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Federal Department of Economic Affairs, Education and Research
EAER
State Secretariat for Economic Affairs SECO

Report of the Federal Council

Commercial Guarantees

Report on the practicability, effectiveness and cost effectiveness of the Federal Law on Financial Aid for Commercial Guarantee Organisations [*Bundesgesetz über die Finanzhilfen an gewerbeorientierte Bürgschaftsorganisationen*]

Bern, 20.11.2013

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1 Summary

The majority of Swiss companies are SME. They provide two thirds of all jobs and therefore form the basis for our wealth. The Swiss Confederation aims to create ideal framework conditions with its SME policy.[1] These are its key objectives:

- Easing the administrative burden,
- Developing e-government,
- Easing the rules on company financing,
- Improving market access, and
- Supporting research, education and innovation.

The goal of commercial guarantees is to make it easier for small and medium-sized companies to gain access to bank loans and therefore company financing. Due to its position in the market, among other factors, this SME supporting tool also applies to rural areas and regional policies within the context of the policy.

Commercial guarantees were fundamentally reviewed in 2007. About five years later, SECO ordered the implementation of an external effectiveness analysis to form the basis for an overall assessment. This report provides an account of the guarantee reorganisation in 2007, a description of the effects of the guarantees, international comparisons, a market position analysis and a report on the execution of these measures. The evaluations were also carried out as a basis for possible changes in the law and other factors.

International aspect and comparison

Practically all OECD countries have corresponding guarantee instruments, although in different variations and forms. Numerous non-OECD countries also have instruments that cover loans with government guarantees. These were used particularly intensively in response to the financial difficulties some countries experienced during the financial and economic crisis that started in 2008.

At CHF 500,000, the Swiss guarantee limit comes to only around half the amount of the average limit of EUR 1 million in the comparable countries[2]. At CHF 127,437 (EUR 104,030)[3], on the other hand, the average amount of an individual guarantee in Switzerland is considerably higher than some of those issued by other countries.

Market position analysis

Since their reorganisation in 2007, commercial guarantees have been developing positively, established themselves and now have a solid foundation. Most banks and SME have a high regard for guarantee organisations. They are generally efficient and customer-friendly. The evaluators do not see any reason for adapting the product. The instrument nevertheless has further potential for development if awareness about its existence can be increased.

Effectiveness analysis

Guarantees successfully support SME by enabling these companies to obtain loans that banks would not usually grant them. Guarantees thus ensure their startup and succession planning and also make it possible to grow these companies. Guarantees primarily represent a commercial policy support instrument with strong roots in rural areas. At the end of 2011, companies supported by guarantees provided a total of 22,179 jobs. At the same time, they

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[1] EAER (2013)

[2] Comparisons were made with Germany, Austria, France, Italy, Spain and Portugal.

[3] EUR/CHF exchange rate in August 2013: EUR 1 = CHF 1.225

employed 1,774 trainees. Commercial guarantees therefore also contribute to vocational training. The bankruptcy rate of guarantee-supported companies is only marginally higher than that of all SME of the same size.

Through their income tax, the employees of these companies pay around CHF 13 million in direct federal taxes. According to the evaluators, the Confederation also receives around CHF 13 million in corporate income tax per year from the supported companies. The supported companies create value of around CHF 1.7 billion. The companies also request advance payments, which adds additional, induced value.

The windfall gain of this instrument is small overall. SME tend to only use guarantees if no other finance is available to them. The crowding-out effect, on the other hand, could be rather large. In terms of the whole of Switzerland, the corresponding jobs would remain in existence anyway in the long term, even without the existence of the companies supported by guarantees, but they would not necessarily be available to the respective small companies and probably not in the affected regions.

More than 10% of the guarantees issued since 2007 have fully drawn on the current limit of CHF 500,000.

Execution

The evaluation of the execution showed various positive aspects of commercial guarantees, but at the same time pointed out weaknesses and potential for improvement. The quantitative targets issued by the Confederation at the launch of the new guarantees in 2007 have been met. Confidence in the guarantees was strengthened.

Of the 29 recommendations made by the evaluators, 20 have been fully or partially implemented to date. Numerous recommendations were integrated in the new financial support agreements 2012-2015. A controlling, reporting and monitoring system was introduced, for instance.

Conclusion and assessment of adjustments

The evaluators regard commercial guarantees as effective overall. The Federal Council also finds that the guarantees have developed positively and have a good, solid foundation.

As part of the evaluation, the Federal Council also thoroughly assessed if the current guarantee limit of CHF 500,000 should be increased. The various evaluations did not unanimously show that it is necessary to increase the limit. Various studies implemented by SECO as well as the Confederation's "Arbeitsgruppe 'Kreditmarkt KMU'" [*'SME credit market' workgroup*] and different trade associations come to the conclusion that the SME credit market is functioning as a whole. If the credit market for SME is functioning properly overall, government intervention should not be increased. Even though the limits have not been changed since 1999, an inflation-related rise would arrive at the only marginally higher figure of CHF 550,000.

Furthermore, some of the guarantee organisations raised the question of a recapitalisation guarantee issued by the Confederation for the guarantee organisations and an increase of the administrative costs contribution should the limit be increased. This, however, would equate to a large system expansion for which the Federal Council does not see any reason or necessity at this point in time and considering the situation described above. The Federal Council therefore declines to raise the limit for the reasons stated above.

Regardless of the guarantee limits, technical adjustments of the ordinance are a more urgent matter so as to detail and adapt it to today's actual situation. With this report, the Federal Council therefore orders the EAER to prepare a corresponding amendment to the ordinance.

2 Initial situation

Commercial guarantees aim to make it easier for small and medium-sized companies to obtain bank loans. The Federal Law on Financial Aid for Commercial Guarantee Organisations[4] and the Ordinance on Financial Aid for Commercial Guarantee Organisations [*Verordnung über die Finanzhilfen an gewerbeorientierte Bürgschaftsorganisationen*][5] form the statutory basis for the revised guarantees. The ordinance is defined by the respective explanations from 28 February 2007.

Pursuant to Section 11 of the Federal Law on Financial Aid for Commercial Guarantee Organisations, the Federal Council regularly reports to the Federal Assembly about the practicability, effectiveness and cost effectiveness of this law. The objectives of this first in-depth report are to provide an account of the guarantee reorganisation, a description of the effects of the guarantees, international comparisons, a market position analysis and a report on the execution of these measures from external evaluations.[6] The regular reports form part of the promotion activities statement.[7]

The Federal Law on the Issuance of Guarantees and Interest Cost Contributions in Mountain Regions and Extended Rural Areas [*Bundesgesetz über die Gewährung von Bürgschaften und Zinskostenbeiträgen im Berggebiet und im weiteren ländlichen Raum*][8] from 25 June 1976, the UIA guarantees, which according to the Unemployment Insurance Act [*Arbeitslosenversicherungsgesetz*] can be issued as support for self-employment[9] and guarantees issued by the Confederation under the CO_2 Act [*CO_2-Gesetz*][10] (so-called technology funds) do not form part of this report. The offers made by the Swiss Association for Hotel Credit SGH pursuant to the Federal Act on the Promotion of the Hotel Industry [*Bundesgesetz über die Förderung der Beherbergungswirtschaft*][11] are also not included in this report.

This report also does not deal with the SME credit market, but with the instrument of commercial guarantees as a niche product in the SME credit market.

2.1 Historical overview until 2007

Commercial guarantees are an instrument steeped in tradition that was originally based on a federal decree from 1949[12]. However, the Federal Council was empowered to support the commercial guarantee cooperatives as early as the mid 1930s as part of the measures for combating crisis and creating jobs.[13] The Federal Decree from 22 June 1949 on the Support of Commercial Guarantee Cooperatives [*Bundesbeschluss vom 22. Juni 1949 über die Förderung der gewerblichen Bürgschaftsgenossenschaften*] created a solid legal foundation. This decree stated that the Confederation assumes 50% to 60% of the possible guarantee losses incurred by the commercial guarantee cooperatives for guarantees up to CHF 150,000.

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[4] SR 951.25

[5] SR 951.251

[6] The report is based on five external studies that analyse the effect [B,S,S. (2013)], market position [KMU-HSG (2013)], execution [Ernst & Young (2010), Ernst & Young (2011)] and Swiss guarantees in an international comparison [PwC (2013)].

[7] Federal Council (2011)

[8] SR 901.2

[9] SR 837.0, Section 71

[10] SR 641.71

[11] SR 935.12

[12] AS 1949 II 1657, SR 951.24

[13] Virchaux (1983)

Two additional instruments were later introduced that, however, are not part of this report:

1. The Federal Law from 25 June 1976 on the Issuance of Guarantees and Interest Cost Contributions in Mountain Regions and Extended Rural Areas[14] stipulates that the Confederations' share in losses increases to 90% for guarantees for mountain and rural areas. At CHF 500,000, the maximum limits of the Confederation were also higher than the limits for guarantees pursuant to federal decree when the law was introduced.
2. To encourage unemployed persons to enter into self-employment, the Federal Act on Compulsory Unemployment Insurance and Benefits on Insolvency (UIA) [*Bundesgesetz über die obligatorische Arbeitslosenversicherung und die Insolvenzentschädigung (AVIG)*] from 25 June 1982[15] and the corresponding ordinance from 31 August 1983[16] provide the option of applying for a guarantee up to the maximum amount of 90 daily allowances from commercial guarantee cooperatives. In the case of potential losses, the Unemployment Insurance (UIA) covers 20% of the loan. In this case, the daily allowance entitlement of the insured person is reduced by the amount paid by the Unemployment Insurance.

Since the launch of this instrument until 1987, the Confederation's share in losses was increased from originally CHF 6,000 to CHF 80,000. Since 1976, an additional guarantee for mountain regions of CHF 500,000 could also be issued on top of the assumption of losses. Since 1987, the guarantee cooperatives had the option of obtaining a loss assumption guarantee in the amount of CHF 300,000 from the Zentralstelle für das gewerbliche Bürgschaftswesen (GBZ) [*Commercial Guarantee Central Office*] in addition to the loss assumption guarantee from the Confederation. The possible guarantee limit for the guarantee organisations therefore was CHF 450,000 as from 1987 with an optionally issued guarantee for mountain and rural areas of CHF 500,000 on top of the other amounts.

The crisis in the property sector at the beginning of the 1990s threw the entire Swiss credit market into serious crisis and also had a negative impact on the commercial guarantee organisations. Due to the crashing values of the property portfolios and the deteriorating economic situation, both guarantee cooperatives and banks were confronted with severe losses.

The massive rise in guarantee losses made it necessary for the respective lenders to restructure most of the commercial guarantee cooperatives. By waiving their capital investments and in some cases loan guarantees, the major banks contributed considerably to the financial recovery of the guarantee cooperatives, but at the same time announced their exit from commercial guarantees.

The significant drop in guarantee volume of around CHF 400 million following the major banks' exit in 1995 to just under CHF 200 million at the end of the 1990s as well as a generally increased risk aversion among the lenders gave rise to question the fundamental structure of the guarantees. A structural analysis[17] was therefore carried out in 1995 in cooperation with the consulting firm BHP. The weaknesses of the guarantees were identified and a new model was developed. The aim was to find the balance between efficiency (simplifying the system, standardising processes, systematic handling, improving controls, etc.) and the decentralised federalist structure of the guarantees. The new "Bürgschaft2000plus" [*Guarantee2000plus*] organisation was formed following a long process.

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[14] SR 901.2

[15] SR 837.0, Section 71

[16] SR 837.02

[17] Hanser, Kuster (1995)

“Bürgschaft2000plus”[18] was a network between GBZ and nine legally independent commercial guarantee cooperatives[19] (excluding the guarantee cooperative Geneva). If the required guarantee exceeded CHF 150,000, the guarantee cooperative was able to obtain a loss assumption guarantee of a further maximum CHF 350,000 from GBZ. The loss risk assumed by the Confederation remained at 50% and 60% respectively of the first CHF 150,000. The SME consequently profited from a maximum guarantee of CHF 500,000.[20] It was also possible to issue a guarantee for mountain and rural areas in the amount of CHF 500,000 on top of the existing amount. In such cases, SME were able to receive up to CHF 1 million in guaranteed loans.

SAFFA, a guarantee organisation for women, operated independently from the “Bürgschaft2000plus” network. Since being founded in 1932, the annual number of approved guarantee applications continuously dropped from around 50 approvals in the beginning to just one approval in 1997. The number of approved applications increased again once the structure had been professionalised.

The restructuring measures undertaken regarding commercial guarantees between 1997 and 1999 were not enough to convince the major banks to return to the system.[21] The guarantee volume stagnated as a result.

In view of these developments, the National Council Economic Affairs and Taxation Committee (EATC-N) submitted a postulate regarding the strengthening of commercial guarantees[22] on 16 November 1999 in which it invited the Federal Council to report to the Federal Parliaments and apply to them to strengthen commercial guarantees. In particular, a rise in the Confederation’s share in guarantee losses and through subordinated loans to the commercial guarantee cooperatives was to be assessed.

The external expert Dr. Renatus Gallati appointed by the State Secretariat for Economic Affairs SECO concluded in his study[23] on SME financing that the new “Bürgschaft2000plus” system still contained some structural deficiencies (non-standardised regional division, non-standardised methods for assessing applications). He nevertheless rated commercial guarantees as basically suitable and important for financing SME.

In answer to EATC-N’s postulate, the Federal Council published a report[24] on 2 July 2003 and an additional report[25] on 31 March 2004. These contained several suggested variations ranging from an exit to strengthening and recapitalising the system. EATC-N then decided to launch a parliamentary initiative[26] in which it suggested a new statutory provision for supporting the commercial guarantee cooperatives[27]. The interested parties (banks, guarantee organisations, trade associations and SECO) joined a workgroup to help develop an improved SME financing concept.[28] This initiative resulted in the Federal Law from 6

[18] Advisory group ‘Bürgschaft 2000’ [*Guarantee 2000*] (1996)

[19] Regional guarantee cooperative Basel, Eastern Switzerland, Bern, Solothurn, Fribourg, Luzern, Vaud, Neuchâtel, Wallis

[20] CHF 500,000 in 1999 corresponds to CHF 551,050 in 2012, net of inflation.

[21] EAER (1999)

[22] Po. 99.3577

[23] Gallati (2001)

[24] Federal Council (2003)

[25] Federal Council (2004)

[26] Pa.Iv. 05.449

[27] EAER (2005), Federal Council (2006/1)

[28] SECO workgroup (2004)

October 2006 on Financial Aid for Commercial Guarantee Organisations[29]. The new system became effective in 2007.

2.2 Guarantees since the revision in 2007

2.2.1 Commercial guarantees

The Federal Law[30] , which became effective in July 2007, contains the following amendments and new provisions:

a) The Confederation’s share in guarantee losses incurred by the guarantee organisations was increased from 50% or 60% to generally 65%.

b) The maximum limit for the Confederation’s share in losses was increased from CHF 150,000 to CHF 500,000. From the perspective of the applying SME, the maximum limit basically remained unchanged. The option of topping up the limit with a guarantee for mountain and rural areas was excluded, which resulted in a decrease of the accumulated maximum limit of CHF 1 million to CHF 500,000 in the respective cases.[31]

c) The Confederation’s contribution to the guarantee organisations’ administrative costs was increased from just under CHF 200,000 to a maximum of CHF 3 million per year.

d) The number of recognised guarantee organisations was reduced from 10 to four: Coopérative romande de cautionnement – PME (Cautionnement romand), Bürgschaftsgenossenschaft Mitte (BG Mitte) [*Guarantee Cooperative Central*], Bürgschaftsgenossenschaft Ost (BG Ost) [*Guarantee Cooperative East*][32] and Bürgschaftsgenossenschaft der Frauen (SAFFA) [*Guarantee Cooperative for Women*].

e) A blanket credit of CHF 10 million was provided to support the cooperatives in their recapitalisation efforts. CHF 8 million of this amount was utilised for repayable subordinated loans. CHF 7 million was given to BG Mitte (divided into two subordinated loans of CHF 3 million and CHF 4 million respectively) and CHF 1 million to Cautionnement romand.

f) A blanket credit of CHF 30 million was issued for financing the guarantee losses assumed by the Confederation for the period from 2007 to 2010.

g) The law limited the total net guarantee volume, which benefits from the Confederation’s loss assumption, to CHF 600 million[33]. This corresponds to a maximum gross guarantee volume of CHF 923 million. The funds for covering the losses are included in the budget and financial plan.

