

SME Guarantee Facility Conference 2005

SME access to finance

Mr. Giampaolo Molon

Interconfidi Nordest CEO
Leader of ALL.GAR

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Speech by Interconfidi Nordest CEO and Leader of ALL.GAR,
Mr. Giampaolo Molon

Ladies and Gentlemen,

First of all, let me thank the European Investment Fund for inviting ALL.GAR to this meeting and for giving me the opportunity to explain what ALL.GAR has achieved thanks to the agreement signed with EIF on 30th June 2003 within the framework of the MAP 2001-2005.

My name is Giampaolo Molon, I am the CEO of Interconfidi Nordest and on this occasion I am representing Interconfidi Nordest, leader of ALL.GAR. ALL.GAR is a temporary joint venture among 7 industrial mutual guarantee schemes (Confidi).

Confidi are associations of small entrepreneurs. Their activities are based on co-operation and mutuality and their objective is to overcome the difficulties their members have in accessing external financing sources. It is an answer to the need for a further intermediary at the centre of the relationship between banks and SMEs.

Under the Italian legislation Confidi are registered as a special section of "Ufficio Italiano Cambi" ex art. 106 of "Italian Banking Law". Today, approximately 770 Confidi operate throughout Italy.

The MAP transaction:

ALL.GAR was set up on 27th May 2002 with the aim to apply as intermediary under the MAP SME Guarantee Facility.

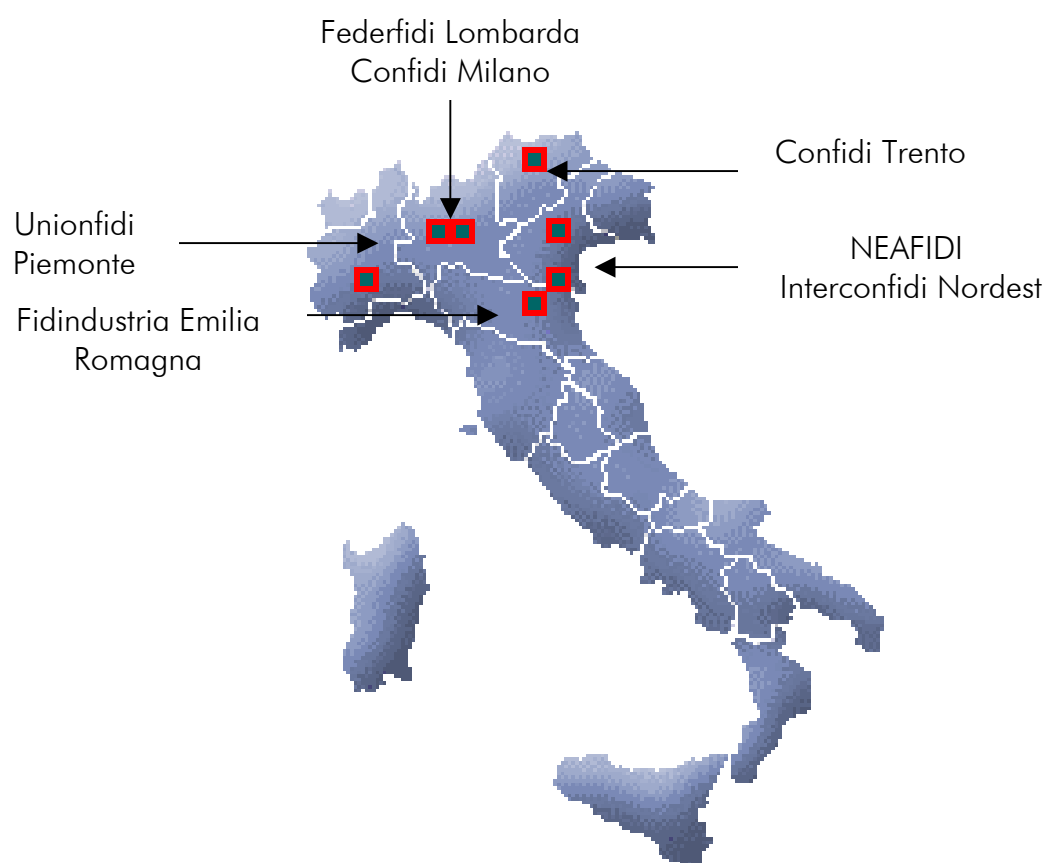
Interconfidi Nordest is the leader and general co-ordinator of ALL.GAR. It is responsible for all official communication with EIF, for the administration and monitoring of the ALL.GAR portfolio and for the compliance checks with regard to the additionality criteria set out in the counter-guarantee agreement.

