COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION

THE ROLE OF MUTUAL GUARANTEE SYSTEMS IN THE FINANCING OF SMEs IN THE EUROPEAN COMMUNITY

SUMMARY

This Communication focuses attention on the continuing problems encountered by SME's throughout the Community in obtaining ready access to sufficient funding at reasonable cost and highlights Mutual Guarantee Schemes (MGS) as one form of action which should be encouraged as an effective means to improve the situation.

The main function of MGS is to enable SME's, by means of common action, to provide acceptable levels of collateral to banks. It is recognised that up to date the record in member states where this type of scheme already exists has been patchy and it is for this reason that the proposed actions on the part of the Commission concentrate on providing technical assistance and advice with a view to assisting MGS to cooperate more effectively at Community level and to identify and adopt the most appropriate management practices aimed at achieving maximum effectiveness.

The principal measures proposed are :

- assistance in the establishment of a European Mutual Guarantee Association;

- institution of a pilot scheme to stimulate the creation of MGS in those Member States where they as yet do not exist.

- promotion of seminars and conferences to disseminate information concerning the objectives, funding and operation of MGS;

- create pilot schemes to identify the most effective means to improve the funding and management of MGS.

CONCLUSION

The completion of the internal market and developments in Central and Eastern Europe mean that competition for scarce financial resources will become even more fierce.

Despite many initiatives in all Member States and at Community level, representations from SMEs and independent research points to the continuing problems experienced by SMEs in obtaining access to finance and with regard to its cost.

One of the most effective ways of assisting SMEs in overcoming these difficulties has been found to be the Mutual Guarantee System which is a market-oriented response by SMEs to the problems they face.

COMMUNICATION

THE ROLE OF MUTUAL GUARANTEE SYSTEMS
IN THE FINANCING OF SMEs IN THE EUROPEAN COMMUNITY

INTRODUCTION

The importance of improving the access of small businesses to sources of finance was identified first in the Resolution of the Council[1] concerning the action programme for SMEs and further underlined in the Communication of the Commission[2] of May 1988 - "An Enterprise Policy for the Community". Priority was given initially to schemes for capital formation which led to the launching of the Seed Capital Pilot Scheme to encourage the provision of equity capital for small companies at the pre-formation stage of their development. Currently 24 such funds are in the process of being created situated in all Member States of the Community. In addition, two further initiatives have been undertaken to promote the supply of investment capital to SMEs. The "Venture Consort" pilot project aims to encourage the formation of transfrontier syndicates of investors with a view to providing finance to innovative projects of European SMEs and the Eurotech Capital Scheme concentrates on improving the supply of equity capital to transfrontier projects in the field of high technology.

Although SME's face financing problems throughout the Community, these problems tend to be more acute in the less developed regions, for a number of reasons such as : the smaller average size of SME's in these regions, the less developed financial sector, etc. Within the framework of regional policies and since the reform of the Community Structural Funds, the Commission has been able to assist in the creation of SME's in depressed areas. In fact, SME's has been recognized as instrumental in the development of local economies, as a means of generating wealth and employment.

In this context, Community support for SME's takes three forms :

- cofinancing national schemes of regional assistance intended to stimulate productive investment;
- supporting the provision of advisory services to businesses;
- encouraging alternatives to traditional bank loan finance by means of certain financial engineering techniques : for example, in addition to the Seed Capital Scheme which is largely financed by the ERDF, the Commission supports in the assisted regions factoring and leasing activities, the creation of guarantee funds, interest rate subventions, the development of venture capital and mutual guarantee schemes.

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1 Council Resolution COM(86)445 final of 7 August 1986

2 Communication of the Commission COM (88)241 final of 18 May 1988

Finally, in the Council Decision of 28 July 1989[3], measures at Community level were called for to improve the business environment and encourage the creation and development of enterprises including the removal of financial constraints which check the development and creation of businesses.

