nt} = Constante \text{ ; } \forall \text{ Año } t$$

Through the above procedure, the total number of enterprises is estimated in the countries where this information is not available and the result is compared with their Central American pairs. In the case of Panama and Honduras, the total number of enterprises is obtained by weighing the present population of each country by the average percentage represented by the enterprises in El Salvador, Costa Rica, Nicaragua and Guatemala with respect to their population.[4] As a result, an equivalent of approximately 2% of the Panamanian population is SME enterprises (and respectively for Honduras). The percentages of micro, small and medium enterprises are obtained according to that mentioned above. Table 6 summarizes all the information on the number of each segment of enterprises per country.

For the assessment, informal enterprises are not counted. The NGS and IFI wishing to benefit from this program should support the formalization of enterprises. In Latin America, there is a large number of informal enterprises, mostly micro and small enterprises and they often exceed the number of formal enterprises in each Country. In Chile, there are 1.5 million economic units of which 50% is informal, most of them being micro and small enterprises.

Average amount and total number of credits estimated in the countries

As average amount, information from the Salvadoran Fund for Guarantees (FSG)[5] is intended to be used, as it has statistics on the average amount of guarantees and credits from each business

[3] See Table 3, in Annex.
[4] See Table 5 in Annex.
[5] See Table 7.

sector. It can also be assumed that the average amount used by the Salvadoran Fund is that which requires guarantees.

Estimation of demand:

$$Dem\ Generada = N°\ de\ Emp\ x\ Monto\ Promedio\ Gar\ x\ \%\ de\ créditos\ que\ necesitan\ garantía$$

The estimated number of microenterprises in the Central American region is 897,757 units and the average number of guaranteed credits is US$ 1,473.

Demand of guarantees for microenterprises:

897,757 (enterprises) x US$ 1,473 = US$ 1,322 billon

Demand of credit guarantees for small enterprises:

$$96.300\ (empresas) x\ US\ 9.127 = 879\ MM\ USD$$

Demand of credit guarantees for medium-sized enterprises:

$$13.887\ (empresas) x\ US\ 40.667 = 564\ MM\ USD$$

The above results in a total potential credit for guarantees of US$ 2.766 billion for all countries. If 20% of the total financing should accede counter-guarantee, it would entail a sum of US$ 553 billion[6] and, if its average guarantee coverage from the national guarantee systems were 70%, equivalent to US$ 387 billion, then, considering a 50% coverage, the necessary counter-guarantee required for guarantees would be US$ 193 billion. If the leverage of the counter-guarantee Fund was in turn 4 times (not considering allowances) an equity of some US$ 48 billion would be needed. Achieving a penetration of 20% of the market is a high figure, 10% being more realistic and even much lower figures, especially during the initial years. If the penetration was 10%, then the necessary equity would be US$ 24 billion. It is obvious that the credit offer is greater than the offer of guarantees thus the counter-guarantee Fund with its resources can contribute towards the growth of the guarantee systems.

If the previous figures on credit are compared with the total portfolio of microfinance in the region,[7] which reaches some US$ 2.400 billion, it is greater than the US$ 1.300 billion obtained from the aforementioned methodology, based on the average amount to be guaranteed for the credits granted to microenterprises by the Salvadoran Fund. The difference can be associated with the size of the credits that access guarantees. The important thing is that the figures enable us to conclude certain consistency in the analysis carried out in different ways. Also, the figures obtained from Table 9 (amounts mobilized and guaranteed by the FSG) show that, on average, a little more than 60% of the credit is guaranteed in the case of microenterprises.

2. Synthesis of the offer of guarantees for SMEs in Central America

The total leverage of capital from the Fund can be considered as its maximum capacity of offering guarantees as long as there is no risk and the systems should not provide capital. If the

[6] See Table 8.
[7] Microfinance in Latin America and the Caribbean: The sector in figures. Multilateral Investment Fund (FOMIN), 2013.

system should provide a quantity between 5% and 10% of its stock of guarantees, the formula to obtain the maximum offer from a guarantee system is as follows:

$$Patrimonio\ x\ Leverage\ Máximo$$

$$(Patrimonio\ -\ i\ x\ Oferta\ Máxima)x\ Leverage\ Máximo = Oferta\ Máxima$$

Where i represents the percentage of the stock of guarantees to be provided. By clearing the maximum offer, the following is obtained:

$$Oferta\ máxima = \frac{(Patrimonio\ x\ Leverage\ Máximo)}{(1 + i\ x\ Leverage\ Máximo)}$$

Generally, the conservative leverage is between 1 and 4 times, the latter being the reasonable value when the credit risk is unknown and tends to be higher than in other semi developed countries. In systems with proven track records, the Leverage can reach up to 10 times or more (example FOGAPE of Chile and FNG of Colombia) after discounting the supplies from the capital. Most tend to seek levels close to the Basel regulations as those used by banks. The previous relations do not refer to the mitigations of capital than can be used as, for example, by counter-guarantee.

Calculation of maximum offer of credit guarantee

For this calculation, all the guarantee systems with sufficient information on equity and leverage were considered. In some cases certain assumptions were made so that, due to lack of data, any Guarantee System may be excluded from this assessment.

Table 8 shows the levels of maximum leverage and the equity of the Guarantee Systems used for the assessment of the offer: 2 from El Salvador, 2 from Costa Rica and one from Honduras, Panama and Guatemala. El Salvador and Costa Rica stand out, whose Guarantee Systems contribute much of the estimated offer. In El Salvador, Guarantees and Services SA-FGR and the FSG have an equity of US$ 8 billion and a maximum leverage of 7 times each one, which lowered the assumption of a provision in 6%, each Guarantee System contributing as estimated maximum offer the sum of:

$$Oferta\ máxima = \frac{(US\ 8.000.000\ x\ 7)}{(1 + 6\%\ x\ 7)} = US\ 38.000.000$$

Then, assuming a provision of 6%, the maximum quantity in credit guarantees that the guarantee systems studied can offer amounts to US$ 216 billion[8] (with US$ 60 billion contributed by Costa Rica, US$ 58 billion by Panama, US$ 17 by Honduras, and US$ 4 billion by Guatemala). This estimated figure focuses primarily on certain guarantee systems. This is because most of the countries do not have systems in operation at present. This figure does not represent the actual offer of credit guarantees. For further details of the assumptions applied to calculate the maximum offer, see the annexes.

[8] This figure is obtained by applying the same equation to the seven (7) Guarantee Systems considered for this assessment.

3. Description of the National Guarantee Systems in Central America

This section summarizes the main characteristics of the guarantee systems in Central America. For this purpose, several information sources have been consulted, such as Web sites, multilateral organizations involved in the economic activity of the region, Guarantee Systems websites, among others. As a way of involving the Guarantee Systems in the project, a qualitative and quantitative survey was carried out on the database provided by SELA. However, only a couple of surveys were answered, from countries in which there is no guarantee system operation.

The main Central American guarantee systems are described as follows:

El Salvador

El Salvador is well developed in its structure of credit guarantees and has a law on Reciprocal Guarantee Societies that was passed in 2001.

Also, this country has the support of the United States Agency for International Development (USAID), which has an equity of US$ 12 billion, although its level of operations is much lower than the other two Guarantee Systems mentioned in the previous paragraph.

Salvadoran Guarantee Fund

This fund was created with the aim of facilitating access to credit to the SMEs and is managed by the Development Bank of El Salvador (BANDESAL), whose objective is to encourage, with technical and financial support, the development of viable and profitable investment projects by the productive sectors of the country in order to contribute to the development and growth of these sectors, provide support to the SMEs and contribute the generation of employment.

The FSG has three credit guarantee programmes for the SMEs founded between 2000 and 2002, differentiated by commercial sector and seeking to facilitate access to credit by the SMEs and reduce the credit risk in the participating financial institutions. It has an equity of US$ 7 billion, which can be increased to US$ 20 billion. Also, it has a maximum leverage of eight times.

Additionally, it is important to note that only in the year 2014, about US$ 43 billion were mobilized in credit, of which US$ 25 billion were guaranteed, representing an average coverage rate of 58%. It can also be mentioned that in that same year, about US$ 0.3 billion were paid for the concept of guarantees, representing an annual loss of 1.3%. For further details, see Table 9.

The three guarantee programmes of the FSG are described as follows:

PROGARA

The Agricultural Guarantee Programme (PROGARA) provides complementary guarantees to small enterprises or producers from the agricultural sector for agricultural and agro-industrial activities at short, medium and long terms. It also finances credits for investment, export activities linked to the agroindustry and agricultural science studies both in and out of the country.

The guarantee has a valid period of one year and is renewed annually. First, a respective commission should be paid in advance on a yearly basis at a cost of 1% for clients with risk qualification of both A and B.

The programme coverage varies from 70% for small enterprises to 30% for larger enterprises. With regard to their credits, PROGARA can guarantee up to US$ 171 thousand, which represents a maximum coverage of 50%.

PROGAIN

The Special Guarantee Programme for Intensive Agroindustry (PROGAIN) is very similar to PROGRARA since, like the latter, it finances entrepreneurs in the area of agroindustry. Unlike PROGAPE, the individual or enterprise should deposit a commodity in guarantee to cover the remaining percentage that the programme does not cover.

Its allocation to be guaranteed is the working capital, civil works necessary for the construction and functioning of industrial plants, purchase of raw materials and acquisition of machinery and equipment. Its coverage reaches 50% and its commission is 0.75%. The amounts to be guaranteed range from US$ 57 thousand to US$ 1 billion for the food processing agroindustry; and US$ 4 billion for the remaining sectors.

PROGAPE

The Guarantee Programme for Small Enterprises (PROGAPE) is a complementary guarantee programme that is an alternative for those entrepreneurs whose mortgage or collateral guarantees are insufficient.

This programme assists small enterprises that do not exceed US$ 680 million yearly sales and fulfils the role of complementary guarantee; that is, the client should present a warranty pledge that PROGRAPE can act as complementary guarantee.

The coverage is up to 70% destined to entrepreneurs of the industrial sector, mining and quarrying and public transport. PROGAPE covers a maximum amount US$ 80 million in exchange of a commission that varies between 1.5% and 2%, which should be paid in advance on a yearly basis.

Its allotment to be guaranteed ranges from the reconversion of enterprises, machinery and equipment; working capital and the consolidation of debts (as long as there is a good credit history).

Guarantees and Services SGR S.A. de C.V.

Guarantees and Services (GyS) SGR S.A. de C.V. was created in 2004 and is the first Reciprocal Guarantee Society of a multisectoral nature to be constituted and operated in El Salvador. GyS emerges under the legislative decree of 20 September 2001, which qualifies SGRs as financial entities, requiring minimal capital, and monitored by the Superintendency of Financial Systems (SSF).

GyS operates with micro, small and medium enterprises, granting three types of guarantees; financial that guarantees financing; commercial that guarantees compliance with a payment in a commercial transaction; and the technical guarantees that guarantee compliance with an obligation of a technical or professional nature. It also provides different consultancy services to the SMEs.

Guarantees and Services has a volume of US$ 22 billion (at the end of 2014) in credit guarantees to SMEs, of which US$ 7 billion are to micro enterprises, US$ 11 billion to small enterprises and US$ 4 billion to medium enterprises. The business volume has been almost constant since 2013. The losses over the last five years fall below 1%. For further details, see the Annexes.

