



Credit Guarantee Institutions

Research Team

Ayesha Wajih | Assistant Manager Research
Abdul Hanan | Associate Research Analyst

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Credit Guarantee Institutions

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Credit Guarantee Institutions

Introduction

- **Credit Guarantee Institutions (CGIs)** are Non-Bank Financial Institutions (NBFIs) whose main objective involves increasing the access to finance through the provision of credit guarantees that mitigate the risk of non-repayment. These guarantee schemes are licensed and supervised by central banks or other financial sector regulators and are subject to minimum capital requirements. Some of the areas of focus for CGIs are small and medium-sized enterprises (SMEs), sustainable and social finance and other segments with limited to no access to formal lending.
- Penetration of the underserved segments and SMEs in credit markets remains low. CGIs were introduced to support these organizations and help them avail the benefits of financial leverage by giving guarantees for underserved segments in the financial industry. CGIs typically provide third-party credit risk protection to the lenders by absorbing a portion of lenders loss, in case of default, on loans given to SMEs and other organizations, in return for a nominal fee.
- They are largely owned and funded by the government of the respective country or by multilateral institutions. Given their developmental role, CGIs generally carry high credit risk against their portfolio. These are usually reliant on the shareholders' equity and/or grants to run their operations. Governments commonly use Public Credit Guarantee Schemes (PCGSs) to unlock finances for underserved segments, with more than half of all countries having some sort of CGI in place, particularly for SMEs. However, ~41.3% of formal SMEs in developing countries are underserved or unserved by financial institutions, resulting in a credit gap of USD~5.7trn.



Credit Guarantee Institutions

Services Offered by Credit Guarantee Institutions

Credit Guarantees

- This is the core function of the Credit Guarantee Institutions.

Credit Assessment

- If the CGI does credit risk assessment, there are numerous benefits such as the development of a credit risk repository, better risk assessment and greater lender comfort.

Credit Insurance services can take the following two forms:

- Trade credit insurance: provides SMEs protection against default risk of business counterparts.
- Loan portfolio (re-) insurance: CGI can include insurance for the institutions providing credit guarantee services.

Credit infrastructure services can take the following two forms:

- Credit database: The unique position of CGIs in the financial ecosystem enables them to possess rich information on SMEs.
- Factoring: A service that helps alleviate cash flow issues for SMEs by enabling the realization of receivables sooner and help them be on better credit terms.

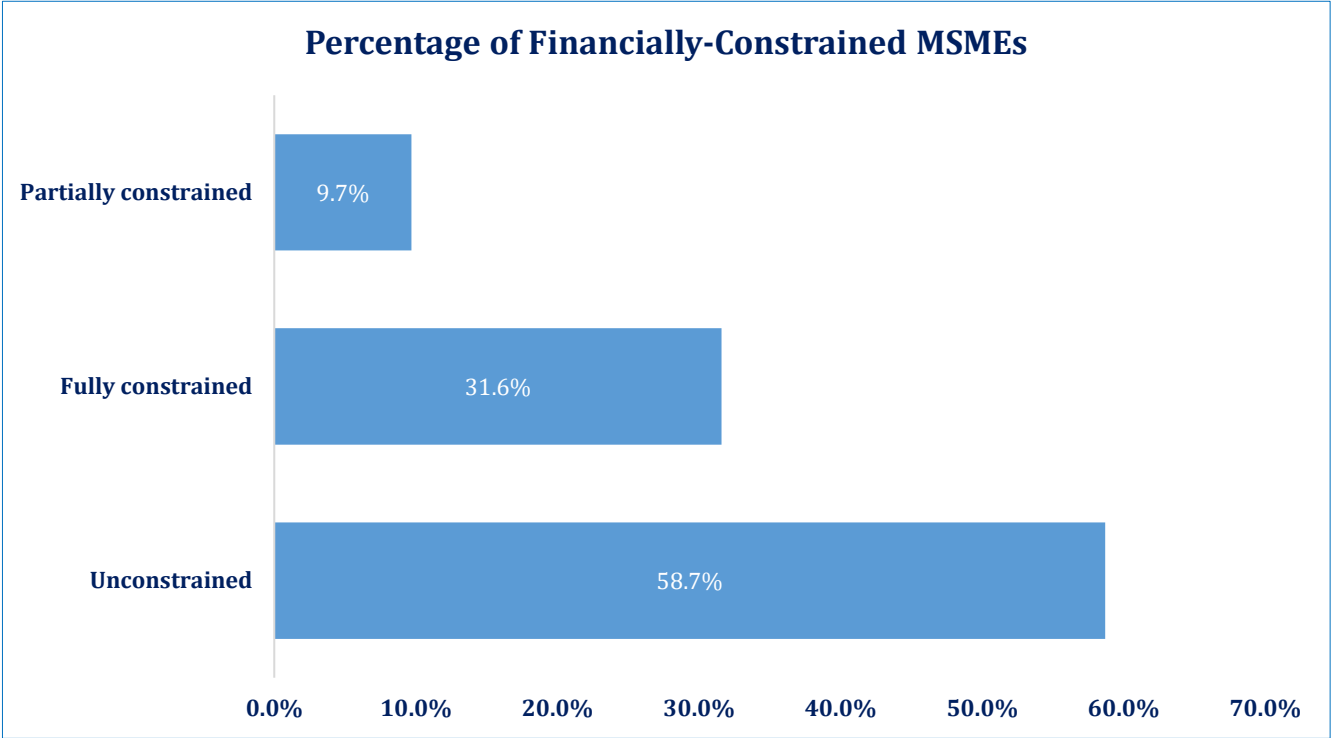
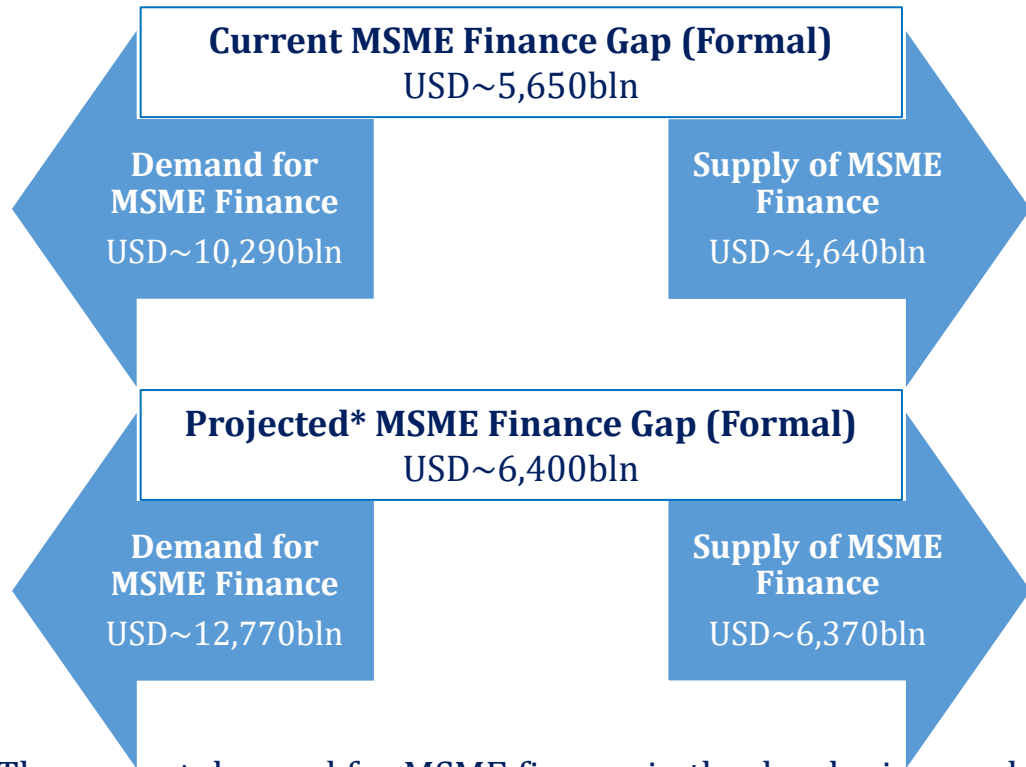
Credit Guarantee Institutions

