

# Credit Guarantee Systems in Asia: Trends and Challenges

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# Agenda

- I. SME Finance Policies
- II. Expected Roles of Credit Guarantees
- III. Credit Guarantee Systems in Asia
- IV. Potential Negative Effects
- V. Key Challenges
- VI. Moving Forward

# SME Finance Policies

- Public credit guarantee is a core component of SME finance policies in most of the Asian economies.

## National SME Finance Policies in Selected Asian Countries

		Banking Sector						Public Sector	Nonbank Sector				Capital Markets			
		Refinancing facility to banks	Public credit guarantee scheme	Mandatory lending to MSMEs	Interest rate subsidy	Public credit bureau	Secured transaction law	Direct lending/ soft loans	Refinancing facility to leasing firms	Refinancing facility to factoring firms	MFI development program	NBFI industry development (except MFIs)	Equity market development for SMEs	Bond market development for SMEs	Venture capital development for SMEs	Tax incentive for SME issuers and/or investors
Low-income economies	TAJ		√		√			√								
	BAN	√			√			√	√		√	√				
	CAM						√				√	√ (pawn business)				
	MYA							√								
Lower-middle-income economies	KYR	√	√		√						√					
	MON	√	√			√	√	√								
	IND	√	√		√	√*		√				√ (TReDS)**	√		√	
	SRI	√	√	√	√			√								
	INO		√	√	√	√					√	√				
	LAO						√				√					
	PHI		√	√	√	√	√	√			√		√			
	VIE		√		√	√		√								
	PNG		√		√		√	√			√					
	SOL	√	√				√				√	√ (credit unions)				
Upper-middle-income economies	PRC	√	√		√	√	√				√		√	√	√	√
	KAZ	√	√		√				√		√					
	MAL	√	√		√	√*	√	√					√		√	
	THA		√			√*	√ (draft)	√					√	√	√	
	FIJ	√	√	√***	√			√			√					√
High-income economies	KOR	√	√	√				√					√	√		

\* Funded by private and public sectors. \*\* TReDS in India: Trade Receivables Discounting System for facilitating trade receivable finance for MSMEs, proposed by the central bank. \*\*\* Mandatory creation of microfinance units in banks.

Source: ADB Asia SME Finance Monitor 2014.

# Expected Roles of Credit Guarantees

- Fill the supply-demand gap in SME finance
- Lower funding costs for SMEs
- Alleviate financing constraints for SMEs
- Timely respond to external shocks (e.g., financial crisis & disaster)
- Mobilize SMEs' savings to investment
- Increase survival rate of SMEs
- Provide a chance for SMEs to grow further
- Contribute to a resilient national economy

# Credit Guarantee Systems in Asia

- Credit guarantee as a tool to improve SME access to finance in line with national SME policies
  - ✓ Mostly government institutions or programs
  - ✓ MSMEs as target clients
  - ✓ Supervised by Finance/Line Ministry or central bank
- Risk-sharing arrangement
  - ✓ Partial credit guarantee (with/without collateral)
- Centralized or regional CG arrangement
  - ✓ Regional CG arrangement yet to be established
- Credit insurance
  - ✓ Re-guarantee system yet to be developed (excl. JPN & KOR)

