



*Credit Guarantee Scheme in South Africa*

*- A gap!*

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# What is a credit guarantee scheme?

- Allows businesses to get access to credit without having the necessary collateral or credit history
- It gives banks / financial institutions a guarantee that their loan (or portion) will be paid if the business defaults on its payment obligation
- Lowers the risk for the bank and increases access to finance for business and lowers cost of capital
- Usually part of a package of support measures to improve access to finance and small business support

Unlocks opportunities for business expansion or new investment for small and medium size enterprises – and job creation



# International Experience – Developed & Developing Countries

- India: CGMSE in 2016 / 2017 had issued on average 2 000 guarantee a day for an amount of Rs199.49 billion (valued at R42 billion in August 2017).
- Chile: Fogape guaranteed \$1.9bn between 1980 and 2010, which helped firms receive finance totalling \$3bn. The fund peaked in 2010 issuing 78 869 guarantees in that year to a total value of Chilean UF41,7 million or \$1.7 billion. The number of guarantees has since declined and in 2014 it issued 48 772 guarantees to a value of \$876 million or R12billion.
- Malaysia: CGC since its inception in 1972 has implemented 32 different schemes and guaranteed more than 445 000 loans worth approximately \$15bn. Between 2000 and 2010 alone the CGC backed RM10bn (R26bn) in loans.
- Equally, developed countries such as the UK and USA have credit guarantee schemes. UK has the Capital for Enterprise Limited (CfEL) and USA has the Small Business Administration, which provides loan guarantees amongst other forms of assistance to small businesses.
- EU association has 42 members with Euro125 billion in guarantees & 3million businesses

Internationally Credit Guarantees are an important complement to business support measures and industrial finance support



# What do we have in SA?

- South Africa through SEFA (Small Enterprise Finance Agency) has a limited credit guarantee fund targeted at small and very small businesses. Started under the former Khula Enterprise Finance:
  - 650 guarantees in 2000 (over R600 million) and declining from there.
  - In rand value by 2012 the guarantee fund was down to R22 million (reasons).
  - Following the establishment of SEFA, the credit guarantee programme was resuscitated, and in 2017 issued R120 million in guarantees. It increased to over R161 million in 2018; and declined to R135 mil in 2019.
- The IDC provides a credit guarantee to its clients as part of its package of support (where required).
- Several support institutions (such as USAID) have implemented small scale credit guarantee funds in South Africa over the years.

These funds while making an impact have not been significant and not 'moved the needle' in improving access to finance



# What is required to make it work

- At scale, and on a portfolio of loans rather than individual
- Use of technology, with quick turnaround times: Use of latest IT systems to ensure smooth flow of documents and approval processes
- Administratively reduce the processes, with Banks required to undertake the due diligence – they issue the loans
- Fund takes first loss on loan defaults
- Banks required to prove taken steps to claim on defaults
- Be wary of ‘moral hazard’ of state guarantees

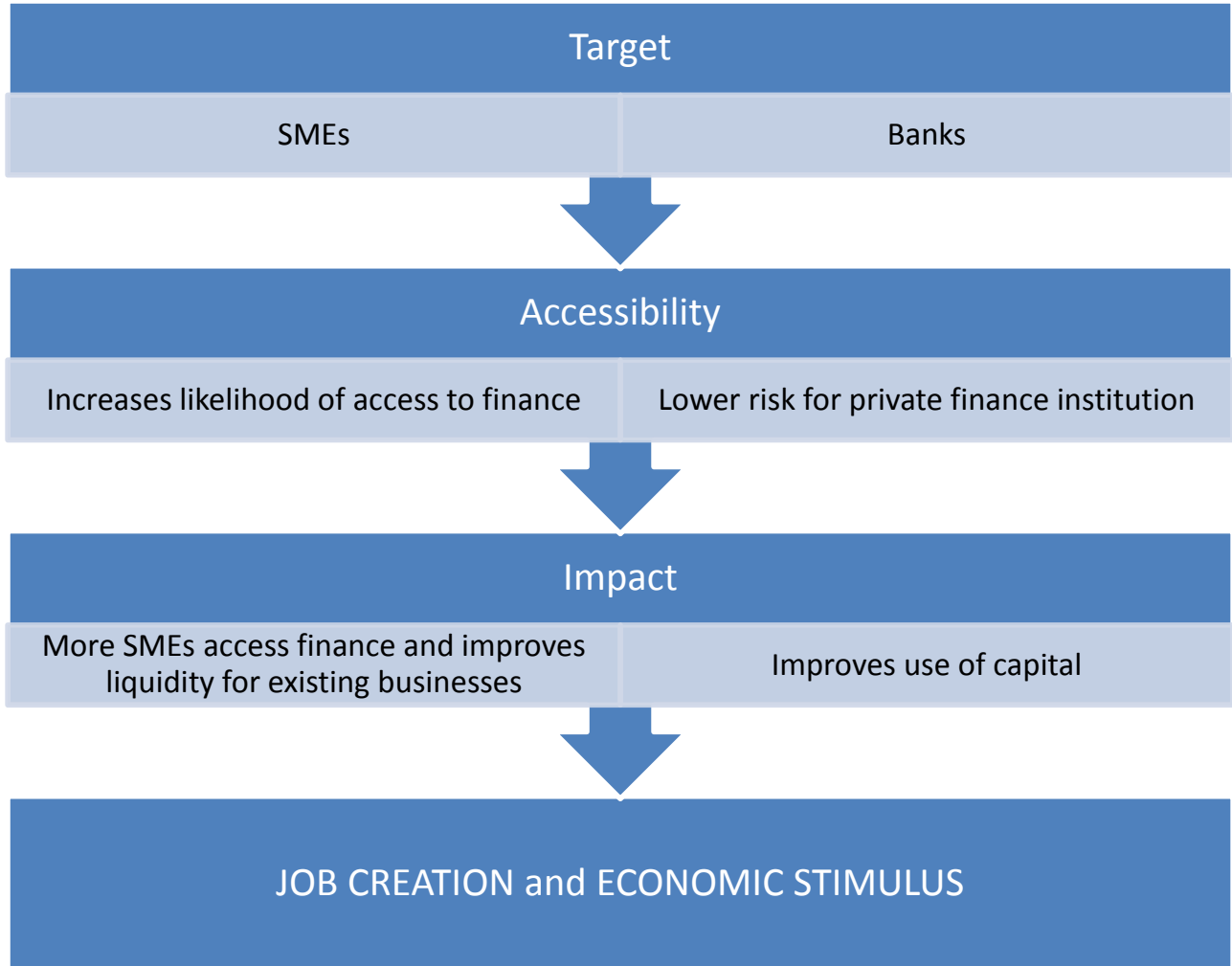
Operates as an insurance – bank pays fees but must be low cost (<1%), and can't only be on poor performing loans



# Options for SA

1. Located in an existing DFI such as the IDC which has a strong balance sheet and is a credible partner to the banking community; or expand the existing Khula Credit Guarantee; or
2. Newly established State Credit Guarantee Agency (as in other countries); or
3. Leverage private sector and draw in global reinsurance companies





**Thank you**

**Saul Levin**

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