Setting Up and Operationalizing the CGI

Type of CGIs	Advantages	Disadvantages			
Public	High trust factor, synergy with other government departments	Potential political influence	First Step: Initial Assessment	Identification of Purpose: Define the CGS's exact economic role or underlying need	Analyze access to finance issues: higher interest rates, rejection rates, demand for collateral and others
					Analyze underlying causes: Outcome of the above should be analyzed to identify core underlying issues
					Analyze overlap of functions: Assess whether existing institutions have addressed the core issues effectively or ineffectively.
					Analyze institutional market failure issues: This involves looking at market failure requiring intervention. CGS should only target those issue for which it can offer sustainable long-term solutions.
Private	Better risk assessment	Regulatory disadvantages, chances of fraud		Organizational Setup	Organizational structure for a CGI can be: <ul style="list-style-type: none"> Public Private (mutual fund guarantee schemes) Public-private partnerships International organizations
Public-Private	Diverse sources of fund, better governance	Rent-seeking activities may take place			
International	International expertise and good corporate governance practices	limited penetration in various developing markets.	Second Step: Recommendations for Operationalizing a CGS	Principles for Sustainable and Efficient CGI Functioning	Legal and regulatory setup Capital contribution Ongoing capital contributions Leverage ratio

Credit Guarantee Institutions

Global | MSME Financing Gap

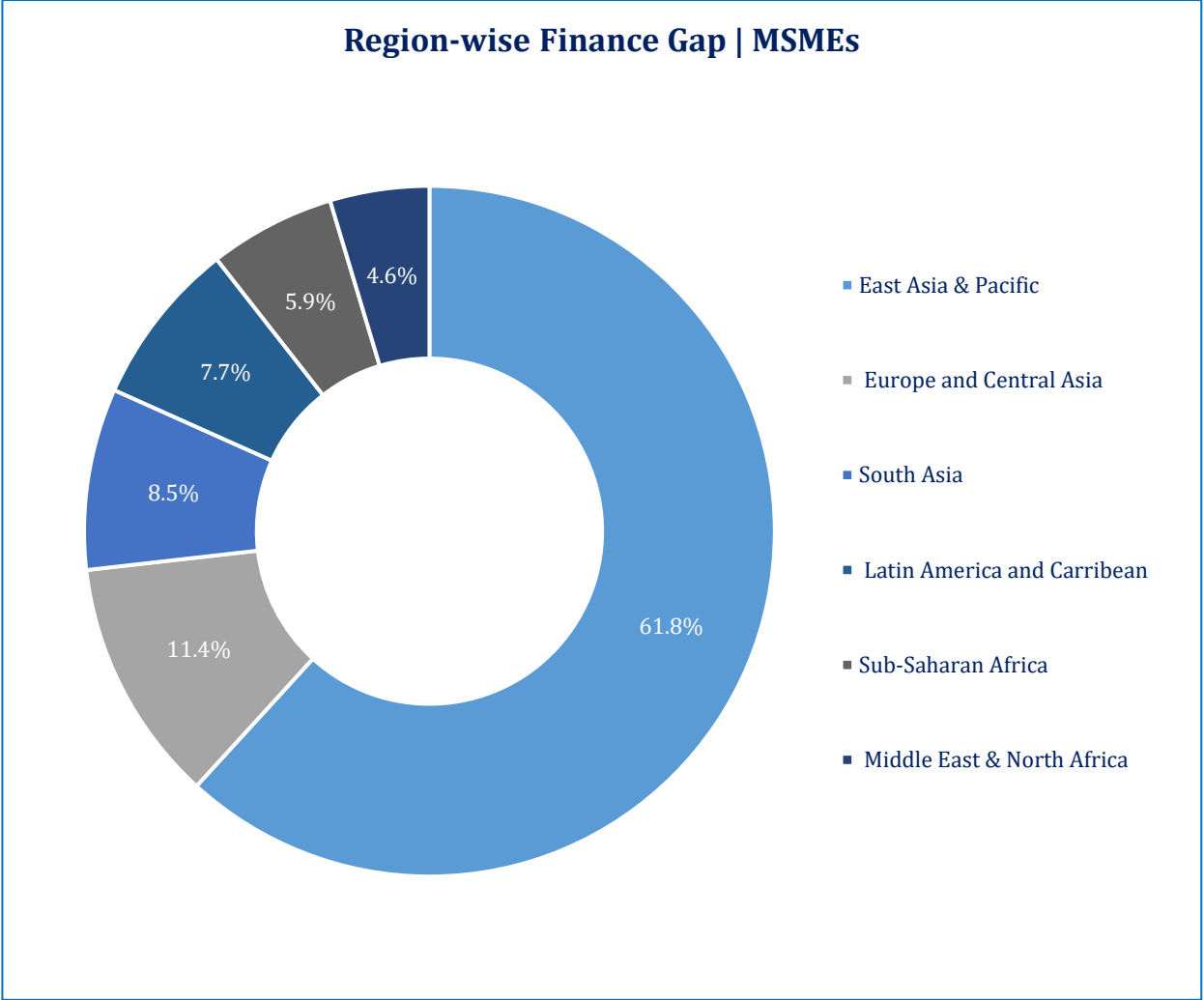


- The current demand for MSME finance in the developing world outweighs supply by USD~5,650bln, indicating that small and medium businesses' financing needs are yet to be met. The developing world here is classified as lower, lower-middle income and upper-middle income economies (as of Jul'24, these include countries with a GNI per capita of less than USD~14,005). This finance gap is estimated to increase to USD~6,400bln by CY30.
- Partially-constrained SMEs have limited access to finance but cannot meet their full funding needs, while fully-constrained SMEs have no access to formal finance at all. Currently, only ~58.7% of all MSMEs are unconstrained while ~31.6% are fully-constrained. ~9.7% are partially-constrained with minimal access to finance.

Credit Guarantee Institutions

Global | MSME Finance Gap

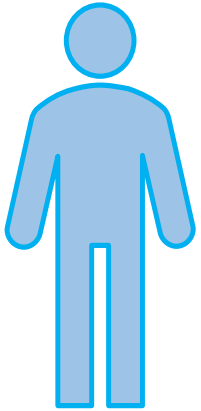
- Regionally, as of CY19*, East Asia & Pacific has the highest finance gap (USD~3,018bln), followed by Europe and Central Asia at USD~558.0bln and Latin America & Caribbean at USD~378.0bln.
- In percentage terms, East Asia & Pacific represented ~61.8% of the total finance gap. Meanwhile, Europe & Central Asia's and Latin America & Caribbean finance gap made up ~11.4% and ~8.5% of the total finance gap during the period under review.
- China alone, a part of the East Asia and Pacific region, had a finance gap of USD ~2,546bln, making up ~45.1% of the total finance gap of USD~5,650bln.
- In South Asia, India had the highest finance gap at USD~334.0bln, while Pakistan's gap stood at USD~58.0bln.



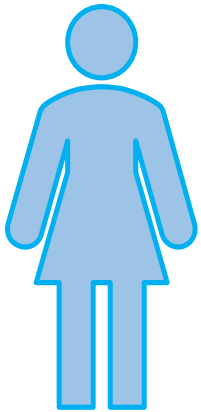
**This database accompanies the MSME Finance Gap Report CY25.*

