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13 Valuation and Financing Companies

Guarantee Systems. Keys for their implementation

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Spanish Association of Accounting and Business Administration

AECA PRONOUNCEMENT

VALUATION AND FINANCING COMPANIES

Guarantee Systems. Keys for their implementation

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The first edition of this 'AECA Pronouncement' is open to the contributions of all AECA associates and any person interested in the discussed subjects

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VALUATION AND FINANCING COMPANIES COMMITTEE

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INTRODUCTION

Guarantees are necessary to access financing. In general, when a business owners applies for credit using the credit institution form, a specific application detailing which guarantee[1] and type of account are necessary to cover the credit requested is shown. Consequently, if business owners have the coverage required by the financial institution, they may receive financing, otherwise, they may not have such access.

Credit activity plays a key role in an economy. Therefore, this activity is highly regulated and agents are supervised by bodies responsible for ensuring proper functioning of the financial system. Finances global nature requires coordination of these regulatory and supervisory practices, which can be found in the Basel Accords issued by the Basel Committee on Banking Supervision and other pronouncements.

The norms derived from the Basel Accords, with a reasonable purpose, establish capital requirements for entities based on various parameters, among which, one is the offered guarantee. These requirements may determine higher capital requirements and anticipated demand for impairment losses, which results in a less profitable investment credit from financial institutions in segments with greater difficulties to access, for instance, the guarantees. However, the guarantee is not the only requirement that can lead to exclusion or higher credit cost. Excessive documentation of operations could turn the financing of certain segments, such as the micro, small and medium businesses (hereinafter, MSMBs) impractical.

Therefore, the need for guarantees is one of the causes why financing is a barrier faced by business units, especially the smaller ones. For MSMBs, the lack of guarantees coverage, particularly those considered of the highest quality, which are understood as optimally qualified and weighted according to the international rules governing the financial system, is the basis of most of these barriers. Con-

1 A guarantee is a legal transaction intended to provide greater security to perform an obligation or to pay a debt.

sequences of difficulties to access financing range from the most severe, such as financial exclusion, to others less dramatic, such as higher financial costs, which however, hinder competitiveness.

Therefore, guarantees in our case understood conceptually as support or coverage instruments of one or more financial obligations, whether personal, real, net or public, are a scarce asset, especially the ones better qualified and weighted in the international banking regulation, whose event is transcendental for MSMBs in accessing finance.

Lack of guarantees demanded by financial institutions in order to grant financing, produces a selection of players that do not respond to the quality of their projects, nor to the effort and ability of business owners to compete in the market, but to the past success or the fortunate of being located in privileged environments.

In short, a guarantee is an instrument intended to cover and mitigate moral hazard[2], which is converted into a selection criteria for credit granting. This situation limits equality of opportunities, which changes the efficient allocation of financial resources and the development of the best talents. This situation is not desirable: first, because MSMBs are important factors for creating employment and wealth; secondly, because the same rules of the financial system differentiates them in relation to other businesses and even territorial structures.

Worldwide, the solution underwent articulation of entities that provide the necessary guarantees to business owners with feasible projects for financing all stages of a company; these are called guarantee schemes. Guarantee schemes in this area grant guarantees to support business owners' credit or activities and thus meet smaller needs of business owners, such as facilitation of access to credit under competitive terms.

In this document, we will address the rich and diverse reality of guarantee schemes, distinguishing and explaining existing schemes in all of its various forms, by providing a proposal of an increasingly necessary classification for operators working with such schemes.

The Spanish experience in this area is very extensive, thus generating knowledge that has been serving as a reference for other territorial realities particularly in Latin America and Europe. Experience of Law 1/94, of Mutual Guarantee Societies (MGS), represents a turning point in Spain as it places MGSs as a financial or related institution and, consequently, included under the framework of Basel I Accords of the year of 1988.

2 Moral hazard is the opportunistic behavior of the borrower with the funds received.

The Spanish Law 1/94 influenced the development of mutual guarantee societies systems in a very public way in Latin America[3] in recent years, such as in the cases of Argentina (1995), Venezuela (1999), Brazil (since 1999) - in a more intense way in recent years - Uruguay (2000), El Salvador (2001), Chile (2007), Nicaragua (2008), Honduras (2011) and Peru (2012), as well as the first legislative impulses currently taking place in Guatemala, the Dominican Republic and, most recently, in Mexico. In the European context, we should mention Portugal's guarantee scheme implementation and mentoring, in 1995, and the Italian reform of 2008.

This document presents elements that characterize different guarantee schemes, by establishing different classifications, according to the origin of their resources and meeting the responsibility of guarantee operators. It is a document that goes beyond the casuistry of a specific system and therefore intends to describe a universal reality.

With these characteristics, this document is specially intended towards policy makers who are responsible for guaranteeing public policies, both for national and multilateral organizations aiming to encourage MSMBs' financial flow, thus promoting the development of guarantee schemes. However, it will also be useful for financial institutions and business associations. These groups are the circle of stakeholders and they can find the keys to better understand these institutions herein. Similarly, the document is also important for people in charge of guarantee schemes as it allows them to learn about other models and provide a vision of how to consolidate the guarantee.

This document describes guarantee schemes' institutional framework, its origin, its role in the financial system, its nature of public policy and its presence globally. Such description can justify its need, as well as the major challenges they seek to overcome. Public officials face two questions that inevitably arise when decisions are made concerning the establishment of a guarantee scheme:

- How to decide on the model or guarantee scheme that will be implemented?
- What is the most appropriate implementation methodology?

Knowing well the concepts, characteristics and operation of guarantee schemes is necessary in order to do this. This document structures knowledge related to different schemes and their characterization.