# Credit Guarantee Systems in Asia

Country	Institution	Established	Corporate Type		Branch Office(s)	Employee	Net Asset (US\$ mil.)	Regulator(s)
			G	P				
India	Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)	2000	✓		2	12 (2012.03.31)	n/a,	Ministry of Micro, Small and Medium Enterprises
Indonesia	PT. Asuransi Kredit Indonesia (Askrindo)	1971	✓		19	389 (2012.04.09)	371	Financial Services Authority (OJK) [2013.01 -]
	Perusahaan Umum Jaminan Kredit Indonesia (Jamkrindo)	1981	✓		17	359 (2011.12.31)	520	
	PT. Penjamin Kredit Pengusaha Indonesia (PKPI)	1995		✓	-	7 (2011.07.01)	0.7	
	PT. Jamkrida Jatim [East Java]	2010	✓ *		-	7	5	
	PT. Jamkrida Bali [Bali]	2011	✓ *		-	n/a,	n/a,	
Japan	Japan Finance Corporation (JFC)	2008	✓		152	7,461 (2012)	22,093	Financial Services Agency (FSA); and
	National Federation of Credit Guarantee Corporations (NFCGC)	1951 (CGCs: 1937-1961)	✓		CGCs:188	6,145 (2012.03.31)	n/a,	Ministry of Economy, Trade and Industry (METI)
Korea	Korea Credit Guarantee Fund (KODIT)	1976	✓		99	2,139 (2011.12.31)	5,693	Financial Services Commission;
	Korea Federation of Credit Guarantee Foundations (KOREG)	2000 (CGFs: 1996-2003)	✓		CGFs:110	1,301 (2011.12.31)	n/a,	Ministry of Strategy and Finance; and
	Korea Technology Finance Corporation (KOTEC)	1989	✓		53	1,072 (2012.01.04)	n/a,	Small and Medium Business Administration
Malaysia	Credit Guarantee Corporation Malaysia Berhad (CGCMB)	1972		✓	16	482 (2011.12.31)	814	Central Bank of Malaysia
Nepal	Deposit and Credit Guarantee Corporation (DCGC)	1974	✓		2	25 (2011.12.31)	14	Ministry of Finance
Papua New Guinea (PNG)	Small Business Development Corporation (SBDC)	1990	✓		n/a,	n/a,	n/a,	Department of Trade and Industry
Philippines	Small Business Corporation (SBC)	2001 (SBGFC: 1991)	✓		13	143 (2012.02.02)	44	Central Bank of the Philippines
Sri Lanka	Central Bank of Sri Lanka (CBSL) (no specialized institution for CG)	1950 (CG started: 1967)	✓		-	43 (2012.03.12)	5	-
Taipei, China	Small and Medium Enterprise Credit Guarantee Fund of Taiwan (Taiwan SMEG)	1974	✓		3	335 (2011.12.31)	1.5	Ministry of Economic Affairs
Thailand	Thai Credit Guarantee Corporation (TCG)	1991	✓		9	161 (2011.12.31)	382	Ministry of Finance

Sources: ACSIC (2012), *The 25<sup>th</sup> Anniversary Publication of ACSIC – The 25-year History of ACSIC*, various annual reports and websites of guarantee institutions in respective countries. Notes: [Corporate Type] G=government-affiliated institution; P=private company; \*=local government-owned; “-” = non-existence or zero; n/a,= no information available.