Credit Guarantee Institutions

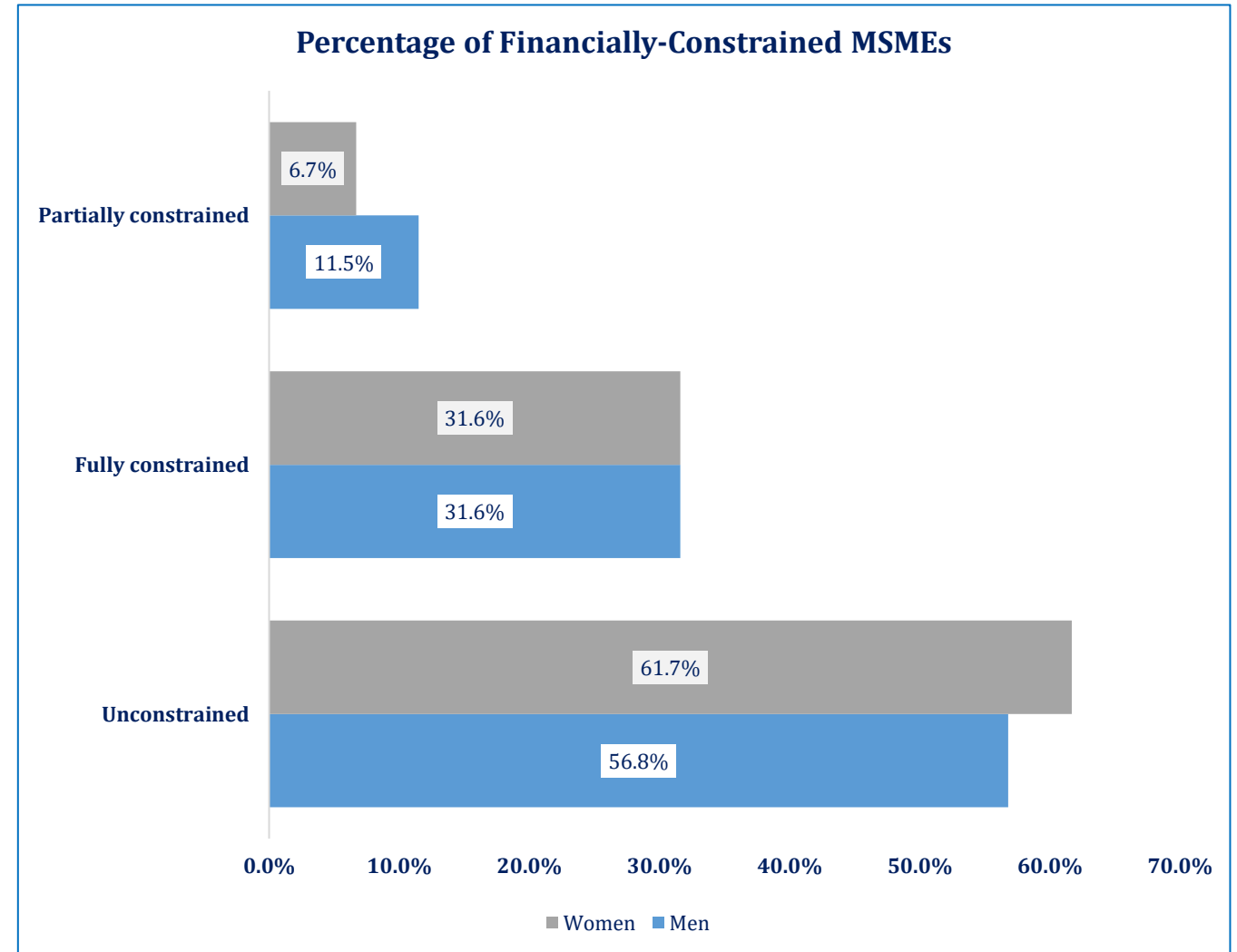
Global | MSMEs and SMEs



Male-led SMEs*: 63.8%
Male-led SMEs Volume*: USD~2,960bln
Male-led SMEs Gap : USD~3,704bln



Female-led SMEs*: 36.2%
Female-led SMEs Volume*: USD~1,680bln
Female-led SMEs Gap : USD~1,946bln



Credit Guarantee Institutions

Multilateral Investment Guarantee Agency (MIGA)

- MIGA is part of the World Bank group and is governed by its member states. It was established in 1948 to promote foreign direct investment in developing countries.
- During the last five years (FY20-24), MIGA's gross outstanding guarantees have grown at a CAGR of ~8.6%. In FY24, MIGA issued new guarantees worth nearly USD~8.2bln (SPLY: USD~6.4bln) while total net guarantees for the World Bank Group stood at USD~10.3bln.
- Regionally, in FY24, MIGA issued guarantees totaling USD~2.9bln in Europe & Central Asia, USD~2.7bln in Sub-Saharan Africa, USD~1.9bln in Latin America & the Caribbean and USD~449.0mln in South Asia.
- Outstanding Guarantee/Equity (also referred to as guarantee leverage ratio) is a risk indicator that measures the proportion of guarantees supported by the company's equity base. A higher ratio implies elevated financial risk, with a relatively smaller equity base backing a larger volume of outstanding guarantees.
- In FY24, guarantee leverage ratio increased to ~16.6x (SPLY: ~16.4x), on the back of ~12.9% YoY increase in outstanding guarantees, while equity grew by ~10.9% YoY.

<i>Figures in USD mln</i>	FY20	FY21	FY22	FY23	FY24
Outstanding Guarantees	22,600	23,000	24,400	27,900	31,500
Guarantees Issued (Gross Issuance in FS)	3,961	5,199	4,935	6,446	8,204
Equity	1,335	1,474	1,539	1,706	1,892
Outstanding Guarantees / Equity (times)	16.9	15.6	15.9	16.4	16.6
Net Guarantee Income	117	121	116	124	131
Expenses	(61)	(59)	(65)	(70)	(74)
Operating Income / (Loss)	56	63	51	54	57
Expense / Guarantee Income	52%	49%	56%	56%	56%

Note: FY is July-June for each period

Credit Guarantee Institutions

Small & Medium Enterprise Credit Guarantee Fund of Taiwan (SMEG)

- SMEG was established in Taiwan in 1974 following the early 1970s oil crisis in which a large number of SMEs suffered due to recession and high inflation.
- Primary objective of the fund is to provide credit guarantees to SMEs running in normal operations but are short of collateral for external financing.
- Funds for SMEG primarily come from central government, local governments, and contracted FIs. As of End-Dec'23, SMEG's net worth stood at USD~2,809mln (SPLY: USD~3,003mln).
- In CY23, outstanding guarantee/equity increased to ~18.1x (CY22: ~15.1x), on the back of ~11.6% increase in outstanding guarantees, while equity fell by ~6.5% YoY (factoring in currency depreciation element. In TWD terms, equity in fact rose ~3.4% YoY).

<i>Figures in USD mln</i>	CY20	CY21	CY22	CY23
Outstanding Guarantees	38,675	49,448	45,470	50,738
Equity	2,720	3,005	3,003	2,809
Investments	802	897	720	1,120
Outstanding Guarantees / Equity (times)	14.2	16.5	15.1	18.1
Investments / Outstanding Guarantees	2.3%	1.8%	1.6%	2.2%
Investments/Equity	20.7%	29.8%	24.0%	39.9%
Guarantee Income	114	122	107	117
Investment Income	29	26	29	13
Expenses	-226	-156	-162	-303
Net Income / (Loss)	-83	155	136	8
Expense/ Guarantee Income	198.2%	128.1%	151.3%	258.9%

Note: Conversion Rate At Dec. 31, CY20: TWD 1 = USD 0.03559 / At Dec. 31, CY21: 1 TWD = USD 0.03608 / At Dec. 31, CY22: 1 TWD = USD 0.03358 / At Dec. 31, CY23: 1 TWD = USD 0.0304, The entity reports provision for losses as expense. For net income, other revenue sources include donation revenue and recovery of bad debts, such as in CY21, 22.

Credit Guarantee Institutions

Credit Guarantee Corporation of Tokyo (CGCT)

- CGCT was established in 1937 by Tokyo Prefectural Government & Tokyo City Government (together, now the Tokyo Metropolitan Government). CGCT helps SMEs operating in Japan in fundraising.
- CGCT is engaged in providing services and special credit guarantee programs, including Management Support Initiatives, Guarantee System, Entrepreneur Support, and International Co-operations. CGCT provides medium-term guarantees in the form of individual and revolving guarantees with a ceiling of JPY~280.0mln and for up to 10 years.
- Outstanding guarantees of CGCT as of FY23 were recorded at USD~38.2bln (SPLY: USD~49.0bln). In FY23, USD~8.1bln of new guarantees were issued (FY22: USD~8.9bln).
- In FY23, net income stood at USD~162.0mln, down ~21.1% from FY22, on the back of lower guarantee income of USD~373mln, down by ~16.3%.
- In FY23, outstanding guarantee/equity decreased to ~15.8x (FY22: ~18.9x), on the back of ~22.0% decrease in outstanding guarantees, while equity fell by ~7.4%. YoY (factoring in currency depreciation element. In TWD terms, equity in fact rose ~5.2% YoY).

