

PRESENTATION

OSEO garantie



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Main elements on structure and public mission



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OSEO garantie

French society for the guarantee of SME financing

Created in 1982 by the French government

Specialized financial Institution (IFS) fulfilling a permanent mission of public interest. It has the nature of a limited company..

Shareholders : French State via OSEO group (58,3%) and banks and financial institutions (41,7%)

Mission : OSEO garantie manages the loan guarantee scheme funded by French State, Caisse des Dépôts et Consignation (CDC), and French regional authorities...

Financial structure: a two storied construction:

A limited company, covering the scheme's running costs

A set of guarantee funds, independantly funded, covering the cost of risk

OSEO garantie, OSEO financement and OSEO innovation (innovation support agency) constitute since 2005 the OSEO group, offering one single access point for all French public financial support to SMEs.





**the reasons behind the national support to the scheme:
High risk borrowers, or high risk situations for SMEs lead
to an « un-marketable » cost of risk**

From a study covering over 200 000 loans granted with SOFARIS guarantee from 1983 to 2000, the cost of risk is shown up as part of the loan interest rate (necessary risk premium) and as possible loss for every 100 euros of financing :

- Start ups : 3 to 7%, loss of 9 to 21 euros
- LBOs : 3 to 5%, loss of 9 to 15 euros
- Development operations 1 to 4%, loss of 1 to 12 euros
- Financial structure : 3 to 5%, loss of 9 to 15 euros
improvement





SMEs problem is lack of collaterals... Public guarantee funds are a response to that situation

Operational conditionalities:

As long as they do not interfere with financial actors normal behaviour

As long as they limit their benefits to viable projects

If they are properly managed (ability for risk assessment on specific types of risks requiring experience, control of cost of risk, financial stability)

If they manage to be an efficient technical support to the banking system

Objectives:

The funding of guarantee funds can be considered as an initial financial investment in order to stimulate SME development and reach a macro-economic positive effect:

GNP, effects on employment and tax returns, innovation, new competence, animation of economic agents, can reap future positive effects for the State





A large scale financing actor , using public support

OSEO garantie is a strong support instrument for the state policy towards SMEs:

47 800 SMEs supported with € 5, 8 billion of financing in 2007

Funding from the state went from 150 m € in 2005 to 240 m € in 2007

European support is limited to counter guarantee programs (yearly potential of about 16 m €, ie less than 1 % of the annual volume of granted guarantees)

Organization of relations with the French government: delivering a support base on public funding in private management

Ministry of Finance selects the president of the board; Ministry of SMEs and

Ministry of Industry are represented

Public decision for the definition of products, beneficiaries and conditions

Private management for daily activity (organization, decisions, recoveries...)

All staff originating from banks or public financial institutions

Risk approach is based on banking techniques, but with acceptance of high risks





State aid compliance:

OSEO Guarantees are considered by the EU Direction of Competition as a non-public support :

The company is fulfilling a permanent mission of general interest

It creates no distortion of competition, as guarantee is offered to all sectors and enterprises respecting the EU definition of SMEs,

It is not supporting non-viable entities;

guarantee is charged at market price -- as private guarantee organization operate parallelly in France --,

Oseo garantie, as company in charge of the scheme management, gets appropriate income for the given service (no excessive benefits)

It is responsible on its own equity in case of total consumption of operating guarantee funds





Incentive features:

OSEO Garantie has to behave as an assistance to economic development.

Acceptance is based on entrepreneurs qualities and business plan rather than only on assets and proven performances

Entrepreneurs are encouraged to go into their projects by strict rules regarding their personal involment in risks:

- financial implication is demanded, no strict ratios about equity/loan apply
- personal guarantees are limited (no more than 50 % of risk amount), and will not apprehend the entrepreneur's home





Internal organization and practices for the guarantee activity





Organization of decisions

- Most decisions are taken at branch level (about 95 % of all individual decisions)
- Head office (credit department) sees operations over a 900 000 € risk limit (or decisions that involve other risks for the group and have to be centralized)
- Knowledge of local facts is essential
- Some specialist at head office can be called upon and associated to local branch decisions
- The guarantee element should not add long delays to the global process of decision for the projects: the logic of reactivity and (reasonable) speed is put into action.





Motivations of this extended decentralization

The scheme branches play a decisive role in the success or failure of the scheme

Business is made with people, not anonymous organizations

People means: local interlocutor, well known person, trusted, appreciated, understanding banks cultures and objectives, fair, positive, able, helpful

Making business must be pleasant and efficient, not traumatic, uncertain or aggressive

The right balance of relationship must be set, with a clear message of what is possible or not (in terms of risk taking)

It must have decision power in order to be respected and heard, and explain clearly the reasons of its refusals





Organization of specific guarantee funds

OSEO guarantee funds for medium and long term loans are dedicated to all the stages of development of the SMEs : the main guarantee funds are for :

- Start ups
- Development programs
- Take over operations (LBOs)
- Financial structure improvement
- Innovation programs (in synergy with OSEO garantie)
- Export companies

Two funds are dedicated to equity operations.

One fund is devoted to biotechnology enterprises.

One fund is granting guarantees for short term financing (performance bonds and guarantees related to export contracts, financing export expenses with the French COFACE (export agency) , factoring...).





Common characteristics of guarantees

Eligibility : all sectors, apart from property management and financial activities:

EU size definition as limit

All type of financing eligible

Guarantee quota: offer structured in an incentive logic for bankers : high risk gets high coverage

Maximum quota can be reduced according to bank's request or credit officer's decision

Policy on securities: risk sharing with bank means all recoveries reduce common risk. But OSEO should not behave as if risk coverage is the first objective.

Guarantees must be taken on financed assets (equipment, property)

Personal guarantees have to be appropriate (complement the entrepreneurs and shareholders direct financial involvement in company equity)...

But are limited to 50 % of loan risk

And exclude recoveries on personal home of entrepreneur