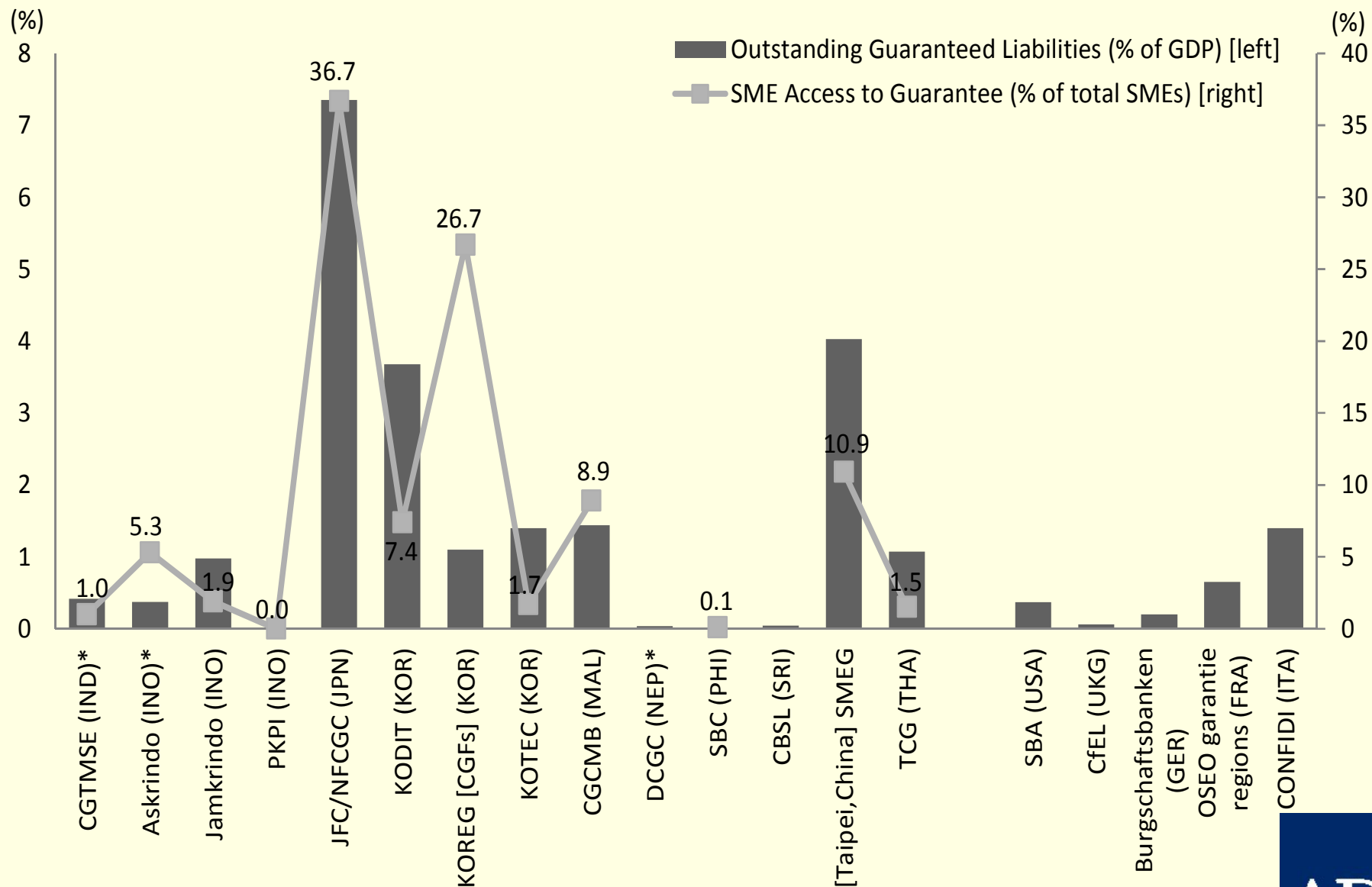
# Credit Guarantee Systems in Asia

Country	Institution	Business Operations				Target Clients	Response to Economic Crisis	Response to disasters, etc.	Coverage Ratio (%)	Max. Leverage Ratio (%)	Guarantee Fee (% , av.)	Guarantee Terms (month, av.)
		CG	CI	Others								
India	CGTMSE	✓				Micro/Small	Increase max. amount	n/a,	62.5-85	n/a,	Approx. 1.00	67
Indonesia	Askrindo	✓	✓	✓	Surety bond, customs bond, trade credit insurance, etc.	MSME	n/a,	n/a,	70-80	10x net worth	1.20-1.50	36
	Jamkrindo	✓		✓	Consulting services	MSME	n/a,	n/a,	70-80	10x net worth	2.28	36
	PKPI	✓				MSME	n/a,	n/a,	75	-	1.50	36
	Jamkrida Jatim	✓				Micro/Small	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
	Jamkrida Bali	✓				Micro/Small	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Japan	JFC		✓			MSME	New products & alter conditions	New products (earthquake)	-	-	-	-
	NFCGC (CGCs)	✓				MSME			80	35-60x (av. 52.4)	0.90	63
Korea	KODIT	✓	✓	✓	Infra credit guarantee, consulting services, etc.	All businesses	New products, increase guarantee scale & coverage ratio		50-85	20x capital funds	1.21	24
	KOREG (CGFs)	✓		✓	Consulting services, etc.	MSME	New products	New products & increase coverage ratio	85-100	15x capital funds	1.10	12
	KOTEC	✓		✓	Technology appraisal & valuation, technology certificate, equity finance, M&A, technology transfer, business support, etc.	Tech-SME	Special measures under govt. emergency program	Increase guarantee scale	85	20x net asset	1.26	59
Malaysia	CGCMB	✓		✓	Dilrct lending, securitization, equity financing, credit bureau services, & consulting services	MSME	Management support service	n/a,	30-90	6x reserve	3.65	42
Nepal	DCGC	✓		✓	Guarantee for savings & fixed deposits	SME/ Priority sector	n/a,	n/a,	75	-	1.00	n/a,
PNG	SBDC	✓		✓	Business training program, consulting services, etc.	Start-up	n/a,	n/a,	80	n/a,	n/a,	n/a,
Philippines	SBC	✓		✓	Dilrct lending, MSME note, preferred shares, capacity building programs for SMEs and financial institutions, etc.	MSME	n/a,	n/a,	70-80	3x	n/a,	12
Sri Lanka	CBSL	✓		✓	(Activities as a central bank)	Profitable businesses	n/a,	New Products (tsunami)	50-80	0.39 (contingent liability/capital funds)	1.00	12
Taipei,China	Taiwan SMEG	✓		✓	Consulting services, etc.	SME/Start-up	New products	Extend product period for employment	60-95	20x net worth	0.50-0.55	8-9
Thailand	TCG	✓		✓	Consulting services, etc.	SME	New products & exempt guarantee fees	New Products (flood)	n/a,	10x equity	1.75	5-7