<i>Figures in USD mln</i>	FY20	FY21	FY22	FY23
Outstanding Guarantees	61,036	61,056	48,983	38,210
Guarantees Issued	56,680	11,189	8,873	8,119
Equity	2,853	2,911	2,589	2,411
Investments	4,050	4,303	3,686	3,259
Outstanding Guarantees / Equity (x)	21.4	21.0	18.9	15.8
Investments / Outstanding Guarantees	6.6%	7.1%	7.5%	8.6%
Investments / Equity	142.0%	147.8%	142.4%	135.2%
Guarantee Income	439	548	449	373
Investment Income	34	31	26	23
Expenses	-338	-371	-298	-256
Net Income / (Loss)	180	265	207	162
Expense / Guarantee Income	77.0%	67.7%	66.3%	68.6%

Note: Financial Year is Apr-March for each period), *At March 31, FY20: Yen 107.6963 = USD 1 | At March 31, FY21: Yen 110.7728 = USD 1 | At March 31, FY22: Yen 130.7019 = USD 1 | At March 31, FY23: Yen 136.2800 = USD 1

Credit Guarantee Institutions

Korea Credit Guarantee Funds (KODIT)

- KODIT was founded in June 1976 and is a public financial institution. Its objective is to enhance an enterprise’s financial accessibility and stimulate credit-based transactions through effective management of credit information for promising SMEs that lack tangible collateral.
- It is engaged in multiple operations including infrastructure credit guarantee, management consulting, credit insurance, industry start-up, industry start up and equity-aligned guarantees.
- In CY23, KODIT’s outstanding guarantees stood at USD~63.3bln (CY22: USD~64.7bln), while KODIT provided new guarantees worth USD~9.5bln in CY23 (CY22: USD~9.7bln).
- In CY23, outstanding guarantee/equity decreased to ~7.0x (CY22: ~7.9x), on the back of ~2.1% decrease in outstanding guarantees, while equity increased by ~11.1% YoY. This depicts a lower risk for the firm, as outstanding guarantees fell while the equity saw an increase.

<i>Figures in USD mln</i>	CY20	CY21	CY22	CY23
Outstanding Guarantees	52,100	61,000	64,658	63,303
Guarantees Issued	14,900	11,500	9,700	9,497
Equity	6,900	7,500	8,192	9,104
Investments	5,180	5,021	4,088	6,045
Outstanding Guarantees / Equity (x)	8.2	8.8	7.9	7.0
Investments / Outstanding Guarantees	9.2%	7.6%	7.9%	9.5%
Investments / Equity	75.1%	67.0%	62.2%	66.4%
Default rate	2.4%	2.0%	2.0%	3.3%

Note: Both long term and short-term marketable securities are considered as Investments

Credit Guarantee Institutions

Local | Background

- The State Bank of Pakistan (SBP) introduced its first CGI in CY10 particularly targeted towards small and rural enterprises. Pakistan's Credit Guarantee Schemes have been managed by the SBP in collaboration with the UK's Department for International Development (DFID) since its inception. The schemes were launched to help micro and small enterprises to access bank credit. These schemes were based on funds provided by DFID and Government of Pakistan (GoP). Participating financial institutions were provided risk coverage against their lending exposure to micro, small and rural enterprises under the schemes.
- Financial institutions that are being provided risk coverage by the SBP include commercial banks, development financial institutions, microfinance banks, leasing companies, and co-operative banks. In CY21, the SBP launched the SME Aasan Finance Scheme (SAAF), which provided loans up to PKR~10mln for a three-year tenure when the risk coverage was ~40.0-60.0%, while the markup was ~9.0% per annum (p.a). However, w.e.f September 18, 2023, GoP provides risk coverage of ~30.0-50.0% to SMEs. The mark-up rate for the users under the scheme remains up to ~9.0% (p.a.). The SBP provides refinancing to banks at ~3.0% p.a. (previously ~1.0%), thereby, offering a spread of up to ~6.0% p.a (previously ~8.0%).
- In CY19, SBP established the Pakistan Credit Guarantee Company (PCGC) in order to transform the DFID's Financial Inclusion Program (FIP) into an institutional setup and continue its positive effects on promotion of SME lending in Pakistan. PCGC was set up as a Partial Risk Sharing Facility by the State Bank of Pakistan to incentivise the FIs to lend more to the collateral deficient SME and agriculture sector. Therefore, its customers consist of commercial banks, DFIs and microfinance institutions.
- The initial investment for PCGC came from UK DFID and GoP. However, since Jan'24, GoP, along with Karaandaz, formed National Credit Guarantee Company Limited (NCGCL), converting PCGC into NCGCL with an initial capital investment of PKR~6.0bln.
- Private Infrastructure Development Group (PIDG) Promotes climate action alongside sustainable development as the central goal of its initiatives in infrastructure financing and capital market development. GuarantCo Ltd Ltd., as a member of the Private Infrastructure Development Group (PIDG), works throughout the project life cycle and across the capital structure to assist infrastructure projects in addressing financial, technical, and environmental hurdles. GuarantCo Ltd mainly operates in low income, below investment grade countries as per its mandate, including Pakistan.
- InfraZamin Pakistan Limited (IZP) is a more recent initiative of PIDG with the core objective of encouraging enhanced financial participation in long-term local currency financings of infrastructure assets.

Credit Guarantee Institutions

GuarantCo Ltd Ltd.

- GuarantCo Ltd. was incorporated in 2005 with the aim to i) support infrastructure projects in low-income countries via guarantee provisions which in turn, enable the said projects to raise debt financing and, ii) develop local financial debt markets.
- As of End-CY24, GuarantCo Ltd's funding base stood at USD~654.0mln (End-Mar'24: USD~640.2mln). Government agencies of various countries are the main fund providers. Foreign, Commonwealth and Development Office (FCDO) of the United Kingdom contributed ~63.6% of this fund or USD~415.8mln (Mar'24: ~63.9% or USD~409.2mln). Other agencies include those from countries such as Switzerland, Sweden, Australia, the Netherlands, France, and Canada.
- In Pakistan, the company has taken a major exposure in infrastructure projects in renewable energy, healthcare, transport, and digital communications in Pakistan.
- In CY24, outstanding guarantee/equity declined to ~3.8x (SPLY: ~3.9x), on the back of ~8.4% increase in outstanding guarantees, while equity increased by ~11.5%. This depicts a lower risk for the firm, as other CGIs have much higher ratio.

