Loan Guarantee schemes: Private and Public examples *

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INTRODUCTION

Guarantee schemes have been introduced in the economic and financial system as response to difficulties of SMEs for the access to the banking credit.

The paper based on guarantee schemas of five countries tries to investigate the differences that can exist within different guarantee companies.

This investigation is based on some indicators that are time of response to the demand of guarantee, threshold of guarantee, acceptance of applications for guarantee, jobs created or saved and bureaucratic issues.

It appears that guarantee companies have not the same reaction to the demand of SMEs and some of them are much more active.

AN HISTORIC EVOLUTION

Guarantee schemes appeared as mutual guarantee companies. They were associations of small merchants and/or small companies. Their creation was an answer to difficulties for the access to financing, especially to economic crisis periods. Their development was reinforced by government's support.

Contemporary institutions have been the result of the evolution of simple structure appeared at the 19o century.

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AN HISTORIC EVOLUTION

After the First World War, in order to rebuild the economy, the legislation on guarantees and especially mutual guarantees has been developed. The legislation permitted the development of Mutual Guarantees schemes till 1945, in France and Belgium in particular.

After the Second World War the necessity for the rebuild of the European economy favored the development of guarantee companies. Thus the mutual guarantees companies, favored by the governments, were introduced in Germany, on 1954, and Italy on 1956. In Germany, the Credit Guarantee Associations were created on the model of Mutual Guarantee companies.

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AN HISTORIC EVOLUTION

The oil crisis on the decade of 1970’s provoked the development of the guarantee schemes in response to economic and financial problems created at the developed economies.

On 1992, in Paris, the European Association of Mutual Guarantee, (Association Européenne de Caution Mutuelle, (AECM)) was created (AECM, 2012). The target of AECM is the representation of MGC to international instances, the financing of SME’s and the collaboration for the management of MGC. Further, the development of the guarantee schemes in the other European countries as well.

ACTUAL SYSTEMS

Guarantee schemes are presented under several forms distinguished by:

- the public involvement or not (that is rather a cooperative-mutual organization based on regional or professional chambers). In this kind of system the public is involved financially by offering the sources for the creation of the guarantee company. Usually sources are provided by national sources and sources from European Union structural funds.
- Private schemas are presented in several countries usually with public and/or mutual guarantee schemas

ACTUAL SYSTEMS

- The mutual schemes are presented especially to countries having a long history of guarantees schemes. Of the most important are those in Belgium with the Mutual Guarantee Companies (SCM). They are cooperatives of mutual type, with SMEs as members.
- The existence of counter guarantee society. Its function is to cover guarantees issued especially from private-mutual guarantees schemas. Usually those guarantee companies are created by the mutual and private guarantee companies with the participation of the public and other financial institutions

EVOLUTION

- Two indicators are used: the accumulated volume of guarantees and the guarantees granted per year.
- Data are provided by AECM.
- The total volume of active guarantees in portfolio is defined as the total monetary outstanding amount of guarantees commitments, in the off-balance records of the financial statements by the end of the year.

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EVOLUTION

Since 2000, a continued growth of the amount of outstanding guarantees is evident.

Since the crisis period, 2009-2011, this amount grew up considerably, passing from about 55 billion Euros at 2007 and 2008 to almost 80 billion Euros on 2010 and 2011.

On 2000 it was almost 30 billion Euros and till 2007 it followed a moderate growth. The strong growth on crisis period was the consequence of the growth of new guarantees granted especially on 2009 (almost 35 billion Euros this year) but also on 2010 and 2011 as a consequence of the crisis.

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ANALYSIS

- The analysis was conducting with the benchmarking process, which consist in improving the efficiency of a scheme by: identifying, analyzing, adapting and implementing solutions used by most effective schemes.
- The analysis was both quantitative and qualitative.

BENCHMARKING

- Benchmarking is used typically to measure: time, cost and quality.
- Best practice benchmarking is used to evaluate various aspects of a process in relation to best practice schemes' processes, usually within a peer group defined for the purposes of comparison.

ANALYZED SCHEMES

- Enteprise Finance Guarantee (EFG) – UK,
- Buergschaftsbank Mecklenburg-Vorpommern (BMV) – Germany,
- Regional Guarantee Fund – Italy,
- National Fund for Enterpreneurship and Development (ETEAN) – Greece,
- National Loand Guarantee Fund (FNGCIMM) – Romania.

TIME – QUANTATIVE ANALYSIS

Scheme	Days	Treshold of Guarantee (euro)
BMV Express	1	105 000
BMV Classic I	14	120 000
BMV Classic II	21	1 000 000
BMV mean	12	
All schemes - mean	15,75	
FNGCIMM	7	2 500 000

TIME – QUANTATIVE ANALYSIS

BMV

- public administration is not involved at decision making,
- easy/simple application process,
- standarised process,
- the scheme is devided in 3 categories: BMV Express/ Classic I/ Classic II.

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TIME – QUANTATIVE ANALYSIS

FNGCIMM

- direct relationship with a local bank
- bank enables a faster response to any questions,
- medium level of difficulty of the application process.

EFFICIENCY ANALYSIS (1)

Indicator	Scheme	All scheme - mean
Accepted applications/ submitted applications	BMV Express 91,9%	84,7%
Guarantee/budget	EFG 8561,7%	380%
Accepted applications/ employed personnel	EFG 451 accepted applications/ 1 employee	278 accepted applications/ 1 employee

QUALITATIVE ANALYSIS

BMV Express

• procedure run by a local bank who knows the customers,

• clearly defined standards of credit requirements

EFG

• subtracting the costs from the benefits, gives a net economic benefit of 1.1 bn pounds,

• considerable welfare gain to the UK economy during the credit crunch

EFFICIENCY ANALYSIS (2)

Indicator	**Scheme**	**All schemes - mean**
Gurarantee/new and saved jobs	• FNGCIMM 9 210 euro/1 job • EFG 17 952 euro/1 job	18 256 euro/1 job
Guarantee/accepted applications	FNGCIMM 173 882 euro/1 accepted application	94 639 euro/1 accepted application
New and saved jobs/accepted applications	FNGCIMM 18 jobs/1 accepted application	9 jobs/1 accepted application

QUALITATIVE ANALYSIS

FNGCIMM

- Removing the need for personal real estate security reduces the costs for loan/guarantee letters and makes bank financing more flexible.
- The number of new and saved jobs is connected with the amount of the guaratnee.

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