Costa Rica

In Costa Rica there are two guarantee mechanisms for credit to SMEs. One is the system operated by the Development Bank (SBD) which aims at financing and encouraging productive projects, technically and economically viable. This organization comprises multiple financial entities that should be aligned and cooperate for the common objective through three funds: FINADE Fund, the Financing Fund for Development and the Credit Fund for Development, where the first is of greatest interest given that it is responsible for granting credit guarantees to the SMEs.

On the other hand, Law N° 8262 for Strengthening SMEs and its Reforms, creates a regulatory framework that supports a long term strategic system for productive development of SMEs. As SBS, this Law is aimed at promoting comprehensive development of SMEs through different guidelines that highlight the creation of a special Fund for developing SMEs known as FODEMIPYME (and created within the framework of the Popular Bank for Community Development, BPDC), with the same objectives as this law.

It is important to note that both initiatives not only promote credit guarantees but also the financing funds and other enhancement alternatives. The following describes both Funds and their main characteristics. Finally, it should be noted that, unfortunately, contact with neither entity was possible for the survey mentioned previously in this chapter.

FINADE

As mentioned previously, the Development Banking System (SBD) is a mechanism aimed at financing and promoting projects technically and financially viable for the Costa Rican SMEs. Among its initiatives, the SBS has a National Trust Fund for Development (FINADE), created under its own law.

The resources from FINADE are distributed with three specific objectives. First, a financing fund for viable and feasible productive projects according to the law. Second, a fund for financing non-financial business development services as, for example, training, technical assistance, knowledge, development of human potential, among other activities. Finally, FINADE has a fund for granting securities or portfolio guarantees to individuals submitting viable and feasible productive projects, within the framework of the SBD Law.

Other relevant aspects of FINADE are that the financial entities which have access to the resources of this fund and support their operations with these guarantees should have differentiated credit programmes (and approved by the Governing Council of the SBD), in order to assist the SMEs. Also, in FINADE, resources can be established to encourage and promote the creation and reactivation of enterprises in all economic sectors through projects such as, for example, seed capital.

FINADE is managed by the National Bank of Costa Rica (BNCR) and can guarantee up to 75% of the credit amount. The remaining 25% can be covered with other guarantees. Additionally, it has a series of basic requirements with regard to the objective of the credit and the characteristics of the legal entity to which the guarantee is granted. It can finance up to US$ 120 million and the cost of the guarantee is 3% yearly and should be paid to the trust fund a semester in advance.

Another relevant aspect to note is that a series of existing funds with similar objectives have been consolidated. Table 10 shows the transfer of US$ 140 billion in 2009, being the year in which the transition was consolidated. Also, during its first two years in operation (2009-2010), FINADE guaranteed for a sum of almost US$ 40 billion, which shows a fast deployment of the instrument. Unfortunately, current data on the present stock of guarantees or the level of existing leverage is not available.

FODEMIPYME

Law N° 8262 for Strengthening SMEs and its Reforms created a regulatory framework that promotes comprehensive development of the SMEs in the long term, positioning them as a leading sector and thus contributing to the economic and social development of the country. In this way, through a series of general and specific objectives under this Law, the special Fund for Development of Micro, Small and Medium Enterprises (FODEMIPYME) is created. This fund is created in the BPDC and, as mentioned previously, pursues the objectives of Law N° 8262.

The resources of FODEMIPYME have three final allocations. One is to grant credit guarantees to the SMEs when they cannot be subjected to financing under conditions that are favourable to them. Another allocation is to grant financing to SMEs for training programs, technical assistance and technological development, among other business enhancement activities. Finally, another allocation is to transfer resources to public entities, cooperative ventures, private or non-governmental organizations to develop programmes that strengthen the SMEs. These allocations are financed by the Guarantee and Security Fund and the Financing Fund.

With regard to the operative level, it can be said that FODEMIPYME does not represent a high level of development as was expected for a country as Costa Rica. As can be seen in Table 11, data on the operative level of FODEMIPYME, the number of operations carried out and the details of placements from 2004 to 2012 where the levels of leverage denotes a poor use of the instrument. Leverage is less than 0.5 times over those 9 years, a figure far from the expected levels of leverage (between 4 and 5) for a guarantee system.

Honduras

In Honduras the decree law for the reciprocal guarantee fund system for the promotion of SMEs, social housing and technical-professional education, was approved in November 2010. The law does not differ much with regard to the parameters established for reciprocal guarantee societies created in El Salvador. Social housing and technical professional education also can access the guarantees of the Honduran SGR. Despite the time with no news on SGR, the creation of a SGR named Confianza SA-FGR was recently announced.

Confianza SA-FGR

In January this year, Confianza SA-FGR was created, its aim being to manage the funds for issuance of the guarantees that support the credits to the SMEs. Confianza SA-FGR also includes the agricultural sectors, social housing projects and technical professional education. It is supervised by the National Commission for Banks and Insurance (CNBS).

Confianza has an equity of US$ 6.3 billion, of which US$ 1.8 billion were provided by the State and the Private Contributions Regime (RAP) respectively, while US$ 2.7 billion are contributions from private institutions.

Confianza SA-FGR manages the Guarantee Fund for SMEs (FOGMIPYME), the Guarantee Fund for Social Housing (FOGAVIS), the Technical and Professional Education Fund (FOGADE) and the Guarantee Fund for the Agricultural Sector (FAGRE).

The commissions for micro and small enterprises are 1.69%, and 2.18% for medium enterprises. In the case of FOGAVIS, the commission is 1.35% and 4.01% for FAGRE. With regard to its leverage level, there was no data available given that the fund is not yet functioning.Nicaragua

While the law for reciprocal guarantee societies was created in September 2008 (Law 6663), there are no records of operative guarantee systems focussed on SMEs. This law authorizes the creation of the guarantee Societies similar to the Spanish law and as in other countries of the region. However, there are presently no entities in operation.

The SGRs are constituted with fifty (50) participating partners, individuals or enterprises (SMEs). The cooperative ventures are authorized as participating partners. There should be at least one protective partner, individuals and enterprises, citizens or foreigners, public, private or mixed, which participate in the social capital, its aim being to grant solvency and financial support. The system is managed by a "regulatory body", not yet integrated, denominated Interinstitutional Commission of Reciprocal Guarantee Societies, which should apply and supervise the functioning of the law that should operate in the Ministry of Development, Industry and Trade (MIFIC). This Body is made up of the Central Bank, the Ministry of Development, Industry and Trade and the Superintendence of Banks and Other Financial Institutions, (authorizes and audits the SGR).

There have been several attempts to create guarantee systems in the country as, for example, the initiative by the World Bank together with the consultant himself in the year 2008, when a mechanism was designed for partial guarantees to be operated inside the local Development Bank but, to date, it has not been implemented. The only guarantee mechanism operating in Nicaragua is that financed by USAID, in which BANPRO is the main user.

At this moment, the law which created the reciprocal guarantee system is under review to evaluate the necessary modifications and give a new impetus to the creation of these entities.

Dominican Republic

In June 2014, the Monetary Board of the Central Bank of the Dominican Republic became knowledgeable of the draft Law for the Reciprocal Guarantee System which creates the figures of Reciprocal Guarantee Societies and Counter-Guarantee, and authorizes its remission to the Executive Authorities for their consideration and approval and, later, remission to the National Congress. The fundamental objective of the Reciprocal Guarantee Societies is to provide guarantees to the Micro, Small and Medium Enterprises (SMEs), through the issuance of securities that would enable access to formal credit at lower costs and longer terms in the financial intermediation entities. On the one hand, the Counter-Guarantee Societies' objective is to underwrite the Reciprocal Guarantee Societies, accept the risks for the guarantees granted. The securities issued by the Reciprocal Guarantee Societies are classified as Financial Guarantees that enable obtainment of loans from the financial intermediation entities, carry out financial leasing operations, discounts on invoices, among others. There are also the commercial Guarantees that underwrite inter-company operations; and the technical, used for the fulfilment of work contracts and supply contracts, as well as compliance with obligations with public and private bodies, including those required by the Law for Procurement and Public Contracting. The contributions of capital for the creation of these enterprises can be provided by physical individuals or private companies, international organizations and the State.

The social capital of these societies is contributed by the protector partners, whenever the Micro, Small and Medium Enterprises should be required a minimum shareholding, whose individual limit may not exceed 5% of the social capital, so that they can become participating partners and thus acquire the rights to access financing. The contributions from the protector partners may not exceed 30% at an individual level. To date, there are no known initiatives in operation.

Panama

There are no known initiatives on guarantee systems for credits to SMEs in this country. However, there is a recorded entity more like an insurance company which, in part, fulfils this role and is described as follows:

ISA

ISA is an autonomous entity of the Panamanian State, created on 29 April 1996 under Law N° 34, which subrogated Law 68 of 1975. Its mission is to participate as an agricultural insurance intermediary agent, providing security to the agricultural, livestock and forestry producer; create confidence among financial entities so that they can engage in financing development activities in the agricultural sector. The security is the contract by which the agricultural insurance is committed to a credit institution to pay for the debtor should the latter fail to pay and the institution has exhausted all recovery proceedings under the banking regulation. Under this system, the Agricultural Insurance Institute (ISA) seeks to promote agribusiness competitiveness to strengthen the agricultural sector through banking or cooperative financial access, with special attention to the small and medium producers.

Its institutional objectives are: Offer to the agricultural and forest producer insurance services offered by the institution in the range of agriculture and livestock, forestry and complementary insurances, regulated in coordination with the Superintendence of Insurance and Reinsurance of the Ministry of Commerce and Industries. Another objective of ISA is to ensure economic security to insured producers with respect to their investments.

Three (3) products provided by ISA are highlighted. First, insurance guarantee of payment of the credit in which ISA is obliged with a credit entity to pay the credit acquired by the agricultural producer. Also, the insurance guarantee for delivery of agricultural products, being the contract by which ISA is obliged to ensure that the producer delivers agricultural products. Analogically, in the insurance guarantee of purchasing agricultural products, ISA ensures that the buyer purchases the agricultural products.

With regard to its stock of guarantees, a study of ISA’s operative work plan in 2012-2013 showed an insured sum of around US$ 90 billion, of which US$ 56 billion relate to agricultural insurance, US$ 20 billion to livestock insurance, US$ 5 billion to complementary insurance and US$ 10 billion to insurance guarantee.

Guatemala

In this connection, is it important to mention that the consultant himself, in contract with the World Bank, is supporting the Ministry of Economy (MINECO) with the design and implementation of a partial guarantee Fund which would begin with a pilot project in October 2015. The Fund will be managed by a team in MINECO, and the resources are being managed in a trust fund by the Workers Bank BANTRAB. The project is described as follows:

In Guatemala, as in most of the Central American countries, the operation of guarantee systems is scarce.

The survey sent by the consultant to the eligible countries also confirms the existence of a draft law to create Reciprocal Guarantee Societies, issued by the Superintendency of Banks and which has been subjected for consideration in the Congress of the Republic of Guatemala. However, this has not been approved. The following describes some initiatives of the operative guarantee systems at a low level and which are additional to the Fund that is being implemented by MINECO.

Guate Invierte

Guate Invierte is a trust fund whose mission is to contribute economically with individuals and companies benefiting from the costs for formulation and establishment of economic projects that generate development in the rural areas of the country. Part of its mission is also to contribute economically with the cost of technical assistance to the productive projects.

Guate Invierte grants guarantees of payment between 50% and 80% of the financing that credit grantors concede to productive projects that generate development in the rural areas of the country. This trust fund can also cover up to 70% of the cost of the agricultural insurance premium or other insurances granted by insurance companies authorized to operate in the country and which are related to projects approved in this regard by the Directive Council, susceptible to generate development directly or indirectly in the rural areas of the country.