3 Pablo Pombo, one of the authors of this document, participated in some of these projects as an international consultant for several multilateral agencies: The Spanish Agency of International Cooperation for Development (AECID), the Swiss Agency for Development and Cooperation (SDC), the German Agency for International Cooperation (GIZ), the United Nations Development Program (PNUD), the World Bank, the Inter-American Development Bank (IDB), etc., in addition to Departments of Economy, Agencies and Development Banks of the countries involved

The second chapter analyzes the institutional nature of guarantee schemes from different perspectives; the characteristics of different types of schemes are presented in chapter three, in order to introduce chapter four, which describes different classifications of guarantee schemes. The fifth chapter proposes a proven methodology to solve the implementation of a guarantee scheme. The conclusions are presented in chapter six.

2
APPROACH TO GUARANTEE SYSTEMS

Granting of guarantees is a complex process, which may pose risks, and requires the establishment of reputable and responsible institutions setting up meetings with parties interested in obtaining credit.

Guarantee schemes are an integral part of the institutional framework that favors competitiveness in a territory, since companies located in such territory can count on an efficient tool that allows them to improve their access to credit. State's interest in promoting this institutional framework is, therefore, obvious.

Public sector role in promoting these initiatives requires the establishment of a sound legal framework agreed with the agents involved, in order to integrate them into the financial system.

Provision of public resources is also required to promote and develop schemes, and, in some cases, include the participation of the private sector, precisely the beneficiaries of this activity: companies and financial institutions.

This participatory approach allows for greater involvement. Thus, guarantee schemes can better adjust and adapt their products to the needs of their users and generate added value.

Public sector role is also reflected in counter guarantee mechanisms, especially when companies and financial institutions assume greater leadership in first tier mixed guarantee schemes, as ultimate resource for the private sector (those operating the guarantee directly with business owners and financial institutions).

Public policy intends to solve structural problems. Thus, in the case of the German guarantee scheme or the State Department of Economy from Mexico programs or the Guarantee Fund for Small Business (FOGAPE) from Chile, for instance, the goal is to re-establish equal opportunities, promoting access to financing and public bidding or procurement. In the case of the European Association of

Guarantee Institutions (AECM), with already consolidated realities, recent interest has been focused on assessing the impact of European guarantee schemes (Scmidt and Elkan, 2010; AECM, 2010). In this sense, positive effects were observed from the socioeconomic viewpoint, as well as benefits for the public and private sectors[4].

On the other hand, guarantee schemes are heterogeneous due to circumstances, such as being created in different historical moments, arise in different economic and social contexts, be developed with a different focus from public policies and different perceptions on the recognition of business owners' roles in the economic development of countries.

Institutionalization of guarantee schemes was consolidated in the first thirty years of the twentieth century, in unions of artisans in France. Its broad dissemination on a large number of countries has been based on its configuration as State policies. Stability of these policies over time is a key factor to gain the necessary dimension. Guarantee Schemes require a period of maturation, being established as long-term public policies.

Currently, guarantee schemes are set as a consolidated reality and in most developed countries, specifically, they are used more intensively in activities and resources. Therefore, it is not surprising that some new initiatives are added every year in different territories.

2.1. THE CONCEPTS

Guarantee schemes arise as a result of a problem in the access to business financing. Research on the problems of information economy earned recognition of the Swedish Academy for teachers Akerloff, Stiglitz and Weiss in 2001, which gave them the Nobel Prize. These authors showed that information asymmetries[5] create two problems during decision-making: adverse selection and[6] moral hazard. However, from the political scope, there is a concern in facilitating access to timely and

4 An update of a previous study conducted by *Institut für Mittelstandsforschung* from the University of Tréveris, Germany, analyzed macroeconomic benefits provided from the activity of German Guarantee Societies in the current context of crisis. Activities of German Guarantee Societies, and private institutions with public support of a counter guarantee, led to an improvement in GDP growth and the State's financing balance. The study highlights considerable contribution provided by German Guarantee Societies in overcoming economic and financial crisis, ensuring investments in future economic activities, working capital and employment. Influence on tax revenue, which increased and decreased financial transfers, such as unemployment benefits, is also positive as it exceeds the State's payment obligations in its role as counter guarantee for coverage of guarantee societies.

5 Information asymmetry in the credit relationship is due because the lender and the borrower do not share the same level of information about the financial transaction.

6 Adverse selection occurs in the credit relationship, when financing is granted to riskier projects, which are prepared to take a higher interest rate.

sufficient financial resources, to consciously provide support for guarantee institutions, giving them the structure they need to develop their activities effectively.

Guarantee access policy is developed by concrete institutions, within the structure of a guarantee scheme and operating schemes that are not homogeneous in all cases. Various institutions (elements) interacting with guarantee operators create a guarantee scheme. Hierarchically, it is also considered a subsystem of the financial system. Finally, the activity of guarantee institutions may be counter-guaranteed by a reinsurance entity. Counter guarantee function is to share guarantee institutions risks (in industry jargon, first-tier) with reinsurance institutions (in industry terminology, second-tier).

For instance, Spanish mutual guarantee societies system or subsystem consists of 23 SGR. We could also say that the Spanish *guarantee scheme* consists of a subset with 23 SGR, *Compañía Española de Reafianzamiento, S.A.* (CERSA) and other system elements, such as MSMBs, the Bank of Spain, FEI, EEFF, etc. Different types or guarantee schemes models can converge in a territory.

Guarantee institutions manage credit risk *(financial guarantees)* or perform a certain responsibility *(technical guarantees)*.

