Overseas Government Guarantee Schemes for Business Lending

In a number of overseas countries, governments have developed schemes which guarantee small business loans by private financial institutions. These schemes are typically designed to provide additional finance to businesses lacking collateral, or with poor creditworthiness, but with otherwise viable businesses practices. Given the potential moral hazard concerns, most schemes guarantee less than 100 per cent of the loss in the event of default.

The table below provides some details on eligibility criteria, scope and cost of guarantee schemes in a select range of overseas countries, including the US, UK, Canada, Japan, Singapore, and European Union member states.

SMALL BUSINESS LOAN GUARANTEE SCHEMES IN SELECTED COUNTRIES

	Criteria	Scope	Cost
United States *Small Business Administration (SBA)- 7(a) Loan Program*[1]	<u>*Prior to the crisis*</u> Prior to the crisis, the program generally guaranteed up to 85 per cent of the loss incurred for loans of up to US$150 000, and up to 75 per cent for loans above this threshold (up to a maximum loan value of US$2 million). The exceptions within this program include SBAExpress loans (processed within 3 days), which provide a maximum guarantee of 50 per cent, and the Export Working Capital Loan Program, which guarantees up to 90 per cent (with a maximum guaranteed amount of US$1 million). Loans may be used for a variety of general business purposes including capital purchase and improvements, working capital and debt refinancing under special conditions. Loan maturity is up to 25 years for fixed assets and 10 years for working capital. The 7(a) program applies to small businesses which meet their particular industry’s size standards. Generally, manufacturing and mining firms with fewer than 500 employees and non-manufacturing firms with up to US$7 million annual revenues are eligible.	In December 2009 the outstanding guaranteed principal was about US$49 billion. The SBA estimates that, in 2008, it guaranteed about 7 per cent of the value of small business loans (classified as loans less than US$1 million) through this program.[2]	The SBA receives an up-front fee from borrowers of between 2 per cent and 3.75 per cent of the guaranteed portion of the loan. Lenders also pay an annual subscription fee of 0.55 per cent of the outstanding balance of the guaranteed portion of the loan.
United States *Small Business Administration (SBA)- CDC/504 Loan Program*[3]	<u>*Prior to the crisis*</u> This program has provided a full guarantee of debentures issued by non-profit Certified Development Companies (CDCs) to fund loans to SMEs for the purchase of land or construction. The maximum size of an individual guarantee is between US$1.5 million and US$4 million, depending on the loan use and industry.	In December 2009 the outstanding guaranteed principal was about US$24 billion.[4] It is estimated that, in 2008, the SBA guaranteed about 3 per cent of the value of small business loans through this program.	Fees total about 3 per cent of the guaranteed amount.

[1] Small Business Administration, 7(a) Loan Program: http://www.sba.gov/financialassistance/borrowers/guaranteed/7alp/index.html
[2] Small Business Administration (2009), ‘The Small Business Economy’: http://www.sba.gov/advo/research/sb_econ2009.pdf
[3] Small Business Administration, CDC/504 Loan Program: http://www.sba.gov/financialassistance/borrowers/guaranteed/CDC504lp/index.html
[4] Small Business Administration: http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_bud_lperf_upbreport.pdf

SMALL BUSINESS LOAN GUARANTEE SCHEMES IN SELECTED COUNTRIES (Continued)