These changes forced the three regional guarantee cooperatives to adjust their organisational structures. Cautionnement romand, in particular, was faced with large challenges as there used to be five separate guarantee cooperatives in Western Switzerland, in the Cantons of Fribourg, Vaud, Wallis, Neuchâtel and Geneva, until 2007. A new cooperative – Cautionnement romand – was founded to achieve the required reduction in the number of organisations in Western Switzerland. Cautionnement romand branch offices (so-called “Antennen” [*antennae*]) were set up in all five cantons which were mainly new structures (including personnel): the majority of the former cantonal cooperatives were discontinued (Fribourg, Neuchâtel, Geneva) and new organisations were founded as branch

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[29] SR 951.25

[30] EAER (2007)

[31] SR 951.251, Section 4, Paragraph 2

[32] In 2013, the former OBTG was renamed BG Ost.

[33] SR 951.25, Section 8, Paragraph 2

offices in these cantons. The former cooperatives of the Cantons of Vaud and Wallis underwent significant changes after which they were continued as branch offices.

GBZ was restructured at the same time. Since mid-2007, it has been offering the regional organisations a so-called risk splitting, meaning that they can reinsure their guarantees on a voluntary basis up to the maximum amount of CHF 500,000 with GBZ. Unlike in the past, GBZ no longer issues any direct guarantees, but supplements the activities of the regional organisations instead. Since the beginning of 2010, the Confederation and GBZ no longer have a business relationship or mutual supervisory function with regard to commercial guarantees.

The law states that guarantees may only be issued by the four recognised guarantee cooperatives BG Ost, BG Mitte, Cautionnement romand and SAFFA (see Fig.1). In addition, the guarantee cooperatives have signed service agreements with individual cantons with which they supplement and support the cantonal support of trade and industry in the SME financing sector. Certain cantons also provide a cantonal fund for further supporting projects of cantonal or regional importance.[34]

The guarantee organisations invoice the recipients of the guarantees for the costs for assessing their applications and charge them a risk premium on the annual guaranteed amount. The guarantee ensures that the recipients of the guarantees can obtain bank loans that would otherwise have been declined. The bank carries almost no risk if the bank loan does not exceed the guaranteed amount. The default risk of the guarantee organisations for their 35% share remains. At the end of 2012, however, their own funds exceeded their guarantees issued. According to Cautionnement romand, the price of a guaranteed gross loan, in other words a loan before risk premium, is usually around 2 percentage points lower than similar unsecured loans.[35]
The instrument of commerce guarantees is not justified in today's market conditions by a credit market failure. Several studies of the State Secretariat for Economic Affairs SECO in recent years have shown that the Swiss credit market for SME is functioning as a whole.[36] In 2009, the Federal Council also reconfirmed this in a report to EATC-N.[37] Guarantees are rather a niche product in the SME credit market that in today's market environment should mainly be regarded as a tool for supporting SME.

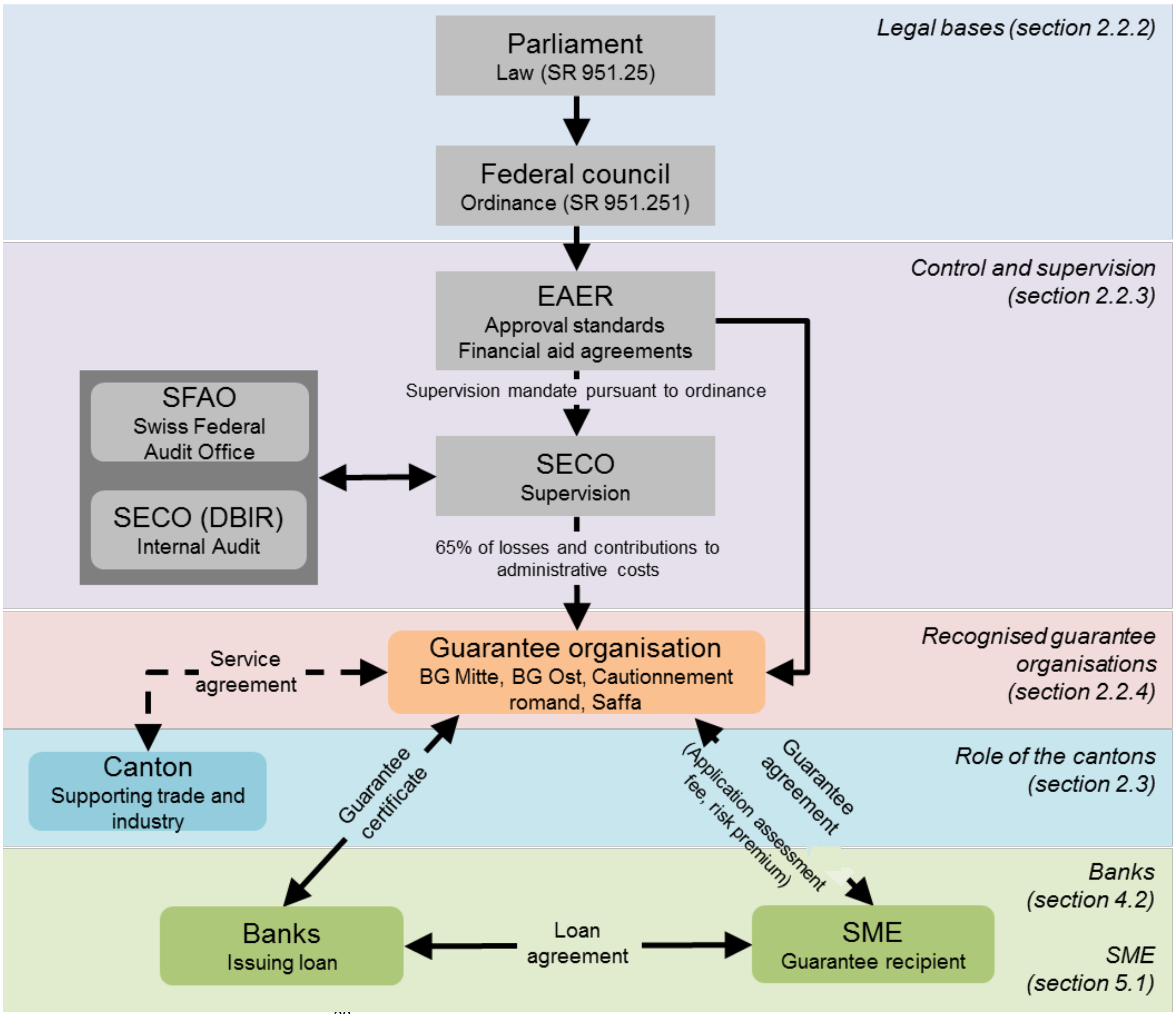
[34] Section 2.3

[35] Cautionnement romand (2013)

[36] M.I.S. Trend (2009/A), M.I.S. Trend (2009/B), M.I.S. Trend (2010) and M.I.S. Trend (2013)

[37] Federal Council (2009)

Fig. 1: The Commercial Guarantee System



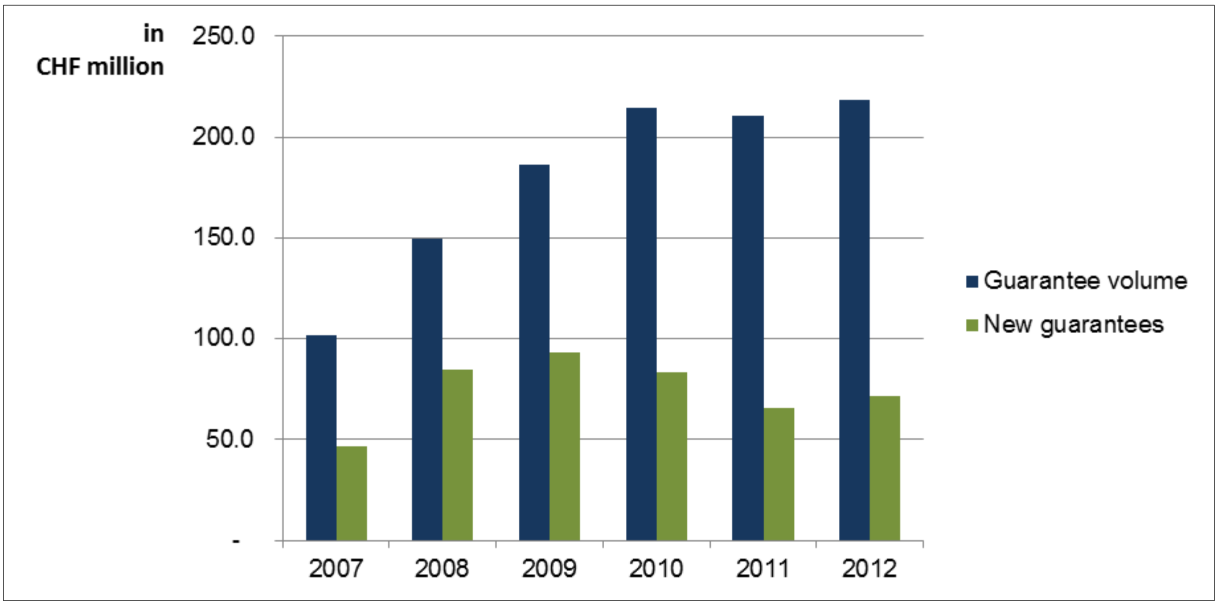
Source: SECO, own information[38]

Since the reorganisation of commercial guarantees in 2007, this instrument has developed very positively.[39] Confidence in guarantees was strengthened, especially among banks. The guarantee volume increased from CHF 85 million in 2008 to approximately CHF 218 million in 2012 within the space of five years (see Fig. 2). In 2012, almost 700 guarantee applications were assessed and around half of that number was approved. More than 1,600 SME currently benefit from guarantees. Within the scope of the new financial aid agreements concluded in 2011 for the period from 2012 to 2015, plans are to further increase the guarantee volume to CHF 270 million by the end of 2015.

[38] The term "guarantee certificate" used in the illustration and in practice corresponds to the "guarantee agreement" pursuant to Section 492, Paragraph 1, OR (SR 220). The term "guarantee agreement" used in the illustration is sometimes also called a "guarantee order".

[39] SECO (2008) and SECO (2011)

Fig. 2: Development of the guarantee volume and new guarantees since the reorganisation in July 2007



Source: SECO, own information

Commercial guarantees – facts and figures		
Guarantee volume on 31 December 2012	CHF	218.2 million
New guarantees in 2012	CHF	71.5 million
Number of active guarantees on 31 December 2013		1,660
Applications in 2012		693
Approved applications in 2012		366
Net losses[40] in 2012	CHF	5.6 million
Net loss ratio[41] in 2012		2.56%
Proportion of guarantees in mountain and rural areas		38%
Added value created by the supported companies (year-end 2011)	CHF	1.7 billion
Average number of jobs created by each company since its date of application		4.47
Number of trainees in companies supported by guarantees (year-end 2011)		1,774
Risk premium		1.25% (SAFFA 1%)

2.2.2 Legal basis

Commercial guarantees, which are jointly provided by the Confederation and the guarantee organisations, aim to make it easier for small and medium-sized companies (SME) to obtain credit. Their objective is to create jobs and secure them in the long term. The guarantee

[40] Net losses are guarantee losses less re-additions.

[41] Net losses are in relation to the guarantee volume on 31 December.

organisations issue a joint guarantee pursuant to the Code of Obligations [*Obligationsrecht*][42] for the bank loans granted to companies.

The Confederation's responsibility for the law on commercial guarantees arises from Section 103 (structural policy) of the Swiss Federal Constitution[43]. The Federal Law[44] and Ordinance[45] on Financial Aid for Commercial Guarantee Organisations came fully into effect on 15 July 2007, meaning that the Federal Decree from 22 June 1949[46] could be replaced by a new law.

2.2.3 Controlling and supervisory function of the Confederation

Parliament is the main supervisory authority of the Federal Administration and other instances responsible for carrying out public tasks of the Confederation (See Fig. 1).[47]Parliament is able to directly assess and influence events on account of its authority over the budget and its authority to approve the state financial statements. On the other hand, parliament also monitors the implementation of the Federal Council's policies in its role as superintendent of the latter. Parliament may request information and order the Federal Council to implement measures.[48]

Today, EAER carries out the controls by issuing approval standards that stipulate the basic requirements to be met by the guarantee cooperatives. A guarantee cooperative must always be recognised by the Confederation in order to obtain corresponding financial aid from the Confederation.

In addition, EAER concludes financial aid agreements with the four recognised guarantee cooperatives pursuant to Section 10 of the Ordinance on Financial Aid Agreements [*Verordnung Finanzhilfeverträge*]. These agreements are the central control instrument of today's system. The support targets, which are set for four years at a time, and the management information system MIS, are the Confederation's tools for strategically controlling the activities of the cooperatives. The financial aid agreements stipulate, in particular[49]:

a) Nature and scope of and compensation for services to be rendered by the organisations,

b) Measurable targets for developing guarantee volume, new guarantees and loss ratio,

c) Method and approaches for calculating contributions to administrative costs,
d) Modalities for periodic reporting, quality control, budgeting and accounting,
e) Procedures in the case of disputes, and
f) Measures to be implemented by the organisations for limiting the guarantee volume pursuant to Section 8, Paragraph 2 of the Law.

The guarantee cooperatives' corporate governance is generally based on the Swiss Code of Best Practice for Corporate Governance. The financial aid agreements stipulate that the guarantee organisations must systematically enforce the segregation of duties within the organisation and the members of management must prove a high degree of independence to the organisation, lenders and recipients of the guarantees. The guarantee organisations

[42] SR 220, Section 496

[43] SR 101

[44] SR 951.25

[45] SR 951.251

[46] SR 951.24

[47] Section 169 BV

[48] Federal Council (2006/2), AS 2011 5859

[49] SR 951.251, Section 10, Paragraph 2

therefore included recusal provisions in the statutes or organisational regulations by the beginning of 2013.

The SME Policy section of the Promotion Activities Directorate within SECO is responsible for the operational management and execution. As the cooperatives are external organisations with their own legal status in which the Confederation holds no investments and to which it pays subsidies, SECO assumes various responsibilities, such as:

- Managing strategic controlling (annual planning, holding controlling talks, further developing the strategic targets, if necessary),
- Developing a practicable monitoring system and informal exchange of information,
- Recognising, managing and, if necessary, implementing the required supervisory measures, and
- Recognising the strategic issues at an early stage and submitting applications, if need be.

The SME Policy section and the guarantee cooperatives purposefully, regularly and informally exchange information. Regular monitoring and talks are carried out to ensure that the mutual need for information is met.

The Swiss Federal Audit Office (SFAO) "supports the Federal Council in its supervision of the Federal Administration"[50]. The SFAO is "entitled to request information and, in particular, peruse documentation regardless of any potential duty of confidentiality"[51]. SECO's Internal Audit department (DBIR) also holds a supervisory function for the supervisory instances within SECO. SECO's Internal Audit department last audited the supervision and processing of financial aid for commercial guarantees in 2011.