Guarantee schemes' mission is to facilitate credit access to MSMBs through the formal financial system and, although assuming a cost, they reduce the final cost and improve the term to access financing for these business units, given that financial institutions assume less risk and also require capitalization of a lower volume of own resources and provisions, according to the classification and weighting of the guarantee.

Evolution of these guarantee schemes and confidence generated in credit institutions made the *guarantee coverage* offered by guarantee schemes not only interesting for the company but also for the financial sector, which receives economic and financial advantages in credit relationship competition. These advantages are most evident if the guarantee scheme is framed in the country's regulation and financial supervision, once a trend in recent years subjects guarantee schemes to the discipline of banking regulation and supervision.

These institutions face a number of challenges related to their sustainability, the management of moral hazard among credit relationship players and the coordination of the guarantee scheme stakeholders' interests.

Challenge consists in establishing adequate mechanisms to overcome moral hazard problems arising in credit relationships and which write a new chapter in guarantee schemes. This new chapter displaces the issue related to risk management and its responsibilities and the obligations of the credit institution to the guarantee scheme and, has enough attraction for financial institutions to perceive economic and financial advantages in the system competition and for businesses not to suffer from insuperable barriers (including an excessive cost of the guarantee) so that they can benefit from the guarantee coverage.

Finally, due to all these issues, guarantee schemes have become an object of study in recent years, whose tendency is increasing[7].

Within the structure established for the study, a few studies have been developed to answer to the following questions (Pombo and Herrero, 2001; Pombo, Molina and Ramírez, 2007a and 2007b): How is the study on the classification of guarantee schemes defined? What are its characteristics? What is its impact to the financial institution? What is its impact for the user business owner? What principle we must identify in its implementation? This document aims to answer these questions and thus provide useful criteria for the adoption of effective policies.

2.2. GUARANTEE SCHEMES IN FINANCIAL AND BUSINESS RELATIONSHIPS SCHEME

Guarantee coverage fulfills a dual purpose in credit relationship. On one hand, it serves as a mechanism to facilitate an alternative source of credit recovery to the source of income assessed for its granting (for example, the company's expected net cash flows or the individual's income available). On the other hand, the guarantee has a deterrent role on moral hazard and intends to involve the borrower so that transactions with a high moral hazard do not occur. This situation leads to the request of personal guarantee for business owners applying for credit for their business.

Lack of sufficient guarantee coverage of the borrower may cause the financial institution not to grant credit to a project with the ability to become profitable and therefore solvent. In other cases, lack of sufficient guarantees can raise the interest rate required by the financial institution, thus creating a situation of unequal conditions. Guarantee schemes intend to mitigate these financial exclusion or financial costs raising situations.

Operation regime of guarantee institutions is heterogeneous. In all of them it is common for a business owner to need financing and to apply for a loan with a financial institution. The financial institution reviews the application and raises a number of conditions, including the provision of guarantees. This is where guarantee schemes arise, but their operation is not uniform, and there are different ways to operate them. In a first approach, we can establish the existence of two

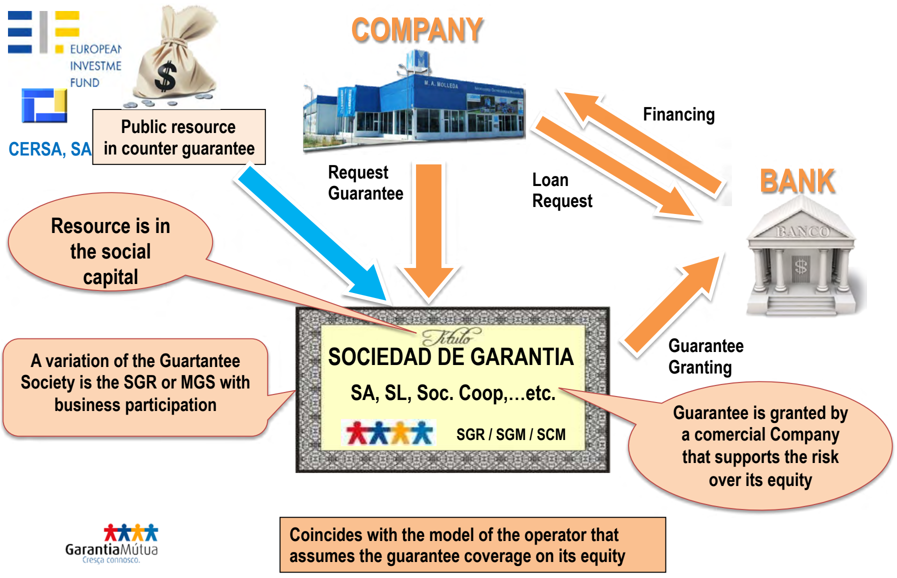
7 As a demonstration of interest on the agenda of multilateral agencies, we mention the Working Group recently established by the World Bank that summoned a group of experts from different continents to form a task force in order to address and discuss the *"Principles for the design and implementation of Partial credit guarantee schemes (PCG) for small and medium enterprises in emerging markets and developing economics"*.

large groups. An empirical classification of guarantee schemes is presented in the following chapters.

a) Guarantee scheme with a direct relationship with the borrower (Chart 1)

If business owners lack guarantees, they can use a guarantee institution studying their operation. If the guarantee is granted or approved, the borrower presents the guarantee authorization to the financial institution, which, in turn, grants the credit upon agreements or arrangements made with the guarantee institution. As consideration for the guarantee, borrowers undertake certain obligations with the guarantee institution, which vary according to the operation scheme (for example, making a contribution to the entity's capital and/or paying commissions of study and periodic guarantee commissions, offering counter guarantees, primarily to avoid moral hazard). Upon a study, the guarantee institution usually takes higher coverage percentages and prepares a more attractive guarantee letter for the financial institution. This relationship scheme is shown in the model we classified as guarantee society.