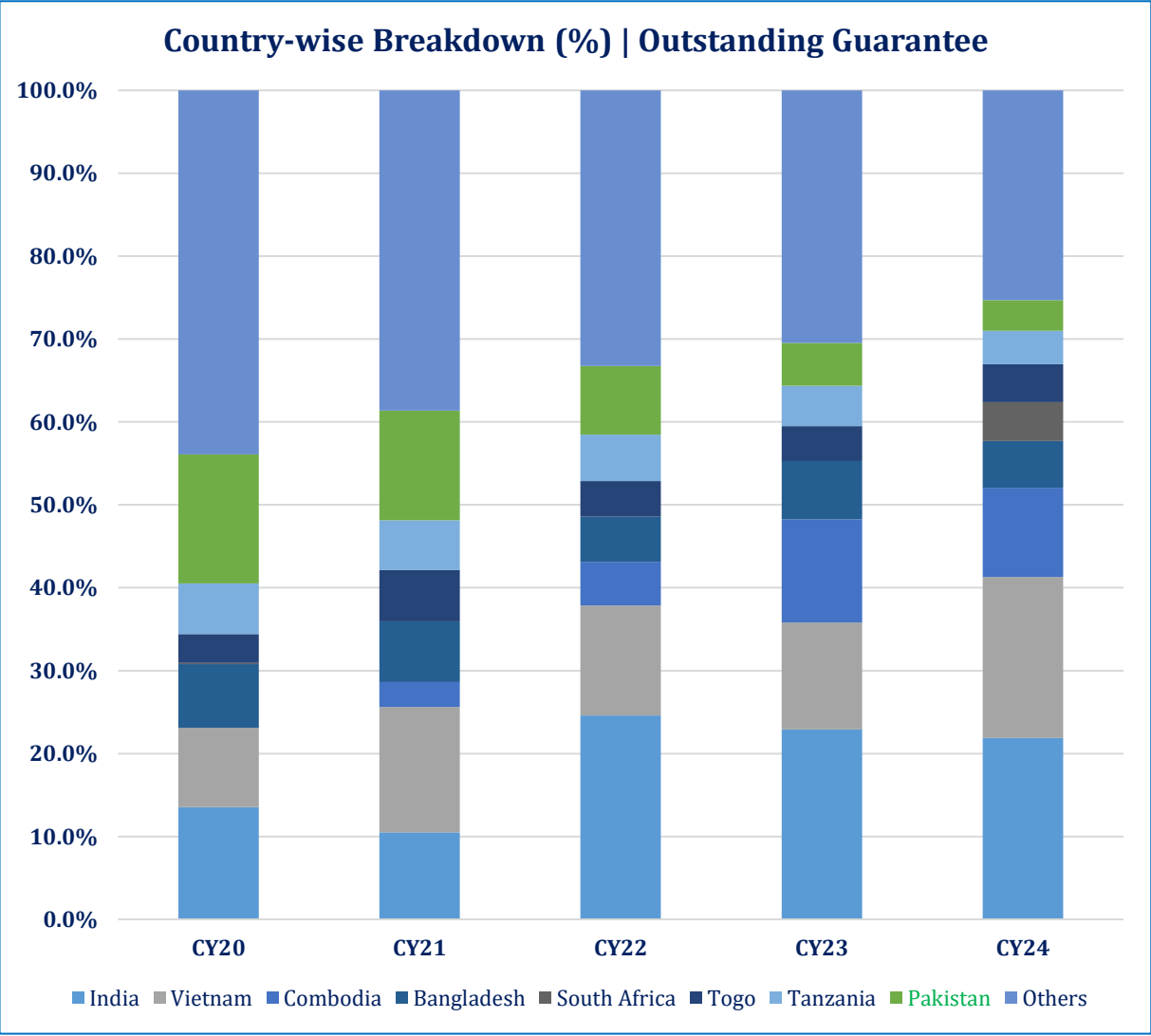
<i>Figures in USD mln</i>	CY20	CY21	CY22	CY23	CY24
Outstanding Guarantees	820	836	893	945	1,024
Equity	280	230	225	244	272
Investments	126	125	119	123	183
Total Earning Assets	295	310	251	280	318
Outstanding Guarantees / Equity (times)	2.9	3.6	4.0	3.9	3.8
Investments / Outstanding Guarantees	15.4%	15.0%	13.4%	13.0%	17.3%
Investments / Equity	45.0%	54.3%	53.1%	50.5%	67.3%
Guarantee Income	15	13	12	15	16
Investment Income	5	3	3	7	11
Expenses	-17	-18	-21	-21	-24
Net Income / (Loss)	2	-55	-27	4	5

Note: Data pertains to GuarantCo Ltd Ltd.

Credit Guarantee Institutions

GuarantCo Ltd | Country-wise Guarantee

- In CY24, total outstanding guarantees stood at USD~1,024.3mln (CY23: USD~944.7mln, of which Asia held a ~64.8% share (USD~663.9mln) (CY23: USD~606.0mln, ~64.1%), followed by Africa at USD ~204.8mln or ~20.0% share (CY23: USD~218.7mln, ~23,2%), while the rest, classified under the head of Multi-Country, stood at USD~155.5mln or ~15.2% (CY23: USD~120.0mln, ~12.7%).
- India held the highest share in outstanding guarantees as of CY24, with share increasing to ~21.9% (USD~224.2mln). Vietnam followed at USD~198.7mln or ~19.4%, Cambodia at USD~110.5mln or ~10.8%, and Bangladesh at USD~58.0mln or ~5.6%.
- Withing Africa, South Africa held the highest share of outstanding guarantees at USD~48.1mln or ~4.7% in CY24, even though it did not have any exposure in the previous year. It was followed by Togo and Tanzania at USD~47.0mln or ~4.6% and USD~41.2mln ~4.0%, respectively (CY23: USD~39.6mln, ~4.2% and USD~46.2mln, ~4.9%, respectively).
- Pakistan held a share of USD~38.0mln in CY24, down from USD~48.7mln in SPLY. Since CY20, Pakistan's share in company's total outstanding guarantees has fallen continuously from ~15.6% to ~3.7% in CY24, while other Asian countries such as Cambodia, Vietnam, and India have registered a rise in their share of outstanding guarantees during this period.

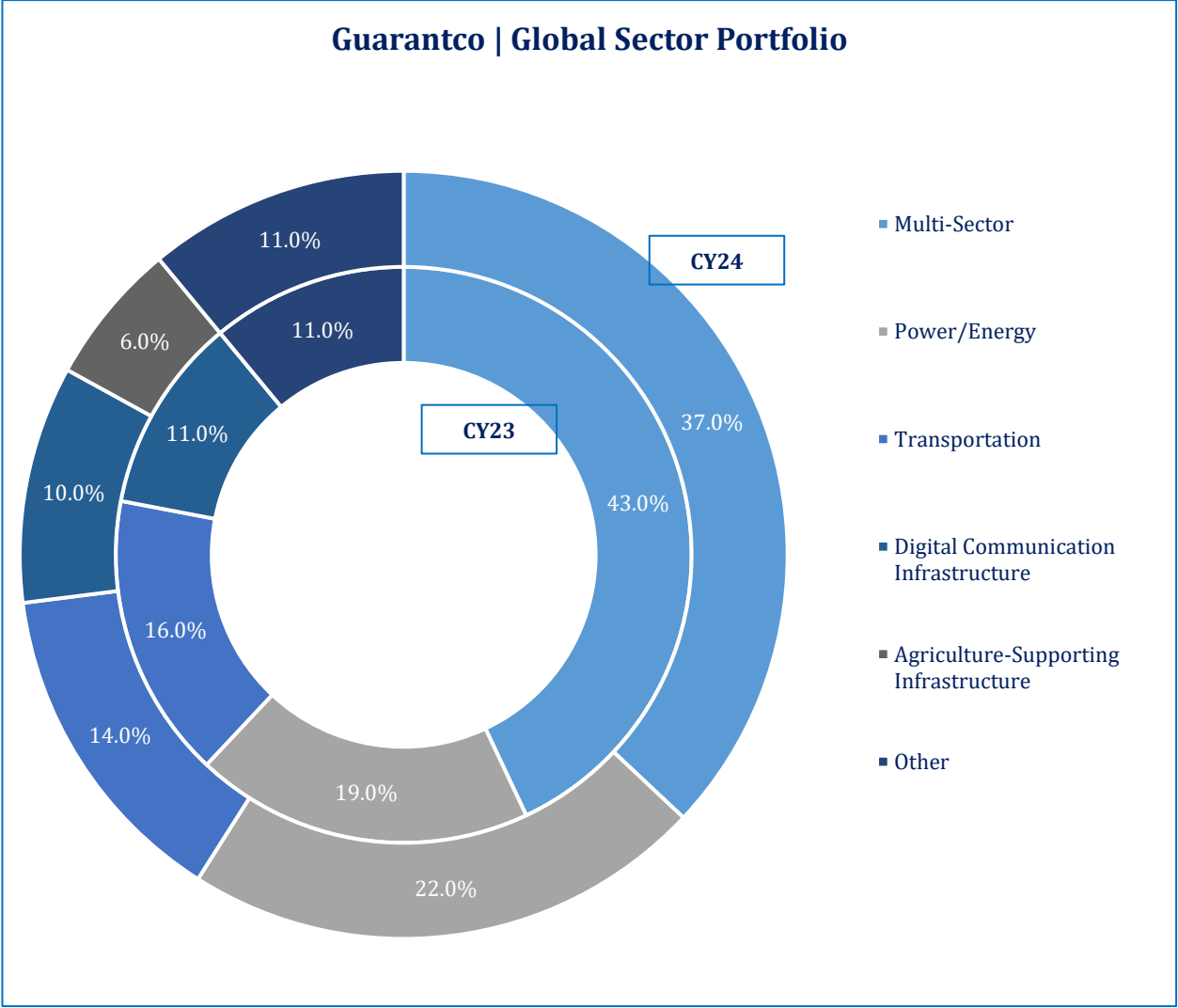


Note: Data pertains to GuarantCo Ltd Ltd.