The other ALL.GAR members are: Confidi Milano, Confidi Trento, Federfidi Lombardia, Fidindustria Emilia Romagna, Neafidi, Unionfidi Piemonte, all of them being industrial guarantee funds.

The members of ALL.GAR represent the largest Italian industrial Confidi, both in terms of member SMEs and guarantee volumes.

ALL.GAR represents today approximately 16.000 small and medium sized enterprises. In 2002 the total volume of loans guaranteed exceeded EUR 1,7 billion, distributed over four Italian regions in the north of the country. In 2003 ALL.GAR increased its volume to EUR 2,2 billion, with an increase of about 32%; a similar growth rate was achieved in 2004. The ALL. GAR members mainly operate in the north of Italy; guarantees are as well provided to SMEs established in the south and the centre of the country.

ALL.GAR is Italy's largest guarantee transaction under the MAP guarantee facility.



First agreements under the Growth & Employment Initiative

The SME Guarantee Facility was implemented in Italy in 1999, under the Growth & Employment Initiative.

Interconfidi Nordest was the first Italian mutual guarantee scheme co-operating with EIF. Similar guarantee agreements were then signed by EIF with other Italian Confidi.

As a result, under these first agreements EIF counter-guaranteed investments in excess of EUR 1.2 billion.

The current agreement (MAP)

ALL.GAR signed an agreement for a guarantee amount of EUR 415 millions. This plafond was shared amongst the ALLGAR members on the basis of their expected utilisation of the overall guarantee volumes.

Due to strong utilisation, in 2004 the guarantee amount was increased and the availability period extended. At the end of the original availability period (31st December 2004) ALL.GAR reached 90% of the maximum guarantee volume. The total loans granted amounted to almost EUR 700m in favour of nearly 2700 SMEs, supporting investments in excess of EUR 890m. During the period January-February 2005, ALL. GAR issued new guarantees for EUR 300 m. The overall results have well exceeded all our initial forecasts.

Allocation

The chart below shows the internal allocation of the MAP maximum guarantee volume to the ALLGAR members, based on their utilisation of the overall volume.

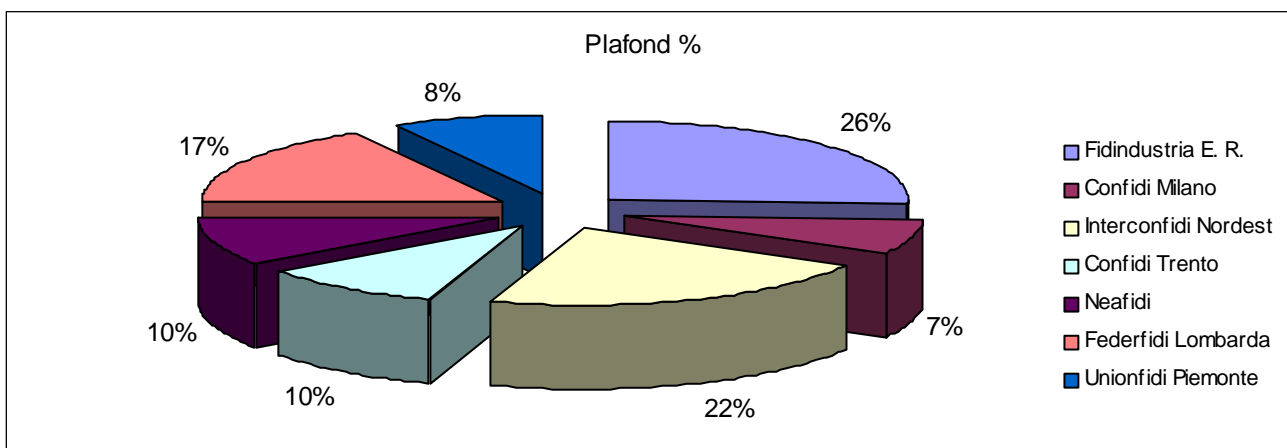


Chart n.1: Allocation of plafond

The chart below shows the actual utilisation by each ALL.GAR member as compared to their respective original targets.