	Criteria	Scope	Cost
United States	<u>*Temporary measures for 7(a) and CDC/504 programs* - extended to end-May 2010 unless funds exhausted earlier</u>		
Small Business Administration (SBA)	The maximum guarantee was temporarily raised to 90 per cent for 7(a) loans, except those processed under SBAExpress. SBA's maximum exposure per loan remains at US$1.5 million. The loan criteria and coverage for the CDC/504 program have not been changed.	Since February 2009, the SBA received an additional US$680 million in funding to temporarily provide the higher guarantee levels on 7(a) loans and waive loan fees on 7(a) and CDC/504 programs.[5]	The SBA has temporarily removed the up-front fee for loans with maturity of longer than 12 months. The SBA has temporarily removed some fees on CDC/504 loans.
United Kingdom *Enterprise Finance Guarantee Scheme*[6]	The Enterprise Finance Guarantee (EFG) Scheme was instituted in January 2009, replacing the Small Firms Loan Guarantee (SFLG) Scheme with expanded eligibility.[7] The EFG guarantees a maximum of 75 per cent of the loan amount for loans between £1 000 and £1 million (previously £5 000 to £250 000). Businesses with annual turnover up to £25 million (previously £5.6 million) are eligible. The scheme covers loans repayable between 3 months and 10 years. A relatively wide range of loan uses are guaranteed including investment, working capital and refinancing.	The total value of guarantees between January 2009 and March 2010 was capped at £1.3 billion. The scheme was extended to allow for an additional £500 million of guaranteed loans over the 12 months to March 2011.	Borrowers pay 2 per cent of the outstanding balance of the loan annually.
United Kingdom *Working Capital Scheme*[8]	From March 2009 to 2011, the Government will guarantee up to 50 per cent of credit lines for businesses with annual turnover of up to £500 million.	The maximum amount to be guaranteed between March 2009 and 2011 is £10 billion.	The Government charges a fee based on the both expected and unexpected loss plus an administrative fee.

[5] Small Business Administration (2010), 'SBA Recovery Lending Extended Through May', Media Release 29th March: http://www.sba.gov/idc/groups/public/documents/sba_homepage/news_release_10-15.pdf

[6] Department of Business, Innovation and Skills, Enterprise Finance Guarantee: http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee

[7] Department for Business, Enterprise & Regulatory Reform (2008), 'Small Firms Loan Guarantee, Annual Report for Financial Year 2007/08': http://www.bis.gov.uk/files/file47204.pdf

[8] European Commission (2009), 'Working Capital Guarantee Scheme': http://ec.europa.eu/community_law/state_aids/comp-2009/n111-09.pdf; Department for Business, Enterprise and Regulatory Reform (Unknown), 'Working Capital Scheme Factsheet': http://www.cw-chamber.co.uk/UserFiles/File/WorkingCapitalSchemeFactsheet.pdf

SMALL BUSINESS LOAN GUARANTEE SCHEMES IN SELECTED COUNTRIES (Continued)

	Criteria	Scope	Cost
Canada *Small Business Financing Program*[9]	Prior to April 2009, the scheme guaranteed 85 per cent of loans up to CA$250 000. From April onwards, the maximum loan amount has been increased to CA$500 000, of which a maximum of CA$350 000 can be used to purchase or improve equipment and finance leasehold improvements. Loans must be for capital purchases or improvements only, and may not be used to finance things such as working capital or research and development. A maximum of 90 per cent of the project cost may be funded. The maximum loan term is 10 years. Only businesses with annual revenues of CA$5 million or less are eligible. A cap on the Government's obligation applies to each lender. The Government will pay 85 per of the loss on defaulted loans up to the sum of: 90 per cent of the first CA$250 000 in loans registered, 50 per cent of the next CA$250 000, and 12 per cent of all loans in excess of CA$500 000 made from the 1st April 2009 (10 per cent for loans made prior to this date).	The aggregate contingent liability over a five-year window is capped at CA$1.5 billion. For loans made between April 1, 2004, and March 31, 2009, the maximum liability was CA$667.4 million.	Borrowers pay a registration fee of 2 per cent of the amount loaned at origination. An annual administration fee of 1.25 per cent of the amount outstanding is also payable.
Canada *Export Development Canada-Export Guarantee Program*[10]	Provides guarantees on loans to large and small companies for export-related activities and/or foreign investments. From March 2009, the guarantee is available to companies involved in export trade who do not meet the traditional eligibility criteria of CA$5 million in export sales or 15 per cent of total sales derived from exports.[11] The mandate has been temporarily expanded for two years from March 2009 to guarantee domestic activities. The program guarantees 90 per cent of the loan amount for loans up to CA$500 000 and 75 per cent for loans between CA$500 000 and CA$10 million. There is 100 per cent coverage for loans to make direct investments abroad.	Export Development Canada's contingent liability limit across all its programs, including the Export Guarantee Program, was increased from CA$30 billion to CA$45 billion in March 2009.[12]	For loans under CA$500 000 the borrower pays a fee at origination based on their credit worthiness. Loans above CA$500 000 attract an up-front fee of 0.25 per cent of the guaranteed portion of the loan. EDC's guarantee fee is equal to the loan interest spread over the prime rate plus 50 basis points (based on the average quarterly outstanding balance of the loan).[13]