Credit Guarantee Institutions

GuarantCo Ltd | Sectoral Guarantees

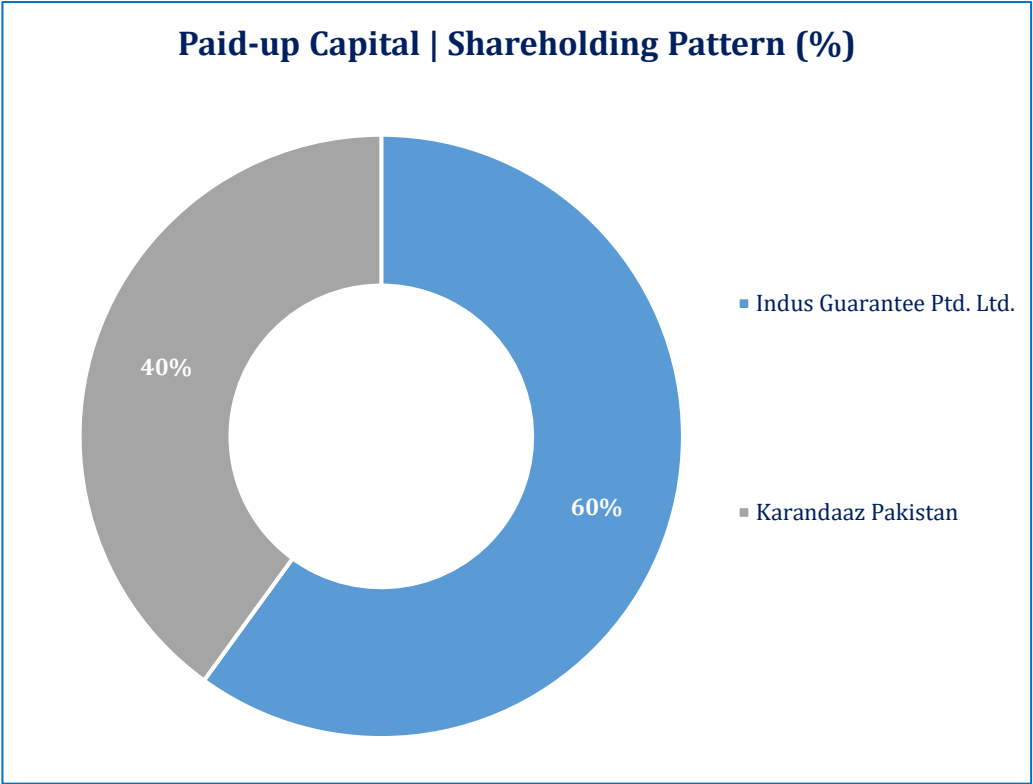
- GuarantCo Ltd Ltd. provides credit guarantees across Africa and Asia. In CY24, Multi-Sector was provided the highest credit guarantees at ~37.0% (SPLY: ~43.0%), while Power/Energy sector had a share of ~22.0% (SPLY: ~19.0%) followed by transportation ~14.0% (SPLY: ~16.0%).
- GuarantCo Ltd’s portfolio in Pakistan is mainly concentrated in energy and infrastructure with the following transactions as of End-Dec’24:
 - **InfraZamin:** Contingent capital facility of USD~29.6mln.
 - **KE:** Credit Guarantee of loan worth USD~50.0mln.
 - **Shams Power-I:** Credit Guarantee worth USD~4.2mln.
 - **Shams Power-II:** Credit Guarantee worth USD~4.1mln.
 - **Cnergyico:** Credit Guarantee of Sukuk worth PKR~3.15bln (matured Mar’23).
 - **Jazz:** Credit Guarantee of Sukuk worth PKR~966mln (matured Dec’19).



Credit Guarantee Institutions

InfraZamin Pakistan

- InfraZamin Pakistan Limited (IZP) is a recent for-profit initiative of Private Infrastructure Development Group (PIDG). The company is a collaboration between Indus Guarantee Ptd. Ltd., and Karandaaz. The main aim of the company is to catalyze pockets of underused liquidity in Pakistani financial markets to fund infrastructure projects.
- It is funded with PKR~4.1bln equity capital and a contingent capital facility of PKR~8.3bln with a tenure of 23 years from GuarantCo Ltd. Out of this, PKR~4.1bln is currently active, while the remaining is currently inactive and will become available after the company’s qualifying core capital has reached a required threshold.
- IZP is expected to unlock the hidden potential of the local credit market by way of providing guarantees to reduce the implied credit risk. This will enable greater flow of capital to sectors like renewable energy, digital communication, waste water treatment, social infrastructure and more.



Credit Guarantee Institutions

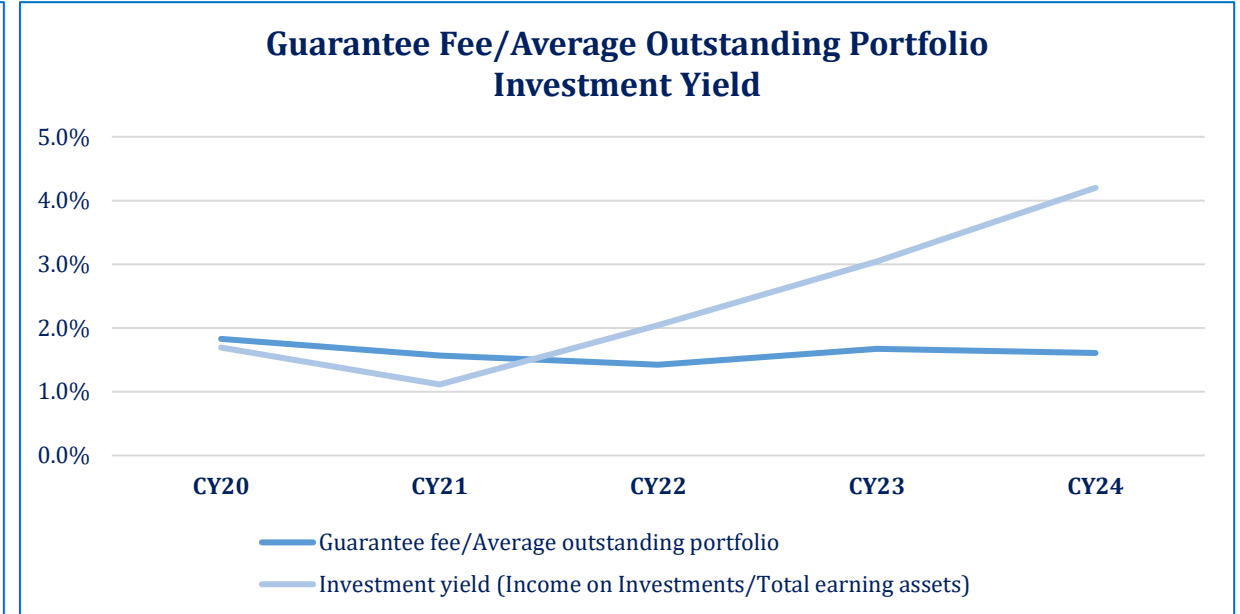
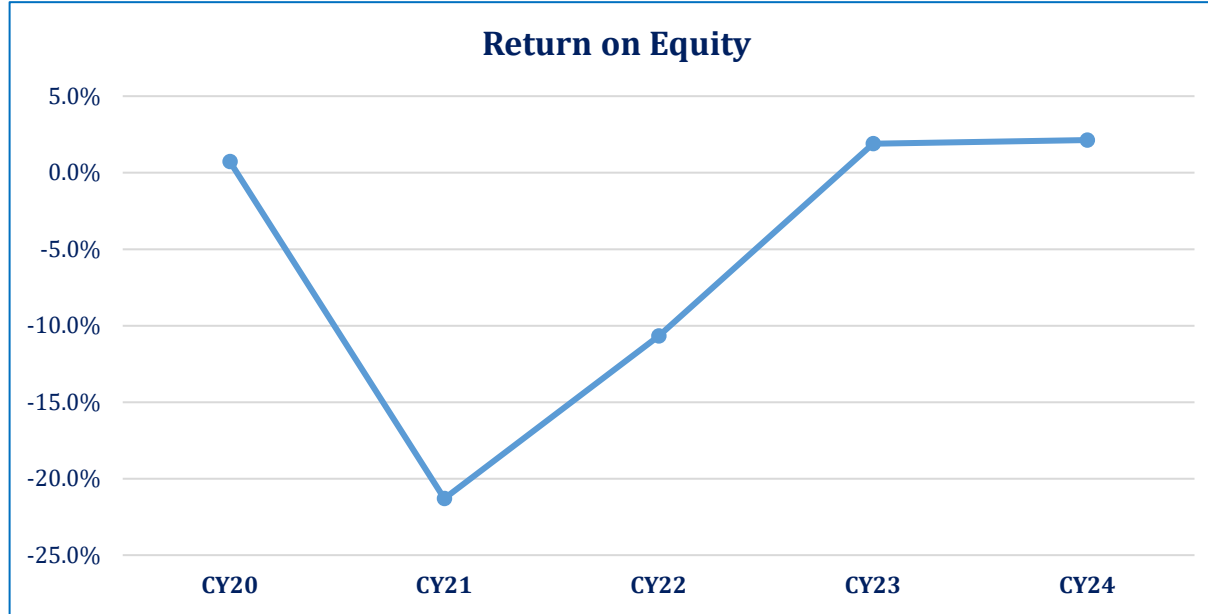
InfraZamin Pakistan

