



OJSC “Guarantee Fund” (Kyrgyz Republic)

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Chairman**

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Selection of a business model of Guarantee Funds

1. Credit Guarantee Funds (CGF) are financial institutions which assist SMEs in obtaining a loan in case of insufficient collateral.
2. Key to success is selection of optimal CGF model, which mainly depends on:
 - Features of financial and banking sector;
 - State of development of SMEs;
 - Need of SMEs for guarantees



Two-tier Kyrgyz model of Guarantee Funds

Credit Guarantee Scheme in Kyrgyzstan is as follows:

1 level

OJSC "Guarantee Fund"

(established by the Government of the Kyrgyz Republic with financial support of Asian Development Bank in 2016)

It has head office and 6 branches

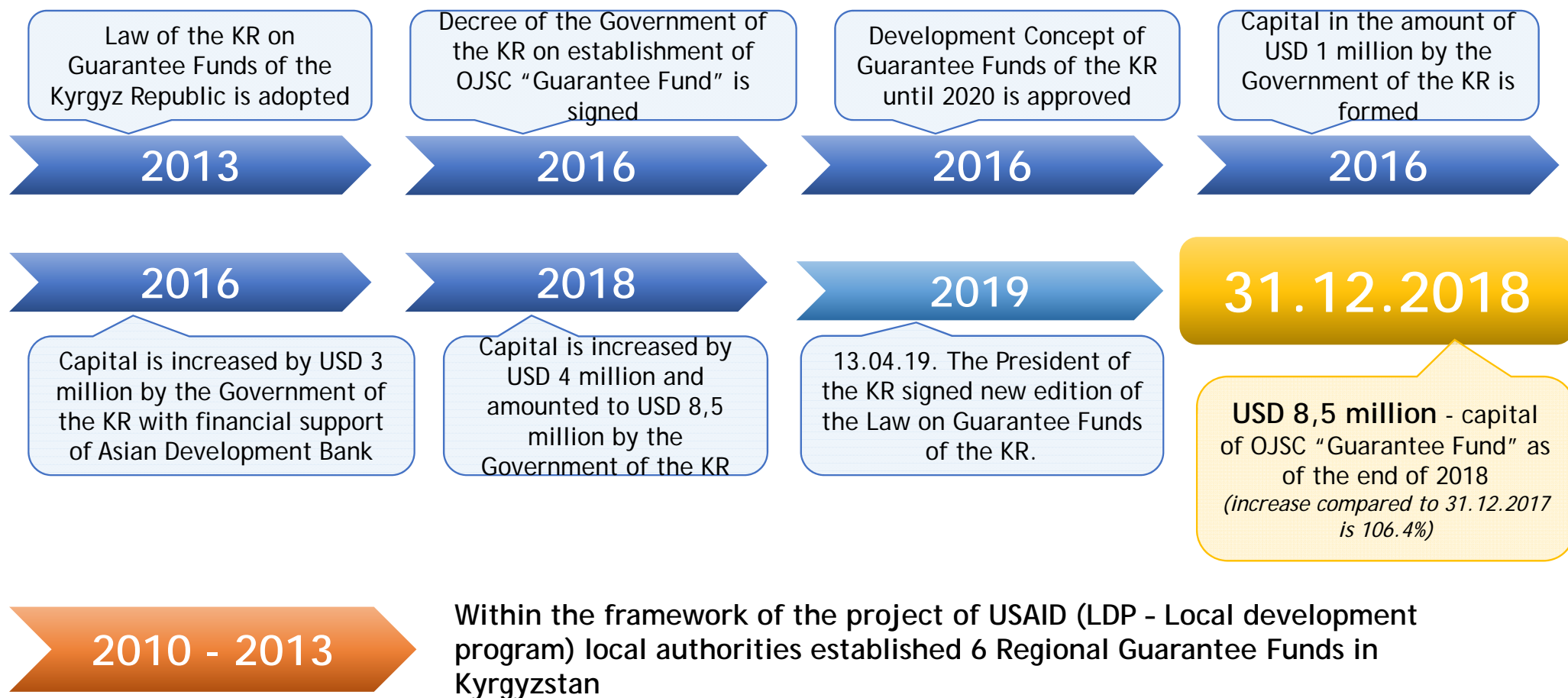
2 level

6 Regional Guarantee Funds

(established by local authorities within 2011-2013)



Development of the Kyrgyz model of Guarantee Funds





Institutional development of OJSC "Guarantee Fund"

1. The Law "On Guarantee Funds in the Kyrgyz Republic" was adopted in 2013.
2. 16 Principles of the World Bank for Public Credit Guarantee Schemes (CGSs) for SMEs are implemented.
3. Corporate governance system is implemented.
4. Effective risk management system is operating.
5. Specialized software for the activities of Guarantee Fund is developed and operating
6. International Financial Reporting Standards IFRS-9 are applied.