Chart 1. Guarantee scheme with a direct relationship with the borrower

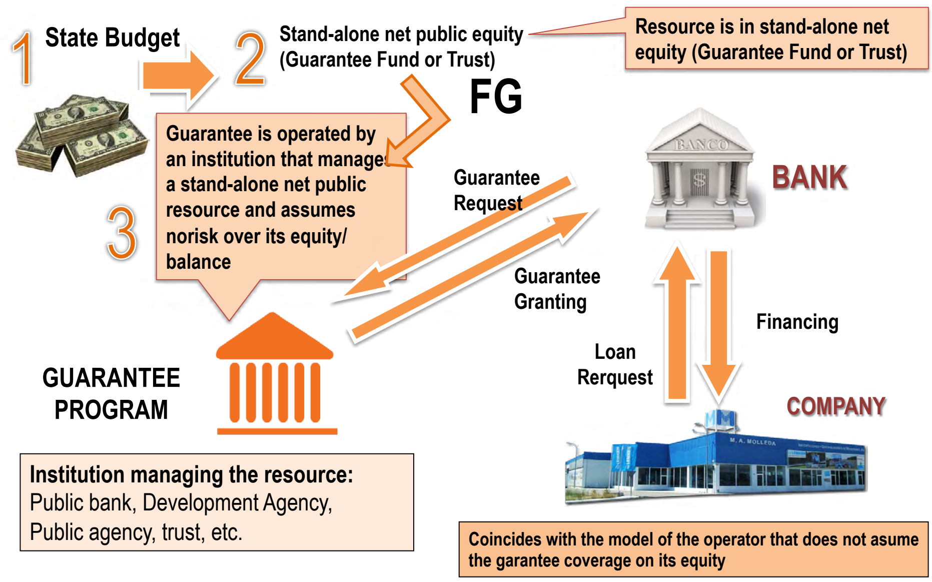


Source: Prepared by the author

b) Guarantee scheme that does not have a direct relationship with the borrower (Chart 2)

Guarantee operators[8] and credit or financial institutions establish an agreement granting guarantees to their customers under certain conditions (e.g., business sector, type or size of the company, credit destination, etc.). Consequently, guarantee operators delegate to the financial institution responsibility for the analysis and the decision to link the guarantee to operations established for the loan portfolio created with the financial institution. For this reason, guarantee operators will try to share risks with the credit institution in order to avoid unfair behavior. This relationship scheme is shown in the model we classified as guarantee program.

Chart 2. Guarantee scheme without a direct relationship with the borrower



SOURCE: PREPARED BY THE AUTHOR

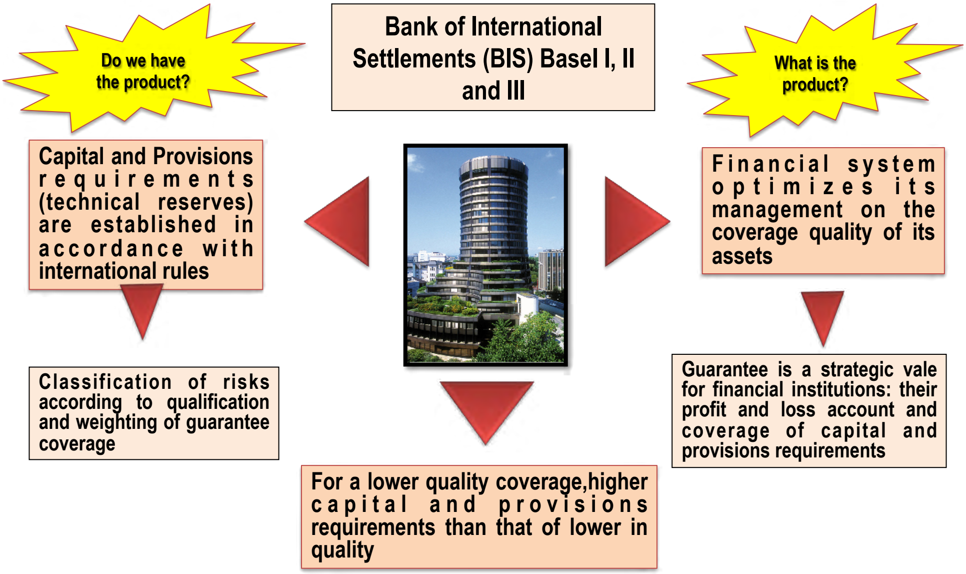
Once the guarantee is granted, the borrower continues the financial relationship. In case of bankruptcy or default that determines execution of guarantee, the financial institution claims the payment from the guarantee institution. The guarantee institution receives the credit and may appeal against the borrower to recover the amount disbursed. All these issues were previously documented in the guarantee

8 Guarantee operators are entities developing and conducting activities to grant and formalize guarantee coverage, in a real and effective manner, according to the operation rules.

agreement entered into with the borrower or the financial institution, depending on the system model or guarantee scheme. Procedures required to perform the guarantee must balance interests of the guarantee institution and the credit institution.

Intervention of guarantee schemes is not only interesting for business owners who solve their credit access problems, but also for financial institutions to reduce their use of own resources and the needs to adopt provisions for insolvency (Chart 3) always and when the guarantee is assessed, qualified and weighted by the regulator of the financial system.