- In CY24, IZP earned a revenue of PKR~808.0mln (SPLY: PKR~738.0mln). Investment income represented ~67.8% (SPLY: ~87.4% share in total revenue), while its net profit stood at PKR~233.0mln (SPLY: PKR~230.0mln), resulting in an ROE of ~5.2% (SPLY: ~5.4%).
- Standing at PKR~4.4bln (CY23: PKR~4.2bln), IZP's total investment portfolio is highly liquid; with ~47.5% allocation in PIBs and remaining ~52.5% investments in short-term government securities (T-Bills) and Mutual Funds. IZP keeps credit risk in check via its Approved Credit Risk Mitigant Facility, where it uses reinsurers for risk transfers to minimize impact.
- In CY24, outstanding guarantee/equity increased to ~1.0x (SPLY: ~0.8x), on the back of ~27.2% increase in outstanding guarantees, while equity increased by ~5.5%. The outstanding guarantee/equity ratio remains low for the company as it is a relatively new enterant in the market. This is expected to go up as the company increases its exposure and accumulate higher outstanding guarantees.

<i>Figures in PKR mln</i>	CY21	CY22	CY23	CY24
Outstanding Guarantees	–	540	3,552	4,517
Equity	3,866	3,998	4,228	4,461
Investments	3,657	2,661	3,583	2,369
Total Earning Assets	3,673	2,674	3,615	2,391
Outstanding Guarantees / Equity (times)	–	0.1	0.8	1.0
Investments / Outstanding Guarantees	–	493.2%	100.9%	52.5%
Investments / Equity	94.6%	66.6%	84.8%	53.1%
Guarantee Income	0	17	26	75
Investment Income	115	459	546	645
Expenses	125	241	313	369
Net Income/(Loss)	158	129	230	233

Credit Guarantee Institutions

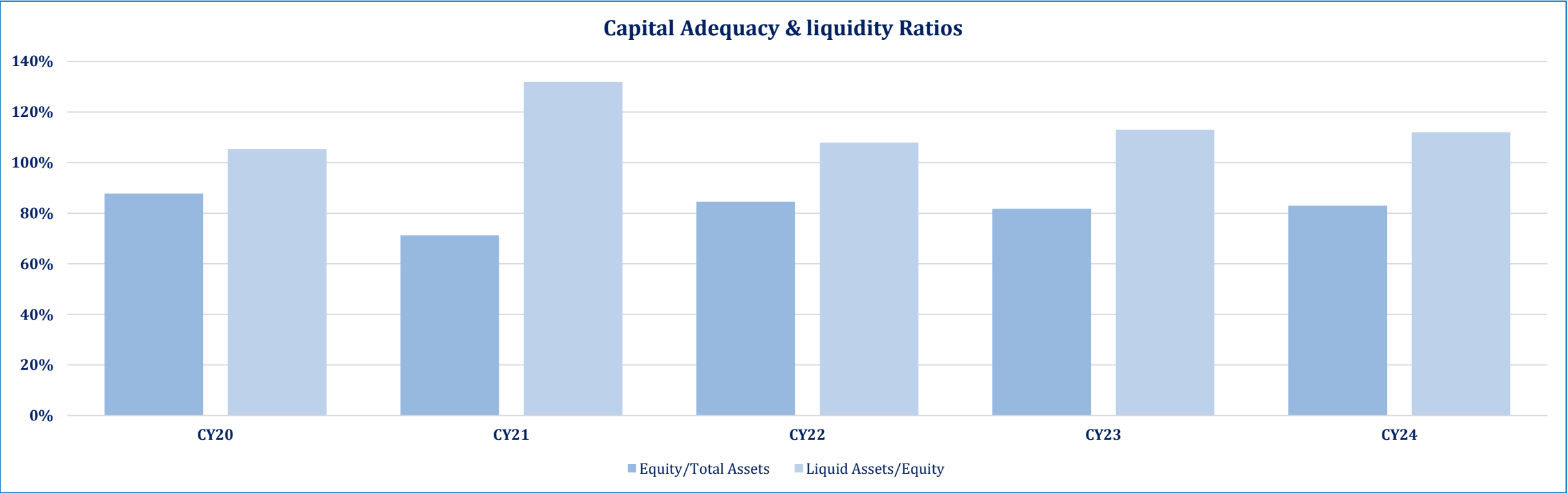
Performance Ratios



- During CY24, Sector's Return on Equity (ROE) improved to ~2.1% (CY23: ~1.9%) on the back of positive net earnings of USD~5.3mln for GuarantCo Ltd during the period under review (SPLY: USD~4.1mln). The improvement in net earnings is largely attributable to an increase in net investment income of ~63.1% to stand at USD~11.4mln (CY23: USD~7.0mln). Moreover, the interest received on funded exposures turned positive to for GuarantCo Ltd at USD~5.6mln. This was negative in CY23 at USD~- 2.6mln.
- In CY24, the sector's fee to average outstanding portfolio decreased to ~1.6% (CY23: ~1.7%), due to a ~8.6% increase in the outstanding guarantee portfolio, while guarantee income increased only by ~3.6% in CY24. The investment yield increased to ~4.2% in CY24 from ~3.0% in CY23, driven by a marginal increase in guarantee income ~3.6% YoY.