Its initiation was like a fund for providing resources to the agricultural sector but, as it was consolidated, it expanded its credit projection and also grants credits to environmental projects, as well as tourism and handicraft, included among the main activities of the fund.

It has a contractual equity of almost US$ 3.5 billion, of which two-thirds are for financing guarantees and the rest is for direct support, technical assistance, agricultural insurance premium and training directly to small and medium enterprises. Its commission rate is approximately 1.12% and the maximum sum for financing is US$ 0.23 billion.

Currently, Guate Invierte is almost inactive in issues of guarantee, with a couple of operations that amount to US$ 0.45 billion guaranteed. It is noteworthy that until 2012, it was operative with a stock that reached US$ 12 billion in that same year. Its loss rate at that time was over 20%, which suggests the inactivity of today.

Global Credit Programme MINECO

The Global Credit Programme (PGC) of the Vice-Ministry of Development of Micro, Small and Medium Enterprises (SMEs) of the Ministry of Economy (MINECO), supports with a fund of approximately US$ 1.3 billion, which can be leveraged up to three times in guarantees. With these resources, micro enterprises and small enterprises in general, forest and tourist industry are prioritized all over the country. The Government adjudicated the financial administration for the funds through public bid to BANTRAB. The guarantees should be adjusted to the policies of the banking entity. Presently, the project is beginning with a pilot of US$ 1.3 billion, and it will be committed with one or two financial institutions and, if successful, its resources will be substantially increased. The estimated commission is 2% per year and coverage is up to 50%. The pilot would be launched towards the end of September or beginning of October 2015.

Columna Credit Insurance (MICOOPE)

It relates to a credit insurance for institutions belonging to the MICOOPE network. Initially, it began with a donation from the Swiss cooperation for the creation of a guarantee Fund but later, in MICOOPE, it was transformed into a credit insurance operating through the insurance company Columna. It shows a low level of use and its use has not been encouraged; the little it has operated has a very low level of risk. Its commissions range between 1% and 2%, according to the risk of the operation.

III. EVALUATION OF THE MINIMUM CONDITIONS FOR THE CREATION OF THE REGIONAL GUARANTEE SYSTEM IN CENTRAL AMERICA

One of the main conditions that should be met when developing a financial instrument is that it is rather sustainable in time. This is what is wanted to explain the use of the mainly public scarce resources on the creation of a guarantee system, in such a way that it is not established as a fund for losses. A second requirement is that this would allow broadening the capacity for providing guarantees of the local guarantee systems, and/or sharing the risk with them. A second important element is that it should have its own constituted patrimony managed by a professional and technical institution trusted by the financial system. The following requirement if added to the above has to conduct this management at a reasonable cost, and hopefully at the lowest cost possible because as we know the final cost will be directly or indirectly charged to the SMEs. The system should be focalized in that their clients are the national guarantee systems, supporting them even in the management with the IFIs, but aimed at impacting indirectly on the larger number of SMEs in each country. To achieve this, the administration should be efficient in management and the number of trained staff that work in it. The issue of risk management is essential that is why it will have to develop an expertise in the appropriate calculation techniques for risk and provisions. It has to make sure that the participants and the operation processes defined between the local guarantee entity and the administration of the guarantee system are automated, flexible and at low cost and that the process of guarantee collection, as well as the payment of guarantee commissions are timely and reliable. The fund administration personnel should have the suitable technical qualifications and experience in the financial system and the needs of the SMEs.

Before operating with each local system the fund has to make an in-depth analysis of the transactions of each guarantee system to be bonded (corporate government, systems, processes, professional team, analysis of default, portfolio, loss frequency, commission collection, etc.).

Legal framework and corresponding responsibilities

Depending on the institution approved for the guarantee system, it is expected that the regulations in force of each country would allow the operation of a multinational guarantee fund that does not have unfavourable conditions while in operation (by example, a high tax payment would be an unfavourable condition). On the other hand, to bond the guarantee systems, these should have the corresponding responsibilities of being bonded (either by their laws, operation manuals or internal regulations) and internalizing the benefits of this, that is, there should be stipulated the possibility that their guarantees can be partially or totally bonded and the benefit of the bonded guarantees recognized, in addition to allow the guarantee system or otherwise a third party paying the guarantee commissions.

The existence of rules and regulations that would allow in each country for the creation of public, private or joint guarantee societies and that these at the same time can be bonded, implies an initial advantage in the objective. In several Central American countries there are either development banking or rules or regulations that authorized the creation of guarantee systems: In spite of this fact, a few systems have been created or are not in operation. In general, these laws could require updating tending towards a new boost for the creation and operation of the systems. Every effort in this sense, and having in mind the (always scarce) resources allocated, should consider that the final purpose targets at an increase in the credit supply for the SMEs.

Fund administration

Ideally, no new institution should be created to manage the administration of this new guarantee fund. The administration can operate within an institution that has activities in the Central American countries, and define certain amounts of the fund resources that could stay in fiduciary administration in each country where the fund would operate. However, the administrative and commercial management of the fund would be performed from its own administration, in a centralized way in relation to the national guarantee institutions.

An optimal example is CABEI (Central American Bank for Economic Integration), with presence in the countries in question. One of its objectives is to support the development of SMEs in the countries. The possibility for CABEI to be able to agree on terms for the administration of the fund would be the best option because it presents all the conditions to conduct the operation with a few additional efforts and it would not be necessary to create new institutions. Besides, it has branch offices in all the Central American countries.

Other interesting options are to join the FLAG (Latin American Guarantee Fund) promoted by CAF, taking advantage of the experience and capacities of that organization, which has made important strides in this project. However, despite years having passed, the project has not been implemented yet.

Fiscal body

If the fund belonged to some of the multilateral entities, it would be supervised by the specialized councils and committees that these entities have in regard to auditing and risk qualification. Auditing should be internal and external, and comply with the instructions of the headquarters compliance direction.

In each country there should exist a monitoring entity (superintendence of financial banks and institutions) that should play said role in the local guarantee systems. This ensures better management in each entity and, therefore, a better performance of the guarantor towards them. The fiscal body should be the same one that supervises the local IFIs since the guarantee entities should be considered financial institutions. This brings an improvement in trust and transparency to the process.

Administrator capacities

Fund autonomy and constituted patrimony: The regional guarantee system should be autonomous and focused on playing its role, its management cannot be submitted to political decisions or in benefit of a country (or region) in particular, and/or decisions or planning of a non-technical nature. The fund should be autonomous in the legal, patrimony and administration areas. The administration should be professional and technical with experience in the financial system and the SME sector. It should develop commercial expertise in its relation with the guarantee entities of the countries, specialize in risk management, and estimate suitably the commissions, reserves and expenditures by means of mathematical models and techniques. Finally, it should outsource all the functions that are not the main ones and a significant part of the value chain of the fund administration. In-sourcing can be internal or external to the institution that gives shelter to the administration.

IV. PROPOSAL FOR A REGIONAL GUARANTEE SYSTEM IN CENTRAL AMERICA

1. General characteristics for the legal capacity of the Regional Guarantee System

The legal entity representing the Regional Guarantee System in the region of Central America should be international, but what is desired is to prevent the creation of any new institution but use the spaces presented by delegating the management of the guarantee fund to entities that already exist. The idea is to be based on an existing institution and make marginal management tasks to establish the fund. If the fund administration could be carried out from a multilateral organization present in the countries, the guarantee fund might be a reality in a quite shorter period of time than any of the other options. In this connection it is enough to see the experience of the FLAG and the Mercosur Guarantee Fund or other initiatives, which have not come true but were recommended many years ago. CABEI could be optimal in this aspect and comparable to the EIF (European Investment Fund) that gives supranational guarantees to the national guarantee entities. The same corporate government could be used, and represented by the countries that belong and contribute, with a few changes.

In addition it would result easier to obtain resources for the establishment of the fund, because the BCIE presents good risk qualifications and has an international standing gained over the years in the countries where it operates.

In addition if it were necessary to facilitate the fund operation, the risk funds of the guarantee fund could maintain themselves under the administration of those countries in which it will offer guarantee services to the existing NGS. However, the fund administration in its commercial and administrative management would be based on the existing institution in a centralized way and coordinated with the funds located in the countries (CABEI can use its branch offices). Its function is to conduct the commercial and administrative management that would allow rebonding a part or the entirety of the bond backed by the guarantee systems for the SMEs creditors aimed at strengthening the SMEs in their capacity to access the financial system and improve their credit conditions.

The guarantees can provide a wider coverage from the NGSs due to the mitigation of capital caused by rebonding their contracts.

The administration (administrator) of the patrimony should safeguard the resources optimization and ensure that the guarantee payments are made when due of the corresponding methodologies of risk and commission, and other varied processes that are described later on. Above the administration, it is found the board of directors in charge of the approval of plans, policies, strategies and objectives of the guarantee fund that will be implemented by the fund administration.

An important aspect in the fund characteristics and its administration is that it should gain trust from the NGSs by seeing the fund as an effective tool for recovering the bonded part, since the opposing party will always want to know in advance the true feasibility of collecting the bonded amount. Therefore, trust will be based on simple processes (of low operational cost) that would answer for liquidity in the bond payment and encourage the NGSs to use guarantees as a risk mitigating source.

Lastly, the administration of the fund should be professional and have technical knowledge of the financial system. Having online systems with the IFIs and the NGSs answer for more transparency with the entities and a quick data transfer that are key for the risk estimations from the fund. The fund administration should consists of trained staff with experience in the financial system, emphasizing the work of the SMEs, in a way that the largest possible number of enterprises can be favoured. Furthermore, the trained staff should have the necessary tools to gather the sectors interests and afterwards align them with the general policies of the fund. It is also important the capacity of the trained staff to carry out training programmes throughout the region to decentralize the benefits in the sectors as well as territorially, since past experiences show that there are risk factors in such practices.

2. General description of the functioning and coordination between the RGS and the NGSs of Central America

As it has been mentioned in this study, a guarantee fund is used with the objective of sharing, mitigating and ceding risks, and hence obtaining a larger leverage or reach with the resources available in each guarantee system. The previous mechanism seeks an effect similar to insurance and reinsurance in the case of the insurance companies. The availability of guarantees makes an impact not only on the guarantee systems but also in the financial system. This because there are more guarantees in the market, and therefore, capital and provisions of the guarantee system are released, but in turn this also releases resources from the financial system. All these obviously affect the SMEs, because when there exists an incentive for the credit supply, it tends to increase the financing amount, therefore, the credit conditions are likely to improve over time. Usually, the guarantee schemes, and those of rebonding are recognized by the Basel regulations, either because of the provisions as well as the mitigation of capital that these can allow.

In the rebonding scheme, a body "bonds" a percentage de guarantees for certain types of credits allowing that the entity of the guarantee in bond would release commitments mainly with three goals:

- Release commitments to broaden the capacity of granting guarantees from the entity (to mitigate capital and leverage).
- Share the risk with a third party reducing the commitments and releasing risk.
- Improve the qualification of the guaranty handed in to the creditor.

Its dynamics is based on guarantees in bonds issued by the NGSs for the SMEs, for which it is established a contract of guarantees and the conditions to implement it for each bond given to each credit of SMEs. Its functioning also depends on the regulations of each local fund, which has to be flexible enough and would allow accepting a series of regulatory documents and operation manuals as complementary that would ensure an effective operation. The eligible local funds or guarantee systems should be supervised by the corresponding superintendence of banks and financial institutions of each country.