It is widely recognized that, despite many initiatives taken at all levels within the Community, financing is a critical issue for SMEs which, unlike larger firms, typically have fewer options available for obtaining adequate supplies of funding on a timely basis and at an affordable cost. Clearly, the ability to secure financing is important to start-up businesses, yet it also is a major issue for the smaller or medium-sized businesses wishing to grow and especially for cooperatives which tend to have a small minimum equity base. Also, with the rapid globalization of economies and, in particular, the greater competition for scarce resources arising from the completion of the internal market and the development of the economies of Central and Eastern Europe, the problems of access to financing are becoming even more important.

Research shows that SMEs tend to encounter the same type of problems in the area of financing irrespective of Member State. These relate broadly to the issues of both cost of and access to financing. However, it is clear that any measures to improve the flow of financing to SMEs should respect the principles of allocation of scarce resources which is the primary function of the market. Initiatives should principally aim at improving the efficiency of the market mechanism by reducing structural rigidities and imperfections which may tend to handicap SMEs.

I. Mutual Guarantee Schemes (MGS): An important source of financing to SMEs

A. FINANCING SMEs

The basic financing problem of SMEs stems from the fact that a proportionally large increase in capital base is required to respond to a given absolute increase in demand, but their ability to command loan and equity finance is limited. This is compounded by the fact that, in general, small firms require finance in a series of discrete jumps, rather than in regular small amounts. The financing for such relatively large investments soon exhausts the entrepreneurs' private resources and small firms are not likely to generate sufficient profits for investment purposes. A growing SME will therefore be heavily dependent on external sources of finance.

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3 OJEC L239 of 16 August 1989

In addition, most owners of small firms and partners in cooperatives are reluctant to give up part of their independence or statutory interdependence and equality (social economy enterprises) in return for equity. SMEs, therefore, are usually dependent on loans from traditional financiers. Such sources, however, are often reluctant to finance SMEs because of the perceived greater risk of default on loans and the relatively high costs of information and transactions in relation to the amount of finance involved.

For entrepreneurs just starting in business, these problems are even more acute. The absence of a track record is an additional risk factor which further reduces the opportunities of SMEs to obtain finance. In order to minimize the risk of losses as far as possible, SMEs have to meet requests for the provision of securities which often cannot be met because such securities as are available have already been pledged, or are considered to be of insufficient value or are not of a generally acceptable form.

It is this aspect of a lack of sufficient securities to guarantee loans which gave rise to the creation of what are known as Mutual Guarantee Schemes (MGS).

B. DEFINITION AND FUNCTIONS OF MGS

1. Definition

A Mutual Guarantee Scheme can be defined as follows:

"Systems of mutual guarantees consist of joint actions of a number of independent undertakings in order to provide each other with the necessary securities, in the form of guarantees, to raise capital from commercial sources."

2. Functions

MGS can improve the financing opportunities available to SMEs in the following ways:

- Spreading the risk over more parties. In this way MGS can present a balanced spread of risks to financiers such that the overall balance of risk remains within acceptable bounds.

- Risk transformation. By this is meant that MGS assess applications on the basis of different criteria compared to traditional suppliers of finance (banks). In general, banks rely more on collateral and personal securities in deciding whether to give loans whereas MGS concentrate on assessments of the viability of proposals using, to a large extent, their general experience in risk assessment and their in-depth knowledge of particular industries. In this way MGS can transform the results of their own risk assessment procedures into securities which can be accepted by the banks and hence improve the financing opportunities of SMEs. As far as cooperatives are concerned, MGS can mobilise the social strength and solidarity of social economy type of companies and transform these into securities which can be utilised by the banks.

- Improving the negotiation position. MGS act as "countervailing powers" in negotiations with financial institutions by the synergy resulting from the joint action of SMEs, MGS can demand better conditions in the form of lower interest rates and/or lower fees.

- Efficient distribution of government support. The close involvement of local, specialised agencies in MGS such as Chambers of Commerce, professional bodies, etc., improves the ability of government agencies to channel efficiently its support to those areas where it should prove most effective.