Credit Guarantee Institutions

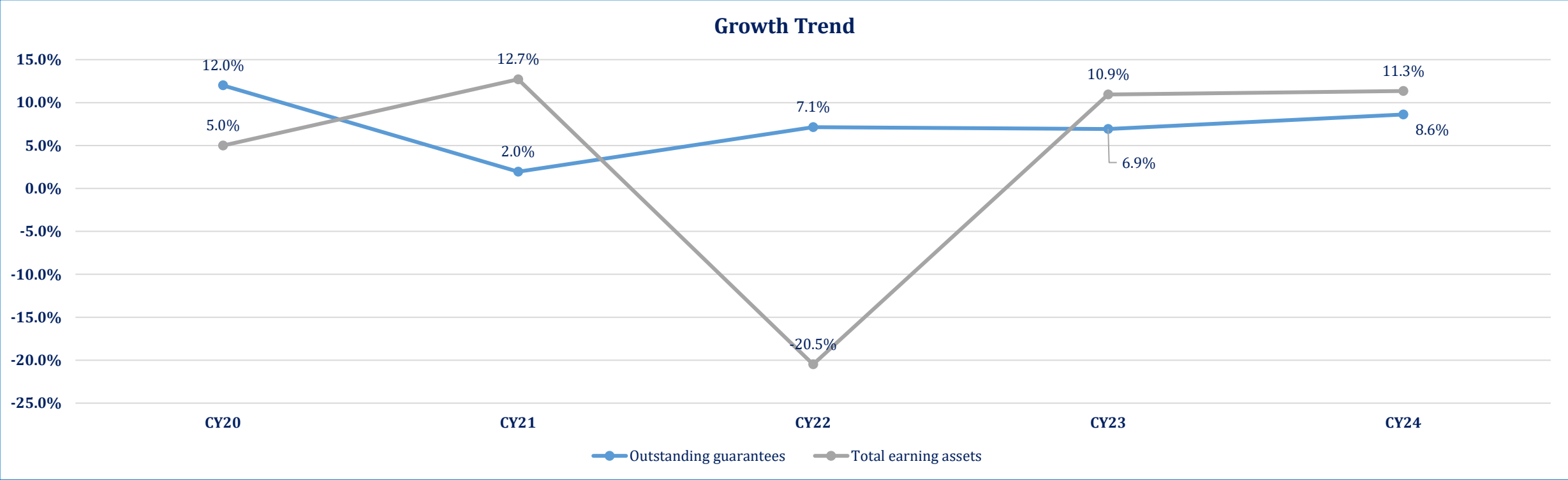
Capital Adequacy and Liquidity Ratios



- In CY24, the sector’s equity-to-total assets increased to ~83.0% (CY23: ~81.7%), which demonstrates the company’s lower reliance on leverage and depicts the capital soundness of the institution.
- Moreover, during CY24, liquid assets-to-equity, decreased slightly to ~112.0% (SPLY: ~113.0%).

Credit Guarantee Institutions

Growth Trend



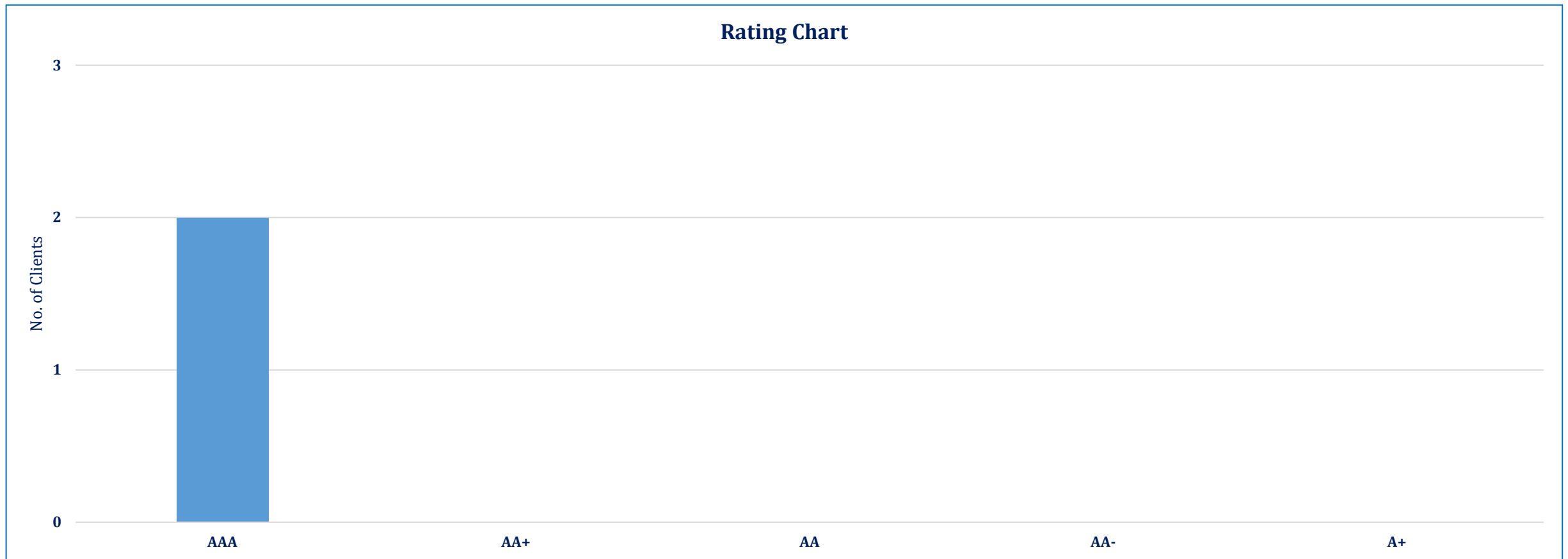
- In CY24, the sector’s outstanding guarantees continued to grow, as they increased by ~8.6% (CY23: ~6.9%). The outstanding guarantee portfolio size of GuarantCo Ltd Ltd. Exceeded the USD~1.0bln mark in CY24, recording at USD~1,024mln.
- While there was a steady growth in sector’s total earning assets in previous years, these declined by ~20.5% in CY22, owing largely to a ~29.0% reduction in cash collateral deposits for GuarantCo Ltd. However, during CY24, total earning assets that were ~93.9% of the total assets, increased by ~11.3% (SPLY: ~10.9%) on the back of increase in the financial instruments by ~48.8% for GuarantCo Ltd.

Note: Ratios pertain to GuarantCo Ltd Ltd & Infra Zamin Pakistan Ltd

Credit Guarantee Institutions

Rating Curve

- PACRA rates 2 sector players, GuarantCo Ltd and InfraZamin. CGIs have very high ratings owing to the underlying sponsor robustness and sovereign ownership.



Credit Guarantee Institutions

SWOT Analysis

- Strong regulatory/supervisory role of the State Bank of Pakistan (SBP).
- High level of credit worthiness due to strong financial position of sponsors and government involvement as well.
- Ability to raise large amounts of funds in international capital markets.



- Conflict of interest between private sponsors and host country's government.
- Tendency to focus on lower risk projects rather than projects that have a more positive effect on development.

- High policy rates in times of inflationary pressures.
- Difficult economic and monetary conditions may lead to subdued demand for credit.

- Increase in investment opportunities in multiple sectors.
- Development of SEZs and CPEC project.

Credit Guarantee Institutions

Outlook: Stable

- In FY24, Pakistan's economy posted a real GDP growth of ~2.5% (FY23: ~-0.2% growth). Meanwhile, the LSM grew by ~0.9% (FY23: ~10.3%). With real GDP growth of ~1.7% YoY in 2QFY25 and interest rates recording at ~11.0% as of End-April'25, the economy is starting to show signs of recovery. However, in 8MFY25, LSM declined by ~1.9% YoY (SPLY: ~-0.5% YoY).
- Commensurate with LSM's negative performance, the demand for credit guarantee has been low. However, credit to the private sector has picked up in the 3QFY25, which indicates a higher credit appetite. Pakistan's MSME Finance gap currently stands at USD~57.8bln, while only USD~3.8bln of finance is currently supplied. This means only ~6.2% of the total potential is utilized. As of End-Mar'25, outstanding loan balances to SMEs stood at PKR~650.3bln (SPLY: PKR~559.5bln).
- The CGI sector's risks are tied to its exposures in various sectors. GuarantCo Ltd has significant exposure in Pakistan's energy sector, which faced many problems, including circular debt and higher international energy commodity prices, along with currency risk, which are driving energy prices upwards. Lately, the Government has addressed these challenges, and the accumulation of circular debt has slowed down.
- The National SME Policy 2021, launched in Jan'22, aims to revitalize the SME sector through 'key performance targets' to be achieved by CY25. These include increasing the economic contribution of SMEs by increasing their numbers, simplified taxation regimes, and access to SBP's SME Aasan Finance Scheme (SAAF). If these targets are met, Pakistan will see a rise in the number of small and medium business registrations over this time horizon.
- Pakistan's interest rates increased significantly in recent times, owing to high inflation to a high of ~22.0% in FY23 and remaining high throughout FY24. However, the monetary policy rate has gradually reduced and currently stands at ~11.0% as of End-Apr'25. This is expected to spur economic activities and demand for private credit. Moreover, the SBP, under its Vision 2028, aimed to double SME financing to PKR~1,100bln until CY28, with PKR~10.0bln to be added to the SMEs' outstanding portfolio by End-FY25.

Credit Guarantee Institutions

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Research Team	Ayesha Wajih Assistant Manager ayesha.wajih@pacra.com	Abdul Hanan Associate Research Analyst Abdul.Hanan@pacra.com
Contact Number: +92 42 35869504		

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