SECO and SFAO may order periodic evaluations (success analyses) and/or audits at the level of the cooperatives or the entire system.

2.2.4 Recognised guarantee organisations

Only organisations that are recognised by the Confederation through being issued with a corresponding authorisation may apply for financial aid. Four guarantee cooperatives were recognised in May/June 2007:

- BG Mitte, guarantee cooperative for SME,
- BG Ost, guarantee cooperative for SME,
- Coopérative romande de cautionnement – PME, Cautionnement romand, and
- SAFFA guarantee cooperative

BG Mitte, BG Ost and Cautionnement romand are regional commercial guarantee cooperatives that are responsible for certain regions and/or cantons. SAFFA, on the other hand, is a commercial guarantee cooperative exclusively for women that operates across all of Switzerland.

The shareholder structures of the guarantee cooperatives vary and may, for instance, include cantons, professional and trade associations, banks and private individuals.

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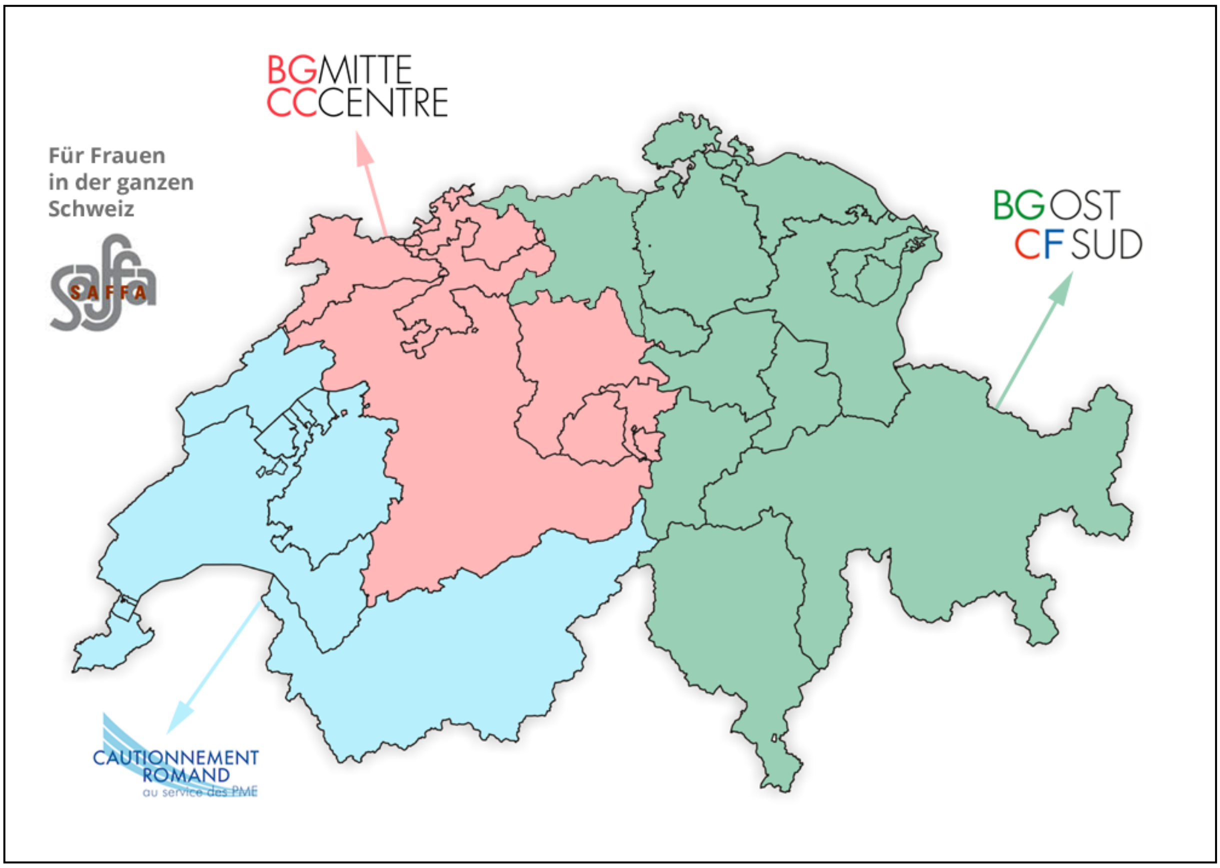
[50] SR 614.0, Section 1

[51] SR 614.0, Section 10

Fig. 3: Areas of operation of the recognised guarantee organisations



Source: www.kmu-buergschaften.ch

The following tables provide an overview of the organisations' key figures:

a) BG Mitte

Year of foundation:	2007
Address:	Bahnhofstrasse 59 D, 3401 Burgdorf
Area of operation:	BE, JU, SO, BL, BS, OW, NW, LU
Guarantee volume in CHF million at the end of 2012:	44
Number of active guarantees at the end of 2012:	311
Number of employees (percentage of jobs) at the end of 2012:	630%
Risk premium:	1.25%
Application assessment fee:	CHF 500 to CHF 4,000 maximum depending on time and effort involved
Branch offices:	Reinach, Kerns, Jura

b) BG Ost

Year of foundation:	1933
Address:	Rorschacher Strasse 150, 9006 St. Gallen
Area of operation:	AG, ZG, ZH, SH, TG, SG, AR, AI, SZ, GL, UR, GR, TI
Guarantee volume in CHF million at the end of 2012:	79
Number of active guarantees at the end of 2012:	460
Number of employees (percentage of jobs) at the end of 2012:	540%
Risk premium:	1.25%
Application assessment fee:	Approximately CHF 1,200
Branch offices:	Aarau

c) Cautionnement romand

Year of foundation:	2007
Address:	Avenue Général Guisan 117, 1009 Pully
Area of operation:	GE, FR, NE, VD, VS
Guarantee volume in CHF million at the end of 2012:	92
Number of active guarantees at the end of 2012:	801
Number of employees (percentage of jobs) at the end of 2012:	470% Cautionnement romand + 1,140% branch offices
Risk premium:	1.25%
Application assessment fee:	1.2% of the loan guarantee, min. CHF 500, max. CHF 5,000
Branch offices:	Fribourg, Pully, Sion, Fontaines, Plan-les-Ouates

d) SAFFA

Year of foundation:	1931
Address:	Auf der Lyss 14, 4051 Basel
Area of operation:	All of Switzerland
Guarantee volume in CHF million at the end of 2012:	3
Number of active guarantees at the end of 2012:	90
Number of employees (percentage of jobs) at the end of 2012:	65%
Risk premium:	1.25%
Application assessment fee:	CHF 150 for applications up to and including CHF 10,000, CHF 250 for applications up to and including CHF 20,000, CHF 1,250 for applications up to and including CHF 120,000
Branch offices:	None

2.3 The role of the cantons with regard to commercial guarantees

Pursuant to the Federal Law[52], the Confederation may offer financial aid to organisations under private law that issue guarantees. When offering financial aid, it has to be ensured that it is granted subsidiary to similar aid provided by the cantons and that these measures are coordinated.[53] The Confederation therefore assumes the costs incurred by the organisations from issuing guarantees if these are not already covered by the recipient of the guarantee and the cantons and if the remaining financing options are insufficient to cover them.

The differences in the cooperation between the guarantee cooperatives and the cantons are mainly the result of a federalist order of authority when it comes to supporting trade and industry. Whereas commercial guarantees are regulated by the Confederation, the cantons basically may implement additional regulations and take supplementary supportive measures within the scope of the cantonal authority to support trade and industry.

The four recognised guarantee cooperatives work together with the cantons to a different extent and in different ways within their areas of responsibility: The individual guarantee cooperatives concluded service agreements with several cantons. These agreements state the financial contributions to be made by the cantons to the guarantee cooperatives. They also detail the tasks that various cantons have assigned to the guarantee cooperatives in return (particularly with regard to supporting trade and industry). For these reasons and to preserve overall guarantee system in Switzerland, compliance with the subsidiarity principle is proving a certain challenge as the participation of all cantons appears rather unrealistic (see section 6.3.2).

[52] SR 951.25

[53] SR 951.25, Section 2, lit. d

BG Ost has service agreements with two (St. Gallen and Graubünden) of 13 cantons in its area of responsibility. Additional guarantees (LV Canton St. Gallen) are utilised to only a small extent. On 1 January 2010, BG Ost opened a branch office in Aarau. In order to provide specific support for SME in Aargau, the Canton of Aargau assumed the application fee costs as well as the guarantee premium of 1.25% in the first year up to CHF 300,000 and financed the costs incurred by BG Ost for operating its Aargau office. The agreement between BG Ost and the Canton of Aargau was valid from 1 July 2009 to 31 December 2011. The Canton did not extend it for financial reasons. BG Ost nevertheless decided to continue operating its branch office. Pursuant to Section 11 of the Law on Supporting Economic Development in the Canton of Graubünden [*Gesetz über die Förderung der wirtschaftlichen Entwicklung im Kanton Graubünden – GWE*], the Canton may issue loans or contribute to projects of commercial enterprises. Following the positive preliminary decision made by the Economic Development and Tourism Agency, BG Ost was appointed to conduct an external project audit and to issue the Canton with a recommendation in accordance with a decree of the Department for Home Affairs and Economy. This does not create any risks for BG Ost.

In the meantime, BG Mitte concluded several different service agreements with all seven cantons[54] in its area of responsibility, with the exception of the Canton of Luzern. The cantons pay contributions that should reduce the costs incurred by SME for the application assessment fee. In addition, the Cantons of Bern and Jura transferred certain services in the interest of the cantonal support of trade and industry to BG Mitte and made available additional funds for guarantees in the interest of the cantons, although the latter are quite immaterial in volume.

Cautionnement romand cooperates with all cantons[55] in its area of responsibility. The cantons are an essential financing source for Cautionnement romand. They hold major shares in its capital and in some cases assume a (partial) risk of the guarantees and also (co-)finance a branch office, depending on the canton. At the same time, all cantons are represented on the 15-strong decision-making body of Cautionnement romand in their function as cooperative members and can therefore participate in the decision-making process for guarantee applications – in contrast to the other guarantee cooperatives.

SAFFA has a service agreement with the Cantons of Basel City and Bern. The majority of the cantons also make voluntary contributions to administrative costs in line with the percentage of guarantees in the respective cantons. SAFFA aims to strengthen its cooperation with other cantons and to conclude further service agreements.

3 International aspect and comparison

3.1 Comparable collateralisation instruments in other countries

Swiss guarantees can be compared with similar instruments in Europe. The individual comparable countries have different types of structuring (by region, industry, etc.); a stringent market position with efficiency increases generated by pooling functions and cooperations within the financing and subsidy sectors is a clear trend. In a comparison study, the guarantee banking systems in Germany, Austria, France, Portugal, Spain and Italy were assessed and compared with the Swiss system.[56]

The majority of the comparable countries have established regional guarantee organisations, combined with cross-regional, large support organisations, both of a competitive and cooperative nature (e.g. Kreditanstalt für Wiederaufbau (KfW) in Germany, Austria

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[54] Cantons of Bern, Jura, Solothurn, Basel City, Basel Region, Obwalden and Nidwalden

[55] Cantons of Fribourg, Geneva, Neuchâtel, Vaud and Wallis

[56] PwC (2013)

Wirtschaftsservice GmbH (aws) in Austria and Oséo in France). The guarantee systems' degree of decentralisation varies considerably in the comparable countries, with the Italian system being the most decentralised according to PwC. Swiss guarantees also have a comparatively decentralised organisation with three regional and one national guarantee cooperative.

The system of transferring part of the risk to the government or the EU through countersecurities has established itself in Europe. The EU aid law applies without restrictions in the comparable countries Germany, Austria, France, Portugal, Spain and Italy.[57]

Going by the absolute total guarantee volume in the portfolio from 2006 to 2011, the guarantee organisations in Italy and France are the largest. In absolute terms, Switzerland has the lowest guarantee volume and the lowest number of guarantees issued in this period compared with the other countries. In relative terms, guarantees also are far more important in other countries compared with Switzerland. Whereas the guarantee volume accounts for 0.04% of the gross domestic product in Switzerland, countries such as Portugal and Italy have a much higher percentage at around 2% (see Table 1). In Asia, guarantees are even more important. The share of active guarantees in the gross domestic product in Taiwan, for instance, comes to 3.6%, to 6.7% in Korea and to as much as 7.3% in Japan.[58]

Table 1: Share of guarantee volume in GDP in 2011

In EUR million	**Total guarantee volume**	**GDP**	**in % of GDP**
Switzerland	*173*	*476,054*	*0.04%*
Germany	5,911	2,592,600	0.23%
Austria	384	300,712	0.13%
France	13,828	1,996,583	0.69%
Portugal	3,240	171,040	1.89%
Spain	6,200	1,063,355	0.58%
Italy	32,818	1,579,659	2.08%

Source: PwC (2013) and SECO

In Switzerland, the limit for individual guarantees is CHF 500,000 (around EUR 408,000), only around half as much as the average of EUR 1 million in the comparable countries. In Germany, for instance, loans with a maximum amount of EUR 1.25 million can be guaranteed, and in Austria this figure rises to as much as EUR 7.5 million. In contrast to Switzerland, where guarantees can be issued up to 100% of the guaranteed amount, this figure is usually only up to 80% in the comparable countries. Despite the limits being lower, the average Swiss individual guarantee amount is sometimes considerably higher than the average amount in other countries. In Switzerland, it is EUR 104,030 and only Germany is higher at EUR 121,960 among the comparable countries (see Fig. 4). Switzerland also has comparatively low limits but exhaust them more than the average. In the comparable countries, however, guarantees are usually not issued up to 100% of the loan – which is possible in Switzerland.

In Germany, Austria and France, the large government aid organisations such as KfW, aws and Oséo, which take the all-in-one subsidy approach, dominate the subsidy business. In addition, the guarantee organisations mainly focus on issuing guarantees in cooperation with other support organisations and/or banks. The guarantee banks' product is facing increasing competition from loan products, particularly those that provide proportional indemnification through the banks of the companies.