C. ORGANIZATION AND OPERATION OF MGS

1. Scope

MGS exist in seven Member States of the Community - Belgium, Denmark, France, Germany, Italy, Luxembourg and Spain. The extent of their operations is summarized at Annexes 1, 2, and 3.

The type of sources provided by MGS vary from Member State to Member State but there are essentially two ways in which SMEs pay to acquire guarantees:

- a fee, which will usually include an annual charge, in most cases a percentage of the guaranteed sum. An initial fee to cover appraisal and administration costs is also often demanded;

- a participating interest in the risk fund or equity capital of the scheme. This participation is generally returned to the SME at the end of the guarantee period.

2. Organization

A summary of the institutional aspects of MGS in the Community is given at Annex 4. However, MGS organize themselves in accordance with the principles of joint action. This finds expression in the underlying relation of several separate SMEs with the same organization (the MGS) and can be direct, (through share-ownership, membership or fixed contributions), or indirect, (in which case SMEs are members of an organization that participates in MGS directly).

3. Structure

Although details vary, the basic structures of MGS consist of:

- General Assembly of representatives of SMEs and other parties (representatives of shareholders such as Chambers of Commerce, professional organizations, etc.) The most important duties of the General Assembly is to nominate and discharge management; elect, discharge and summon the Supervisory Board; draw up the general regulations for the issue of guarantees.

- Management. The powers of management are laid down in legislation and in the articles of association. Management's powers relate to day-to-day decision making on the provision of guarantees and the making of investments.

- Supervisory body. This can be either an external or internal body and consists of a Board of Supervisory directors whose function is to overview the operation of the MGS. In some cases the supervisory board can be an external body which also has the role of monitoring the use made of public funds in those cases where MGS receive government funding.

4. Role of government

The general role of government consists of creating the conditions to enable MGS to come into being, to minimize obstacles and to stimulate a positive attitude towards MGS among financial institutions and the general public.

In fact, in almost all cases, government involvement in the MGS has also consisted of the provision of re-guarantees. In several Member States MGS have the possibility to re-guarantee their risks through the government by:

- re-guarantees in the form of government support. MGS can obtain re-guarantees either directly from government or from specially created government institutions at a premium which is usually considerably lower than commercial rates;

- re-guarantees of the government acting as a lender of last resort. This re-guarantee provides financial institutions with additional security. If MGS are unable to meet their obligations, the government assumes responsibility in advance. This type of function does not provide MGS directly with financial support but makes them more attractive partners for financial institutions.

In addition, governments have also supported MGS by the provision of part of the capital needed to start the scheme and of subsidies to reduce the costs of guarantees for SMEs.

D. <u>BENEFITS OF MGS TO SMEs</u>

The successful operation of MGS can be measured in terms of the benefits they achieve. These can take three forms:

1. Improving the opportunities for SMEs to obtain finance by the provision of necessary guarantees and by improving the quality of information to potential lenders on which financing decision can be made;

2. Reducing the cost of finance;

3. Providing expert advice in all areas of business including production, management, accounting and marketing.

Research has shown that, in general, throughout the Community, the performance of MGS in all of these areas could be improved. But as a measure of the need to improve the access of SMEs to sources of finance, the extensive use which SMEs make of the service of MGS in those Member States where it is available is an indication of the extent to which MGS have played an important and necessary role in facilitating access to finance - see Annex 2. This is achieved by improving the securities available to lenders by spreading the risk of default over a wider number of borrowers. This takes place in two different ways:

- In the first system, MGS issue guarantees up to a maximum of 100% of the loan but often for very small amounts. The bank then bears the risk for the percentage of finance which is not guaranteed. In these cases, the securities of SMEs are held directly by the lenders and can provide collateral for additional loans (in addition to those guaranteed by the MGS).

- In the second system, MGS provide guarantees for up to 100% of the finance provided by the financial institutions but the securities of the SME are held directly by the MGS. For these cases, the securities are not available as collateral for additional loans.