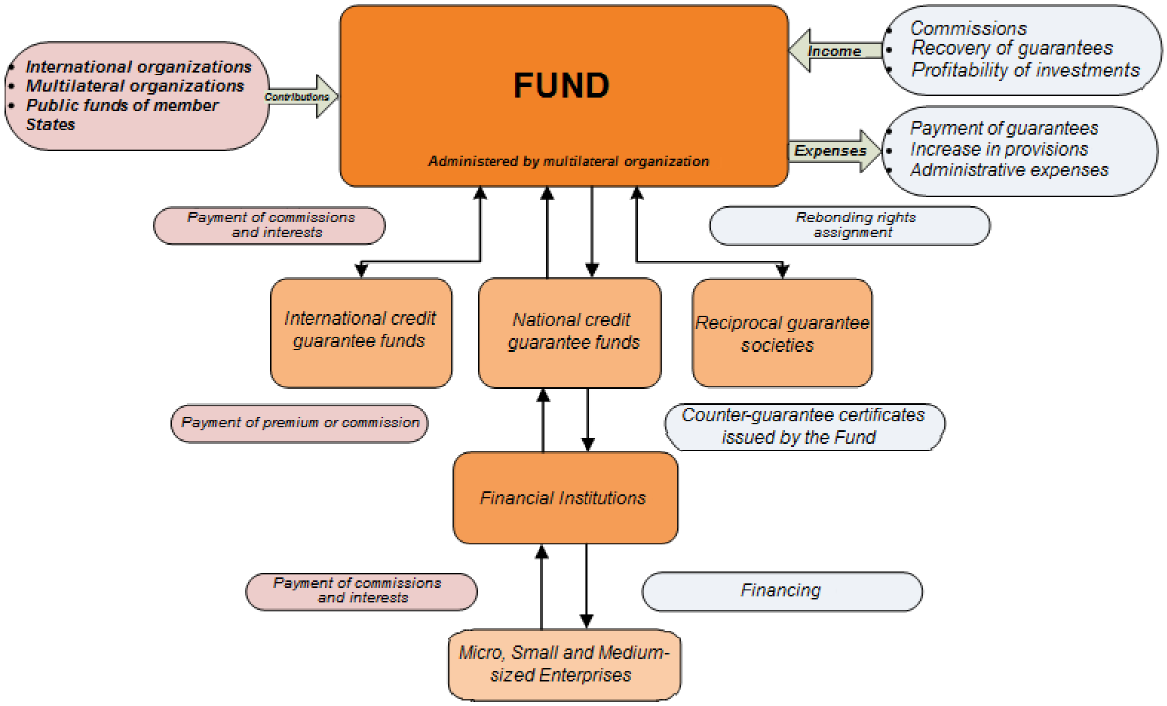
Once the goals of the fund are clearly defined, it is required to have an operation scheme that can make available to all the allocation of guarantees at a controlled cost. In this context, the experience of the Chilean guarantee fund and other guarantee systems, like the FNG of Colombia and the programmes of NAFIN in Mexico, indicate that a scheme is based on the management of the operators, that is, a system in which the financial or guarantee institutions evaluate autonomously the origin of the guarantee in regard to clearly predefined aspects of eligibility, tends to generate a larger volume of operations than a scheme in which the guarantees and rebonding are given in a direct way and also previously evaluated by the administrator. This is explained when considering that the financial institutions are the ones that solve the granting of the credit and its conditions.

The evaluation and selection of clients is based on pre-established regulations, the administrator should look out for their compliance. Second, there should be applied simple and low cost administrative procedures, with clear, known and transparent rules for all the participants. Finally, a management scheme for the operators should bring along the massive and intensive use of information technologies, and have processes to deal with the administration of massive portfolios of the final clients and their credits, in such a way that there can be formalized the guarantee operations in the administration databases, and thus to have an online system with the guarantee entities.

The fund revenues can come from three sources: the profitability of investment, the commissions paid by the local guarantee funds, and the recovery of the paid guarantees.

On the other hand, expenditures will come from the committed guarantee payment (associated with provisions). Other expenses to be considered are administrative and of auditing in nature. The contributions, not yet defined, should be provided by participating governments, international organizations, multilateral organizations, public funds of the participating countries, and others, including private and cooperation entities. Sector funds can also be managed (by example, housing, renewable energy, etc.) and everyone that generates a property in the eligible countries.

The proposed fund model considers the granting of guarantees to national funds and the RGS, including facilitating guarantees for credits aimed at foreign operations or internationalization of enterprises, what will have to be calmly examined. A business scheme figure of the fund is presented, as follows.



Considering the regional nature of the fund, there will exist several guarantee systems to be known in detail and different realities to attend to with the greatest possible specialization and at the lowest cost. The main objective of the public NGS is to ease and improve the access of SMEs to credits, and therefore the objectives of the Guarantee Fund are aligned with it.

The private entities not always have the same objectives due to the origin of their capital, and this has to be taken into account when defining the guarantee model of each entity.

Conditions for guarantees

Some conditions of eligibility for beneficiaries and intermediate actors are detailed as follows. Other conditions have to be examined in greater detail according to the local reality and the reality of each system.

Eligible enterprises

- Legal entities and individuals classified as SMEs by the corresponding NGS that grants the credit guarantee.
- Those that develop productive or services entrepreneurial activities backed by the corresponding NGS.
- To be registered in the corresponding system of formality of each country. There should be supported the formality and registration of the enterprises.
- The evaluation of the debtor individual risk made by the IFI should show capacity of payment, and such evaluation is carried out independently from the own guarantees of the debtor or the fund's guarantees. The enterprises should be financially viable.
- Favourable commercial background: without unpaid debts and/or unexplained (tax, precautionary, labour and financial) objections. Liabilities or already incurred debts are not to be refinanced. It should have a positive qualification from the credit agency.
- Do not exceed the maximum of credit with the guarantee of the fund.

Eligible institutions

- National credit guarantee funds
- RGS or Reciprocal Guarantee Societies (only partial rebonding)
- Other foreign guarantee entities that can make international guarantee agreements with the fund to support internationalization and foreign trade

Conditions for financing

The coverage rate of guarantees should not exceed a maximum of 50% over the unpaid balance of capital. There might also be applied a larger coverage and a deductible amount for the expected losses to each local guarantee entity. The maximum coverage can be used for the oriented developments (by example, exporters, industrialists, non-polluting enterprises, regions, ethnic groups, certified enterprises, women entrepreneurs with children to give some examples, etc.). There are guaranteed the working capital and investment. The maximum time period for guarantees is 10 years.

The commission for the use of the guarantee should be based on a methodology of expected loss as a function of risk. The commission will be a function of the default of the IFI portfolio with the fund, the historic loss frequency and the later recovery of paid guarantees. It is paid in advance. With the development of the fund it will be necessary to incorporate a plan of differentiated commissions as a function of the risk of the portfolio of guarantees of each NGS.

Formalization of rebonded credits

Each time that the local guarantee entity issues a bond with the fund guarantees, it will have to inform it (register it) within the first five (5) working days of the month underway through the system implemented for such a purpose by the administrator. It is the responsibility of each NGS to comply with the defined requirements of information regarding the quality of the information and the structure that this information should have. In general, it will not be necessary to deliver written information. Such information should be updated monthly at least, including the delivery of the stock of guarantees in force at the end of each month, updated with their balances.

The administrator will report to the institution about the guarantees accepted and rejected for not complying with the established format or business rules. Those bonded that are formalized should maintain an identification number or code during the whole validity of the bonded credit, even if it is restructured.

Process to collect guarantees from the administrator

A model is proposed in which there exists a maximum time period to be able to request the payment from the administrator, no more than a year starting from the definitive default of the debtor. The administrator should resolve on the payment in 30 days at the most since the request. For the correct collection, the corresponding information should be sent with 6 basic documents, which can be sent through the following system provided by the administrator:

- Letter with the request for payment of guarantees.
- Settlement of the financing, which should be in accordance with the information found in the fund administration system.

- Copy of the bond certificate and the executive title and/or the complement that includes the guarantee conditions (commission, percentage of coverage, resources destination, etc.).
- Debtor eligibility background (size of enterprise). Including the classification of individual risk made by the guarantee systems and/or the IFI.
- Copy of the executive demand and the debtor notification.

After having paid the guarantees, the fund is subrogated in the legal collection that the local guarantee entity makes for the total of the debt that was paid by this, it represents the fund in the collection and informs on the progress of the trial. In the case of recovery this is divided into the percentages of participation in the risk coverage, and the collection expenses made by the national guarantee system are previously discounted.

Coverage model

Therefore, infinite combinations of the types of operations of asset-backed securitization can be found. The proposal is to grant partial rebonding, and make the cost of the guarantee similar to the cost collected by the local guarantee system, supporting the growth and expansion of the capacities of the local guarantee system. An alternative that can be used is to deduct the expected losses and as a balancing entry to establish a proportional coverage greater than 50% of the unpaid balance of capital. In this case the guarantee commission could also be less, because it corresponds to excess of loss coverage, depending on the limit in which the deductible is defined.

Proportional coverages have as a technical principle to improve the bases of the business by sharing the risk and allowing the expansion in the number of risks taken by the local guarantee system, decreasing the variability of the results due to the application of the law of the big numbers.

The excess of loss and excess of loss frequency coverages help control the effects on the increases in loss frequency and share these effects.

Taking into account that the fund seeks to be an entity of low operating costs and simple operation procedures, it is proposed to begin with two types of contracts, a simple proportional one and another of excess of loss frequency, aiming at that the administration of the guarantee fund can establish a deal with the guarantee entity and use the most suitable mechanism in each case, adjusted to each reality.

Administration of the fund

The administrator of the fund must be a body that generates trust and security between the IFIs and the NGSs. The institutions whose nature makes them more suitable as potential administrators of the fund are presented below.

CABEI

The Central American Bank for Economic Integration (CABEI), created in 1960, is a legal entity of an international nature, whose purpose is to promote the integration and development of its founding countries: Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica. Its headquarters are in Tegucipalpa, Honduras, and it has regional offices in each Central American country. Panama and the Dominican Republic are non-founding regional partners.

Its mission is to promote economic integration and a balanced economic and social development of the founding countries, looking after and aligning with the interests of all the partners. Its vision is to be a strategic ally of the partner countries in the provision of financial solutions that would foster creation of employment and raise the well-being and the quality of life of their citizens.

Other options to multilateral organizations operating in the Central American region could be: the Inter-American Development Bank (IDB), the Development Bank of Latin America (CAF) with the FLAG, as well as other similar entities, either by direct management of the guarantee funds or the delegation of certain functions in third parties, such as the Trust Administration of Risk Funds or the capital of the guarantee fund. The capital or the risk funds can be found in each eligible country, facilitating the management of guarantee payment at the local level, as well as the collection of the guarantee commissions and the recovery of paid guarantees. However, the fund management can be dealt with in a centralized way.

3. Determining risk management modalities for RGS

Both guarantee systems and rebonding systems should look for a suitable risk management in order to carry out their operations in a safe way. Three types of risks that are incurred can be distinguished when it comes down to making credit securitization operations:

- Credit risk, or in this case "guarantee": The risk of incurring losses due to the payment of the fund guarantees.
- Risk of deficiency of provisions: The risk of decreasing the value of the fund patrimony due to undervaluation on the calculations of provisions.
- Pricing risk: The risk that the revenues from commissions are not enough to cover the commitments expected by the fund, which would bring the loss of patrimony and assets of the Fund. The cause is the underestimation of the value of the commission to be charged.