Review of the main indicators of OJSC “Guarantee Fund”

Status	Private
Establishment	2016
Authorized capital	USD 8.5 million
Net profit	USD 365 thousand in 2018 USD 180 thousand in 2017
Approved guarantees	USD 11 million
Number of guaranteed SMEs	656
Number of created jobs	1 225
Branch network	6
Repayment of guarantees	99.9%



Guarantee Terms

Parameter name	Parameter content
Maximum guarantee amount	up to 10% of capital amount (up to USD 850 thousand)
Coverage ratio	up to 50% of loan amount
Guarantee commission	2.0% - 2.5% at a time
Multiplier	1:2



Partner banks of OJSC "Guarantee Fund"

OJSC "Guarantee Fund" has signed agreements with 11 partner banks and the Russian-Kyrgyz Development Fund



RUSSIAN-KYRGYZ
DEVELOPMENT FUND



Partner banks of OJSC “Guarantee Fund”

Partner banks of OJSC “Guarantee Fund” have the following shares of the indicators of the entire banking system:

- by assets - 69%
- by loans - 68%
- by deposits - 70%
- by capital - 63%
- by profit - 90%
- by branch network - 73%



Development Prospects of OJSC “Guarantee Fund”

1. On April 13, 2019, a new version of the Law “On Guarantee Funds in the Kyrgyz Republic” was signed.
2. The National Bank of the Kyrgyz Republic will become the supervisory authority for the activities of Guarantee Funds.
3. New investor will enter the capital by 49% with the amount of USD 8 million.
4. Total amount of the capital of OJSC “Guarantee Fund” will be USD 16.5 million.
5. For 2.5 years, OJSC “Guarantee Fund” has become the Institute for SMEs development.
6. In the future, OJSC “Guarantee Fund” may be transformed into Corporation “Guarantee Fund” for SMEs development.



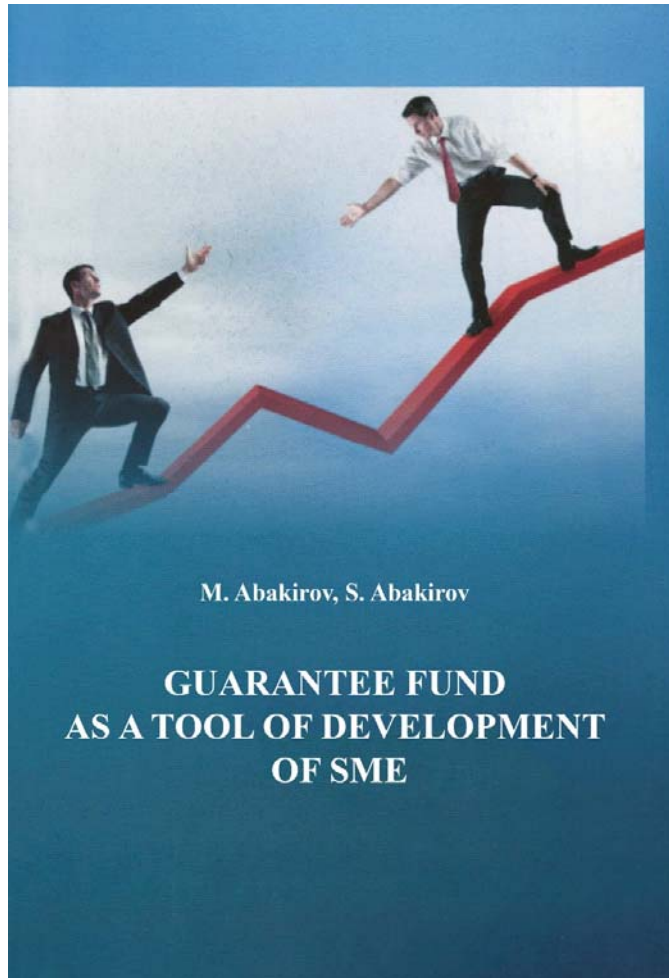
Consulting activity of OJSC "Guarantee Fund"

The Association of Guarantee Funds of the Kyrgyz Republic and OJSC "Guarantee Fund" perform the following work:

1. Research on the financial and banking system of Central Asia;
2. Research on access to finance for SMEs and their development;
3. Training on the possibility of establishing Guarantee Funds in Georgia (training in Rustavi in 2013), in Tajikistan (training in Tajikistan in 2015 and follow-up training in Kyrgyzstan in 2018);
4. Scientific article **"Special aspects of IFRS 9 application by Credit Guarantee Funds in developing countries", 2019** was prepared;
5. 2 books on Guarantee Funds were prepared and published:
 - ✓ **"Guarantee Fund as a tool of development of SME", 2014, 200 pages, Bishkek;**
 - ✓ **"Access to finance for SMEs: Guarantee Fund", 2019, 292 pages, Bishkek.**



Books on Credit Guarantee Funds (in Russian)



2014



2019



Proposals for development of Guarantee Funds in Central Asia and the Caucasus (1)

Considering the successful implementation of the Kyrgyz model of Guarantee Funds, OJSC “Guarantee Fund” and the Association of GF offer:

1. To share the experience of the Kyrgyz model of GF in establishing and functioning Guarantee Funds in Central Asia, the Caucasus and other countries;
2. To create the Central Asian Guarantee Fund (CAGF) and for this purpose:
 - Concept of establishing of CAGF is developed;
 - Financial situation and state of SME development are studied;
 - Business development plan will be prepared within 3-4 months;
 - Preliminary negotiations were held with representatives of ADB, IFC and other international financial institutions.



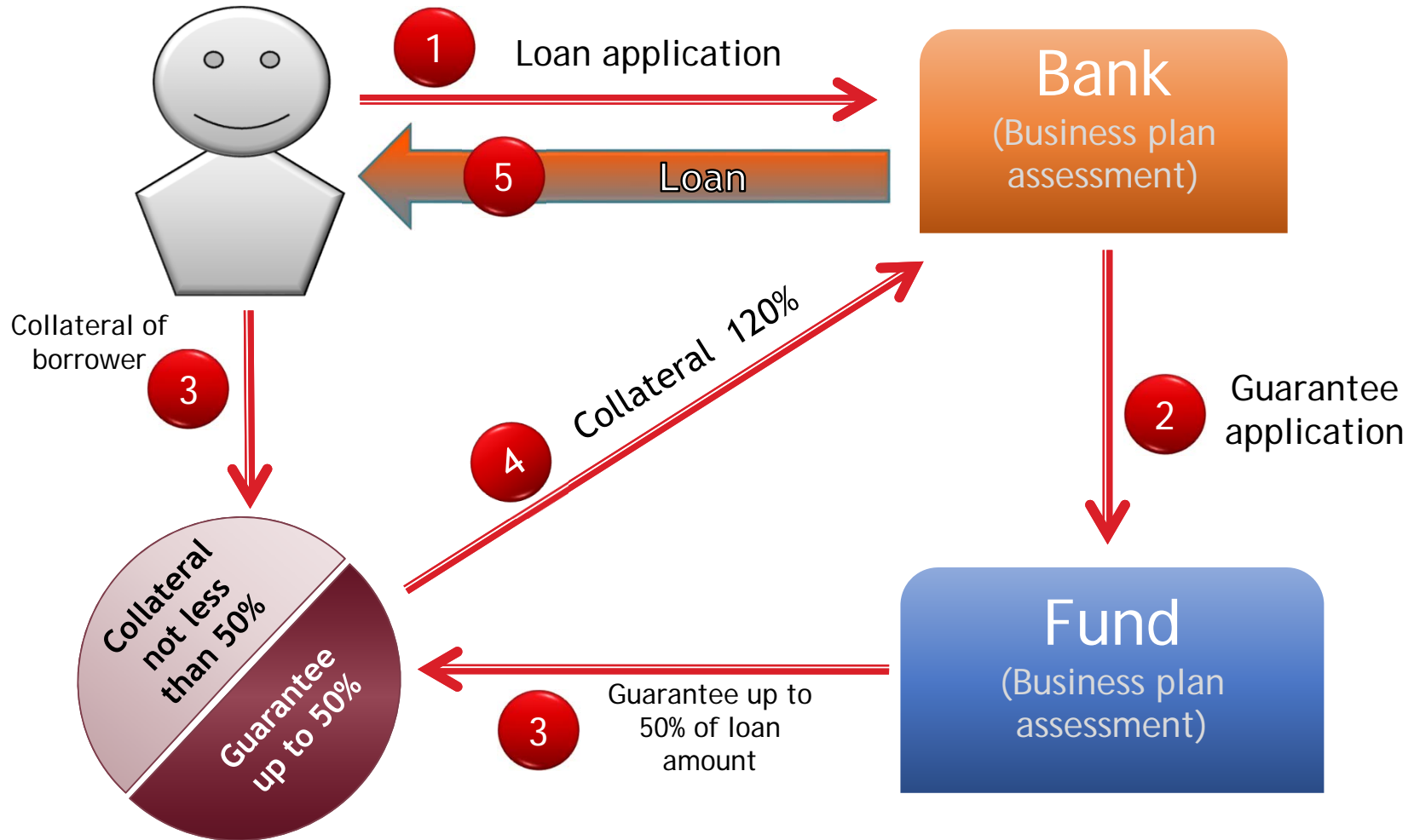
Proposals for development of Guarantee Funds in Central Asia and the Caucasus (2)