A further role played by MGS is to create a more powerful negotiating position for SMEs. This can be effective both in terms of obtaining access to finance and also by reducing, or limiting, the costs of finance. It is unclear from the research, however, as to how effectively this negotiating power has been used in the past. The involvement of banks as direct investors in MGS and the sectoral and geographically limited extent of most MGS have tended to limit the effectiveness of the negotiating strengths of MGS.

As far as the cost of finance is concerned, it is difficult to identify any significant effect of MGS in reducing such costs to SMEs. The cost of finance obtained through MGS is increased by the fees and other costs involved in their operation. In practice, there is an important trade-off to be made between the increased access to funding and the reduction in its cost. The available information suggests that the extent to which this trade-off has been controlled has been limited.

One of the reasons for this is the lenders' policy towards limitation of losses arising from bad debts by refusing to accept risks above a certain level irrespective of the level of interest rate. Therefore, a reduction of risk by means of MGS guarantees has made it easier for SMEs to obtain finance but it has not reduced the costs to the same extent. It has however, been noted that, in practice, it is in those Member States where the negotiating power of the MGS has been strongest due to its organization and expertise (Italy and Luxembourg) that an actual reduction in the costs of finance to SMEs has been achieved.

An additional service of MGS is the provision, at minimal cost, of practical professional advice in the areas of economics, finance, legal matters and sometimes even technical help. The fact that the majority of MGS supply information and advice in one form or another indicates the interest of the MGS in protecting its investment and the need of SMEs to have access to such assistance.

II. FUTURE DEVELOPMENT OF MGS IN THE COMMUNITY

A. Organization

One of the main advantages of MGS is their detailed knowledge of the business of the enterprises with which they deal. This results from two aspects, the first is the specialised knowledge of a particular sector of industry for which an MGS has been established and from local knowledge of the region in which an MGS is based (most MGS are organized sectorally and regionally). It is this capacity for MGS by the pooling of their accumulated experience and knowledge of different trades and business sectors to provide technical assistance and advice which distinguishes their contribution to SME development from that of other financial institutions.

The second aspect relates to the emphasis on detailed analysis and presentation of information of SMEs' proposals upon which the decision of the MGS to issue or refuse a guarantee is based. In fact this stress on evaluation of the proposal based on projections of future viability is in contrast to the criticism often levelled at banks with regard to the over-reliance on availability of collateral rather than on an objective project appraisal.

The advantages based on expertise and local knowledge have been especially stressed by MGS based in Luxembourg and Denmark. On the other hand, those MGS operating in Germany point to the trend towards an increasing combination of their operations on a national level. The reason given for this is that it enables risks to be spread more widely over a greater number of participants and over a larger number of sectors. This spread of risk is believed to make MGS less sensitive to cyclical fluctuations in the economy and also to allow them to operate more efficiently.

However, within the German system a special body has been created known as the "Fachkammer" consisting of representatives of the Chambers of Commerce and professional organizations. This body has the function of providing the local knowledge and expertise to SMEs within the larger organization to which it belongs. In this way it is hoped to gain the advantages of a national organization while at the same time keeping the benefits of local sectoral knowledge.

In fact, central organizations of one form or another exist in Belgium, France, Germany, Italy and Spain indicating the general perception of the need for and value of such bodies. Their general functions relate to risk distribution, research, representation and lobbying and the supply of information. In addition, public authorities may delegate certain supervisory duties to these central organizations. Such duties normally involve regulatory aspects as well as general administrative and legal requirements.

Practical experience would appear to indicate, therefore, that some form of central body at national level is essential if the full benefits of MGS are to be realised.

B. Relationship with banks.

A good working relationship between banks and MGS increases the value of the guarantees by boosting the confidence of the banks. Such relationships vary considerably from Member State to Member State. Some of the schemes work exclusively with one bank (France), others have agreements with several banks (Italy) while in Germany, the banks may own shares in MGS.

Each of these forms of cooperation has its advantages and disadvantages but the following general observations can be made:

- Proposals from SMEs should always be presented initially to MGS for primary evaluation rather than directly to the banks so as to avoid only exceptionally high risk SMEs being offered by banks for purposes of guarantee.