Established institutions with years of experience such as FOGAPE and the FNG have a well-developed risk administration system. FOGAPE has a system of calculations of commissions based on indicators like loss frequency, recovery of paid guarantees and historic and current default, besides the cyclic experiences of the economy and their effects on the portfolios. Their methodology of calculation of reserves is based on the recommendations of Basel II. On the other hand, the FNG has what they called a system of administration of the guarantee risk (SARG), in which they establish the pillars for the correct management and administration of the risks incurred in these businesses.

Technical aspects

The most relevant aspects to be considered in risk administration in the business of credit guarantees are going to be examined, without prejudice to other aspects that can be provided by the administration or some other participant in the fund.

General guidelines of tolerated loss and limits of exposure allowed

The limits of financial exposure and portfolio risk in every moment should be clearly established, along with the work plans to prevent such risks. Attention should be paid to aspects like resources decentralization and breaking-up in one single area.

Basic characteristics of the creditors and final clients, and requirements for approval

It is essential to be able to discriminate correctly among the potential clients in accordance with the characteristics and requirements that would ensure the fund's sustainability.

Policies for the calculation and collection of commissions

The calculation of the commission to be collected should be based on variables that would show the future behaviour of the portfolio and allow making a realistic calculation of the expected losses, and thus, estimating the value of the commissions that would allow covering such commitments. In this way, a simple and ordered method of commission collection should also be established order to avoid high operational costs.

Policies for the estimations of provisions

A clear and suitable policy for the calculation of reserves should be established in order to comply with the commitments made by the fund and not to incur a loss of patrimony. In the last few years, the Basel Council has determined a series of recommendations to improve practices.

Format of the status report on guarantees for the Administration

Formats for the delivery of information on bonded credits should be established order to standardize the information to improve its quality and reliability. Therefore, the estimations of commissions and reserves are more reliable.

Processes of internal control

The implementation of methodologies, procedures and, in general, the compliance of all the regulations of its functioning should be verified, including in particular the timely flow of information to the board of directors and the administrative level of the entity.

4. Description of the guarantee services and products that the RGS will provide

Services

The services provided by the fund because of their nature have to do with dissemination and training. It is mostly sought to support the NGSs and the IFIs with permanent training pursuing two main objectives:

- That the NGSs and IFIs have an appropriate behaviour in the selection of risk and clients, as well as the good use of financing with guarantees, as a way to prevent the moral risk, always latent when there are public and political guarantees of this type.
- To make public in a clear way the regulations, the functioning and rules of the fund (credit formalization, bond request among others) aiming at transparent processes and trust built up for those who choose rebonding with the fund.

On the other hand, the administration should develop programmes of training, dissemination and active coordination in the use of the instrument with the final operators and users who in many occasions see these instruments through lack of information and mistrust, what causes a lesser market penetration. The possibility of offering financial and administrative training services to the final users for their business is not excluded.

Products

To be specific, the function of the fund is to grant guarantees certificates that would cover totally or partially the bond certificates that the NGSs give to the IFIs in favour of the SMEs. In exchange and as it has been mentioned, the guarantee systems paid a commission to the fund that can be calculated based on two systems:

- A deductible system, imitating the scheme used by FOGAPE with the RGSs. Here the commission is based on the scheme of deductible by expected loss, variable as a function of risk.
- A guarantee system proportional to the commission, that is, the commission to be collected is proportional to the part in bonds.

In order to simplify processes, the commission payment can be made in advance.

International trade between enterprises

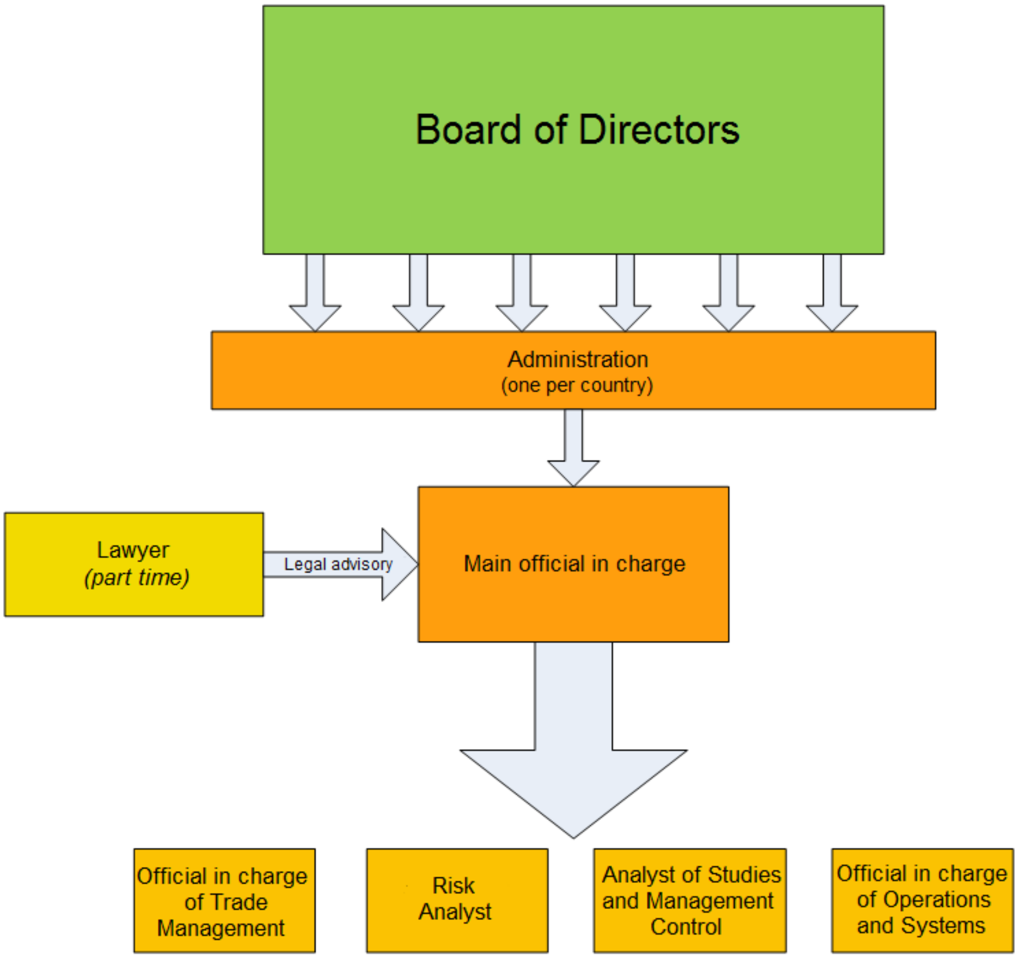
Because the fund is regional, it can foster the development of foreign trade operations between enterprises or their internalization between different countries of the Central American zone, or furthermore through international guarantee agreements with other foreign countries.

The existence of an international guarantee body can ensure trust between the local guarantee systems and those of the countries abroad. The exchange of goods between countries and the territorial expansions help improve significantly the development of the enterprises, therefore, the fund could also bring benefits to this type of SMEs.

Both schemes should be closely examined to establish the optimal operation and low cost mechanisms so that it becomes clear for the SMEs.

5. Proposal for the organizational structure of the RGS

Below is a proposal of an alternative structure led by a board of directors of international scope (within an already existing entity), followed by fiduciary administrations of the fund in each participant country. It is sought a simple process at a controlled cost, which guided by an operator management scheme, would have the following structure:



Functions of the Administration

- Manage the guarantee fund and represent it legally.
- Define policies and develop action plans aimed at strengthen the use of the fund resources.
- Conduct the commercial management, promote the use of the fund among the IFIs and NGSs and determine the operation conditions with the beneficiary institutions of the fund.
- Define the information requirements and support systems to the institutions that operate with the fund.
- Carry out the analysis and solution about the origin of guarantee payment required by the institutions.
- Develop actions of coordination with the institutions related with the fund.
- Develop actions in risk assessment and measurement of the bonded credits.
- Take control actions over all the operations that result from the fund administration.
- Ensure the compliance of the regulations that apply to the fund.
- Proposed the regulatory and administrative changes that would help optimize the use of the fund.
- Implement optimization changes in processes and procedures.
- Develop commercial functions of dissemination and training in the financial institutions, NGSs, small entrepreneurs and others of commercial nature.
- Provide legal, operational and commercial advisory assistance for the fund operators.

- Define the conditions and requirements of the needs presented by the administration in regard to specific services to outsource, such as: information technology, marketing, accounting, operations, etc.

Functions of the legal advisory unit

- Develop the necessary legal management for the functioning of the fund and the recovery of the guarantees paid by the fund.
- Advise the administration and the beneficiary institutions of the fund on all the corresponding legal aspects.
- Draw up agreements, contracts, manuals and regulations in relation to the fund.
- Review the requirements of the guarantee payment and propose to the administrator their approval or refusal while ensuring compliance with the regulations.
- Express opinion regarding proposals for financing renegotiation or transaction bonded by the fund.
- Review legal aspects of instructions or any other document issued by the administration in relation to the fund or supervising authority.
- Follow-up and control of the legal actions carried out by the institutions in the operations whose guarantee has been paid.

Functions of the commercial management unit

- Develop and undertake commercial activities for the use of the fund.
- Propose the definition of the annual commercial goals of the fund.
- Undertake training actions with financial institutions, small entrepreneurs and institutions in general.
- Coordinate, look after and channel consultations and problems that the financial institutions present.
- Define and update manuals in commercial aspects regarding the use of the guarantee.
- Analyse and develop general and specific conditions for the use of the fund.
- Propose the plan of commercial activities and their implementation.
- Generate activities to allow for disseminating information about the fund, among them, boosting of the Web page, written information and advertising documents, etc.

Functions of the management control and studies unit

- Coordinate and control the functioning of the fund in management (regulatory, operation and accounting) aspects, recommending changes and improvements for a better use of the guarantee and a strengthening of management.
- Work in coordination with the support areas to control the execution of functions entrusted by the administration.
- Control the information processes between the administration and the operating institutions.
- Analyse and propose a solution to the operation problems on the use of the guarantee.
- Support the gathering of information on the management and general analysis of the fund.
- Support the undertaking of actions of dissemination to be made by the administration.
- Control the costs and budgets of the administration.
- Define operation controls and recommend information requirements and process automation.
- Control the compliance with defined work plans.

Functions of the risk management unit

- Maintain the indicators of the portfolio risk assessment and formulate policies to control and/or decrease said risk.
- Introduce risk policies that would allow controlling the risk of the bonded portfolio.
- Define the operation conditions for the use of the guarantee that would allow controlling and decreasing the portfolio risk at sustainable levels.
- Generate impact evaluations on the beneficiaries.
- Carry out evaluation studies of risk incidence factors in the portfolio risk and their periodic measurement.
- Control and do follow-ups of the portfolio risk indicators and draw up portfolio management reports.
- Establish methodologies and calculations of the fund provisions for accounting purposes. It includes the scheme of expected losses, calculations of deductibles, calculation of differentiated commissions as a function of risk, etc.
- Maintain the risk indicators updated.
- Recommend and define the risk indicators and methodologies of calculations.

Functions of the Fund that can be internally outsourced in an administration:

Accounting

- It will be responsible for the function of accounting administration of the fund and the preparation of the financial statements.

