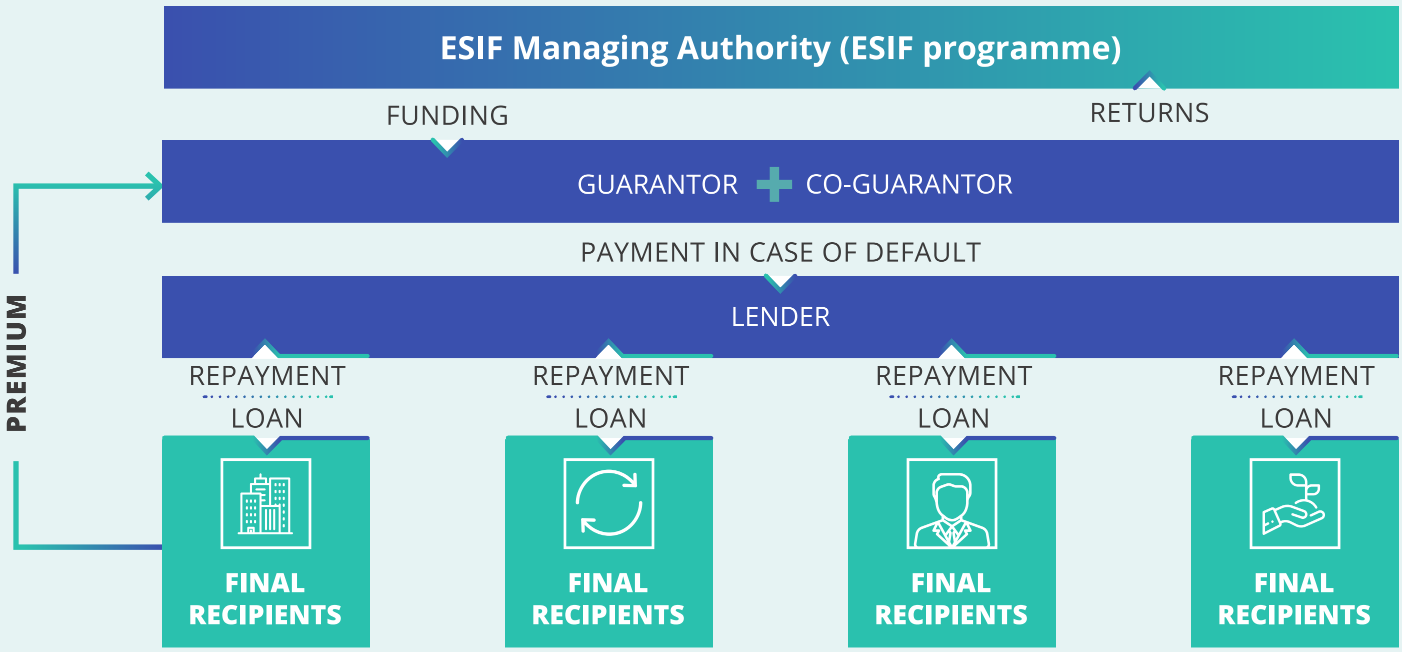
G U A R A N T E E

"Written commitment to assume responsibility for all or part of a third party's debt or obligation or for the successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default*"

How does it work?



N O T E S

1. In addition to issuing guarantees through a body implementing FI who acts as the guarantor (in an implementation structure with a FoF or without) MAs may undertake implementation directly (see CPR, Art. 38(4)(c)).
2. ESIF programme resources could also be used for counter-guarantees for a commercial guarantor who guarantees the loans given to FRs by a commercial lender.
3. Resources returned from guarantee fees and released uncalled guarantees, which are attributable to the support from ESI Funds, i.e. excluding national co-financing, have to be reused for purposes defined in Articles 44 and 45 of the CPR.

TECHNICAL FEATURES

Key elements in defining a **guarantee instrument** are:

• **Portfolio volume**: the aggregate amount of the underlying transaction, such as loans to be disbursed by the lender which are covered by the guarantee.

• **Guarantee Rate**: the maximum portion of the value of each loan covered by the guarantee.

• **Guarantee Cap Rate**: the maximum portion of the total portfolio covered by the guarantee. In other words, the guarantee will cover losses at the guarantee rate up to the maximum determined by the guarantee cap rate applied to the total portfolio.

• **Capped amount**: the maximum liability under the capped guarantee. It is calculated as the product of the i) total portfolio volume, ii) the guarantee rate and (iii) the guarantee cap rate. In other words, the capped guarantee will cover losses at the guarantee rate up to the maximum determined by the guarantee cap rate applied to the total portfolio volume. This amount plus expected management costs and fees related to the instrument will be set aside from the Operational Programme resources.

PROS

1. Guarantees can preserve the equity of FRs as there is normally no claim on the ownership of the enterprise.
2. Potential benefits for FRs could include *inter alia*, lower or no guarantee fees, lower or no collateral requirements as well as lower risk premiums.
3. Since programme contributions cover only certain parts of loans (appropriate multiplier ratio), there is a high leverage effect.
4. The investment risk for third party lenders is reduced (because they only bear part of the risk of default).
5. Unfunded products such as guarantees require less initial support than funded products such as loans.

CONS

1. The guarantee represents a risk reserve for the lender and does not provide liquidity. It can however, in some cases, provide capital relief to the lender.
2. Estimating the appropriate cap, or maximum limit, can be challenging.
3. There is no transfer of business expertise to FRs.