- Working only with one bank means that MGS are too dependent on one source of finance except if this source of finance is specifically designed for them e.g. social economy finance institutions. This can make negotiations between the parties difficult, especially with regard to possible reductions in the costs of funds.

It is evident, therefore, that for MGS to operate effectively they must ensure that they do not become dependent on only one source of financing. Negotiating specific deals with particular banks in certain sectors and regions may, however, be appropriate as long as this is the result of a bargaining process from which the SMEs can benefit from the negotiating strength of the MGS.

C. Role of government

Up to now the role of governments in relation to MGS has been:

- legislative, often with the aim of stimulating the start-up of MGS;
- supervisory, often delegated to special bodies;
- provision of subsidies, mainly through re-guarantee facilities and the provision of direct grants either to start the fund or contribute to operating expenses.

In general, it is believed that the role of government should be limited to the establishment of the legal and regulatory background to enable MGS to be set up and to operate (where appropriate, governments should ensure that MGS are not penalised by a too strict application of banking legislation to what are, in effect, not credit institutions); to the commencement phase by providing technical assistance and, in certain cases, start-up capital and contributions, for a limited time, towards operating costs. The provision of re-guarantee facilities can only be justified in the short-term to enable a sufficient fund to be built up by MGS to enable them to become independent and self-sufficient. In the long term, the spreading of risk and the critical application of the expertise built up by MGS in the evaluation of proposals, should ensure that they become self-financing.

III. The Community dimension

A. Background

The creation of MGS can be seen as a practical response to the perceived need of SMEs to obtain access to finance in situations where such scarce resources have been allocated, not as a function of price, but more in accordance with the recipients' ability to provide sufficient collateral.

The experience of many such schemes throughout the Community has been that some form of on-going government assistance has been beneficial in assuring their continued successful operation. The reasons for this are diverse and vary from one Member State to another.
However, such assistance should be aimed at ensuring that, together with other contributors, the initial capital base of an MGS should be sufficient to enable a solvent fund to be established and running expenses met. Once this is achieved, proper management and application of the expertise and local knowledge in assessing proposals should ensure that losses are minimized and a

successful MGS should be able to remain solvent and expand its operations in line with demand. A transitionary period where government re-guarantees loans may be necessary, but once the MGS is operating successfully, this type of assistance should no longer be necessary.

B. Possible measures at Community level

Given the continued criticism levelled by SMEs throughout the Community against financial institutions with regard to the claimed over-reliance on collateral requirements rather than evaluations of proposals, it is clear that SMEs continue to suffer from a lack of ready access to funding which then overall importance in the European economy would justify.

In addition, studies continue to show that even where adequate collateral is available, SMEs continue to be charged interest rates substantially in excess of those paid by larger companies.

In this context, the operation of MGS in the community is recognized as responding to the necessities of the market and should be encouraged and supported as much as possible. In fact, in those Member States where MGS are unknown, see Annex 5, the need for some form of guarantee scheme in favour of SMEs is recognized by the existence of government funded schemes which aim to provide the same service as that of MGS.

The evidence suggests that, given the existence of local knowledge and expertise in MGS, this type of market-generated response to the perceived need is preferable to a somewhat remote, government funded scheme. The successful operation of MGS can prove powerful engines for the mobilisation and application of local expertise and thrift in collaboration with relevant local authorities.

The Commission will stimulate the expansion and operation of MGS within the Community by means of the following measures:

- assist in the establishment of a European Mutual Guarantee Association grouping together representatives of each of the national mutual guarantee Federations with the following main objectives:

    1) the promotion of Mutual Guarantee Schemes throughout the Community;
    2) the establishment of MGS in those Member States where they currently do not exist;
    3) the collection of information from members of the Association for dissemination on a Community-wide basis;

4) a contribution to the identification and development of best practice and its implementation throughout the community.