Operations

- In charge of control and registration of operations bonded by the fund.
- Data processing and control of the operations reported by the NGSs. Credits processed, write-off of good will, commission payments, guarantee payment requirements, etc.
- Control of the compliance with regulations in regard to the information to be handed over by the institutions.
- Delivery of information to the administrator on processed operations, paid commissions, guarantees pending resolution, guarantees approved or turned down, recovery of guarantees, periodically and by request of the administration.
- Receiving and delivery of resources corresponding to commissions, guarantee and recovery payments to accounting and the institutions when due.
- Propose the payments or refusals of guarantee and their respective costs.

Finances

- Investment of the fund resources will be made mainly as a locally administered trust in each country.
- It will be in charge of the administration of the fund investment.
- Report to accounting each one of the fund investment or any movement that implies movement of resources.

Risk

- This area will prepare reports on risk analysis studies about the guarantee portfolio, in general, to support risk management that the fund personnel would carry out internally among other tasks. It implies the development of technological risk forecasting models.

Information technologies

- It will be in charge of the information technology supply and support to the unit.
- It will develop information technology projects that the unit would propose and approve respectively.
- Authorize data processing of files received.
- Control the functioning of the information system.
- Report to the administration any operation problem with the system or those occurred in relation to the operating institutions.

Marketing

- At the request of the administration, to provide services of advertising, promotion and communication of the products and services offered.

Financial Investigation Unit or Legal Unit

- Endorse the legality of future documents to send or subscribe.

Comptroller unit

- Ensure the compliance with regulations, procedures, rules and internal controls of the unit.

Functions of the Board of Directors

The objective of the Board of Directors is to establish the strategic guidelines and approve the policies and objectives of the guarantee fund. In addition, it has to supervise, regulate, correct and approve the actions conducted by the administration. It should be multinational and have representatives of each country.

Quarterly meetings of the board of directors with the ones responsible for each administration are proposed.

A recommendation is made to conduct an external audit, approved by the board of directors and the contributors of the fund. Audit of financial statements, revision of the guarantee payments made, compliance with risk policy, auditing, commerce, investment, etc. It is also recommended risk classification in order to assess once a year the guarantee portfolio of formalized guarantees and their risk.

6. Strategy guidelines to attain market penetration in the SMEs guarantee market in the Central American region

In order to attain penetration in the SMEs guarantee market, the guarantee fund should consider the guarantee systems as its clients, therefore, they should visualize an added value when

rebonding with the fund. There should be created a framework of trust and clear regulations. The administration has to conduct commercial management and disseminate information on the benefits brought by the guarantees to the local entities, through training, talks, promotion, and other mechanisms that assure a close relation with these entities.
The fund has to demonstrate its capacity to back the guarantee systems, and encourage great trust in these by taking this benefit before the banks and financial institutions, proving payment capacity, organization and sufficient resources to produce improvements in the credit conditions of the SMEs bonded by the national systems (increase in the financing periods and amounts, decrease in the interest rate among other things) facing different financial creditors.

Partnerships with the guarantee systems to support training in information on the guarantee credits offered to the SMEs should also be considered. The aspects of financial education and training are very important for the good use of the guarantee instruments. The guarantee systems should establish strategic guidelines that would involve and include the different actors related with the entrepreneurial domain coming from the public sector as well as the private sector.

In summary, work should be done towards a close relationship with the NGSs, to have a system (ideally online) for the formalization of the guarantees in bonds, facilitating a massive low cost operation and produce the strongest impact on the market, improving the credit access conditions for the SMEs. The guarantee entities could begin a process of improving management, standardization of management indicators, establish more suitable practices in the guarantee systems and benefit from the guarantee support, what will allow a more advantageous negotiating capacity facing the different creditors of the SMEs, and therefore, go step by step obtaining better financing conditions in which the SMEs have access.

7. Guidelines proposal for the establishment of Strategic Alliances with other Regional Guarantee Systems in Latin America

The guidelines between the RGSs are a result of maturity and coordination between the regions and the national guarantee entities, creating a climate of security towards trade and the financing system.

To have the backing of a strong regional rebonding fund that would cover the regional guarantee funds builds up great strengths towards any initiative overseas, especially to interact with more developed markets if wished.

The establishment of strategic alliances with other regional guarantee systems in Latin America can favour a business opening for the local SMEs. In regard to the guarantee systems, there exists a possibility to be compared and establish improvements when detecting new practices and services offered by them. In order to make transactions in favour of the SMEs that conduct international operations, the regional systems will have to develop the instruments and mechanisms that would allow the perfection of such commercial operations between the SMEs. Among other things there are favoured:

- Feedback in the use and management of each system.
- Updating of global results of interest.
- Creation of new products and services for the enterprises.

Strategic alliances should be established in order to coordinate and foster international trade operations between enterprises of both regions and eliminate the difficulties that exist for the

small enterprises to have access to this type of business, many times more profitable. The support of regional bodies can generate greater security and trust in addition to regional integration.
It can also stimulate the establishment of enterprises of international reach, favouring integration and obtaining benefits in the creation of higher quality jobs, innovation and other effects.

Forging these alliances should be made through meeting spaces, in which to exchange experiences, present proposals and gather worries and concerns of the interested parties.

8. Equipment, infrastructure and information technology requirements for the RGS

For the operation of the fund, assuming that it would function in the premises of some existing institution, consider from 4 to 5 trained staff plus a secretary and outsourcing of certain services, there should have to be considered the following: offices, computers, software, including internet services, data hosting and web page. It should be incorporated an administration technological system that would allow making accessible to all the use of the guarantee, being online with the NGSs and the IFIs if necessary. The system must be comprehensive and contain the modules of accounting, management control, guarantee payment workflow, collection follow-up, bonded debt report, etc. There must be financed the operation costs, salaries, overheads, office rental, etc.

9. Scaling required investment and funds for the operation of the RGS, and calculation of expected profitability

The estimation of the maximum supply of credit guarantees from the studied guarantee systemsshows a capacity of issuing guarantees up to a figure around US$ 216 billion, which is quite smaller than the estimation of the size of the financing market. Except for some cases, the operation level of the guarantee systems is very low, so it is proposed for the guarantee fund to begin with a small patrimony in previous accordance with the existing guarantee systems that would want to use it and keep increasing according to the evolution of the guarantee demand that would exist. It is recommended to begin with a small pilot project to experiment and evaluate crossing to a next stage with a second increase of capital and so on.

If the initiative gathers strength and works appropriately, it will stimulate the creation of new public as well as private guarantee bodies, and therefore to favour improving the management level of the local guarantee systems, currently with low operation levels.

The estimated forecast and figures are based in several assumptions due to the lack of quality information, therefore, they do not necessarily represent the exact reality where the guarantee systems of Central America work. Although an effort has been made through surveys, consultations and other means to deliver a reliable result, in this stage of the analysis it is very hard to claim the degree of accuracy of the figures, which in any case are not going to define ever the true demand for the use that would be registered due to guarantees and how this demand will behave over time. It is required for the above to have a direct contact with all the guarantee systems in operation with which there is a will to work and jointly define a working plan, so that the estimation of resources is not a unilateral decision issue, but is associated to the own needs of the national systems.

culating the necessary investment

The formula to obtain the necessary capacity of capital given the demand xy that can maintain a certain level of leverage, results from the following formula:

$$Capital = \frac{Demand\ x\ \ Coverage\ percentage}{Leverage}$$

Assuming an average coverage percentage of 50%, and a 4 times leverage, the capital needed to satisfy a credit guarantee demand of US$ 216 billion is US$ 27 billion that for practical purposes of calculations is approximately US$ 30 billion, figure that allows encompassing the maximum capacity of the current guarantee systems in regard to rebonding.

Cash flow

The annexes include a 10-year cash flow for the simulation of the fund patrimony under certain assumptions at the level of commitment of the guarantees and the model of issuing them. The assumption considers to maintain an operation level of 10,000 annual guarantees in the long term and between a 4 and 5 times leverage. In addition, it is expected to have an average stock of US$ 120 billion, a figure larger than 50% of the demand assumed that has to be satisfied, giving a margin in the case of an increase in the guarantee demand from the guarantee systems.

CONCLUSIONS AND RECOMMENDATIONS

The lack of guarantees and the bad conditions in which financing is provided are an entrance barrier for the SMEs in their needs for access to financing. From the standpoint of the financial institutions, the cost of risk assessment, client atomization, the unsatisfactory grading of the entrepreneur, the unfavourable selection and the moral risk, the modest backing of patrimony, the high demands of capital and provisions result in expensive credits and a restricted supply of financing for the SMEs. In many cases these situations produce that the SMEs simply prefer not to go into debt due to the high cost that entails, what causes in the end that enterprises with potential and capacity would not grow optimally and should stay with a moderate activity, affecting growth and, therefore employment besides other effects in the economy when this condition is permanent and affects many enterprises in a region.

It can be clearly seen in the study on the Central American guarantee systems that the guarantee systems are not as developed as they could be expected (with some exceptions). The reasons can be historical due to the lack of specific public initiatives, lack of resources, high risk perception of the SMEs, etc.

All the above are the data to be taken as a basis for any initiative of the regional guarantee fund.

Considering the regional reality, a recommendation is made to create a guarantee fund that can begin with a small programme as a pilot experience, in which the work is done with one or two guarantee systems at a time. An interesting option could be operate with some of the guarantee funds of El Salvador, and proportionally share the risk in the operations. However, if it is more attractive for the Salvadoran fund, it could be established a scheme of excess of losses, in which the guarantees are paid from a certain level of fund losses on. In return, the fund will charge a smaller guarantee commission. A second pilot experience option, which can be subsequent or simultaneous, is to make rebonding of a local guarantee fund that has limited capital, and that by means of rebonding would increase its capacity. In this aspect would be interesting to evaluate what is found that the guarantee fund of Guatemala makes through MINECO (Ministry of Economy) that are in the process of launching a pilot project and the guarantee fund capital is only US$ 1.3 million, with a 3 times leverage. If MINECO applies rebonding, by example, in a fund of similar size, its capacity could double. In this case the guarantee commissions should be equal or similar to those that MINECO charges in turn by its guarantees to the financial institutions. Although the impact would broaden the capacity of the MINECO fund, at marginal costs or rather operation costs of a non-financial nature, considering that it would be a transfer of risks and commissions.

In this way, the two possible potential experiences commented earlier can be an interesting starting point, a controlled risk and sharing management with the local entities. If the experiences are favourable it can begin the operation with new institutions and so on.

The creation of a strong regional guarantee system, technically and professionally administered in an efficient way, with institutional support, good risk qualification, effective, of low cost and that would build trust in the national guarantee systems and the financial system, influences the strengthening of the existing guarantee systems, widening its capacities, and also stimulating the creation of new guarantee systems. As a result the access and the financial conditions for the SMEs improve. An increase of the available guarantees in a particular market, implies an incentive for the financing offer, especially for those that do not have enough guarantees to access financing according to their financial capacities. This increase is produce whereas the existence of guarantees is massive, what results later in improving also the credit general conditions because the credit supply is moved, generating a new point of equilibrium for a particular demand.

Each guarantee operation with a local guarantee system should be studied more in line with the distinctive features of each system. In the most suitable way, the guarantee commission should be at least equal to the risk assumed with the local fund. This condition allows the fund sustainability over time. The resources generated by investment would allow financing the growth and some administration costs. If the fund increases in size over time would generate greater financial resources to the extent that the administrative costs would not increase significantly with the operation volume.