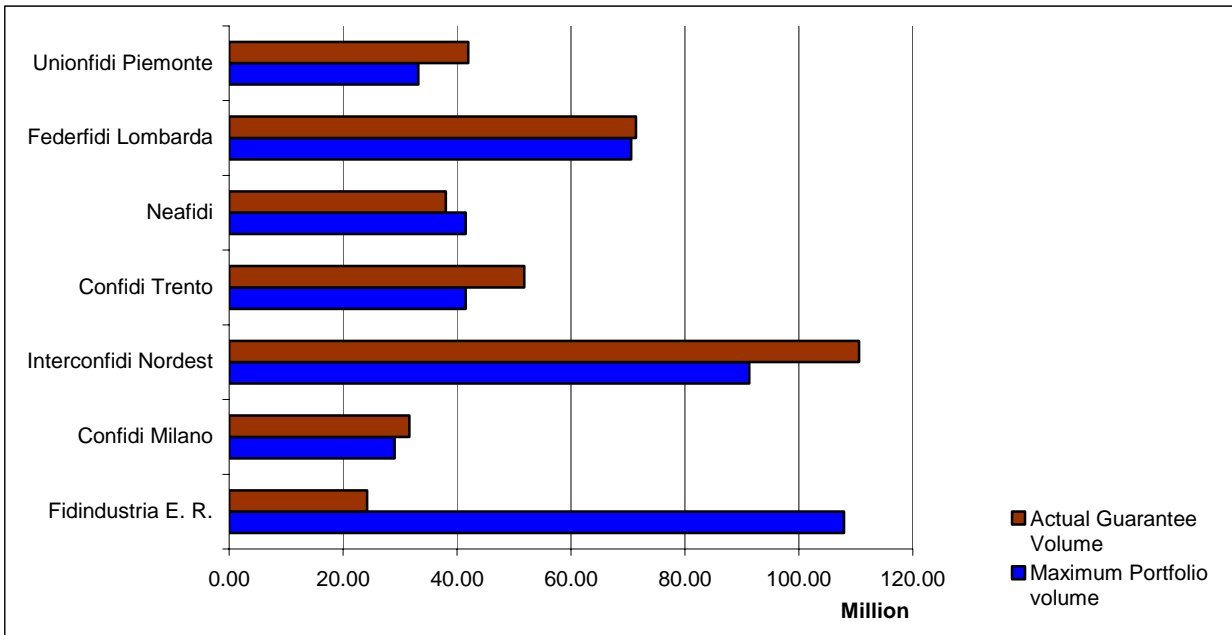


Chart n.2: Portfolio utilisation

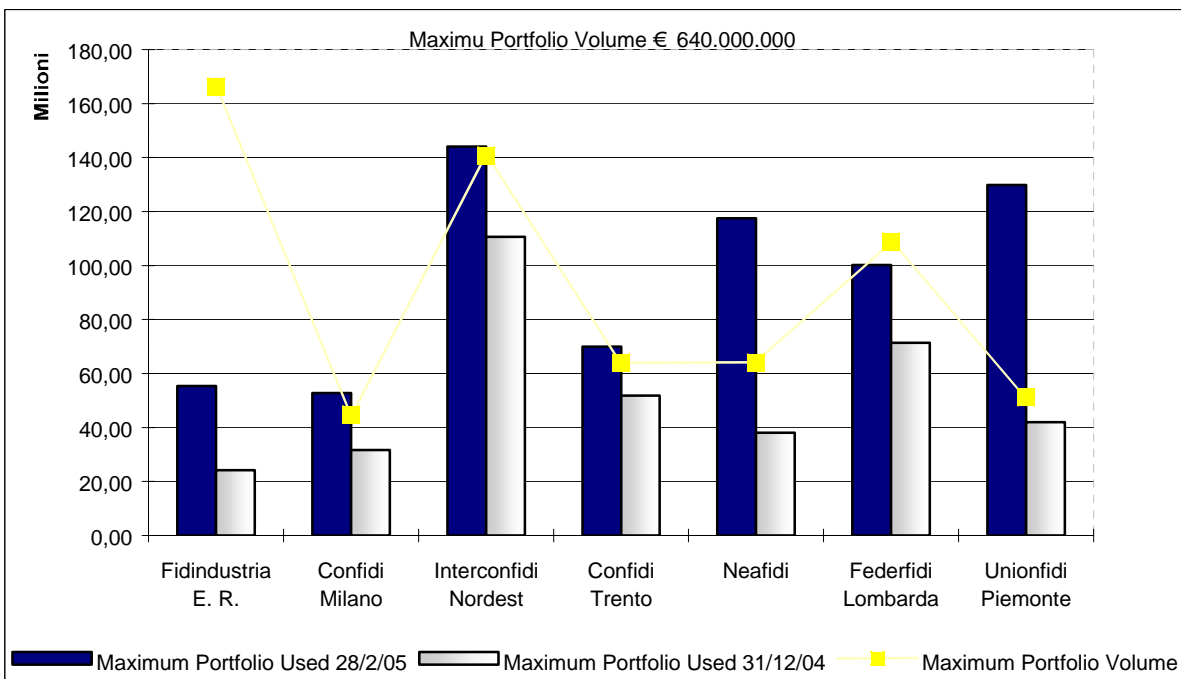


Chart n.3: Maximum portfolio volume used

The difference in utilisation is explained mainly by the fact that the ALL.GAR members, which did not cooperate with EIF previously, had to put in place the internal procedures to implement the Facility.

It is also important to note that the different up-take has been more than compensated by the performance of other members.

Based on the good performance ALL.GAR will soon approach EIF for a further increase.

ADDITIONALITY

Now, I would like to focus on the reasons why such strong increase in volumes was achieved.

In line with the additionality requirements and objectives of the Facility, ALL.GAR measures the additionality in terms of:

1. Increased guarantee rate;
2. New guarantee products aimed at supporting small businesses in Italy;
3. Lower margin charged to SMEs (lower cost of guarantee);
4. Reduced collateral requirements;
5. Enhanced access to debt finance;
6. Start-up financing.

Each guarantee included in the ALLGAR portfolio covered by EIF presents one or more of the additionality features listed above. An IT system specifically developed to support the operations under the facility handles this information for the ALL.GAR members.