- institute a pilot scheme involving two or more Member States, at least one of which should not have an existing MGS with a view to promoting the establishment of a viable MGS in that Member state. The pilot scheme would involve assistance in the establishment of an MGS structure by means of

  a) a Community contribution towards the capital of the scheme;
  b) a contribution towards the running expenses of the scheme during a defined period;
  c) technical assistance relating to the establishment of the MGS in terms of the legal form, administrative, accounting and other technical matters relating to the operation of an MGS (the experience of those national bodies in managing existing MGS would prove invaluable in this process).

- promote a series of seminars and conferences with a view to the dissemination of information concerning the objectives, funding and operation of MGS. Such seminars should have as one of their objectives the identification of best practice and exchange of experiences between Member States;

- initiate pilot schemes with the aim of identifying, as far as possible, the most effective means to improve the operation of MGS as far as their effect on the cost of finance to SMEs is concerned (for example, by improving their negotiating procedures) and by suggesting the most efficient means of funding and managing MGS.

IV CONCLUSION

The completion of the internal market and developments in Central and Eastern Europe mean that competition for scarce financial resources will become even more fierce.

Despite many initiatives in all Member States and at Community level, representations from SMEs and independent research points to the continuing problems experienced by SMEs in obtaining access to finance and with regard to its cost.

One of the most effective ways of assisting SMEs in overcoming these difficulties has been found to be the Mutual Guarantee System which is a market-oriented response by SMEs to the problems they face.

ANNEX 1

Mutual Guarantee Schemes in the Community; number of schemes and names		
Member states	Number of MGS's	Name of MGS
Belgium	18	'Maatschappijen voor onderlinge borgstelling' operating under auspices of the 'Nationale kas voor beroepskrediet' ('Caisse national de credit professional')
Denmark	12	'Kautionsinstitut', 'Finansierings-fond', 'Finansieringsforeninger', 'Finansieringsinstitut' All of which operate for a specific branch
France	286	'Societé de cautionnement mutuel'
Germany	28	'Kredietgarantiegemeinschaften'
Italy	642	'Consorzio fidi' 'Co-operative di garanzia'
Luxembourg	2	'Mutualité de cautionnement et d'aide aux commercants' 'Mutualité d'aide aux artisans'
Spain	23	'Societas de garantia reciproca'

Average amount of guaranteed finance by MGS's in six Member States.

Member State	No. of guarantees	Total guaranteed capital annually (1 Million ECU)	Average amount of finance guaranteed ECU
Belgium	6,000 average annually (1977-1983)	112	18,700
France[1]	663,000 (31-12-1986)	2,065 (current level 7,770)	11,260
Germany	4,000 (31-12-1986)	346	86,500
Italy[2]	1985: Total members: 295,000 Agriculture: 1,300 (0.03% of total agricultural SMEs) Craftsmen: 191,000 (21% of total craftsmen SMEs) Commercial: 61,000 (4.5% of total 'commercial' SMEs). Industrial: 42,000 (25.5% of total Industrial SMEs)	No figures available; estimation: 3% of total financing of SME's.	
Luxembourg	2,700 (31-12-1986)	42	15,560
Spain	7,300 (31-12-1986)	257	35,200

1 Total number of clients at 31.12.86

2 Due to the wide despersion of MGS in Italy it is difficult to obtain statistical information onthe total amount of finance guaranteed.

ANNEX 3

Area of activity of MGS's in the EC			
Member state	**Geographical**	**Industry**	**Central Organization**
Belgium	Organized locally often parallel with Local Credit Associations	All branches of industry	Local MGS's have re-guaranteeing facilities at a central level (WWF, NKBK) (1.)
Denmark	Mostly regional, otherwise national	Industry: - bakery's industry - pharmacists - etc.	None Affiliated to professional organizations
France	Usually local or regional. Approx. 1/6 of all MGS's operate nationally; partly second level MGS's	Industry: - graintraders - transporters - etc.	Limited, second level MGS's, and re-guaranteeing facilities for limited groups: CEPME and those MGS's associated with the Banques Populaires (2.)
Germany	Organized regionally (Bundesland)	All lines of industry divided into four groups: - manufacturing - craftsmen - trading - restaurants, etc.	Umbrella organizations for MGS's each branch or industry; one inter-professional umbrella organization.
Italy	Provincial (local) mostly regional in their operations.	Branches of industry: - craftsmen - industrial - commercial - agricultural	Second level MGS's; for industry and trade third level MGS's. Often representation by politically linked organizations.
Luxembourg	National	Two branches of industry: - craftsmen - trade	None
Spain	Regional, mostly one MGS per region with exception of four regions (of 17) and two national MGS's	All branches of industries for regional MGS's; the two nationally operating SME's: - road transport - construction industry	None. For the two nationally operating MGS's, the professional organizations are sponsors (3).