A N N E X I

FLOW OF THE CENTRAL AMERICAN REBONDING FUND

Flujo del Fondo de Reafianzamiento de la Región Centroamericana

Proyecciones de Reafianzamiento (no de crédito)

Valores en USD

Años	0	Año 1	Año 2	Año 3	Año 4	Año 5	Año 6	Año 7	Año 8	Año 9	Año 10
Líneas de Reafianzamiento I											
N° Operaciones otorgadas cada año		150	300	1.000	2.000	4.000	5.000	5.000	5.000	5.000	5.000
N° Operaciones en Stock a Diciembre de cada año		138	365	1.127	2.430	4.860	6.960	7.550	7.550	7.550	7.550
Monto de Garantías Otorgadas cada año (USD 10,000 a 3 años promedio)		1.500.000	3.000.000	10.000.000	20.000.000	40.000.000	50.000.000	50.000.000	50.000.000	50.000.000	50.000.000
Monto en Stock de Garantías al final de cada año		1.245.000	2.925.000	9.170.000	19.500.000	39.000.000	53.100.000	56.000.000	56.000.000	56.000.000	56.000.000
Líneas de Reafianzamiento II											
N° Operaciones otorgadas cada año		150	300	1.000	2.000	4.000	5.000	5.000	5.000	5.000	5.000
N° Operaciones en Stock a Diciembre de cada año		138	365	1.127	2.430	4.860	6.960	7.550	7.550	7.550	7.550
Monto de Garantías Otorgadas cada año (USD 10,000 a 3 años promedio)		1.500.000	3.000.000	10.000.000	20.000.000	40.000.000	50.000.000	50.000.000	50.000.000	50.000.000	50.000.000
Monto en Stock de Reafianzamiento al final de cada año		1.245.000	2.925.000	9.170.000	19.500.000	39.000.000	53.100.000	56.000.000	56.000.000	56.000.000	56.000.000
Stock de garantías (Lineas de Reafianzamiento I y II)		2.490.000	5.850.000	18.340.000	39.000.000	78.000.000	106.200.000	112.000.000	112.000.000	112.000.000	112.000.000
Stock promedio anual de garantías		2.490.000	4.170.000	12.095.000	28.670.000	58.500.000	92.100.000	109.100.000	112.000.000	112.000.000	112.000.000
Patrimonio del Fondo Regional	2.000.000	4.850.000	7.747.010	12.286.868	17.152.047	22.740.480	29.128.711	30.892.774	33.072.717	35.394.356	37.866.901
Aporte fraccionado del capital		3.000.000	3.000.000	5.000.000	5.000.000	6.000.000	6.000.000				
Provisiones del Balance (% del Stock de Garantías)		124.500	292.500	917.000	1.950.000	3.900.000	5.310.000	5.600.000	5.600.000	5.600.000	5.600.000
Provisiones Balance (% de Stock de Garantías)	5,00%	124.500	292.500	917.000	1.950.000	3.900.000	5.310.000	5.600.000	5.600.000	5.600.000	5.600.000
Aumento / Disminución de Provisiones por pago de siniestros		124.500	168.000	624.500	1.033.000	1.950.000	1.410.000	290.000	-	-	-
Total Pasivos	2.000.000	4.974.500	8.039.510	13.203.868	19.102.047	26.640.480	34.438.711	36.492.774	38.672.717	40.994.356	43.466.901
Total Activos	2.000.000	4.974.500	8.039.510	13.203.868	19.102.047	26.640.480	34.438.711	36.492.774	38.672.717	40.994.356	43.466.901
Activos - Pasivos		-	-	-	-	-	-	-	-	-	-
Leverage (Maximo 4 veces Patrimonio disponible en cada período)		0,5	0,8	1,5	2,3	3,4	3,6	3,6	3,4	3,2	3,0
Ingresos del Fondo											
Comisiones Linea de Reafianzamiento I (% anual)	4,00%	60.000	162.335	484.670	1.600.000	3.200.000	4.000.000	4.000.000	4.000.000	4.000.000	4.000.000
Comisiones Linea de Reafianzamiento II (% anual)	0,30%	4.500	12.175	38.032	84.532	173.550	257.100	300.697	311.912	311.912	311.912
Rendimiento Inversion de Activos (% anual)	6,50%	130.000	315.250	503.556	798.646	1.114.883	1.478.131	1.893.366	2.008.030	2.149.727	2.300.633
Total Ingresos		194.500	489.760	1.026.258	2.483.178	4.488.433	5.735.231	6.194.063	6.319.942	6.461.639	6.612.545
Egresos del Fondo											
Pago de Reafianzamiento Linea I (% del Stock Promedio del mismo año)	5,00%	-	146.250	458.500	975.000	1.950.000	2.655.000	2.800.000	2.800.000	2.800.000	2.800.000
Pago de Reafianzamiento Linea II (% del Stock Promedio del mismo año)	2,00%		58.500	183.400	390.000	780.000	1.062.000	1.120.000	1.120.000	1.120.000	1.120.000
Gastos de Auditoria		20.000	20.000	20.000	20.000	20.000	20.000	20.000	20.000	20.000	20.000
Costos de Administración		200.000	200.000	200.000	200.000	200.000	200.000	200.000	200.000	200.000	200.000
Total Egresos		220.000	424.750	861.900	1.585.000	2.950.000	3.937.000	4.140.000	4.140.000	4.140.000	4.140.000

Años	0	Año 1	Año 2	Año 3	Año 4	Año 5	Año 6	Año 7	Año 8	Año 9	Año 10
Flujo de Caja		-25.500	65.010	164.358	898.178	1.538.433	1.798.231	2.054.063	2.179.942	2.321.639	2.472.545
Flujo de Caja Acumulado		-25.500	39.510	203.868	1.102.047	2.640.480	4.438.711	6.492.774	8.672.717	10.994.356	13.466.901
Superavit/Deficit (Contable)		-150.000	-102.990	-460.142	-134.822	-411.567	388.231	1.764.063	2.179.942	2.321.639	2.472.545
Superavit/Deficit Acumulado		-150.000	-252.990	-713.132	-847.953	-1.259.520	-871.289	892.774	3.072.717	5.394.356	7.866.901

Indicadores Sobre Stock Promedio anual de (Lineas de Reafianzamiento I y II)											
% Ingresos sobre stock promedio											
Comisiones Linea de Reafianzamiento I		2,41%	3,89%	4,01%	5,58%	5,47%	4,34%	3,67%	3,57%	3,57%	3,57%
Comisiones Linea de Reafianzamiento II		0,18%	0,29%	0,31%	0,29%	0,30%	0,28%	0,28%	0,28%	0,28%	0,28%
Rendimiento Inversion de Activos		5,22%	7,56%	4,16%	2,79%	1,91%	1,60%	1,74%	1,79%	1,92%	2,05%
Total ingresos sobre stock promedio		7,81%	11,74%	8,48%	8,66%	7,67%	6,23%	5,68%	5,64%	5,77%	5,90%
% Gastos sobre stock promedio											
Pago de Reafianzamiento Linea I		0,00%	3,51%	3,79%	3,40%	3,33%	2,88%	2,57%	2,50%	2,50%	2,50%
Pago de Reafianzamiento Linea II		0,00%	1,40%	1,52%	1,36%	1,33%	1,15%	1,03%	1,00%	1,00%	1,00%
Gastos de Auditoria		0,80%	0,48%	0,17%	0,07%	0,03%	0,02%	0,02%	0,02%	0,02%	0,02%
Costos de Administración		8,03%	4,80%	1,65%	0,70%	0,34%	0,22%	0,18%	0,18%	0,18%	0,18%
Total gastos sobre stock promedio		8,84%	10,19%	7,13%	5,53%	5,04%	4,27%	3,79%	3,70%	3,70%	3,70%
Total		-1,02%	1,56%	1,36%	3,13%	2,63%	1,95%	1,88%	1,95%	2,07%	2,21%
Flujos porcentuales en relación al stock promedio de Garantías											
Igresos - Egresos (Considera provisiones en vez de pagos de garantías > Contable)		-6,02%	-2,47%	-3,80%	-0,47%	-0,70%	0,42%	1,62%	1,95%	2,07%	2,21%
Flujo de Caja		-1,02%	1,56%	1,36%	3,13%	2,63%	1,95%	1,88%	1,95%	2,07%	2,21%

Supuestos

1- Se proponen dos lineas de reafianzamiento: Una proporcional al riesgo asumido y otra en base a un exceso de pérdida.
2- Se supone en un comienzo una baja actividad en el número de operaciones a reafianzar (150 operaciones por linea de reafianzamiento), que luego crece hasta un total de 10.000 operaciones anuales.
3- El monto promedio de reafianzamiento es de US 10.000 en ambas lineas de reafianzamiento
4- Se supone una siniestralidad de un 5% para la línea de reafianzamiento proporcional y de 2% para la linea de reafianzamiento de exceso de pérdida.
5- Se supone una comisión de un 4% para la línea de reafianzamiento proporcional y de 0,3%% para la linea de reafianzamiento de exceso de pérdida.
6- La rentabilidad esperada de las inversiones será de un 6,5% anual
7- Los reafianzamientos otorgados tendrán una duración promedio de 3 años (para ambas lineas de reafianzamiento)
8- El porcentaje del saldo de capital cubierto al segundo y tercer año por el reafianzamiento será de un 71% y 37% respectivamente
9- Se propone un capital de MM US $30 para la constitución del Fondo, con aportes segmentados en un total de 6 años.
- Es importante indicar que todos estos cálculos son estimaciones y por lo tanto una referencia y no necesariamente se cumplirán en la realidad, lo cual dependerá de la combinación de muchos factores.

Datos Utilizados		
Patrimonio Fondo		30.000.000
Monto Promedio Reafianzamiento Linea I USD (referencia en Chile, monto promedio USD 80,000)		10.000
Monto Promedio Reafianzamiento Linea II USD (referencia en Chile, monto promedio USD 80,000)		10.000
Plazo promedio Linea de Reafianzamiento I y II (3 años) ambas	36	36
Calendario Pago (estructura) Linea de reafianzamiento por cada 1 USD	1	1
% de capital el segundo año	0,71	0,71
% de capital el tercer año	0,37	0,37

A N N E X I I

TABLE 1

Name of the guarantee system	*Country*	*Year*	*Number of entities*
NAFIN	Mexico	1997	1
FEGA del FIRA	Mexico	1972	1
SAGARPA-FONAGA	Mexico	2003	1
PROGARA	El Salvador	2000	1
PROGAPE	El Salvador	2000	1
PROGAIN	El Salvador	2002	1
Garantías y Servicios SGR	El Salvador	2001	1
IMAS-BANCREDITO-BNCR	Costa Rica	2002	1
FINADE	Costa Rica	2008	1
FODEIMIPYME	Costa Rica	2002	1
FOGABA	Argentina	1995	1
SGR Argentina	Argentina	1995	24
PROPYME UNIÓN	Bolivia	2010	1
FAMPE-SEBRAE	Brazil	1995	1
FGI-BNDES	Brazil	2009	1
FUNPROGER-BB	Brazil	1999	1
FGO-BB	Brazil	2009	1
AGC da Serra Gaucha	Brazil	2004	1
FOGAPE-BANESTADO	Chile	1980	1
COBEX CORFO	Chile	2001	1
FOGAIN CORFO	Chile	2007	1
IGR Chile	Chile	2007	15
FAG-FINAGRO	Colombia	1985	1
FNG, SA	Colombia	1982	1
FOGAMYPE	Ecuador	2009	1
FOGAPI	Peru	1979	1
FOGEM	Peru	2009	1
SIGA	Uruguay	2009	1
SGR-Venezuela	Venezuela	1990	22

Source: P. Pombo. Clasificación de los sistemas de garantía desde la experiencia Latinoamericana, 2013.