Chart 3. Effects of the Basel accords on access to credit



SOURCE: PREPARED BY THE AUTHOR

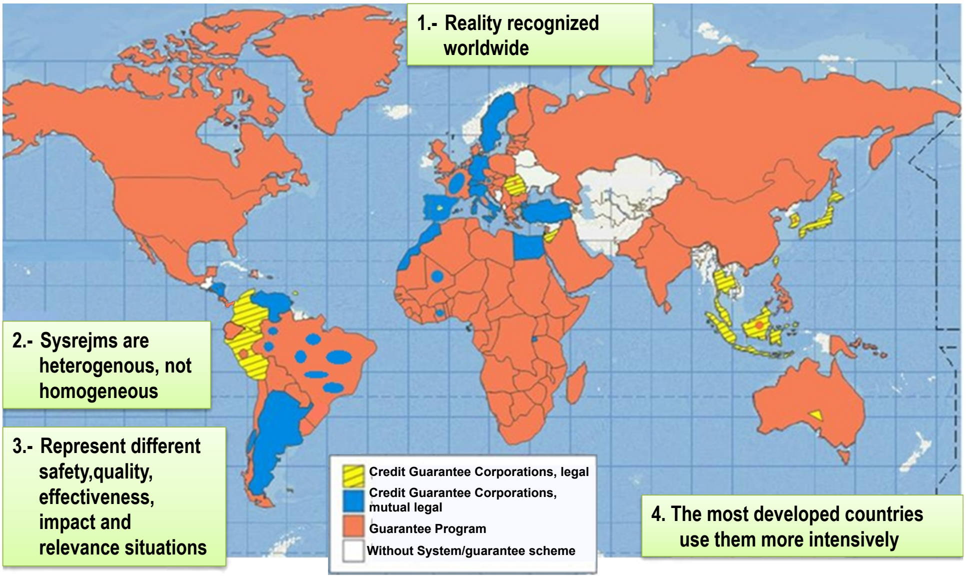
2.3. GUARANTEE SCHEMES: A NEED AND A GLOBAL REALITY

Chart 4 shows that guarantee schemes are present in almost every country in the world, adopting various institutional formulas. For this reason, a classification explaining their structural and operational characteristics is required, since these characteristics entail different security, quality, efficacy, impact and relevance situations. A fact that reveals this importance is the finding that guarantee schemes with higher activity levels and resources are present in more developed countries.

Guarantee schemes are an established reality in some territories and their promotion is an emerging policy in the last decade, aimed at facilitating access to credit for smaller business units. Fears raised against guarantee schemes in the 90s, as ineffective policies, simply because they assume public intervention are now distant doubts (Vogel and Adams, 1997; Llisterri, 1997).

Reality shows a growth of these institutions; the most veterans (some of the Europeans almost with a hundred years) demonstrate their sustainability over time. Study on these institutions, on what are their functions, what are their interrelation with other individuals involved in the credit relationship, is an important issue to define public policies.

Chart 4. Guarantee schemes: a need and a global reality

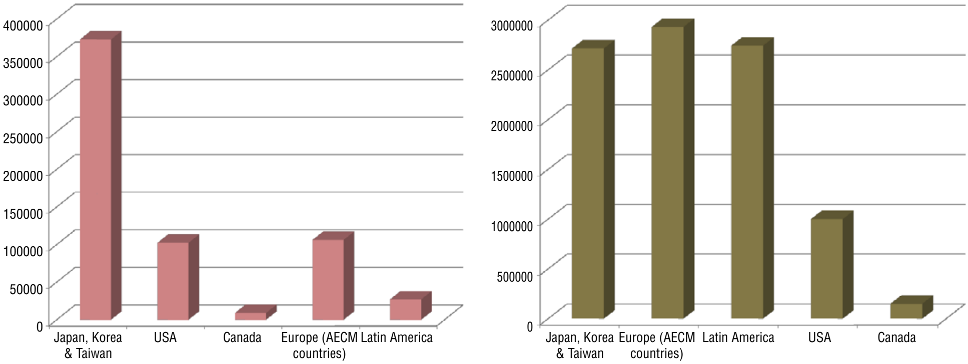


Source: Prepared by the author

The most developed systems can be found in North America, Southeast Asia and Europe, employing “guarantee program administered by a state agency” schemes or corporate guarantee society schemes (commercial) and / or mutual or reciprocal guarantee society schemes, respectively. In other geographical areas, we can mention very recent developments (such as in Africa and some Latin American territories) and new boosting actions of already existing mechanisms, mainly through guarantee programs and new mutual guarantee society schemes (as in Latin America). Therefore, when implementing a guarantee scheme, one should always remember of such heterogeneous reality on its security, quality, efficiency, effectiveness, impact and relevance.

According to data from the Ibero-American Guarantee Network (REGAR) dated 12/31/2013 (latest available information), despite the large growth in Latin America in recent years, it is still possible to see an imbalance in the activity developed in other territories.

Chart 5. Living guarantees and balance of beneficiary MSMBs by continent, in 2013
(in millions of USD)