	Increased guarantee rate	New product	Lower guarantee cost	Reduced collateral requirements	Enhanced access to finance	Start up
Operations (% of total nr)	71,85%	25,16%	23,88%	36,51%	55,28%	6,24%
Volume (% plafond)	70,54%	31,20%	32,56%	53,05%	67,65%	5,29%

Table n.1: Additionality

Thanks to the EIF counter guarantee, the ALL.GAR members were able to increase their guarantee rate from 50% to a maximum of 80%. As a consequence, banks grant loans on better terms to the final beneficiaries.

Example:

As shown in the table below, for a loan of EUR 100.000 the Confidi guarantee goes up to EUR 80.000 (eighty thousand EUR), with the EIF counter guarantee at 50% (equal to EUR 40.000).

Without the EIF counter-guarantee, for the same loan of EUR 100.000, the Confidi guarantee would have been 50% on average, equal to EUR 50.000.

With EIF counter guarantee	Without EIF counter guarantee
Loan EUR 100.000; CGO guarantee 80% maximum;	Loan EUR 100.000; CGO guarantee 50% (average);

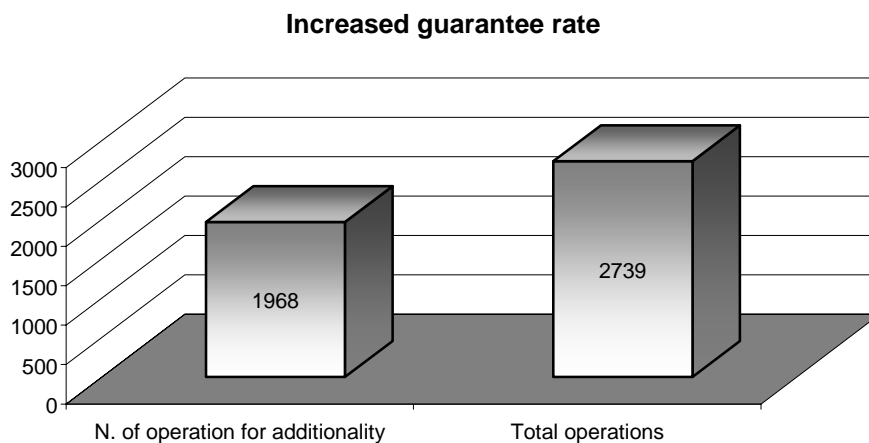
EIF guarantee 50%	
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1) INCREASED GUARANTEE RATE (AS OF 31/12/04)

Total operations	2.739
Actual guarantee volume	EUR 369.644.075
Nr. of operations for additionality	1.968
Total amount	EUR 260.759.135
% of total nr of operations	71,85%
% plafond	70,54%

About 71% of the volume has been used to guarantee operations in which ALL.GAR members have increased the guarantee rate.