[9] Industry Canada (2009), 'Canada Small Business Financing Act Annual Report 2008-2009': http://www.ic.gc.ca/eic/site/csbfp-pfpec.nsf/eng/h_la02973.html
[10] Export Development Canada, Export Guarantee Program: http://www.edc.ca/english/financing_export_guarantee.htm
[11] Export Development Canada, Domestic Powers: http://www.edc.ca/english/domestic_finance.htm
[12] Export Development Act: http://laws.justice.gc.ca/en/E-20/FullText.html
[13] Export Development Canada, Solutions for Bankers: http://www.edc.ca/english/docs/FI_detailed_e.pdf

SMALL BUSINESS LOAN GUARANTEE SCHEMES IN SELECTED COUNTRIES (Continued)

	Criteria	Scope	Cost
Canada *Business Development Bank- Operating Line of Credit Guarantee*[14]	This scheme, introduced in June 2009, fully guarantees increases in existing lines of credit provided by financial institutions to businesses. It applies to expansions in lines of credit of between 25 and 40 per cent when the line of credit is between CA$400 000 and CA$40 million. The line of credit must be secured against short term assets such as accounts receivable and inventory. The guarantee is provided for 12 months and can be renewed annually.	The maximum contingent liability is unclear. It has been allocated CA$100 million of capital.[15] Announced in June 2009, the duration of the program has not been declared.	A fee of 0.25 per cent of the guaranteed amount paid at the time of set-up and renewal.
Japan *Credit Guarantee System* and *Credit Insurance System*[16]	Guarantees 80 per cent of the loan amount under the Credit Guarantee System.[17] Depending on the particular guarantee, the loan value may be up to ¥80 million to ¥400 million. Businesses must be classified as SMEs according to employee numbers and capitalisation to be eligible. The size cut-offs depend on the industry, but at most a firm may have up to ¥300 million capitalisation or less than 300 employees.	At end-March 2009, outstanding guaranteed liabilities amounted to around ¥33 trillion, accounting for approximately 13 per cent of all loans to SMEs according to the Government-owned institutions' own records.[17]	Borrowers pay a fee of between 0.5 per cent and 2.2 per cent of the loan amount depending on credit risk.
Japan *Securitisation Guarantee*[18]	The scheme provides guarantees of up to 70 per cent on unsecured loans to SMEs for the purpose of securitization as well as guarantees for securitized instruments.	Between July 2004 and March 2009, the value of loans under the guarantee scheme was ¥94.3 billion.[19]	N/A

[14] Business Development Bank of Canada, Operating Line of Credit Guarantee: http://www.bdc.ca/en/about/federal_budget/bcap/olcg2.htm
[15] Business Development Bank of Canada (2009), 'Government of Canada Announces $450 Million in New Funding for BDC to Assist Canadian Businesses', Media Release 15th June: http://www.bdc.ca/en/about/mediaroom/news_releases/2009/20090615.htm
[16] Credit Guarantee Corporation (2009), 'Credit Guarantee System in Japan 2009': http://www.zenshinhoren.or.jp/pdf/English_Annual_Report.pdf
[17] Japanese Finance Corporation (2009), 'Credit Insurance Programs': http://www.c.jfc.go.jp/eng/pdf/AR_2009_02_c.pdf
[18] Japanese Finance Corporation (2009), 'Securitization Support Programs': http://www.c.jfc.go.jp/eng/pdf/AR_2009_03_b.pdf
[19] Japanese Finance Corporation (2009), 'Securitization Support Programs': http://www.c.jfc.go.jp/eng/pdf/AR_2009_02_b.pdf

SMALL BUSINESS LOAN GUARANTEE SCHEMES IN SELECTED COUNTRIES (Continued)

