



WORLD BANK GROUP



Strengthening Financial Sectors

Principles for the Design, Implementation and Evaluation of Public CGSs

Draft Consultative Document

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Background

- Access to finance for SMEs is key driver of economic growth and job creation
- CGSs are a common form of government intervention in SME credit markets.
- Renewed interest of governments across the world in CGSs as a result of the global financial crisis.
- Essential to show that CGSs are designed and operated to achieve both outreach and additionality with financial sustainability.

Process and milestones

- World Bank Group and FIRST Initiative convened and provided secretariat support to a Task Force representing the following international associations:
 - Arab Monetary Fund (AMF);
 - Asian Credit Supplementation Institution Confederation (ACSIC);
 - Association of African Development Finance Institutions (AADFI);
 - European Association of Mutual Guarantee Societies (AECM);
 - Ibero-American Guarantee Network (REGAR); and
 - Institute of International Finance (IIF)
- Consultative Document discussed by the Task Force on June 10, 2015.
- Public Consultation Period from July 1 through August 31, 2015.
- Final document expected to be endorsed by end-2015.
- To follow: development of methodology for self-assessment, implementation of the principles, and a global survey.

Objectives of the Principles

- To provide a generally accepted set of best practices to represent a global reference for CGSs in the world.
- To reflect appropriate legal, regulatory, governance, risk management and operational arrangements which can lead to outreach and additionality *cum* financial sustainability.
- To advance knowledge of CGSs and their role in the economy while improving their performance.
- To guide existing and new CGSs in the design, implementation and evaluation of their activities, and to help inform any related policy, legal and institutional reform at the country level.
- Constructive and collaborative response from recipient countries, including the financial sector, is essential to ensure success.

Nature of the Principles

- Voluntary set of good practices that public CGSs are implementing or expect to implement.
- Given their intended general nature, the Principles are envisioned to be applicable in all jurisdictions regardless of their level of economic and financial sector development.
- Subject and subsidiary to existing home country legal and regulatory requirements.
- To complement rather than substitute other relevant international standards and codes as applicable to CGSs.

Outline of the Principles

- The Task Force has identified four key areas for the success of public CGSs:
 - A. Legal and regulatory framework;
 - B. Corporate governance and risk management;
 - C. Operational framework; and
 - D. Monitoring and evaluation.
- 16 Principles and Explanatory Notes in total.

The Principles: Legal and regulatory framework

#1. The CGS should be established as an independent legal entity based on a sound and clearly defined legal and regulatory framework to support the effective implementation of its operations and the achievement of its policy objectives.

#2. The CGS should have adequate funding to achieve its policy objectives, and the sources of funding, including any reliance on explicit and implicit subsidies, should be transparent and publicly disclosed.

#3. The legal and regulatory framework should promote mixed ownership of the CGS, in particular private lenders, and ensure equitable treatment of minority shareholders.

#4. The CGS should be independently and effectively supervised based on risk-proportionate regulation scaled by the products and services offered.

The Principles: Corporate governance and risk management

#5. The CGS should have a clearly defined mandate supported by strategies and operational goals consistent with its policy objectives.

#6. The CGS should have a sound corporate governance structure, with an independent and competent board of directors appointed in accordance with clearly defined criteria.

#7. The CGS should have a sound internal control framework to safeguard the integrity and efficiency of its governance and operations.

#8. The CGS should have an effective and comprehensive enterprise risk management framework which identifies, assesses and manages the risks related to its operations.

The Principles: Operational framework

#9. The CGS should adopt clearly defined and transparent eligibility and qualification criteria for SMEs, lenders and credit instruments.

#10. The CGS's guarantee delivery approach should appropriately reflect a trade-off between outreach, additionality and financial sustainability, taking into account the level of financial sector development of the country.

#11. The guarantees issued by the CGS should be partial, providing the right incentives for SME borrowers and lenders, and designed to ensure compliance with the relevant prudential requirements for lenders.

#12. The CGS should adopt a transparent and consistent risk-based pricing policy to ensure that the guarantee program is financially sustainable and attractive for both SMEs and lenders.

#13. The claim management process should be efficient, clearly documented and transparent, providing incentives for loan loss recovery, and aligned with the home country's legal and regulatory framework.

The Principles: Monitoring and evaluation

#14. The CGS should be subject to rigorous financial reporting requirements and have its financial statements externally audited.

#15. The CGS should periodically and publicly disclose non-financial information related to its operations.

#16. The performance of the CGS, in particular its outreach, additionality and financial sustainability, should be systematically and periodically evaluated and the findings publicly disclosed.

Implementation and review

- Implementation of the Principles may be challenging in some jurisdictions, requiring an appropriate transitional period, especially for newly established CGSs.
- Several aspects of the Principles could benefit from further study and work; continuing coordination and consultation at the international level is desirable for ensuring their relevance.
- The Task Force has agreed to consider its evolution into a permanent Standing Group of CGSs, with terms of reference to be developed and decided among its members.
- Standing Group to review periodically the Principles, as appropriate, as well as provide member organizations with a continuing forum for exchanging ideas and views.

Public consultation

- Public consultation is an integral element of the Task Force's process.
- Consultative Document available for comments on 1 July – 31 August, 2015 on the World Bank Groups' website.
- For further information:

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