Sources: ACSIC (2012), *The 25<sup>th</sup> Anniversary Publication of ACSIC – The 25-year History of ACSIC*, various annual reports and websites of guarantee institutions in respective countries. Notes: [Business Operations] CG=credit guarantee; CI=credit insurance; “-” = non-existence or zero; n/a,= no information available.



# SME Access to Credit Guarantees

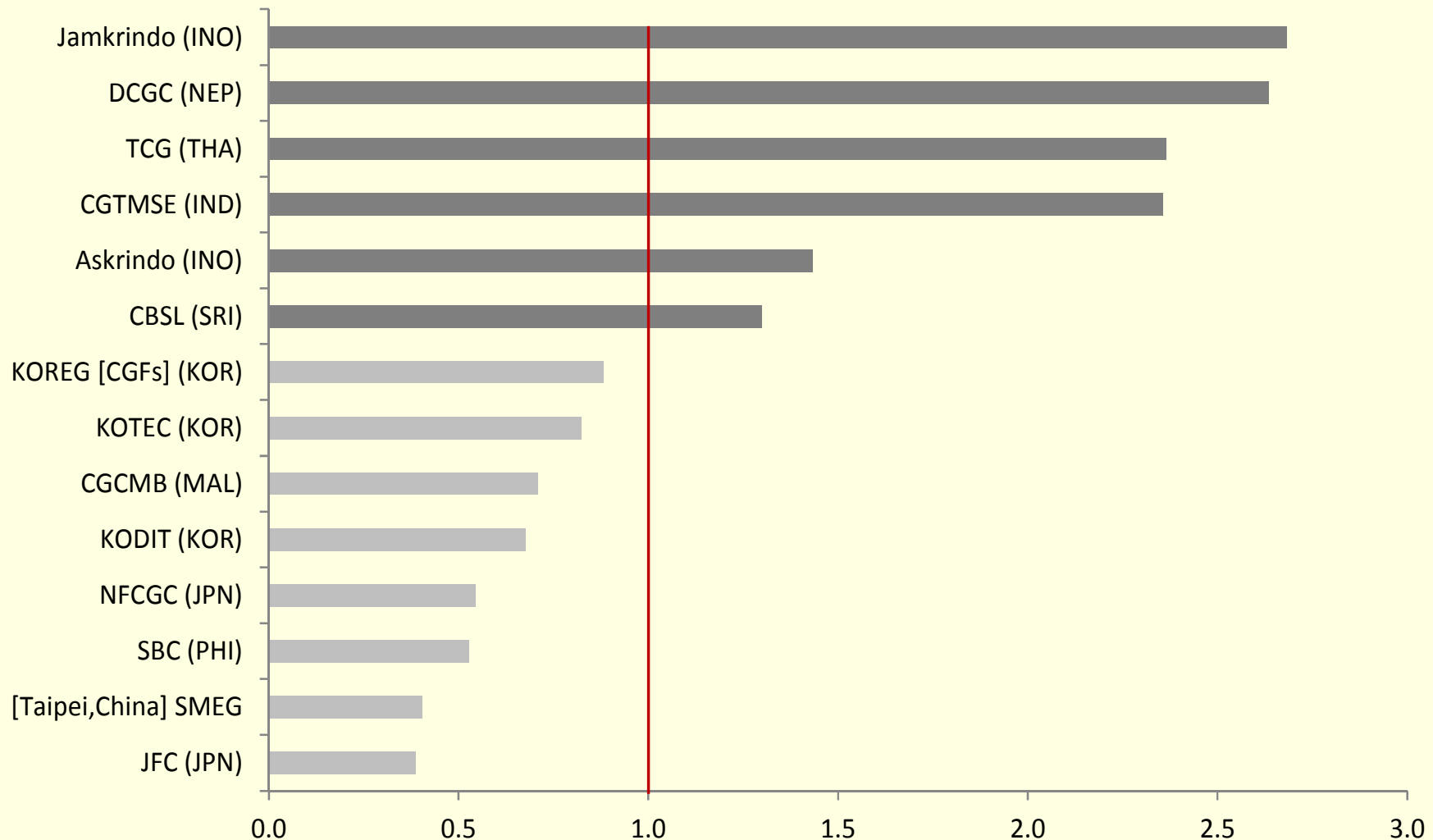


\* calculated based on the amount of guarantees accepted.