The need to create the Central Asian Guarantee Fund is explained by:

1. Absence of fully functioning GF as a financial authority in Central Asia;
2. The need of SMEs for guarantees is 40% of amount of credit portfolio in the countries of Central Asia and the Caucasus;
3. Establishment of CAGF will allow:
 - To provide access to finance for SMEs which have insufficient collateral;
 - To increase multilateral trade between entrepreneurs of countries of Central Asia and the Caucasus;
 - Territorial proximity, almost identical legislation and financial and banking sector and same level of SMEs development will allow CAGF to develop successfully .



Current Guarantee Scheme in OJSC "Guarantee Fund"





Special aspects of IFRS 9 application by guarantee funds



IFRS 9

IFRS 9 (hereinafter Standard 9) is an International Financial Reporting Standard promulgated by the International Accounting Standards Board (IASB). It addresses the accounting for financial instruments (financial assets and liabilities)

Standard 9 sets out the following:

- requirements for classification and measurement of financial instruments
- requirements for impairment of financial assets
- requirements for hedge accounting
- recognizing principles for **expected credit losses**.



The main principles of IFRS 9

The main **principles** of Standard 9 are as follows:

1. Classification and measurement based on the **business model and the cash flow characteristics** of financial instruments (in IAS 39 (hereinafter Standard 39) based on the rules)
2. Impairment based on the **model of expected credit / guarantee losses** (replace the model of incurred losses outlined in Standard 39)
3. Perspective determination of credit / guarantee risks
4. Calculation of probability of default (PD) and expected credit / guarantee losses (ECL) (on the basis of Basel Committee on Banking Supervision recommendation) *

** An Explanatory Note on the Basel II IRB (Risk Weight Functions)*



Terms of IFRS 9 application

According to Standard 9 an entity shall apply the standard from January 1, 2018

The National Bank of the Kyrgyz Republic (NBKR) recommended that commercial banks and other financial entities implement Standard 9 during 2016 – 2018

OJSC “Guarantee Fund” being the entity not regulated by the NBKR however implemented Standard 9 in 2018



IFRS 9 application in OJSC “Guarantee Fund”

- OJSC “Guarantee Fund” implemented Standard 9 in 2018 and developed a software on the standard by own efforts
- Results of the external audit for 2018 confirmed the correctness of accounting and execution of the financial reporting in accordance with Standard 9
- As a result of implementation of Standard 9 by OJSC “Guarantee Fund”, the change (increase) in reserve provisions was 13.7%, and the impact on capital was equal to (-0.1%) compared to the applicable Standard 39



International experience on IFRS 9 application

The results of a study conducted by KPMG on the possibility of implementing Standard 9 in the banking sector of Belarus showed:

- Most Belarusian banks expect provisions to change by more than 15%, while European banks expect an average increase in provisions by 13%
- Most Belarusian banks expect an impact on capital by no more than 1.5%, while European banks expect an average impact on capital by 0.35%
- The results of Standard 9 application in OJSC “Guarantee Fund” coincide with the forecast of KPMG study



What opportunities do credit guarantee funds receive when switching to IFRS 9?

- Standard 9 ensures execution of transparent and reliable reporting, which is highly informative and helpful to users. It allows investors to assess correctly the investment risks, predict performance indicators of the credit guarantee funds by their financial statements.
- Standard 9 provides a modern and adequate evaluation of credit guarantee risks, and the effective risk management in prospect.
- Reporting in compliance with Standard 9 has credibility of foreign investors, and as a result helps to get cheaper and long-term credits, loans, investments, and provides access to world capital markets
- Application of Standard 9 forms a basis for enhancement of trust towards credit guarantee schemes



Conclusion

- Methodologies and approaches for credit / guarantee risk assessment in accordance with Standard 9 developed and used at OJSC “Guarantee Fund” can be implemented in credit guarantee funds of other countries.
- The results of Standard 9 implementation will be affected by macroeconomic indicators, the state of the banking system, the quality of the loan portfolio, sectoral development of the economy and other indicators of the country of the credit guarantee fund’s stay
- The behavioral model of reserve provisions will depend on the risk assessment models adopted by the credit guarantee funds, as well as on the procedure for using all available reliable information about past events, current conditions and predicted future economic conditions



OJSC "Guarantee Fund"

Thank you for attention!

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