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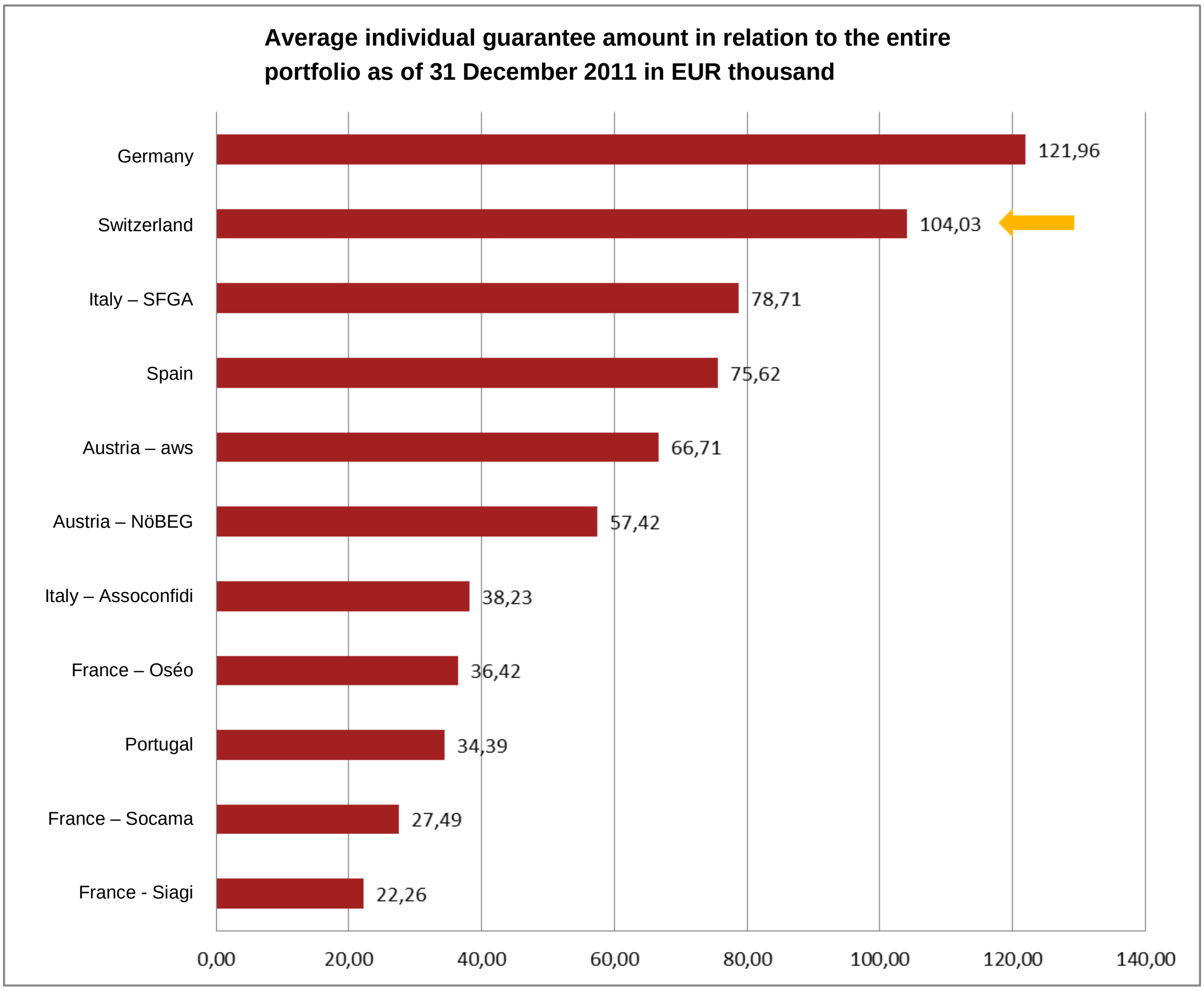
[57] See also Section 3.2 on the EU aid law.

[58] OECD (2013/1)

In Germany, the guarantee bank Baden-Württemberg GmbH issued the most guarantees by far as it is very favourably positioned in the market. 26%, or EUR 1,522 million, of the total guarantee volume and guarantees issued by the guarantee banks in Germany has been issued to companies in the federal state bordering Switzerland.

The importance of loan guarantees and guarantees is currently being assessed by OECD.[59] These analyses show, among other factors, that loan guarantees were an important instrument for securing SME finance in many countries, especially during the financial and economic crisis in 2008/2009.[60] Numerous countries therefore developed and expanded their instruments in recent years. The various countries have a multitude of varying systems with different characteristics: shareholder structure, available funds, legal and regulatory framework conditions, support criteria, etc. This non-standardised structure and the lack of standardised data makes an international comparison difficult.

Fig. 4: Average guarantee amount



Source: PwC (2013)

[59] OECD (2013/1), OECD (2013/2)

[60] AECM (2010)

3.2 Compatibility with Switzerland's international obligations

Section 1.2 of the WTO Agreement on Subsidies and Countervailing Measures[61] defines that a subsidy is only subject to the provisions of Part II (Prohibited subsidies), Part III (Actionable subsidies) or Part V (Countervailing measures) if it is a specific subsidy within the meaning of Section 2 of the agreement, which defines the specificity. According to the following characteristics, commercial guarantees are not classed as a specific subsidy and are therefore not subject to the Agreement on Subsidies and Countervailing Measures:

- All SME can benefit from commercial guarantees. They are not restricted to certain industries.
- The instrument is not used on a geographical basis but can be applied throughout Switzerland.
- Foreign SME domiciled in Switzerland are not discriminated against.

As commercial guarantees are not a specific subsidy, the instrument is not subject to the notification requirement pursuant to Section 25 of the Agreement. It is mentioned in the report by the WTO Secretariat[62], but does not have to be notified.

As stated in the report by the National Council Economic Affairs and Taxation Committee from 15 November 2005, commercial guarantees comply with Switzerland's obligations to the European Union (EU), and particularly with Section 23, Paragraph 1 iii of the agreement from 22 July 1972[63] between the Swiss Confederation and the European Economic Community (Free Trade Agreement from 1972). Pursuant to Section 23, Paragraph 1 iii, all government subsidies that distort or threaten to distort competition by favouring certain companies or lines of production are irreconcilable with the proper functioning of the agreement. This regulation aims to prevent companies from obtaining massive subsidies and thus a competitive advantage that could increase their exports. As the financial aid provided through guarantee commitments is modest, compliance with the Free Trade Agreement is ensured.

3.3 Compliance with European law

Pursuant to Section 107 of the Treaty on the Functioning of the European Union (TFEU), government aid or subsidies paid from government funds of any kind that distort or threaten to distort competition by favouring certain companies or lines of production are generally prohibited in the EU if they interfere with trade between member states. Pursuant to Section 108 TFEU, the EU member states must always inform the EU Commission about the implementation of such measures (notification requirement). The EU Commission controls government subsidies.

The EU regulations stipulate special treatment for SME and also define a limit for so-called "de-minimis" subsidies. The Commission statement on the application of Sections 87 and 88 of the EU agreement (now: Sections 107 and 108 TFEU) to government subsidies in the form of liability and guarantees[64] describes the methods for calculating the cash subsidy equivalent. For government guarantees, this key figure results from the difference between the loan amount guaranteed by the government multiplied by the default probability less re-additions and the risk premium paid by the recipient of the guarantee. The annual subsidy

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[61] SR 0.632.20 Appendix 1A.13

[62] WTO (2013)

[63] SR 0.632.401

[64] EU (2000)

equivalents[65] are discounted to their cash value using a reference rate and are then added to the total subsidy equivalent[66].

When applied to Switzerland and regardless of international obligations, this means that the guarantee volume was CHF 218 million at the end of 2012 and the total subsidy equivalent almost CHF 17 million. If the guarantee volume reaches CHF 923 million, which corresponds to the statutory maximum Confederation guarantee of CHF 600 million, the total subsidy equivalent would amount to CHF 70 million.

In each case, this subsidy remains below the maximum limits for government subsidies for SME applicable in the EU. Pursuant to Section 4 of Commission Regulation (EC) 70/2001 on the application of Sections 87 and 88 of the EU Agreement on government aid, these maximum limits ("gross aid intensity") for investment grants to small and medium-sized companies[67] are 15% for small and 7.5% for medium-sized companies. The gross aid intensity expresses the ratio between total investment costs and the total subsidy equivalent. Assuming that the multiplier of investment volume and guarantee volume is around 3.5[68], the average gross aid intensity would be around 2.2%[69] in the examples stated above, considerably below the EU maximum limits.

Pursuant to the de-minimis regulation[70] effective since 2007, subsidies that do not exceed EUR 200,000 per company within a period of three years are also not subject to Section 107, Paragraph 1 TFEU and are therefore not subject to the notification and confidentiality obligations pursuant to Section 108, Paragraph 3 TFEU. A specific upper limit was defined in the guarantee regulations: in the case of individual subsidies being issued to companies, the guaranteed part of the loan may not exceed a total of EUR 1.5 million per company to fall within the area of application of the de-minimis regulation. This upper limit was determined using a method for calculating the subsidy amount in guarantee regulations for loans in favour of well-performing companies. It was determined on the basis of the finding that the gross subsidy equivalent of a guarantee in the amount of EUR 1.5 million is to be regarded as being identical to the de-minimis maximum amount of EUR 200,000, taking into account a factor of 13% (net default rate) that represents the worst-case scenario for guarantee regulations in the EU.[71]

In summary, it can be said that Swiss guarantees comply with applicable EU law regarding government aid. In addition, almost all EU member states have comparable government aid systems. The compatibility of a possible limit increase also appears to be fundamentally compatible with EU law, but would require a more in-depth analysis, particularly in view of the ongoing modernisation of the EU aid law.

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[65] Annual subsidy equivalent in year x = existing volume x Confederation's share in losses x net loss rate - (existing volume x risk premium);
Example: Annual subsidy equivalent year 0: CHF 218 million x 65% x 4.25% - (CHF 218 million x 1.25%) = CHF 3.31 million

[66] Total subsidy equivalent = sum of discounted annual subsidy equivalents over 10 years.
Assumptions:

An annual net loss rate of 4.25% (estimated long-term probability of default 5%, expected re-additions of 0.75% of the existing volume), a linear decrease in guarantee volume within 10 years and a discount rate of 3%.

[67] EU (2001)

[68] KMU-HSG (2013)

[69] CHF 17 million / (CHF 218 million x 3.5) = 2.2% or CHF 70 million / (CHF 923 million x 3.5) = 2.2%

[70] EU (2006)

[71] EU (2006), Recital No. 15; the existing regulation will become ineffective at the end of 2013. The new draft regulation distinguishes between the maximum amount according to maturity. In future, guarantees of EUR 1.5 million with a maximum maturity of five years and guarantees of EUR 700,000 with a maximum maturity of 10 years shall be regarded as identical to the maximum de-minimis amount of EUR 200,000.

3.4 Conclusions

3.4.1 Evaluators' conclusions

The evaluators derive the following potential recommendations for further developing Swiss guarantees from the international comparison:[72]

(1) *Increasing the guarantee limits:*
The aim of increasing the guarantee limits is to increasingly consider the guarantee cooperatives as financing partners with considerable lines of credit, even for the structuring of medium-sized financing.

(2) *Cooperation with banks:*
Cooperation between the guarantee organisations and financing banks should be increased to raise both public awareness and acceptance in the market for Swiss guarantees. Total financing could be comprehensively structured even without expanding the product portfolio of the guarantee cooperatives if products were combined. Cooperations could also decrease the administrative costs incurred across the entire process chain and thus further increase the attractiveness of the guarantee portfolio.

(3) *Simplification of fee models:*
To increase transparency, the fee models of the four guarantee cooperatives should be simplified and, if necessary, standardised.

3.4.2 Appraisal by the Confederation

Loan guarantee or guarantee systems are a popular political instrument throughout Europe and the rest of the world for easing access to company financing. Numerous countries launched new guarantee systems or expanded their existing ones during the period of the financial and economic crisis from 2008 to 2010.

Although at CHF 500,000, Swiss guarantee limits are below the average of other countries in an international comparison, only Germany has higher average individual guarantees than Switzerland. At an average of CHF 127,437 (EUR 104,030), figures fall significantly below the current guarantee limit.

The evaluators nevertheless recommend increasing the guarantee limits to expand the product portfolio and to adjust the limit to other countries. The Federal Council carefully assessed the issue of a potential limit increase. The results are explained in section.

The Federal Council acknowledges the evaluators' recommendation to strengthen cooperation between the guarantee cooperatives and banks and to increase both public awareness and acceptance in the market. The guarantee organisations are primarily responsible for implementing these recommendations. The guarantee cooperatives already took first steps to strengthen and coordinate their marketing campaigns.[73]

The evaluators also recommend to simply the fee models. This recommendation was already formulated in the evaluation of the execution from 2010[74]. Please see section 6.4.2 for the Federal Council's statement regarding this matter.

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[72] PwC (2013)

[73] The SME portal of the Confederation (www.kmu.admin.ch) publishes offers made by the guarantee organisations and other information.

[74] Ernst & Young (2010)

4 Market position analysis

Information on the current market position and structure of Swiss guarantees was collected and analysed in an external study and substantiated recommendations developed for its future organisation.[75]

4.1 Description of the market

Access to external funding is a primary driver for company development and consequently the development of the whole economy at an aggregated level. Especially SME do not have the necessary size to obtain their own credit on the capital market without external assistance. They therefore mainly depend on bank loans for their external financing.

Collateral is the banks' key factor for assessing the credit rating of company customers. A guarantee influences this assessment as it provides additional security that serves as a buffer in case of the loan defaulting or even having to be liquidated. It also serves to reduce discrepancies in the information transferred between the bank and borrower.

However, the importance of collateral is not necessarily the same for all borrowers when obtaining company loans. It may differ depending on the characteristics of each company. In contrast to established companies, small or young companies (including startups) find it hard to satisfy the bank's requests for information at certain levels (e.g. quality of financial statements, management experience, lack of industry benchmarks in the case of startups). As a result, collateral is far more important for these types of companies during the loan application process.[76]

Government-supported guarantee programmes aim to reduce market inefficiencies with regard to lending for small and young companies and thus make it easier for these companies to obtain loans and at best increase the loan amount. As a rule, the bank, company and government share the risk. The additional collateral provided for the loan or part thereof, as is common practice, aims to enable SME to obtain loans that would otherwise not have been able to obtain financing but have a certain degree of creditworthiness. Guarantees can therefore be an effective instrument for reducing potential market inefficiencies with regard to SME finance.

Switzerland has few other institutions, such as the guarantee fund of the Canton of Schwyz, that offer similar products.

4.2 Market size

The Federal Law on Financial Aid for Commercial Guarantee Organisations explicitly aims to make it easier for SME to obtain loans. By common definition, this pertains to companies with up to 249 employees. There are a total of 313,000 companies in Switzerland, of which 99.6% can be classed as SME (see Table 2).

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[75] KMU-HSG (2013)

[76] Federal Council (2012)

Table 2: Companies and employees by size in 2008

	Company		Employees	
	Number	in %	Number	in %
SME (up to 249 employees)	*311,707*	*99.6*	*2,327,802*	*66.6*
Micro companies (up to 9)	272,346	87.1	869,206	24.9
Small companies (10-49)	33,183	10.6	760,780	21.8
Medium-sized companies (50-249)	6,178	2.0	697,816	20.0
Large companies (250 plus)	1,154	0.4	1,166,269	33.4
Total	**312,861**	**100**	**3,494,071**	**100**

Source: Company census 2008, Federal Statistical Office

Particularly micro and small companies with less than 50 employees are faced with difficulties when attempting to obtain finance.[77] Interviews with banks have also shown that in most cases, companies with less than 50 employees apply for a guarantee: An analysis of SECO's databases indicates that only 1.6% of all guarantees have been issued to companies with 50 or more employees since 2007. It therefore appears appropriate to no longer regard lending to companies with between 50 and 249 employees as market-relevant, but to focus instead only on lending to small and micro companies.