ANNEX 4

Some institutional aspects of MGS's in the EC		
Member-state	**Relation between SME's and MGS's and financial involvement of SME's in an MGS**	**Body which decides about issuing guarantees**
Belgium	The equity capital is provided by credit associations, professional organizations, etc, and SME's (not obligatory). Most SME's pay only a guarantee fee.	Credit assessment is mainly done by the Bank. Decision is made by the Board of Directors, Management or other bodies.
Denmark	Membership of professional organization.	Board of the scheme.
France	Participation in the guarantee capital of the fund of 4%.	General Assembly chooses Executive Council, with often a special committee to make decisions. In reality the Management takes the decisions in a number of schemes.
Germany	SME's are represented by their representative organizations, Chambers of Commerce which own part of the shares of the schemes.	Special committee (Bürgschaftausschuss) decides on guarantees; members are banks professional organizations and representatives of the public sector.
Italy	Membership access to bodies of the co-operative/consortium. Mostly a participation in the guarantee capital of the co-operative (4-5%)	Board of the scheme. All members (incl. non-guaranteed members) have their representatives; Also often representatives of the Chambers of Commerce, regional or provincial authorities, experts.
Luxembourg	For Craftsmen membership it is almost obligatory to acquire finance; the SME's hold shares (1% of finance, with a maximum of 100 shares).	Management MGS.
Spain	Membership, access to bodies of the co-operative, participation in the guarantee capital	Board of Directors or Executive Council: - guarantees; - new members. Technical Commitees: appraisal requests.

ANNEX 5

Government schemes or other measures which may act as a substitute for MGS's.			
Member state	**Government Guarantee Scheme**	**Other measures**	**Detail**
Greece	Two state guarantee schemes: Decree 197 (national level); Decree 1262 (regional level). Letters of guarantee provided by EOMMEX for SME's to undertake major construction projects (limited).	There are special finance schemes for SME's from EOMMEX and banks (also for exports; State approval needed).	The guaranteed % of the regional scheme depends on the region (1, 2, 3 or 4). Low interest or interest free loans with no guarantees needed are offered by EOMMEX.
Ireland	A small programme which is currently being completed: Development Finance Scheme (DFS).	Government grants and stimulation programmes. (BES, EDP, EIB loans, IDA).	DFS: 40% guarantee (bad high risk top) 5 - 7 Mill. Irl L. annually (1988 2 Mill) financed.
The Netherlands	- Kredietregeling Midden- en Kleinbedrijf (KMKB) - mainly loan finance. - Garantieregeling Participatie Maatschappijen (PIM's): equity finance.	Several subsidy schemes aimed at special types of investment.	- KMKB: 50% guarantee (31.12.86): Dfl. 1.8 billion guaranteed for 13,000 enterprises fee: 0.7% annually; - Guarantee PIM: 50 % guarantee 1981-1987: Dfl. 300 million guarantee; Dfl. 600 million finance).
Portugal	Guarantees to enterprises in extractive and processing activities (IAPMEI).	Regional development incentive (IAPMEI).	
United Kingdom	Loan Guarantee Scheme (LGS)	Government tax relief scheme (BES).	LGS 70% guarantee; budget available L 90 Mill. until March 1989.