	Criteria	Scope	Cost
Singapore *Loan Insurance Scheme (LIS)*[20]	*Prior to the crisis* Scheme to help companies secure trade financing lines by assisting them to insure against insolvency risks by commercial insurers. The Government subsidises a portion of the insurance premium for commercial insurers to cover against default. The insurer covers 75 per cent of the loan amount. There is no specified maximum for loan values, although loan amounts above SGD1 million may be vetoed by the insurer. The maximum repayment term is 1 year. The loan must be secured against working capital. The scheme is open to companies of any size meeting local shareholding or business presence requirements.	Over the year to December 2009, the Singapore Government's Special Risk Sharing Initiative and enhanced financing schemes supported about SGD8 billion in lending. The Government expects their schemes will support up to SGD8.4 billion in new lending to end-January 2011. The amounts attributable to the Loan Insurance Scheme are not available.[21]	Borrower pays 0.45 per cent of the loan value at origination.
Singapore *Loan Insurance Scheme Plus*[20]	*Temporary measures*- Extended to end-January 2011 In February 2009 the Government introduced LIS Plus to aid access to larger tranches of trade financing lines. The Government directly guarantees loans beyond the capacity of current LIS insurers. It applies the same criteria as the LIS (above), but caps the loan size at SGD15 million.		Borrower pays 1 per cent of the loan value at origination.

[20] International Enterprise (IE) Singapore (2010), 'Loan Insurance Scheme': http://www.iesingapore.gov.sg/wps/wcm/connect/de008f80410f477dbe10bf3ad8984e19/Capital_20091231_LISV3.pdf?MOD=AJPERES

[21] Standards, Productivity and Innovation Board (SPRING) Singapore (2009), 'Government Extends Financing Schemes For One More Year At Revised Terms In Tandem With Economic Recovery', Media Release 28th December: http://www.spring.gov.sg/NewsEvents/PR/2009/Pages/MTI-Media-Release-Government-Extends-Financing-Schemes-For-One-More-Year-At-Revised-Terms-20091228.aspx

SMALL BUSINESS LOAN GUARANTEE SCHEMES IN SELECTED COUNTRIES (Continued)

	Criteria	Scope	Cost
European Investment Fund (EIF) *SME Guarantee Facility*[22]	The EIF provides capped guarantees partially covering portfolios of financing to SMEs. Financial intermediaries interested in applying for a guarantee must be established and operating in one of the EU member states; Norway; Iceland; Liechtenstein; Croatia; FYR Macedonia; Montenegro; Serbia or Turkey. The facility is comprised of four business lines, known as 'windows': *(1) The Loan Guarantee* - The EIF will guarantee up to 50 per cent of a financial institution's commitment on loans made to businesses with fewer than 250 employees and less than EUR50 million annual turnover or EUR43 million in balance sheet value. There does not appear to be a limit on the loan amount. The loan maturity must be at least 12 months. *(2) The Micro-Credit Guarantee* – The EIF will guarantee up to 75 per cent of financial institution's commitment on loans to businesses with fewer than 10 employees and less than EUR2 million in annual turnover or balance sheet value are eligible. Loans up to EUR25 000 with a maturity of at least 6 months are covered. *(3) The Equity Guarantee* - Covers mezzanine financing and equity investments in SMEs in the seed and start-up phases. The maximum equity investment amount covered is EUR500 000. The EIF will guarantee up to 50 per cent of a financial institution's commitment. *(4) Securitisation* - Guarantees are provided to support securitisation of SME financing instruments. Loans must have a maturity of at least 12 months. The EIF will guarantee up to 50 per cent of the first loss tranche, and up to 100 per cent of other guaranteed tranches. The intermediary is required use a portion of the resources made available through securitisation to finance SMEs.	As at December 2008, the net guarantee portfolio under mandate activity amounted to EUR8.5 billion (corresponding to a maximum first loss liability of EUR0.5 billion).[23]	There are no guarantee fees (except for the securitisation window). However EIF may charge the institution a fee calculated on amounts committed but not utilised under the Loan and Micro-Credit windows.

[22] European Investment Fund, CIP SME Guarantee Facility: http://www.eif.europa.eu/guarantees/cip_portfolio_guarantees/index.htm
[23] European Investment Fund (2009), 'EIF Annual Report 2008': http://www.eif.europa.eu/attachments/about/agm_2009/EIF_AnnualReport_2008.pdf