Source: Prepared by the author

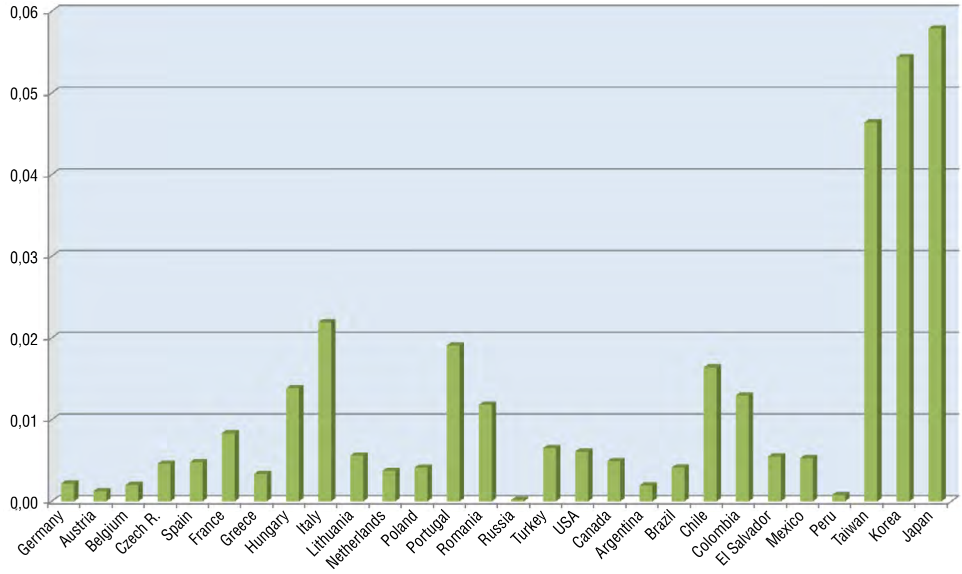
Regarding live guarantees in millions of USD, it can be seen that Japan, Korea and Taiwan account for very important figures, over USD 372,880 million, followed by AECM within the European Union with USD 106,270 million, United States with USD 102,386 million and Latin America with USD 27,087 million. In Latin America, Brazil, Mexico, Colombia and Chile stand out among the rest of the countries. Once again, the most dynamic economies show us broader guarantee schemes implemented more intensively.

The situation is very balanced between beneficiary MSMBs operating since 2013: the European Union (AECM) with 2,930,719 companies, Japan, Korea and Taiwan sum up 2,715,061 companies, Latin America has 2,743,026, followed by the United States, with 1,000,000 companies.

In Latin America, Colombia, Brazil, Mexico, El Salvador and Chile stand out among the rest of the countries. Once again, the most dynamic countries show us broader and more consolidated guarantee schemes.

Penetration of guarantee schemes in local economies (measured by the ratio of live guarantees in millions of USD / annual GDP) is very uneven (Chart 6).

Chart 6. Percentage of live Guarantees <in millions of USD / annual GDP per country> in 2013



Source: Prepared by the author

In Japan, Korea and Taiwan, guarantee scheme is a strongly-based public policy. In this sense, their relationship remarkably overcomes the relationship established in other countries from other continents. In Europe, Portugal, Italy, Hungary and France, are the dominant countries and in Latin America, Chile, Colombia, El Salvador and Mexico stand out compared to others.

2.4. THE ORIGIN OF GUARANTEE SCHEMES

Cash loan backed by guarantees, is undoubtedly one of the oldest activities or procedures in humanity[9]. Banking laws and their operation consolidated these practices over time. Guarantee schemes regulated and supervised activity would not become known until the first thirty years of the twentieth century. Backgrounds are based and regulated under Belgian experiences on mutual and co-operative movements.

Guarantee schemes origin is found in legal mutual guarantee commercial society, in the early twentieth century, in France. It is a very significant event

9 Perhaps the most imaginary guarantee has been provided to us by William Shakespeare in 1600, in *The Merchant of Venice,* where Shylock, an old moneylender, accepts to make an interest-free loan; however, in turn, he requires from Bassanio's guarantor, Antonio the merchant, a security: a pound of Antonio's flesh next to his heart, if he would become default.

in French society of that time, that “artisans” (microbusinesses) received social recognition, which involved the establishment of laws endorsing the business and productive activity. Thus, it appeared for the first time, a guarantee model to facilitate access to credit for MSMBs, supported by a commercial company. Therefore, the concept of mutual aid and cooperative movements of the early twentieth century, are the drivers of initiatives that led to guarantee schemes in some European countries (France, Belgium, Switzerland, Luxembourg, etc.).

In the mid-twentieth century, the need to rebuild the productive sector deteriorated by the world wars in large territorial spaces, motivated the promotion of guarantee schemes with a legal society regime, backed by a public counter guarantee scheme, as in the case of Credit Guarantee Corporations (CGC) of Japan, or alternatively, public guarantee programs based on the management of resources by development agencies or public banks. In a context of widespread destruction of assets, States had to provide a solution for financial systems access to business financing. Examples of the United States, Germany, Italy and Japan are significant in this context.

In the last decades of the twentieth century, through the recognized importance of MSMBs, guarantee schemes emerged with a more global perspective. Although the terms micro and SMB are currently widespread, if we go back to past decades and resort to newspaper libraries, we will be able to note that these words were seldomly used or spoken. Now, the situation is absolutely different, that is, if we refer to the media in general, it would be hard not to find the terms micro and SMB. Guarantee schemes and their models begin to expand in a world where the concept of global economy is a reality assumed by all, within the overall context of the last two decades of the twentieth century and early twenty-first century.

Except for some cases in Europe, Japan and the Small Business Administration (SBA) from the US, it can be said that, in most countries, guarantee schemes are an expression of the 90s and the explanation of its heterogeneity lies in the different circumstances and motives surrounding its establishment in each case.