The size of the credit market relevant to commercial guarantees and its market share can only be estimated. It can generally be assumed that guarantees are issued in the areas of mortgage receivables and secured customer receivables. Taking into account the target group of companies with less than 50 employees, the relevant credit segment can be assumed to come to around CHF 160 billion (see Table 3).[78]

Table 3: Volume of loans issued by the banks to companies by company size and type of credit (year-end 2012, in CHF million)

	Mortgagee receivables		Customer receivables				Total	
Loans issued to companies	Absolute	Share	Secured	Share	Unsecured	Share		Share
...up to 9 employees	**145,997**	73.9%	**18,365**	9.3%	33,292	16.8%	197,654	100%
... 10-49 employees	**29,272**	66.5%	**7,608**	17.3%	7,122	16.2%	44,002	100%
... 50-249 employees	15,696	43.6%	9,006	25.0%	11,322	31.4%	36,024	100%
... 250 plus employees	7,717	26.4%	9,196	31.4%	12,349	42.2%	29,262	100%
Total	198,682	64.7%	44,175	14.4%	64,085	20.9%	306,942	100%

Source: Swiss National bank (SNB), lending volume statistics

In comparison, the entire guarantee volume of the four commercial guarantee organisations amounted to CHF 218 million at the end of 2012. Guarantees are often used for investment projects in which only part of the entire lending volume is secured by guarantees. According to the annual reports of the guarantee organisations and the SECO database, the multiplier from the investment volume ratio to guarantee volume is around 3.5. Part of the investment volume is financed through the company's own funds. The poll conducted as part of the evaluation indicates that this share amounts to more than 50%. Overall, a 1.55 ratio between lending volume and guarantee volume can therefore be assumed.[79] The lending volume secured by commercial guarantees therefore amounts to roughly CHF 338 million (1.55 * CHF 218 million), corresponding to 0.21% of the relevant credit segment of CHF 160,000

[77] KMU-HSG (2013)

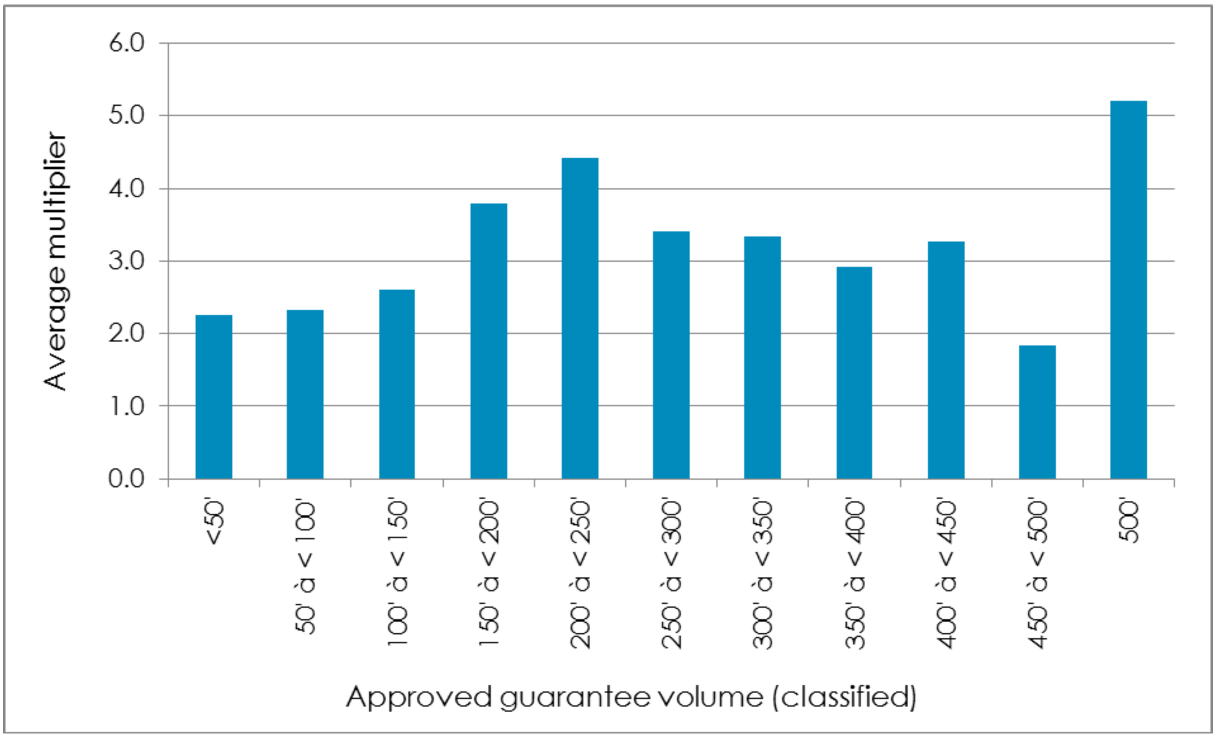
[78] The lending volume of micro companies (up to nine employees) also includes loans to trusts, foundations and similar organisations. The evaluators estimate that around a quarter of the lending volume has to be deducted if only loans to actual micro companies are to be recorded. This results in the following calculation for the relevant loan segment: (CHF 145,997 + CHF 18,365) * 0.75 + CHF 29.272 + CHF 7.608 = CHF 160,151.

[79] B,S,S. (2013)

million. This shows clearly that guarantees are not a widely used instrument, but constitute a niche product that services only a very small proportion of loans in the SME segment.

It is noticeable that the ratio between investment and guarantee volume is highest in the case of guarantees with the maximum guarantee volume (see Fig. 5). Together with the previous result, this indicates that guarantees with a maximum volume are often also used for comparatively large investment projects in excess of CHF 500,000.[80]

Fig. 5: Frequency of approved guarantee volumes (2010-2012, excluding SAFFA)



Source: B,S,S. (2013), SECO data

An estimate on the basis of the number of affected companies indicates market shares in the region of 1% to 4% with regard to SME requiring financing, 4% to 16% with regard to startups with increased lending requirements and 2% to 8% with regard to company transfers.

The maximum market potential for guarantees can also only be estimated on the basis of assumptions: according to the estimates made by HSG St. Gallen [*Swiss Research Institute of Small Business and Entrepreneurship*], the market potential is in the region of four times the current guarantee volume, in other words around CHF 800 million to CHF 900 million gross. The CHF 600 million cap on the risk of losses assumed by the Confederation, which is firmly established in Section 8, Paragraph 2, therefore corresponds with the estimated market potential.

4.3 Conclusions

4.3.1 Evaluators' conclusions

Overall, the evaluators do not see any pressing need for adjusting the products.[81] Although some guarantee applicants regard the application assessment fees and guarantee premiums as too high, there are barely any indications that these deter potential customers from serious investment projects. As the application assessment fee may deter some individuals, it can be assumed that the guarantee volume would increase moderately if this fee was

[80] KMU-HSG (2013)

[81] KMU-HSG (2013)

lowered or abolished. The problem with SME that have limited financing is that they are not familiar with the way guarantees work.

Whether or not the CHF 500,000 guarantee limits should be increased depends, in particular, on whether there are currently any SME with the potential for high performance and development that do not have any, or only insufficient, access to bank loans. Without going into detail about potential regional differences, the evaluators' analyses show that there is a certain demand for guarantees in excess of CHF 500,000. The question if these are companies that could otherwise not obtain finance cannot be answered, however. From a scientific point of view, it cannot be concluded overall if the guarantee limits should be increased or not. There are factors in favour and against such increase. The existing demand for guarantees in excess of CHF 500,000, the stability of the current system and the effective support in the case of succession planning speak for a limit increase, whereas the fact that there is no systematic failure in the SME credit market rather speaks against it.

The evaluators issue the following recommendations based on their analyses:

(1) *The current commercial guarantee structure should be maintained as far as possible:*
Commercial guarantees were updated to comply with the latest statutory basis in 2007 and have developed positively. Most banks and SME generally have a high regard for guarantee organisations. The current commercial guarantee system has established itself and should be stabilised. The evaluators recommend change only with regard to the following points:

(2) *The availability and advantages of commercial guarantees should be more intensively communicated to banks and SME:*
Despite the intensive efforts of the guarantee organisations, some banks still lack information or harbour prejudices with regard to commercial guarantees. The advantages of guaranteed finance and also the very good credit ratings of the guarantee organisations should be pointed out with even more clarity. Only around a quarter of all SME in Switzerland are aware of commercial guarantees.[82] Most SME therefore rely on their bank or trustee to point out the guarantee organisations to them. Apart from the banks, SME and trustees should therefore also be informed about the option of a guarantee. Associations operating in this field should also specifically targeted with this information.

(3) *Retention of application assessment fees and guarantee premium:*
The evaluators are generally in favour of retaining both application assessment fees and guarantee premium, although a simplification of their structures should be investigated.

(4) *Political decision regarding the amount of guarantee limits:*
From a scientific point of view, the external evaluators cannot conclusively decide if the guarantee limits should be increased or not. There are factors in favour of an increase and others that rather speak for the retention of the current limits. In the end, this question will have to be resolved through a political decision. The analyses show that there certainly is a certain demand for higher guarantees. However, it cannot be conclusively said if these companies are experiencing difficulties in obtaining finance at present.

[82] M.I.S. trend (2013)

4.3.2 Appraisal by the Confederation

The Federal Council agrees with the evaluators that commercial guarantees have developed positively since being restructured in 2007 and that today they have a solid foundation. SECO also came to the same conclusion when it entered into the new financial aid agreements 2012 to 2015.[83] The current structure serves its purpose and should therefore be retained. SECO agrees with the evaluators that the instrument has further potential for development. The guarantee organisations already launched corresponding measures for increasing public awareness.

The Federal Council welcomes the evaluation of the simplest possible, standardised organisation and structure for application assessment fees and guarantee premiums. This recommendation was already made in the evaluation of the execution in 2010[84]. Within the scope of the revision in 2007, the regional guarantee cooperatives agreed on a risk premium of 1.25% of the annual guaranteed amount so that the recipients of the guarantee can obtain the necessary funds at reasonable conditions[85]. SAFFA, which operates across all of Switzerland, charges 1%. The application assessment fees, however, are not standardised but have different structures. The Federal Council invites the guarantee cooperatives to evaluate a standardised structure for application assessment fees.

The evaluators were unable to conclusively answer the question if the guarantee limit should be raised from the current CHF 500,000. The Federal Council carefully assessed this question based on the evaluations and deals with it in section 7.2.

5 Effectiveness analysis

5.1 Customer structure

A basic financial aid requirement pursuant to Section 2 of the Federal Law stipulates that guarantees should be provided throughout the country. As already found in the evaluation of the execution in 2010[86], there is a considerable difference between the cantons.[87] A large number of guarantee dossiers focus on cantons in Western Switzerland. The great importance of commercial guarantees in Western Switzerland has a historic background. This region received more support than the rest of Switzerland long before the reorganisation in 2007.

At almost a quarter of all guarantee dossiers, commercial guarantees in the Canton of Vaud are of particular importance (see Fig. 6). If the dossiers are placed in relation to the size of the cantons (number of residents), it becomes clear that in the Canton of Jura almost three times as many guarantee dossiers were issued per resident than in the other cantons. The population in rural areas use guarantees to a disproportionately high extent. 38% of the guarantees went to companies in rural areas.

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[83] SECO (2011)

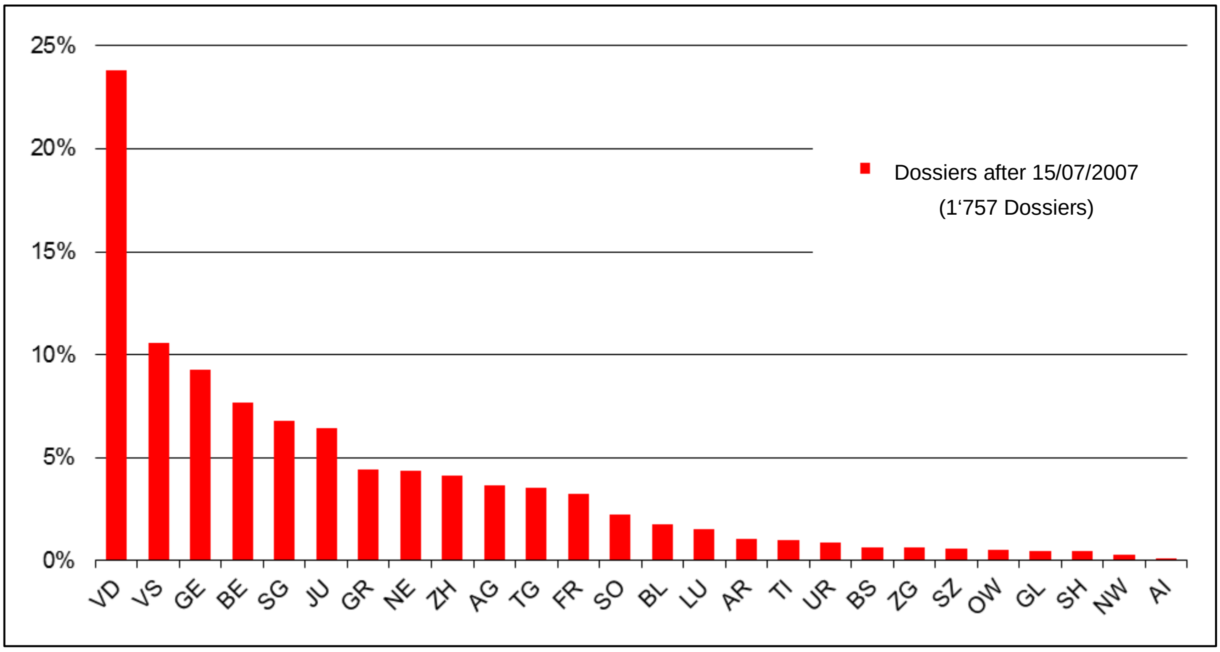
[84] Ernst & Young (2010)

[85] Arbeitsgruppe Bürgschaftswesen [*Guarantee workgroup*] (2007)

[86] Ernst & Young (2010)

[87] B,S,S. (2013)

Fig. 6: Regional allocation of the dossiers in %



Source: B,S,S. (2013), SECO data

A total of more than 1,600 companies had active guarantees at the end of 2011. Since the reorganisation in 2007, 28% of the guarantees have been issued to micro companies with one to two employees, but only just under 12% went to companies with more than 19 employees (see Table 4).

Table 4: Allocation of guarantees by company size

	Dossiers	
Number of existing employees	Number	in %
1-2 employees	296	28.1%
3-4 employees	216	20.5%
5-6 employees	137	13.0%
7-8 employees	84	8.0%
9-10 employees	70	6.6%
11-14 employees	78	7.4%
15-18 employees	47	4.5%
19-22 employees	35	3.3%
23-100 employees	88	8.4%
101 plus employees	2	0.2%
Total	**1,053**	**100%**

Source: B,S,S. (2013)

The average of the approved amounts of all active guarantees and those repaid since 2010 pursuant to the new law comes to CHF 188,763. In 46% of the dossiers, the approved amount was no more than CHF 100,000 (see Table 5). 11.5% (202 dossiers) of the guarantees issued pursuant to the new law were for the maximum guarantee amount of CHF 500,000.