TABLE 2
PERCENTAGE OF BUSINESS SEGMENTS OVER TOTAL ENTERPRISES IN LATIN AMERICA AND CENTRAL AMERICA
(PERCENTAGES)

Country	Percentages over total enterprises				
	Micro Enterprises	Small Enterprises	Micro and Small Enterprises	Medium-sized Enterprises	Large Enterprises
Chile	74.64	20.73	95.37	3.10	1.54
Colombia	96.02	3.31	99.33	0.53	0.13
Costa Rica	72.66	21.38	94.04	4.07	1.89
El Salvador	90.52	7.54	98.06	1.50	0.44
Guatemala	-	-	98.98	0.85	0.17
Honduras	-	-	-	-	-
Nicaragua	94.07	5.25	99.32	0.47	0.21
Panama	-	-	-	-	-
Paraguay	-	-	91.52	5.61	2.87
Peru	91.27	3.04	94.31	1.90	3.80
Dominican Republic	-	-	-	-	-
Average Percentage	86.53	10.21	96.37	2.25	1.38

Source: Prepared by the author, 2015.

TABLE 3
PERCENTAGE OF BUSINESS SEGMENTS OVER TOTAL ENTERPRISES IN CHILE, 2005 TO 2013
(PERCENTAGES)

	Percentages over total enterprises				
Year	Micro Enterprises	Small Enterprises	SMSEs	Medium-sized Enterprise	Large Enterprises
2005	80.49	16.01	96.50	2.33	1.17
2006	79.91	16.44	96.36	2.40	1.24
2007	79.05	17.09	96.14	2.54	1.32
2008	78.52	17.50	96.02	2.64	1.34
2009	78.51	17.60	96.11	2.58	1.31
2010	77.17	18.66	95.83	2.77	1.40
2011	76.07	19.55	95.62	2.91	1.47
2012	75.19	20.26	95.44	3.05	1.51
2013	74.64	20.73	95.37	3.10	1.54

Source: Prepared by the author, 2015.

TABLE 4
PERCENTAGE OF BUSINESS SEGMENTS OVER POPULATION IN CHILE, 2005 TO 2013
(PERCENTAGES)

	Percentage over population				
Year	Micro Enterprises	Small Enterprises	SMEs	Medium-sized Enterprises	Large Enterprises
2005	3.68	0.73	4.41	0.11	0.05
2006	3.69	0.76	4.45	0.11	0.06
2007	3.66	0.79	4.45	0.12	0.06
2008	3.66	0.81	4.47	0.12	0.06
2009	3.62	0.81	4.44	0.12	0.06
2010	3.61	0.87	4.48	0.13	0.07
2011	3.63	0.93	4.56	0.14	0.07
2012	3.65	0.98	4.63	0.15	0.07
2013	3.68	1.02	4.70	0.15	0.08

Source: Prepared by the author, 2015.

TABLE 5
ESTIMATED NUMBER OF BUSINESS SEGMENTS IN CENTRAL AMERICA

Country	Number of Micro Enterprises	Number of Small Enterprises	Number of SMEs	Number of Medium-sized Enterprises	Number of large Enterprises
Costa Rica	48,284	14,206	62,490	2,706	1,254
El Salvador	165,570	13,791	179,361	2,740	806
Guatemala	129,789	14,421	144,210	1,235	249
Honduras	154,179	16,918	171,097	2,374	907
Nicaragua	128,276	7,156	135,431	640	288
Panama	73,573	8,073	81,647	1,133	433
Dominican Republic	198,087	21,736	219,822	3,050	1,165
Total Enterprises	897,757	96,300	994,057	13,877	5,102

Source: Prepared by the author, 2015.

TABLE 6
NUMBER OF GUARANTEES, MOBILIZED CREDITS AND AMOUNTS GUARANTEED BY THE FSG IN 2014, BY BUSINESS SEGMENTS
(IN US DOLLARS)

Business Segment	Number of Guarantees	Mobilized Credits	Guaranteed Amounts	Average Guaranteed Amounts
Micro Enterprises	5,682	15,575,158	8,370,943	1,473
Small Enterprises	835	14,051,343	7,621,045	9,127
Natural Person	277	8,644,568	6,817,315	24,611
Medium-sized enterprises	60	4,785,450	2,440,025	40,667
Total Enterprises	6,854	43,056,519	25,249,327	3,684

Source: Salvadoran Fund for Guarantees (FSG), 2015.

TABLE 7
ESTIMATION OF THE DEMAND GENERATED BY SMEs
(AVERAGE AMOUNT IN DOLLARS, TOTAL AMOUNT TO BE GUARANTEED
AND NECESSARY AMOUNT FOR FINANCING IN MILLIONS OF US DOLLARS)

	Micro Enterprises	Small Enterprises	Medium-sized Enterprises
Number of Enterprises	897,757	96,300	13,877
Average Amount	1,473	9,127	40,667
Amount to be guaranteed	1,322,611,201	878,930,170	564,333,358
Total Amount for Financing to be guaranteed	2,766		
Scenarios for Percentages of Enterprises that could require Credit Guarantees	Necessary Amounts for Financing		
50	1,383		
40	1,106		
30	830		
20	553		
10	277		

Source: Prepared by the author, 2015.

TABLE 8
ESTIMATION OF THE MAXIMUM OFFER GENERATED BY SMEs
(PATRIMONY AND MAXIMUM OFFER IN MILLIONS OF US DOLLARS)

Country	Entity	Leverage	Patrimony	5% Funding	6% Funding	7% Funding	8% Funding	9% Funding	*10% Funding*
El Salvador	FSG	7	8	40	38	36	34	33	31
El Salvador	G&S SGR	7	8	40	38	36	34	33	31
Costa Rica	FINADE	3	42	41	36	32	29	26	24
Costa Rica	FODEPYMES	4	10	27	25	24	22	21	20
Honduras	Confianza SA-FGR	4	5.7	18	17	16	16	15	15
Panama	ISA	10	9	62	58	55	52	50	47
Guatemala	Guate Invierte	3	1.3	4	4	4	4	3	3
Total Maximum Offer				231	216	202	191	181	172

Source: Prepared by the author, 2015.

TABLE 9
MOBILIZED CREDIT, GUARANTEED AMOUNTS, PAYMENT OF GUARANTEES AND ACCIDENT RATE IN 2014 FOR THE FSG
(MOBILIZED CREDIT, GUARANTEED AMOUNTS AND PAYMENT OF GUARANTEES IN US DOLLARS; ACCIDENT RATES IN PERCENTAGES)

Segment	Mobilized Credits	Guaranteed Amounts	Payment of Guarantees	Accident Rate
Micro Enterprises	15,575,158	8,370,943	8,942	0.11
Small Enterprises	14,051,343	7,621,045	108,497	1.42
Natural Person	8,644,568	6,817,315	204,846	3.00
Medium-sized Enterprises	4,785,450	2,440,025	10,760	0.44
General Total	43,056,519	25,249,327	333,046	1.32

Source: Salvadoran Fund for Guarantees.

TABLE 10
MONETARY CONTRIBUTIONS FROM EXISTING FUNDS TO FINADE
(MOBILIZED CREDIT, GUARANTEED AMOUNTS AND PAYMENT OF GUARANTEES
IN US DOLLARS; ACCIDENT RATES IN PERCENTAGES)

Institution	Contribution
BCAC – CONAPE Fund	0.3
BCAC - Toll 0,85%	4.0
BCR - CONAPE Fund	2.7
BNCR - CONAPE Fund	6.9
BPDC - CONAPE Fund	2.6
CONAPE	1.0
Agriculture and Livestock Trust Fund Nº 15-01 / BCAC	54.1
Trust Fund Nº 05-99 MAG-PIPA/BCAC	6.6
Trust Fund Nº 13-02 MAG-PRODAPEN/BCAC	0.5
Trust Fund Nº 248 MAG /BNCR PPZN	4.4
Trust Fund Nº520 CNP/BNCR	51.1
MAG Technical Assistance Funds	1.1
Reconversion - FODESAF	4.9
Incopesca Trust Fund	1.3
Total Contributions	141.5

Source: State of the Nation, Sancho, Francisco - Results and limitations of the Policies and Programmes for Financial Support to SMEs.

TABLE 11
STATISTICS ON THE OPERATIONAL LEVEL OF FODEMIPYME, COSTA RICA
(BALANCE OF PATRIMONY, GUARANTEED AMOUNTS AND GUARANTEE STOCK IN MILLIONS OF DOLLARS)

Year	Number of Operations	Balance of Patrimony	Guaranteed Amount	Guarantee Stock	Leverage Level
2004	16	23.57	0.08	0.00	0.00
2005	82	21.47	0.65	0.99	0.05
2006	227	23.78	3.01	3.43	0.14
2007	357	25.34	6.43	9.35	0.37
2008	352	27.03	5.81	13.12	0.49
2009	99	28.22	1.54	12.94	0.46
2010	1	31.90	1.67	12.48	0.39
2011	171	29.05	3.42	13.35	0.46
2012	159	33.32	3.97	12.64	0.38

Source: State of the Nation, Conejo, Lucy- Policies to support SMEs, ten years after entry into force of the law.

ACRONYMS

AECM	European Mutual Guarantee Association
AGC	Credit Guarantee Association of Serra Gaucha, Brazil
ALIGA	Latin American Association of Guarantee Institutions
BPDC	Popular Bank for Community Development, Honduras
CAF	Andean Development Corporation
CNBS	National Commission for Banks and Insurance, Honduras
CORFO	Production Development Corporation, Chile
FAG	Agricultural Guarantee Fund, Colombia
FAGRE	Guarantee Fund for the Agricultural Sector, Honduras
FIRA	Trust Funds Instituted in Relation to Agriculture, Mexico
FLAG	Latin American Guarantee Fund
FNG	National Guarantee Fund, Colombia
FOGADE	Technical and Professional Education Fund, Honduras
FOGAPE	State Guarantee Fund for Small Entrepreneurs, Chile
FOGAVIS	Guarantee Fund for Social Housing, Honduras
FOGMIPYME	Guarantee Fund for SMEs, Honduras
FONAGA	National Guarantee Fund for the Agriculture, Fisheries, Forestry and Rural Sectors, Mexico
FUNPROGER	Guarantee Fund for Employment and Income Generation, Brazil
GyS	Guarantees and Services SA FGR, El Salvador
IDB	Inter-American Development Bank
IFI	International Financial Institution
IGR	Reciprocal Guarantee Institution, Chile
IIC	Inter-American Investment Corporation
MIFIC	Ministry of Development, Industry and Trade, Nicaragua
MSMEs	Micro, Small and Medium-sized Enterprises
NAFIN	Nacional Financiera, or National Credit Institution, Mexico
NGS	National Guarantee System
RAP	Private Contributions Regime
RGS	Regional Guarantee System
SBIF	Superintendency of Banks and Financial Institutions, Chile
SEBRAE	Brazilian Service of Support for Micro and Small Enterprises, Brazil
SELA	Latin American and Caribbean Economic System
SGR	Reciprocal Guarantee Society
SMEs	Small and Medium-sized Enterprises
SNC	National Credit Society, Mexico
SSF	Superintendency of Financial Systems, El Salvador
USAID	United States Agency for International Development
WB	World Bank

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