FINANCIAL STATEMENT

Part 1 : Financial Implications

1. Title of action : The role of Mutual Guarantee Systems in the Financing of SME's, in the European Community.

2. Budget lines concerned : B : 5320

3. Legal basis : Council Decision of 28 July 1989 (89/490/EEC) on the improvement of the business environment and the promotion of the development of enterprises, and in particular small and medium-sized enterprises, in the Community.

4. Description of the action

   4.1 Specific objectives of the action : To promote the role of Mutual Guarantee Schemes (MGS) in the financing of SME's in the Community : proposals are made to finance studies conferences and pilot projects with a view to improving the scope and effectiveness of MGS.

   4.2 Duration : Three years - 1991, 1992, 1993.

   4.3 Target population of the action : Existing and potential MGS throughout the Community.

5. Classification of the expenditure or income

   5.1 DNO

   5.2 CD

   5.3 Type of income envisaged : None

6. What is the nature of the expenditure or income:

   - Technical assistance in the form of studies, seminars, conferences and pilot projects.

   - Other

   - If the action is an economic success, is a partial or total reimbursement of the Community assistance envisaged? NO

- Does the proposed action imply a modification of the level of income? If so, what is the nature of the modification and what type of income is envisaged? NO

7. Financial impact on the budget (part B of the budget)

7.1 Indicate the means used to calculate the total cost of the action :

Based on experience in similar fields a total budget of ECU 400,00 has been foreseen allocated as follows :

	ECU
Pilot actions	200,000
Studies	100,000
Conferences	100,000

	400,000

7.2 Indicate the part of the "mini-budget" in the total cost of the action. Explain the mode of calculation : None

7.3 Indicative calendar of commitments and payments:

	ECU
1991	250,000
1992	100,000
1993	50,000

	400,000

7.4 This expenditure is entirely covered within the existing amounts deemed necessary for the 1990-1993 SME action programme and therefore does not require additional appropriations.

8. What anti-fraud provisions have been taken in the proposed action?

Usual controls applied by Financial Control.

Part 2 : Administrative Expenses

1. Does the proposed action imply an increase in the number of staff of the Commission? If so, how many?

No

2. Indicate the amount of operational and personnel expenditure generated by the proposed action. Explain the method of calculation. None

Part 3 : Cost effectiveness analysis

1. Objective and consistency with the financial programme.

1.1 Specific objective of the proposed action. It should be quantified as far as possible and presented for each of the years concerned if it concerns a pluriannual programme.

The specific objective of the proposed actions is to provide assistance in the creation of a European Association of Mutual Guarantee Schemes, to identify best management practices to collect and disseminate appropriate information, and to promote the spread of MGS in the Community by means of pilot actions.

1.2 Is the action envisaged in the financial programming of the DG for the years concerned? YES

1.3 Indicate the more general objective defined in the financial programming of the DG to which corresponds the objective of the proposed action :

To improve the access of SME's to sources of finances.

2. Justification of the action. The justification will be analysed vis a vis an alternative course of action which could achieve the same results according to three criteria : cost, derived effects, multiplier effects.

The costs involved in the proposed actions +- ECU 400,000 are minimal compared to the expected benefits of providing an impetus to the existing and foreseen MGS in expanding and improving their opportunities to assist SME's to obtain ready access to bank finance at a reasonable cost. The identification of best practice and its dissemination throughout the Community should have multiple benefits for MGS and for SME's served by them.

Other courses of action aimed at improving the supply of finance are possible eg. expansion of third tier equity markets, identification of more flexible loan instruments, etc. These are not seen as alternatives but rather as complementary actions to those currently being proposed and DG XXIII is currently studying how best these complementary actions can be encouraged.

3. Follow-up and evaluation of the action

3.1 Performance indicators selected :

The main indicator of success will be the successful establishment of a European Association of Mutual Guarantee Schemes together with a measureable increase in the activity and scope of Mutual Guarantee Schemes throughout the Community.

3.2 Methods and periods of evaluation envisaged :

The studies plained in the actions will include the collection of appropriate data and its eventual evaluation.

3.3 Principal factors of uncertainty which may affect the specific results of the action :

The major areas of uncertainty concern the general economic situation in the Community.