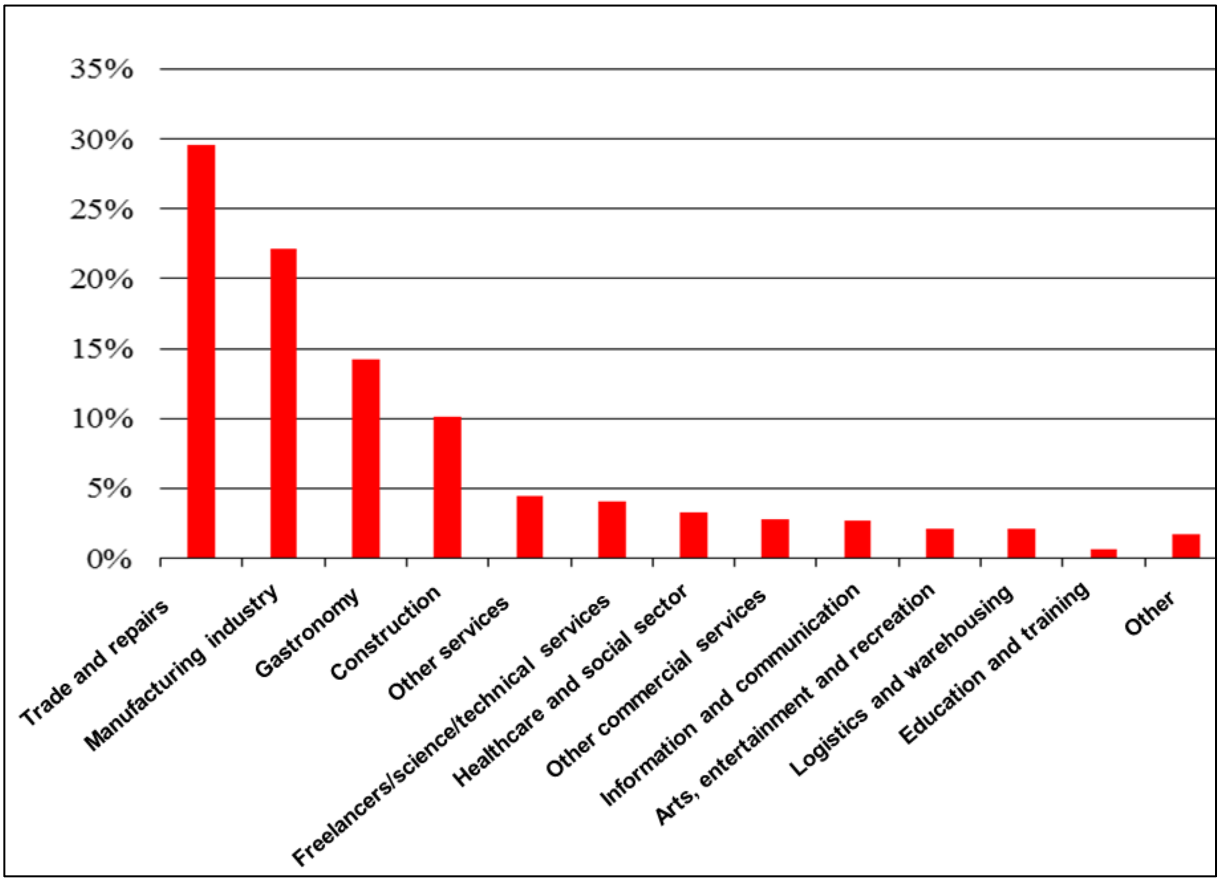
Table 5: Allocation of guarantees by approved amount

Guarantee amount	Share
CHF 0 – 50,000	19%
CHF 50,001 – 100,000	27%
CHF 100,001 – 200,000	24%
CHF 200,001 – 400,000	17%
CHF 400,001 – 499,999	1.5%
CHF 500,000	11.5%
Total	**100%**

Source: SECO guarantee cooperatives database

More than 29% of the SME that received guarantees come from the "trade: maintenance and repair of motor vehicles" industry, with 19% from the retailing and 2% from the wholesale sector. 22% of the guarantees were issued to companies in the "manufacturing/manufacture of goods" industry. 14% of the companies operate in the "hospitality/hotels and gastronomy" industry, with 12% directly in the gastronomy sector. More than 10% of the companies operate in "construction" industry.

Fig. 7: Allocation by industry in %



Source: B,S,S. (2013), SECO data

5.2 Examples

The following examples provide an insight into the specific situation of a few selected companies that have used guarantees.[88]

a) Optician's business

The optician's business offers traditional optician's products as well as children's glasses and a flexible service with online consulting and mobile eye tests in nursing homes and hospitals. The guarantee recipient concluded an optician's apprenticeship, graduated from the IFAO school for master craftspeople and worked in an optician's shop following her training. The customer founded her own company in spring 2011.

The bank would only lend her money if she had a guarantee. The guarantee organisations helped the business owner to obtain the finance she required for starting up her optician's business.

The owner is satisfied with the performance of her business since starting it up two years ago and she already had the first customers returning for repeat or second glasses.

The owner aims to carry out the number of eye test that are conducted in one week in the optician's business today in just one day within a period of five years. The owner also aims to create a shop-in-shop synergy for a self-employed graduate optician within her existing premises. The idea is to expand the contact lens section and sell contact lenses alongside the existing range of glasses. The owner currently holds the sole responsibility for the business. She further aims to employ an additional qualified person who can stand in part-time for the owner, for example on Saturdays.

b) Engraving business

The engraving business offers products for sectors such as living and outdoor that can be personalised through laser engraving and stamping. Customers can order the required products on a modern and clearly structures website and pay for them by credit card. The online shop is the sales market for the engraving business. If customers have special requirements, they can explain their ideas in a personal talk at the company's premises.

The company evolved from a similar previous company with the engraving business now selling the products only. The owner found out about the option of a guarantee through the commune. A guarantee was promoted as an aid instrument for SME. The company required the guarantee for a loan to make investments and obtain the necessary liquidity. The owner said that without this loan and the required guarantee, the company could not have been started up and the online sales market could not have been tapped.

Since launching the engraving business in 2012, it has developed very satisfactorily. The company advertises on Facebook and other social media platforms. It recently managed to hire a new employee, thus providing five jobs.

c) Bakery business

The bakery business sells a wide range of patisserie, pastries and general baked goods that are produced in a bakery. 97 people work in five shops and one bakery. Innovative shop concepts meet customer requirements. The traditional product range is specifically supplemented with products such as fresh food and takeaways. Some shops also have a cafe/restaurant.

[88] B,S,S. (2013)

The owner opened a baker's/confectionary shop with bakery in 1992. Four people were employed at the beginning. Two guarantees were of crucial importance for expanding the business to five shops. The guarantee customer's own bank pointed out the guarantee instrument. The owner believes that he would have not been able to obtain the loans without a guarantee and that he could have not developed his bakery business to this extent.

The bakery covers a large sales area with its five shops. It reaches out to a large group of customers with its varied product range from traditional Sunday cakes to takeaways and pizzas and its long opening hours. The company is ahead of its competition (especially supermarkets and petrol station shops) by targeting niche segments. Its current structure also ensures that its own bakery is optimally utilised.

d) Metalworking business

The funds required for refurbishing the existing company premises were higher than originally expected and the bank required a guarantee before it would issue a loan. At the same time, the company's revenues crashed by 50% as a result of the economic crisis. The guarantee cooperative secured the CHF 1.5 million loan with a guarantee of CHF 500,000. The guarantee incurred high costs for the company at this disadvantageous moment in time as the risk premium and processing fee had to be paid. This was an additional burden for the company. The economic crisis forced the company to cut working hours and some jobs.

In hindsight, the entrepreneur believes that the company experienced liquidity bottlenecks as a result of the economic crisis and the fact that it was not innovative enough in an increasingly competitive environment. The timing of the refurbishments that the loan was obtained for was also not ideal. The company needed the loan for these refurbishments and the bank would not issue it without a guarantee. However, the company regarded the costs arising from the guarantee as a negative factor.

e) Graphic art business

The company has been operating in the photo composing sector for 25 years. It produces various prints in the field of graphic art and specialises in medical prints. Its customer base now counts more than 200 private surgeries and clinics requiring specific prints.

The owner was looking for a successor shortly before his retirement and a person from the local region took over the business. The print shop was restructured into a GmbH [*limited company*] with CHF 20,000 in share capital (it previously had been structured as an individual company). Prior to the transfer, the owner was granted a guarantee for purchasing new offices, meaning that he received a guarantee of CHF 120,000 so that he could obtain the required loan. With the help of the previous owner, the future owner was also guaranteed a guarantee for the purchase of the print shop. Without it, the bank would have not granted him a loan.

Since its foundation (original company), the company has been developing on an ongoing basis. Considerable sums have been invested in machinery and infrastructure. Revenues have been rising gradually since the new owner took over the print shop, but the company is constantly facing competitive pressure and has to continuously tap new markets. Both financing and guarantees enabled the company to make the right investments at the right time.

Thanks to the two guarantees the print shop was always up to date in a sector that is currently undergoing fundamental changes. The guarantee made it possible to take over and re-dimension the company, which gave it new momentum. However, it has to remain proactive and constantly look for new business opportunities if it wants to maintain its position. Without the guarantee, the company would have had to be discontinued after the previous owner's retirement.

f) Restaurant business

The restaurant in question was established in the 1980s and run for many years by a celebrity chef. He transformed it into a renowned gastronomic enterprise that received the highest awards from the industry. When the chef finally retired, he transferred the company to his head chef of many years.

The bank at which the company had been a customer for a long time wished to contribute to the continued existence of the restaurant, especially as it was one of the flagships of the industry in the whole region. One of the key factors in making a decision regarding the financing of this project was that the restaurant was being taken over by a person who had contributed to its success. The bank informed its new customer, who did not have the required funds, that he could apply for a guarantee from a guarantee cooperative. In two meetings between the purchasers (head chef and his wife), their trustee, the bank and the guarantee cooperative, a guarantee of CHF 280,000 was approved.

Since being established, the restaurant's business has been developing steadily. Its location also meant that there was not much competition in the region. As the restaurant received more and more awards from the catering industry, its popularity also continued to grow among business and private customers.

Another important fact not to be forgotten is that it is a member of Relais & Châteaux. According to this network, its Swiss members declined by 14% in 2012.

In the coming years, the owners plan to renovate some of the rooms and modernise the kitchen, which is over 30 years old. They know, however, that the bank will demand for the first loan to be repaid before issuing another one. The owners are confident that the business will continue to flourish and will do everything they can to achieve their goals.

5.3 Cost effectiveness of commercial guarantees

5.3.1 Direct and indirect effectiveness

The companies supported by guarantees provided a total of 22,179 jobs at the end of 2011. A poll[89] carried out by the evaluators managed to verify that the jobs in existence at the time of the guarantee application were not just maintained, but that additional jobs were created. Across all companies and since the guarantee reorganisation in 2007, the number of jobs increased by an average of 4.47 employees per company from the date of their application for the respective guarantee until now. These companies believe that almost all of these new jobs were made possible, in particular, by guarantees.

According to the poll, around 1,774 trainees were employed by the companies supported by guarantees at the end of 2011. The percentage of trainees per job is slightly above the Swiss average at the companies supported by guarantees. The guarantees therefore also contribute to the vocational training system. The training provided by these companies plays an important role, particularly in peripheral regions.

The employees of these companies pay their contributions to the Confederation through their income taxes (direct federal taxes) and the companies pay theirs in the form of corporate income tax (see section 5.3.2). The added value generated by the supported companies amounts to CHF 1.7 billion.[90] The companies, in turn, request advance payments, which adds additional, induced value.

The windfall gains incurred by guarantees are small overall. SME tend to only use guarantees if no other finance is available to them. On the other hand, the crowding-out

[89] B,S,S. (2013)

[90] B,S,S. (2013)

effects should be considerable as the supported SME primarily sell their products and services in Switzerland. It can therefore be assumed that in terms of the whole of Switzerland, the corresponding jobs would remain in existence anyway in the long term, even without the existence of the companies supported by guarantees, but that they would not necessarily be offered by SME and probably not in the respective regions. In border regions, a proportion of the jobs may be created in the border regions of the other country. Persons employed by these companies may not find any other jobs in the short to medium term and therefore not pay any taxes, and some may even receive payment from the social insurance schemes. At the same time, however, it can be assumed that without these companies, corresponding jobs would be created in other regions of Switzerland, at least in the long term. Some of the guarantees' positive effects are therefore crowding-out effects in terms of the whole of Switzerland. Without guarantees, structural long-term changes would have to be expected in those regions that currently use guarantees. The persons employed by the affected companies would have to find alternatives, mainly in other regions of Switzerland and in larger companies if need be.

As a whole, it can nevertheless be deduced that commercial guarantees successfully support SME. Many of the supported companies are located in rural areas. Numerous jobs are provided by those SME that would not be in existence in their current form and within these regions without guarantees. In this sense, guarantees are very successful.

The fact that many companies apply for guarantees also shows that many SME find it difficult to obtain bank loans. It should nevertheless not be the goal of guarantees to cover a substantial part of the credit market as they are a niche product.

5.3.2 Financial implications for the Confederation

The costs of commercial guarantees incurred by the Confederation are divided into the contributions to administrative costs, the losses assumed by the Confederation less the re-additions from previous losses and opportunity costs (interest income not received) of the subordinated loans.[91]

In 2007 and 2008, subordinated loans in the total amount of CHF 8 million were issued to BG Mitte and Cautionnement romand. As the Confederation currently pays around 0.5% (Confederation obligation with a maturity of 10 years) in interest for this money, but passes on these funds without charging any interest to the guarantee cooperatives, the confederation incurs annual costs of around CHF 40,000[92]. Should the Confederation have to write off the subordinated loans in the future (or if the borrowers could not repay them), the amount of these loans (CHF 8 million) would become an additional expense. Table 6 lists the costs incurred by the Confederation for the guarantees from 2008 to 2012.

[91] See section 2.2.1

[92] The calculation (CHF 8 million *0.5% = CHF 40,000) is based on the spot rate of an obligation of the Confederation (13 December 2012: 0.5%; maturity: 10 years).

Table 6: Financial aid issued by the Confederation from 2008 to 2012 in CHF thousand

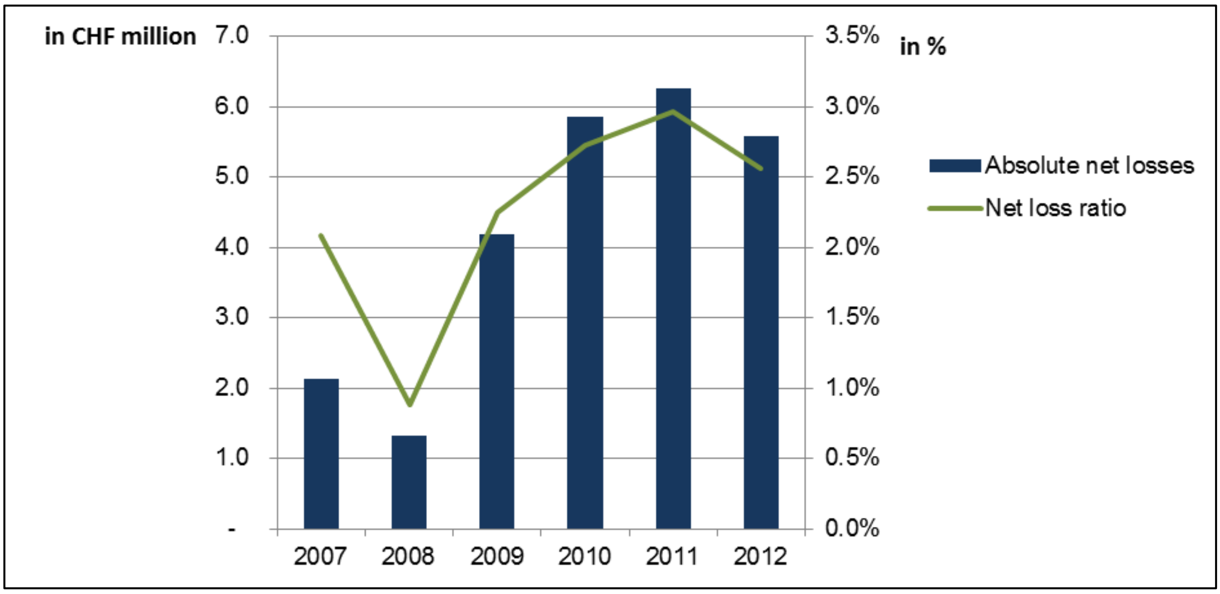
Financial aid	2008	2009	2010	2011	2012
Confederations' contribution to administrative costs	2,771	2,987	2,981	2,982	2,956
Confederation's share in losses	1,410	2,560	4,297	5,034	4,785
Confederation's share in re-additions	-555	-451	-504	-1,018	-1,114
Opportunity costs of subordinated loans	40	40	40	40	40
Total costs incurred by the Confederation[93]	3,666	5,136	6,813	7,038	6,667

Note: The Confederation's contribution to administrative costs of CHF 2,771,000 in 2008 includes the contribution of CHF 491,460 to GBZ.

Source: B,S,S. (2013), GBZ, financial statements of the guarantee cooperatives, SECO

Thanks to the revision of the law and the increased loss coverage through the Confederation, the guarantee volume has risen since 2007 as well as the absolute net losses. The net loss ratio has levelled out between 2.5% and 3% in the past three years (see Fig. 8).