Source: ACSIC (2012), *The 25<sup>th</sup> Anniversary Publication of ACSIC – The 25-year History of ACSIC*.



# Net Profit & Loss of CG Institutions



Note: Net profit & loss = (Recovery + Fee income)/Payment under guarantee.

Source: ACSIC (2012), *The 25<sup>th</sup> Anniversary Publication of ACSIC – The 25-year History of ACSIC*.

# Potential Negative Effects

## For financial institutions:

- Impact of Basel Capital Accord
  - ✓ Banks' incentive to increase guaranteed SME loans while reducing unsecured SME loans to strengthen their CAR
    - may not improve poor access to finance for SMEs..
- Adverse selection
  - ✓ While credit guarantee facilitates SMEs to access financial institutions, it may also tempt malicious SME borrowers. (e.g. intentional bankruptcy)
- Moral hazard
  - ✓ Credit guarantee (esp. full-cover) may discourage financial institutions from monitoring SME borrowers, which may encourage SMEs to use funds inconsistently with loan objectives.

# Potential Negative Effects

## For SMEs:

- A life-prolonging measure for SMEs that should be excluded from business
  - ✓ Guaranteed loans may not rescue SMEs having excessive debt.
- Credit guarantee without collateral may discourage SME borrowers from improving management.
  - ✓ Management's assets untapped in case of default, disincentive to pursuing business efficiency, not improving business performance, and increased risk of bankruptcy..
- Disproportionate distribution of CG benefits
  - ✓ Centralized CG system may not reach out to local SMEs.

# Potential Negative Effects

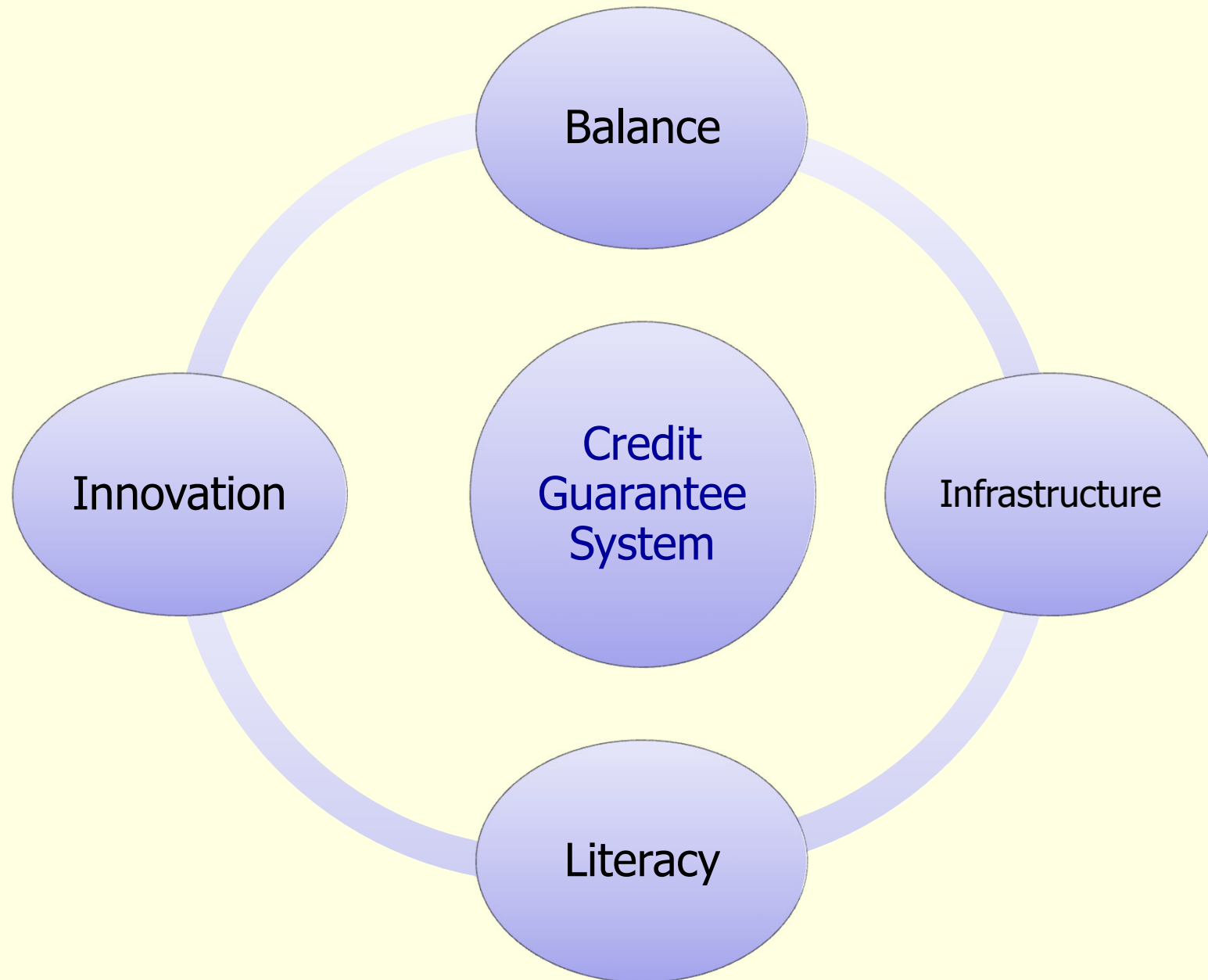
## For the Government:

- Increased risk of bloating national budgets
  - ✓ Credit guarantee institutions mostly sponsored or fully owned by the government in many countries
  - ✓ Unsustainable business unless public fund is injected
- Public credit guarantee may make credit market inefficient if not well organized.
  - ✓ Financial institutions may relax credit screening process, which will increase adverse selection & moral hazard risks for them.
  - ✓ Suppression of private businesses as a potential risk

# Key Challenges

- Business sustainability
  - ✓ Cost efficiency & profitability
  - ✓ Diversified & demand-driven business approach
  - ✓ Self-funding (shift from public-dependent to market-based)
- Risk control arrangements
  - ✓ Develop re-guarantee system (credit insurance)
  - ✓ Develop risk-sharing schemes (partial credit guarantee)
  - ✓ Strengthen second credit screening by guarantee institutions
- Decentralization or centralization
  - ✓ Promote a regional CG system with a proper legal framework
  - ✓ Develop product design for the centralized CG system (e.g., PCG)
- Infrastructure
  - ✓ Establish a credit risk database or credit bureau
  - ✓ Credit database supports proper pricing and risk-based management by guarantee institutions.

# Moving Forward



# Discussions

How to identify optimal CG ratio?

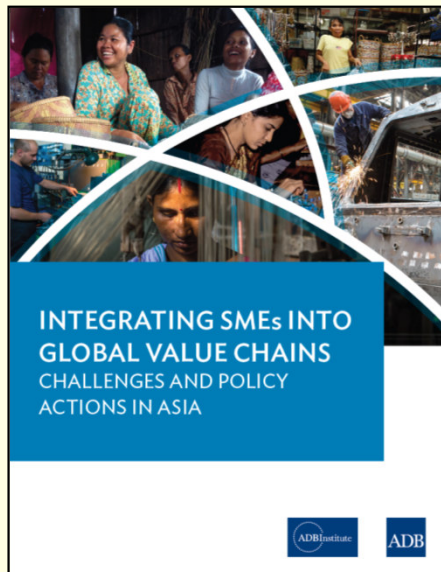
- Fixed or flexible rate?
- Influential factors: macro economic conditions, policy directions, financial & operational viability of FIs, and any other missing variables?
- Adaptation: different by region, FI soundness, and policy priority?
- Standardized formula? Evaluation tool?
- Private CG industry?

# References



## Asia SME Finance Monitor 2014

[<http://www.adb.org/publications/asia-sme-finance-monitor-2014>]



## Integrating SMEs into Global Value Chains: Challenges and Policy Actions in Asia

[<http://www.adb.org/publications/integrating-smes-global-value-chains>]



Thank you for your attention.

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