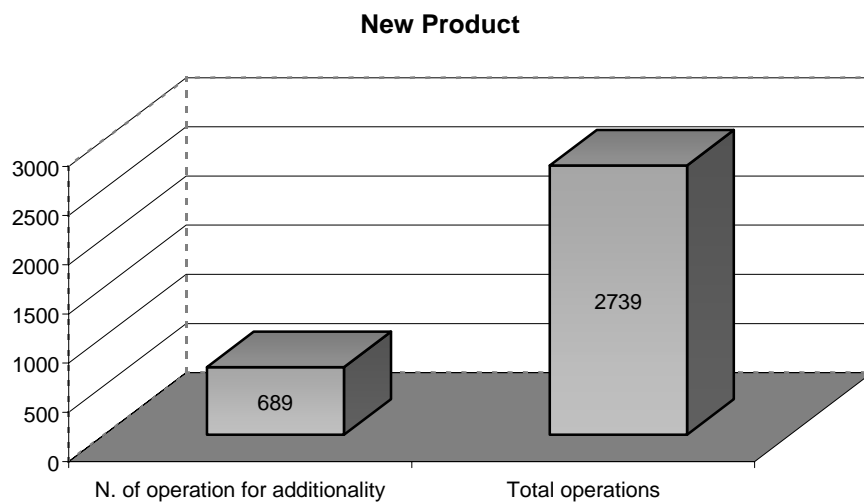
About 72% of the total operations benefit from the “increased guarantee rate” additionality feature.



2) NEW PRODUCTS

Nr of operation for additionality	689
Total amount	EUR115.343.567
% of total nr of operations	25,16%
% plafond	31,20%

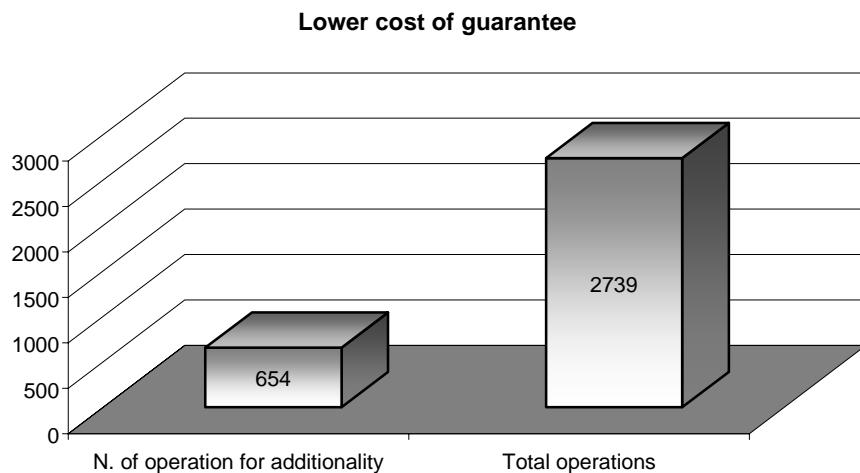
With the support of the EIF counter-guarantee, ALLGAR members have introduced new guarantee products.



3) LOWER COST OF GUARANTEE

Nr of operations for additionality	654
Total amount	EUR 120.342.474
% of total nr of operations	23,88%
% plafond	32,56%

About 33% of the guarantee volume has been used for operations in which SMEs have benefited from a lower cost of guarantee.



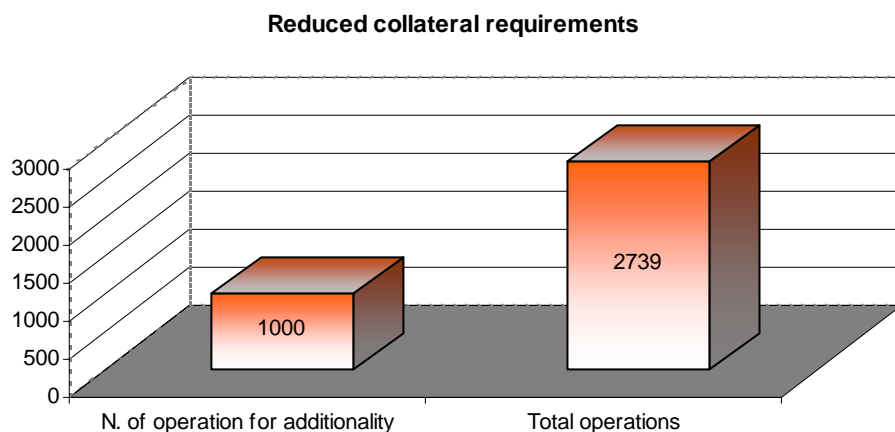
4) REDUCED COLLATERAL REQUIREMENTS

Nr of operations for additionality	1.000
Total amount	EUR 196.112.960
% of total nr of operations	36,51%
% plafond	53,05%

About 53% of the amount has been used to guarantee operations in which the SMEs benefited from reduced collateral requirements.