2.5. GUARANTEE SCHEME INTEGRATED INTO THE FINANCIAL SYSTEM

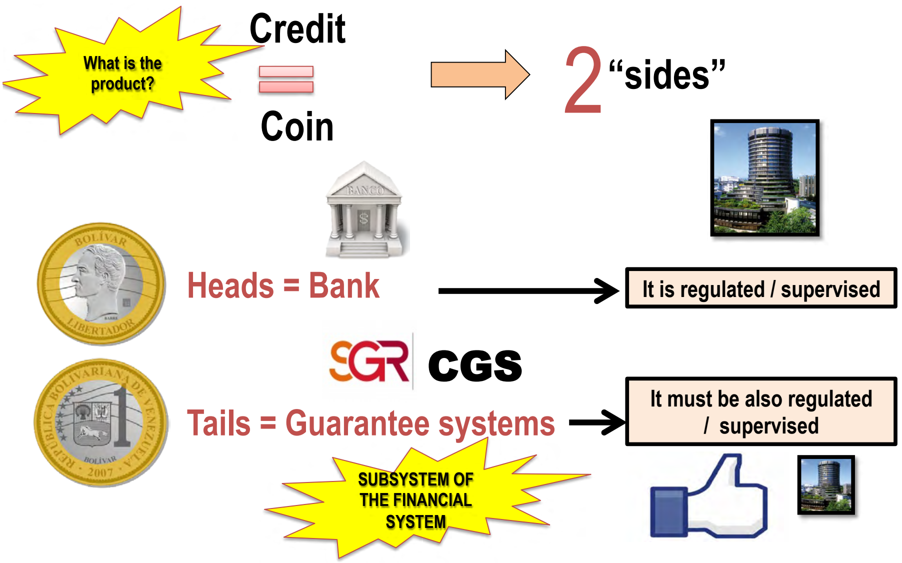
Granting of credit is based on an analysis of the ability of a project or entity to generate sufficient cash flows to repay the principal and the operation interests. Feasibility is measured in terms of revenue generation, and in terms of management, the business owner journey indicates the ability to transform mobilized funds or using money.

However, credit grating requires the provision of guarantees in order to make a compensation if cash flow expectations do not materialize, and with deterrent effect, compromising personal assets of the applicant in the most extreme case, to avoid moral hazard. In short, if three guarantees are covered, then credit is obtained and, if not, the process to access credit is canceled.

The guarantee system will be effective if the guarantee has value (if known) before credit entities. In short, if it is part of the financial system with all its consequences. Based on this, guarantee coverage should minimize the credit institutions needs for capital requirements, as well as requirements for credit impairment allocation in order to improve this integration into the financial system. In short, this is about "having a product" specifically for the financial institution and thus lead MSMB to financing through the guarantee scheme.

Guarantee schemes assume, in a greater or lesser extent, credit risk of financial institutions. Regulation and supervision of this activity has its purpose in preserving the stability of the financial system. As predicated in financial institutions, it should also be predicated in guarantee institutions.

Chart 7. Credit Guarantee Systems and their integration into the financial system



SOURCE: PREPARED BY THE AUTHOR

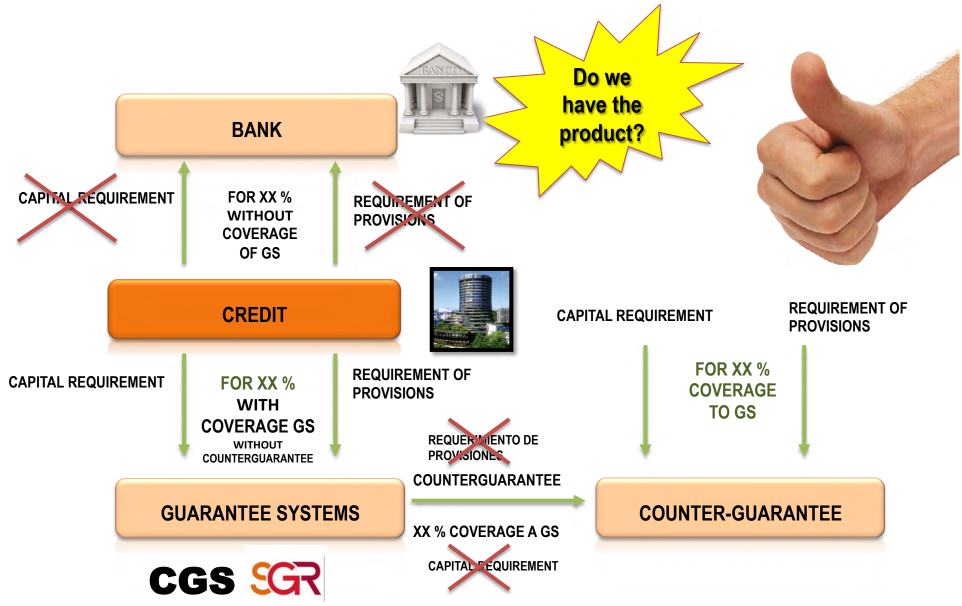
From this premise, we should assume that any urge to the creation, support, assistance to guarantee systems or schemes should be based on the principle of their full integration into the financial system in each territorial scope of their activity.

Full integration into the financial system means a major change in focus: guarantee coverage is focused in the financial institution. This is a product directed primarily to the credit institution and should be understood in the traditional security scheme (maximum coverage), profitability (qualification and weighting of the guarantee) and liquidity (first demand). In short, it is about facilitating credit to the business owner, with the best conditions, from the guarantee coverage granted by the guarantee scheme.

In all countries, the Mortgage Legislation creates a "product" of the guarantee for financial institutions through which citizens access the credit and property. In guarantee schemes, the situation is similar as a "product" of the guarantee is established so that, through the system, MSMBs may access business financing with the best conditions. Therefore, we can state that the guarantee is related to the financial institution and the guarantee scheme is related to the MSMB.

Improvements in cost and schedule conditions for business owners are possible when the guarantee offered by the guarantee scheme is recognized and valued by the financial system. This recognition allows for the transfer of risk mitigation costs with a lower demand for own capital or resources and provisions for financial institutions to credit operation. All of this because, ultimately, for financial institutions, guarantee coverage has an unquestionable strategic "value" to their business plans and expansion.