Fig. 8: Net losses and net loss ratio



Source: SECO, own information

The employees of companies supported by guarantees pay direct contributions of around CHF 13 million per year to the Confederation through their income taxes (direct federal taxes). In addition, the data collected during B,S,S.' study[94] shows that the supported companies also pay roughly CHF 13 million in corporate income tax per year to the Confederation. However, some of the taxes would also be generated in the long term without guarantees due to the crowding-out effects[95].

[93] These figures differ from the Confederation's annual financial statements for the following two reasons: firstly, the re-additions are not recognised as expenses but as income in the Confederation's annual financial statements. Secondly, losses may be recognised on different dates in the annual financial statements of the guarantee organisations and those of the Confederation and may therefore fall within different accounting periods.

[94] B,S,S. (2013)

[95] See section 5.3.1

5.3.4 Risk premium analysis

The ordinance obliges the guarantee organisations to only issue guarantees if the recipients of the guarantee assume an appropriate amount of costs[96]. This contribution may take the form of application assessment and monitoring fees and/or a risk premium.[97] To achieve a balanced calculation, the guarantee organisations would have to request a risk premium of up to 3% from the guarantee recipients.[98]

The Confederation contributes CHF 3 million to the annual administrative costs incurred by the guarantee organisations. The purpose of these annual contributions to administrative costs is to increase the attractiveness of the guarantees by making them more affordable, in other words reducing application assessment fees and risk premiums for the SME.[99] Furthermore, this contribution made by the Confederation improves the chances of the organisations preparing positive annual financial statements, which is essential for obtaining a good credit rating from the banks. This, in turn, is the key factor for the amount of interest charged by the banks, which has to be paid by the SME. However, the Confederations primary goal is not to present the SME with the lowest possible interest rates, but to make it easier for those that cannot obtain bank loans to gain access to the capital market.

The risk premiums were reduced significantly thanks to the increased coverage by the Confederation following the revision in 2007. Within the scope of the revision in 2007, the regional guarantee cooperatives agreed on a risk premium of 1.25% of the annual guaranteed amount so that the guarantee recipients can obtain the necessary funds at reasonable conditions. According to the business plan for the relaunch of the guarantees in 2007, the contributions to administrative costs aim to lower the application assessment fees by 40% and the risk premium in the startup phase by around 1%. The business plan also estimates a potential decrease of 0.5% as the volume increases. The guarantee organisations pay for the rest of the planned decreases (difference between the necessary 3% and the required 1.25%).[100]

5.4 Conclusions

5.4.1 Evaluators' conclusions

The evaluators have found that guarantees successfully support SME.[101] Many of the supported companies are located in rural areas. Numerous jobs are provided by those SME that would not be in existence in their current form and within these regions without guarantees.

It is difficult to say if the financial contributions made by the Confederation to the guarantee organisations are fully compensated or even overcompensated by induced tax income. On the one hand, the supported companies and their employees contribute to the Confederations finances with their taxes. Persons employed by these companies may not find any other jobs in the short to medium term and therefore not pay any taxes, and some may even receive payment from the social insurance schemes if the companies supported by guarantees did not exist. At the same time, however, it can be assumed that without these companies, corresponding jobs would be created in other regions of Switzerland, meaning that some of the guarantees' positive effects are crowding-out effects in terms of the whole of Switzerland. Structural long-term changes would be expected without guarantees in those

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[96] SR 951.251, Section 7, Paragraph 2

[97] SECO (2007)

[98] Arbeitsgruppe Bürgschaftswesen [*Guarantee workgroup*] (2007)

[99] SECO (2007)

[100] Arbeitsgruppe Bürgschaftswesen [*Guarantee workgroup*] (2007)

[101] B,S,S. (2013)

regions and sectors that actively use guarantees today and people currently working for the affected companies would find alternative employment.

Overall, the guarantee system primarily represents a commercial policy support instrument with strong focus on rural areas. In terms of retaining the existing structure, the evaluators have found that the instrument mainly shows its full effect in terms of regions and company size. It could not be proven that companies that are unable to continue as a going concern in the long term would be kept alive by guarantees. The costs of the guarantee are relatively low compared with their effects. In 2001, the Confederation paid (one-off) costs of CHF 2,198 per newly created and maintained job, whereby the evaluators' analysis indicates that these jobs will exist in the long term.

The evaluators issue the following recommendations based on their analyses:

(1) *Increasing the guarantee limits to CHF 1 million:*
The evaluators recommend an increase on the basis of the effect analysis. The effectiveness analysis shows that guarantees area relatively efficient and effective SME aid instrument that particularly supports SME in rural areas. It is a question of policy how strongly the Confederation wishes to support this instrument and if rather small or (also) large companies should be supported. The evaluators recommend clarifying prior to raising the limits if the guarantee organisations with their current structures are able to also assess the business plans of slightly larger companies and to adequately service these companies. It also has to be clarified if raising the limits affects the guarantee organisations' required equity.

(2) *Improving the reporting system:*
The guarantee organisations' reporting system should be designed so that all questions raised during the regular evaluations can be answered by the reports and if in the future it will be unnecessary to carry out additional polls amongst the companies supported by guarantees. To achieve this, a few additional parameters have to be collected by the guarantee organisations on a yearly basis.

(3) *Low-interest company loans:*
The guarantee organisations must aim to grant companies supported by guarantees the best possible interest rates. In the evaluators' opinion, more can be achieved in this respect, particularly by creating greater independence from the banks. Broadening the "sales channels" for the guarantee organisations' services may lead to greater independence from individual banks and therefore to more freedom when choosing the bank that offers the guarantee recipients the best conditions.

5.4.2 Appraisal by the Confederation

Commercial guarantees have developed very positively since the revision in 2007. The guarantee volume more than doubled from CHF 102 million to CHF 218 million by the end of 2012. In recent years, the guarantee volume and the volume of new guarantees remained stable. The main reason for this development is the current low interest rates, which makes it easier for companies to afford finance and which leads to above-average early amortisation of the guarantees.

The evaluators recommend increasing the guarantee limits from currently CHF 500,000 to CHF 1 million, but point out that further clarification is required prior to doing so. The Federal Council carefully assessed this question and will deal with it in section 7.2.

The guarantee organisations' reporting to SECO is constantly being optimised. The Confederation's current database and management information system provides it with a better database than some years ago. The collection of further data by the guarantee organisations should be assessed and planned as part of the next financial aid agreements, if need be.

The Federal Council acknowledges recommendation 3 for the attention of the guarantee organisations. In terms of the entire system, however, access to external finance takes precedence over creating favourable lending conditions. As commercial guarantees were not widely accepted by the banks, especially prior to the revision in 2007, the selection of banks that accept guarantees remains relatively small even today. The Federal Council regards it a priority for the guarantee organisations to broaden their “sales channels” and to increase public awareness about the instrument amongst SME, trustees as well as banks.

6 Execution

6.1 Fulfilment of the contractually agreed services by the guarantee cooperatives

The financial aid agreements stipulate that the guarantee cooperatives must provide joint guarantees to the benefit of SME to make it easier for them to obtain bank loans. This order is detailed and operationalised in the financial aid agreements by setting specific quantitative targets for the development of the guarantee volume and new guarantees for the guarantee cooperatives.[102]

The guarantee cooperatives reached the quantitative targets and thus fulfilled their obligations as per service agreements 2007–2011[103]. The total volume targets were set at slightly more than double the guarantee volume, based on the new framework conditions of the newly designed guarantees. The majority of volume increases were generated through qualified growth.

The guarantee cooperatives estimate that it was not difficult to meet the volume targets. The volume increased as such thanks to the revision. The new structure and Confederation’s increased financial commitment have improved confidence in the market, particularly among banks. The guarantee cooperatives also implemented targeted marketing measures to increase public awareness of the (revised) guarantees.

Based on the estimated quantities in connection with the redesign, the guarantee cooperatives’ statements and the results of the evaluation, it can be assumed that there is generally additional market potential within the existing system. It is not to be expected, however, that the upper limit of CHF 600 million set by the Confederation will be exceeded in the foreseeable future.

The question arises, however, at which “price” additional volumes should or could be achieved. The evaluators believe it is important that the participating players should reach an agreement regarding the amount of losses the Confederation and guarantee cooperatives are willing to incur.[104]

6.2 Efficiency and effectiveness of the target performance

6.2.1 Practicability of the services provided

According to the evaluators, the guarantee cooperatives still operated mainly in isolation and did not regard themselves as part of a whole system in 2010. It is therefore recommended to increase both coordination and cooperation so as to increase the efficiency and effectiveness of the whole system.[105]

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[102] See section 2.2.3

[103] See Fig. 2

[104] Ernst & Young (2010)

[105] Ernst & Young (2010)

The guarantee cooperatives have varying equity bases. However, equity is not a growth-limiting factor for any of the guarantee cooperatives at present. Equity will become increasingly important in the case of potential further volume growth. This must also be taken into account when assessing a limit increase.

The fees differ greatly between all the guarantee cooperatives, and this difference cannot be explained by additional service. If the Confederation were to adjust its administrative cost contributions, it would expect the application assessment fees and risk premiums to be reduced in favour of the SME. The evaluators therefore regard the differing fees as an issue. Overall, the guarantee cooperatives have lean structures and generally few employees. The individual guarantee cooperatives are small and micro companies. Today's structure makes it almost impossible to specialise and it is difficult to react to varying work capacities.

It was clarified during an additional evaluation[106] which effects would be created by setting up branch offices for the whole "guarantee system". The evaluators found that branch offices promote customer proximity and local bonds. In the interest of the system as a whole, however, both competences and governance must be designed to ensure that all guarantee cooperatives implement a standardised issuance and risk policy.

The report also shows that a structure that includes branch offices does not necessarily increase administrative costs. The three regional guarantee cooperatives state similar costs for each assessed and active dossier. In 2010, these costs ranged between CHF 880 and CHF 990. At CHF 185 per dossier, SAFFA's costs are much lower by comparison due to the high proportion of voluntary work in this company.

6.2.2 Efficient and risk-focused use of Confederation funds

All four guarantee cooperatives defined their own application assessment standards that are, however, generally similar. In 2010, none of the guarantee cooperatives applied "hard" financial decision-making criteria or financial key figures during the guarantee approval process. In the end, the subjective overall impression is the important factor.

The guarantee cooperatives' issuance policies show certain differences.

It is in the nature of the business that guarantee organisations assume a certain amount of risk. It also always has to be assumed that the risks are higher than those assumed by the banks as the guarantee cooperatives usually enable companies, which could otherwise not obtain bank loans, to obtain finance.

6.3 SECO supervision of the services rendered

The guarantee cooperatives are appointed to carry out tasks in the interest of the public. Although outsourcing government activities to private companies can increase flexibility and efficiency, it also requires closer supervision and monitoring. Effective control and reporting instruments and suitable indicators are required, in particular, for efficiently and effectively rendering/controlling services.

Until the end of 2009, the three regional guarantee cooperatives reported to GBZ, which had been appointed by SECO to carry out all controlling and reporting activities and passed the information on to the Confederation. SECO assumed the controlling and reporting activities at the beginning of 2010, meaning that the guarantee cooperatives reported directly to SECO.[107] The controlling and reporting system was developed and improved as part of these changes.

[106] Ernst & Young (2011)

[107] SAFFA already reported directly to SECO before 2010.

In the previous financial aid agreements 2007-2001, the Confederation primarily controlled quantitative targets and both reporting and controlling activities thus mainly focused on volume development. The evaluators emphasise that controlling activities should focus more on the risk and loss factor.[108] It is particularly recommended, as a preventive measure, to stipulate a loss bandwidth in the service agreements as well as minimum financial standards with regard to guarantee assessments. The risk and loss factor should therefore also be increasingly included in reporting and controlling activities.

It has been shown that the Confederation can only fulfil its supervisory function in terms of loss development if the transparency of the latter is increased. To achieve this, information on individual losses have to be recorded systematically and in detail and loss developments have to be analysed consequently. This enables the Confederation to react at an early stage during unfavourable developments.

6.4 Conclusion

6.4.1 Evaluators' conclusions

The evaluation generally found that the revision of the guarantees managed to strengthen the confidence in guarantees among all involved – especially the banks.[109]

The evaluators assessed the execution of commercial guarantees in view of eight factors and issued a total of 29 recommendations:

Factor 1: "Target performance"

SECO issued the guarantee cooperatives with guarantee volume targets in the service agreements 2007-2011. The companies managed to reach these quantitative targets within a short space of time, more than doubling the number of guarantees.

The evaluators recommend:

(1) SECO should continue to aim for the growth target. The guarantee cooperatives and SECO have to jointly define corresponding volume targets and stipulate these in the service agreements.

(2) To account for the risk factor, SECO should determine a permissible loss bandwidth in the service agreements in the future after consulting with the guarantee cooperatives. In this context, the players would have to reach an agreement on the amount of risk that the Confederation and the guarantee cooperatives are willing to take.

Factor 2: "Efficiency and effectiveness of the target performance"

All four guarantee cooperatives defined their own application assessment standards that are, however, generally similar. In the evaluators' opinion, the quality and completeness of the dossiers is good overall, although the documentation of the approval decisions still has room for improvement. The individual guarantee organisations have lean organisational structures. In fact, the evaluators are questioning if the individual organisations may even fall below the critical minimum size. The guarantee cooperatives also have differently developed decentralised structures (branch offices).

The evaluators believe that the guarantee cooperatives generally have efficient processes on an individual operational level, but that the overall system can still be optimised.

The evaluators recommend:

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[108] Ernst & Young (2010)

[109] Ernst & Young (2010)

(3) Minimum financial standards for guarantee assessments should be stipulated. The guarantee cooperatives and SECO should discuss the determination of (binding) minimum financial standards for the issuance of guarantees so as to create transparency and reduced risks.
(4) The guarantee dossier documentation should be improved in some cases. A third person should be able to trace the reasons for the decision (financial arguments as well as subjective evaluation by the guarantee cooperative) at all times.
(5) The Confederation should prepare strategies in view of its actions regarding the guarantee cooperatives in an economic downturn when losses may rise steeply and SEMs would at the same time have to make increasing use of guarantees due to their deteriorating annual financial statements (as they would be finding it increasingly difficult to obtain bank loans).
(6) SECO is advised to keep the applicable distribution ratio for administrative costs contributions.
(7) The guarantee cooperatives should standardise the application assessment fees. To promote growth, the fees should also be kept to a minimum and, if necessary, offset by a standardised rise in the current risk premium.
(8) The guarantee cooperatives should keep the standardised risk premium. For certain, clearly defined risk categories (e.g. startups), an additional premium could be considered to make it possible to differentiate.
(9) The guarantee cooperatives will need to increase the number of their employees to continue the growth strategy. The guarantee cooperatives should develop plans for financing these measures.
(10) To increase their importance and acceptance in the market and to use synergies, the guarantee cooperatives should aim to cooperate closely in selected areas.

Factor 3: “Cooperation between the guarantee cooperatives and banks”

The banks’ confidence in guarantees increased thanks to the revision of the latter. However, banks, and even persons working within the same bank, are displaying strongly varying levels of acceptance with regard to guarantees.

The evaluators recommend:

(11) The guarantee cooperatives should increasingly position themselves in the market as independent financing partners and consultants for SME to strengthen the public image of guarantees and the market strength of their SME customers.
(12) At the same time, the guarantee cooperatives should further develop their cooperation with the banks by implementing confidence-building measures and, in particular, aim to broadly diversify the guarantee volume.
(13) Better use should be made of the synergies between the guarantee cooperatives and banks. Particularly the exchange of information between guarantee cooperatives and banks during the application assessment process should be increased. This can prevent the doubling up of information and work.