Example:

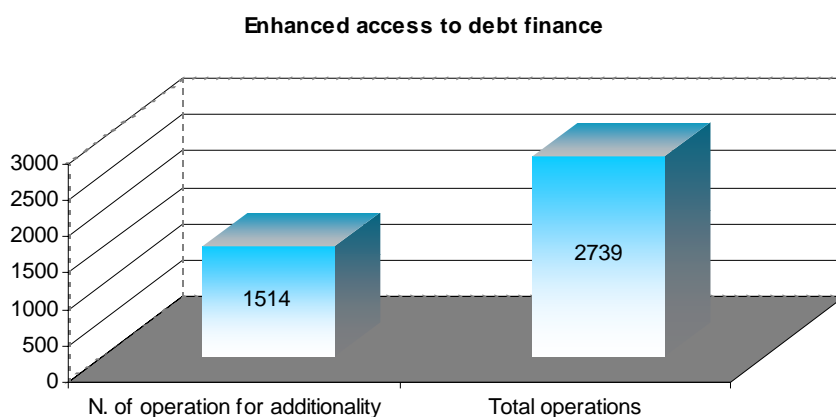
More than 36 % on total operations met the “reduced collateral requirements”. Thanks to the MAP guarantee, banks have for example in the case of mortgage loans increased the financed portion from on average 50% to up to 80% of the value of the collateral.



5) ENHANCED ACCESS TO FINANCE

N. of operation for additionality	1.514
% n. of operation	55,28%
Total amount	EUR 250.077.278
% plafond	67,65%

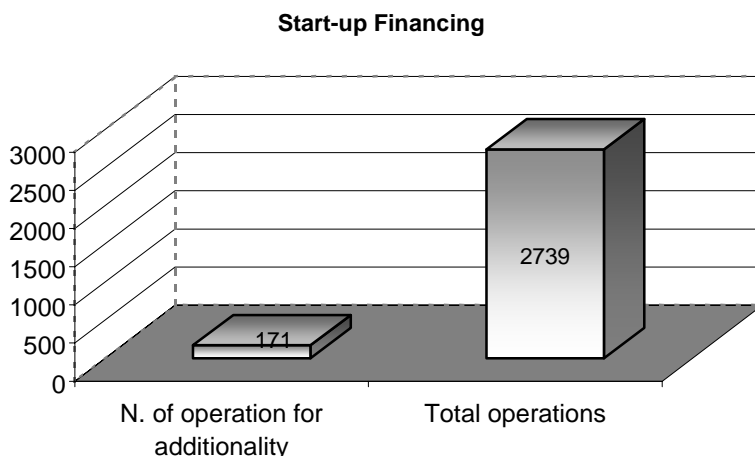
The table shows that more than 67% of the guarantee volume has been used to guarantee operations in which, thanks to MAP counter-guarantee, ALL.GAR members were able to enhance access to debt finance for SMEs. About 55 % of all operations met the “enhanced access to debt finance” additionality requirement.



6) START UP FINANCING

N. of operations for additionality	171
Total amount	EUR 19.569.069
% of total nr of operations	6,24%
% plafond	5,29%

ALL.GAR gives particular importance to the growth of new enterprises and for this reason has supported more than 170 start-ups.



This result is exceptionally good in particular when measured in the context of the stagnation of the Italian economy, the low investments in research and innovation and actual cost-control trend that prevent innovative entrepreneurs to develop their business ideas.

Thanks to MAP counter guarantee ALL.GAR members have set up several new agreements with banks and set up several new "ad hoc" products.

CONCLUSIONS

The cooperation with EIF under the Facility has led to substantial investment by the ALL. GAR members: development of their internal procedures, IT systems, as well as marketing actions and spread of best market practices. In view of the very good results so far achieved and the crucial role played by EIF in bringing together the ALL. GAR members, ALL. GAR plans to further expand its activities in favour of the growing number of SMEs and looks forward to the extension of its cooperation with EIF.