Factor 4: “Cooperation between the guarantee cooperatives and cantons”

The intensity and form of cooperation between the guarantee cooperatives and cantons vary greatly.

The evaluators recommend:

(14) Supported by SECO, the guarantee cooperatives should aim for all cantons to participate to a comparable extent in the costs of the system. Particular efforts should be made to convince those cantons that have not been included in any service agreements to date to participate.

Factor 5: "Cooperation between the guarantee cooperatives and GBZ"

In 2010, SECO assumed the coordination and execution of activities that previously had been GBZ's responsibility. GBZ therefore still acts as a voluntary reinsurer for the guarantee organisations at present. The guarantee cooperatives can apply to GBZ for a risk splitting of individual guarantees. Since 2010, the Confederation and GBZ no longer have a business relationship or mutual supervisory function with regard to commercial guarantees.

The evaluators recommend:

(15) The efficiency of the overall system (banks, guarantee cooperatives, GBZ) should be improved and the following alternatives assessed:
a) Dividing GBZ's equity between the recognised guarantee cooperatives,
b) Introducing an automated process of guarantee assumption by GBZ (if necessary for guarantees above a certain volume),
c) Clear concept of GBZ as a reinsurer: the conditions are currently being negotiated between GBZ and the guarantee cooperatives.

Factor 6: "Suitability of the controlling and management system"

The Confederation primarily manages the current system by implementing quantitative targets and both reporting and controlling activities therefore also primarily focus on volume development. The evaluators found that the Confederation can only fulfil its supervisory function to a limited extent with the available information. They therefore advise SECO to:

(16) Develop a loss database to systematically monitor losses.
(17) Assess together with the guarantee cooperatives how synergies between the organisations may be used for loss management (re-additions) (e.g. appointing a central office that is responsible for the re-additions of all cooperatives).

Factor 7: "Customer-focused services"

In the opinion of the evaluators, awareness amongst SME of commercial guarantees is rather low.

The evaluators recommend:

(18) The guarantee cooperatives should increase awareness of guarantees amongst SME by implementing suitable marketing measures.
(19) In the future, the guarantee cooperatives should also expand their consulting services for their SME customers.

Factor 8: "Effectiveness"

It has become clear that to this day, guarantees continue to be focussed on rural areas and traditional industries. Especially the fact that the current guarantee volume is spread very unevenly across the regions and only covers a very small share of the market in some cantons indicates that there is additional market potential. To improve effectiveness, the evaluators believe that the goal should be to also establish guarantees outside the traditional industries – particularly in the corporate service sector.

The evaluators recommend:

(20) SECO should consider the loss/risk factor more strongly when measuring effectiveness.

(22) SECO should closely monitor the development of the allocation of guarantees across industries, regions and banks (banking groups). If necessary, the guarantee cooperatives should be given specific volume targets for individual cantons and regions.

Recommendations for branch offices

The evaluators issued eight further recommendations as part of the additional report on the branch offices.

(23) Measurable and assessable guarantee issuance criteria should be stipulated at the level of the guarantee cooperatives.
(24) The implementation of these criteria should be evaluated on a regular basis.
(25) The documentation of the branch offices' approval decisions should be improved or recorded in a more systematic manner.
(26) The IT system used by the guarantee cooperatives should be modified so that future changes to documents and data can be traced.
(27) The loss management and collection of re-additions should be centralised at the level of the guarantee cooperatives (i.e. branch offices do not have any authority) to use synergies and ensure the required know-how.
(28) In the interest of standardisation, it should be ensured that the individual branch managers have identical authorities (particularly regarding changes to active dossiers).
(29) If SECO plans to measure and compare the operating efficiency of the guarantee cooperatives (including branch offices), binding requirements regarding the documentation of costs and services should be introduced for all guarantee cooperatives and indicators for a comparison between the guarantee cooperatives should be defined.
(30) The management structures of the guarantee cooperatives have to be organised so that they comply with good corporate governance.

6.4.2 Appraisal by the Confederation

The evaluation and additional clarification regarding the branch offices provide a good overview of the execution and show various positive aspects of guarantees. They also provide an overview of weaknesses and potential for improvements in the current structures. The evaluation states that the quantitative commercial guarantee targets were met. The revision strengthened confidence in guarantees among the participating parties, especially banks. However, potential for improvement is found at the level of the overall system.

Several of the evaluators' recommendations were implemented within the scope of the new financial aid agreements 2012-2015 to improve supervision and transparency (recommendations 2, 4, 20, 23, 24, 25, 29). Growth targets were set in this context, as advised (1). Even though central elements of the previous administration cost key were kept, various expansions were implemented such as the consideration of the net loss ratio (6). A maximum net loss ratio of 4.5% was determined, including financial incentives to comply with it, to account for the risk component.

The corporate governance principles were introduced in the financial aid agreements. They are based on the "Swiss Code of Best Practice for Corporate Governance"[110] (29). Further recommendations were addressed during bilateral or multilateral discussions (22, 26, 27). Regarding the evaluators' recommendations on the internal organisation, however, it should be pointed out that these fall within the area of responsibility of the guarantee cooperatives as long as the legal requirements, such as due diligence, are complied with. A joint loss management is also the responsibility of the guarantee organisations. They have not attempted to implement such measures up to now (17).

[110] Economiesuisse (2007)

The Ernst & Young[111] report supplied a good database regarding costs and services that meets current information requirements. Ongoing cost development reporting has also been implemented since the launch of a database and management information system. This has significantly increased transparency and considerably improves SECO's supervision (28). Although there are no actual loss databases, the newly set up database can be used for monitoring loss development (16) as well as the allocation of guarantees across industries, cantons, regions and banks (21).The Confederation believes that the evaluators' recommendation to implement specific volume targets for individual cantons and regions makes little sense. Commercial guarantees have to be issued according to demand and not regional requirements. In addition, guarantees are of different importance in different regions and cooperation with the cantons is therefore very varied. Whereas the cantons in Western Switzerland strongly participate in guarantees, cooperation with other cantons is rare or non-existing. It is quite unrealistic to involve all cantons in the system as there are varying degrees of interest and different requirements (14) (see also section 2.3).

Since the end of 2008, the State Secretariat for Economic Affairs SECO, representatives of the Swiss National Banks (SNB), the State Secretariat for International Financial Matters (SIF), economiesuisse, the Swiss union of crafts and small and medium sized enterprises (SGV), the banking association and Swissmem have together been closely following the development of SME lending within the "SME credit market" workgroup. The exchange within this group enables the Confederation to recognise lending supply issues at an early stage and to launch measures, if necessary (5).

According to the appraisal of several guarantee organisations, it is unnecessary to greatly expand employee numbers to continue the growth strategy, contrary to the evaluators' recommendation (9) to the guarantee organisations. The guarantee organisations revise the plans for financing the growth strategy once a year during the update of the management information system and report and discuss them with SECO.

The guarantee organisations increased their efforts to enter into cooperations in recent years (10) and implemented a joint public image under one umbrella with joint marketing activities (18). With this joint marketing concept, the guarantee organisations aim to position themselves as independent financing partners and consultants for SME as well as credible partner for banks (11, 12, 19). The improved cooperation with the banks, which the guarantee organisations are aiming for, should also reduce the amount of doubled-up work (13). The Federal Council welcomes these efforts.

Further cooperation and coordination efforts are discussed on an ongoing basis during regular talks between SECO and the guarantee organisations. The coordination and cooperation between the guarantee organisations has been continuously strengthened since the recommendations in 2010. The Federal Council generally welcomes the standardisation efforts within the sense of equal treatment for all SME in Switzerland. The risk premium, for instance, was fixed at 1.25% of the annual guaranteed amount for all regional guarantee cooperatives as part of the revision in 2007. A differentiation by risk categories currently also appears unnecessary according to the statements issued by the guarantee organisations (8). The idea of setting minimum financial standards (3) was discussed but dismissed, as commercial guarantees strongly depend on the qualitative competence of local decision-makers. The Confederation is evaluating standardised application assessment fees (7) in view of the next financial aid agreements 2016-2019 and plans are to discuss them with the guarantee organisations.

With regards to recommendation (15), it should be pointed out that GBZ neither has a contractual relationship with the Confederation nor is supervised by the Confederation in view of commercial guarantees. GBZ and its shareholders are therefore solely responsible for evaluating this recommendation.

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[111] Ernst & Young (2010)

In summary, it can be concluded that 20 of the 29 recommendations have been fully or partially implemented. Three recommendations are rejected, one is being assessed within the scope of the next financial aid agreements and five fall within the areas of responsibility of the guarantee organisations.

7 Conclusions and assessment of adjustments

7.1 General conclusions

In summary, the effectiveness of commercial guarantees can be said to be positive overall. Guarantees have developed positively since their reorganisation in 2007 and have a solid foundation.

A total of 39 recommendations were issued as part of the various external evaluations.[112] The evaluators stated that the commercial guarantee system serves its purpose and has a solid foundation and that no significant adjustments have to be made to the system. The Federal Council seconds this opinion. The majority of the recommendations relate to execution or supervisory components. As explained in the previous sections, most recommendations have already been or are being implemented.

The only significant change, which the evaluators believe should be at least assessed, is the increase of guarantee limits above the current CHF 500,000. The limit increase is assessed in the following section.

7.2 Limit increase assessment

The Federal Council ordered a limit increase assessment as part of the evaluations. Individual guarantee cooperatives have requested an increase of the current maximum limits above CHF 500,000 for many years. The Feller motion (13.3673) from 10 September 2013 requests increasing the limits to CHF 1 million.

The Confederation rejected previous requests for a limit increase for various reasons. Prior to increasing any limits, for instance, experiences should first be gathered regarding the reorganised guarantee system. An assessment of an expansion of the system was therefore regarded as premature. The lack of experience no longer presents an argument against a limit increase. The evaluations made during the effectiveness analysis have shown that commercial guarantees have developed positively in recent years and that they successfully support SME today.

There was no reliable database for assessing the effects of a limit increase until 2010 as there was also no developed controlling, reporting and monitoring system until that point. These concerns have been removed in the meantime. In the opinion of the Federal Council, commercial guarantees have a solid foundation and supervision is ensured today.

As the majority of guarantee applications range from CHF 150,000 to CHF 300,000, proof of the applicant’s requirements had to be provided in the past. At the same time, there were concerns that a limit increase would quickly see the system faced with industrial-sized projects, for which the system lacked experience and reference values. The evaluation shows that merely around 10% of the guarantees issued since 2007 exhaust the current limit of CHF 500,000. This indicates that there may be a certain, albeit small, demand for larger guarantees. In reality, the evaluators and guarantee organisations expect that an increased limit would potentially address a new customer segment and industrial operations, in particular. The focus of commercial guarantees, however, is on micro and small companies. At present, 70% of all guarantees fall below CHF 200,000 and this is likely to remain the

[112] Ernst & Young (2010); Ernst & Young (2011); PwC (2013); B,S,S. (2013); KMU-HSG (2013)

same in the future. The above-stated evaluations also did not unanimously show that it is necessary to increase the limit.

The situation in the SME financing sector has to be monitored particularly closely. Guarantees can generally be regarded from two interrelated perspectives: as a regional policy support instrument for SME and also as an instrument for buffering potential market insufficiencies. Although market insufficiencies can never be fully ruled out and are partly immanent, it can be said that the SME credit market functions as a whole. Several SECO studies have confirmed this in recent years. The “SME credit market” workgroup and several trade associations also came to the same conclusion. If the credit market for SME is functioning properly overall, government intervention should not be increased. Even though the limits have not been changed since 1999, an inflation-related rise would arrive at the only marginally higher figure of CHF 550,000.

Finally, it was expected that the Confederation’s financial commitment would increase considerably if the limits were increased. It was pointed out that the effects of a limit increase on the equity base and liquidity of the guarantee organisations have to be taken into account. The guarantee organisations estimate that the confederation’s financial commitment would not increase significantly if the limits were increased. With regard to the loss ratio, the evaluators estimate that larger guarantees would incur lower risks for both guarantee organisations and the Confederation.[113] However, not all guarantee organisations share this view. On the contrary, some even expect for the loss ratio to rise as it would probably be difficult to integrate the exponents with personal guarantees in the financing of large industrial companies.

Furthermore, some of the guarantee organisations raised the question of a recapitalisation guarantee issued by the Confederation for the guarantee organisations and an increase of the administrative costs contribution should the limit be increased. This, however, would equate to a large system expansion (e.g. limit increase, equity guarantee for potential new subordinated loans and increase of the contributions to administration cost) for which the Federal Council does not see any reason nor necessity at this point in time and considering the situation described above.

The Federal Council rejects a limit increase and the Feller motion for the reasons stated above.

7.3 Need for more detailed information contained in the ordinance

Regardless any amendments to the law on a limit increase, it appears necessary to make individual amendments to the ordinance[114]. The detail of certain information should be increased and the ordinance should be amended to suit the actual current situation.

a) At present, the Confederation assumes the actual credit default as well as other costs incurred in the case of default, such as accrued interest and bank charges. The assumption of these costs has to be explicitly stipulated in the ordinance on a cost-neutral basis.

b) The guarantee organisations’ due diligence[115] is not regulated beyond doubt in the ordinance and presents a repeated source of questions. It has to be clearly stated, in particular, in which cases companies may receive further financial aid or compensation from the Confederation and when they are not entitled to any guarantees.

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[113] KMU-HSG (2013)

[114] SR 951.251

[115] SR 951.251, Section 4

c) In addition to the ordinance, SECO defined in more detail certain points in the explanations on the ordinance[116]. The key points of these explanations should be included in the ordinance and at the same time the explanations should be abolished or reduced to the absolutely necessary minimum so as to improve both comprehensibility and transparency.

[116] SECO (2007)

8 Appendix

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8.2 List of abbreviations

Abbreviations	Meaning
TFEU	Treaty on the Functioning of the European Union
TC	Unemployment Insurance
Sec.	Section
AS	Amtliche Sammlung [*Official Compilation*]
UIA	Federal Act on Compulsory Unemployment Insurance and Benefits on Insolvency
Aws	Austria Wirtschaftsservice GmbH
BG	Bürgschaftsgenossenschaft [*guarantee cooperative*]
BG Mitte	Bürgschaftsgenossenschaft Mitte [*Guarantee Cooperative Central*]
BG Ost	Bürgschaftsgenossenschaft Ost [*Guarantee Cooperative East*]
GDP	Gross domestic product
Cautionnement romand	Coopérative romande de cautionnement – PME
DBIR	SECO’s internal audit department
EC	European Community
SFAO	Swiss Federal Audit Office
EU	European Union
FTA	Free trade agreement
GBZ	Zentralstelle für das gewerbliche Bürgschaftswesen [*Commercial Guarantee Central Office*]
GWE	Gesetz über die Förderung der wirtschaftlichen Entwicklung im Kanton Graubünden [*Law on Supporting Economic Development in the Canton of Graubünden*]
KfW	Kreditanstalt für Wiederaufbau [*German bank for reconstruction*]
SME	Small- and medium-sized companies
SA	Service agreement
MIS	Management information system
OECD	Organisation for Economic Co-operation and Development
OR	Obligationenrecht [*Swiss Code of Obligations*]
Pa.Iv.	Parliamentary initiative
SAFFA	Guarantee cooperative for women
SECO	State Secretariat for Economic Affairs
SGH	Swiss Association for Hotel Credit
SIF	State Secretariat for International Financial Matters
SR	Systematic Compilation of Federal Legislation
CHF thousand	1,000 Swiss francs
EATC-N	National Council Economic Affairs and Taxation Committee
EAER	Federal Department of Economic Affairs, Education and Research
WTO	World Trade Organisation