Chart 8. Qualification and weighting of the guarantee in Credit Guarantee Systems



Source: Prepared by the author

Since 1988, recommendations of the Basel Accords value guarantee coverage that support the financial sector's investment assets. Under these international rules, coverage of the guarantee is qualified and weighted according to the various classes and affect financial institutions in their economic and financial statements, under capital requirements (own resources) and required volume of provisions. None of this would be possible without guarantee schemes integration into the financial system as their subsystems.

Finally, guarantees, as a financial system subsystem, also have a global dimension, given that credit risk of financial institutions depends on the solvency of guarantee schemes. Dissemination of good practices and articulation with supervisors and national regulators emphasize the need to institutionalize guarantee schemes internationally.

2.6. GUARANTEE SCHEMES AS A PUBLIC POLICY

Public policy must begin from the diagnosis of effects unwanted by international rules on MSMBs access to financing. Because of this effect that motivates and creates guarantee schemes, nowadays, financial institutions require ideally qualified and weighted guarantee coverage, which are a "scarce good" in the context of MSMBs.

If we complement, particularly and territorially, with the question: who demands the guarantee scheme in a territory? Without a doubt, the answer would be: financial institutions, MSMBs and the same public sector, which recognizes their need before the international rules governing the credit activity and distorting access to finance. This situation has a special effect on MSMBs, which are the type of institution that generates more jobs and wealth.

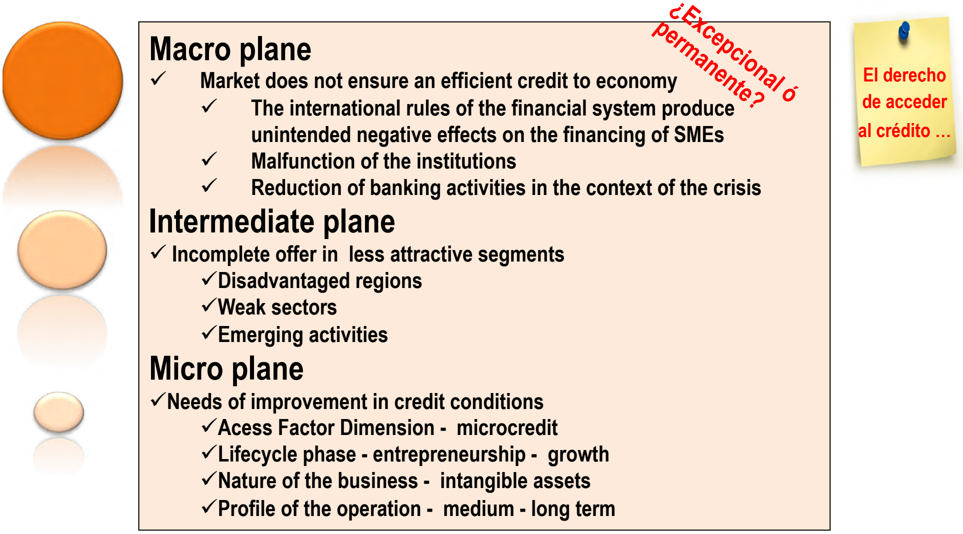
Guarantee coverage and its scarcity, especially the best qualified and weighted ones, produce a selection of actors, based on the international rules set by Basel, in relation to other criteria such as quality of projects or the effort and the ability of business owners to compete in the market.

Guarantee schemes as a public policy arise in order to mitigate these adverse effects. International rules cause permanent, non-cyclical situations, and therefore require an equally permanent nature State policy[10]. Guarantee schemes are not an instrumental "trend"; they are a need.

However, institutions are demonstrating their long-term effects, so that the support for business owners to access financing through guarantee schemes, requires an appropriately diagnosed, designed and consensual public policy.

10 Broader concept than public policy to guarantee ensuring that the guarantee scheme is willing to remain as such subsystem of the financial system, because, as such, should be integrated into the financial system of the corresponding country.

Chart 9. Levels on Public Policy in Credit Guarantee Systems



Source: Prepared by the author

The opposite of this analysis is the transfer of opportunistic behavior of the debtor, known as moral hazard, to the managers of the guarantee institution (Levitsky, 1997; Reig and Ramírez, 1998; Camino and Cardone, 1999 and Freedman, 2004), so that handling characteristics of the concession and risk monitoring by guarantee institutions are crucial to their proper control. In some cases, it may cause a possible slowdown in the supervision, monitoring and control of operations by financial institutions, with a clear increase in the risk of default or failure (Manove, Padilla and Pagano, 2001).

Therefore, principles that should support a public policy to implement a guarantee scheme would be:

a) **State policy:** the guarantee scheme should be included and originated in an authentic State policy recognized in favor of MSMBs, so that, among other improvements, requires easier access to finance and public procurement for citizen-business owner. And this is not something temporary or a will more or less determined by a Government, however, it should be a *State matter* with real and lasting character. The guarantee scheme cannot raise doubts in the financial environment. We are not talking about a passing "trend". There are very consolidated systems in full force, with more than 50 and up to 95 years old in operation. Therefore, we are defining a fully integrated guarantee scheme into the financial system for permanent operation. In short, it's about developing the right of access to credit for businesses within a territory. It must not to be confused with the decision to grant it.

b) **Alliances and consensus in preparing the legislative framework or profile and its subsequent implementation among all players involved:** the oldest and most developed guarantee schemes (European Union, United States, Turkey, Canada, Japan, Korea, Taiwan etc.) have a common denominator and draw their effectiveness upon a long term structure of agreements (the "alliance" or *partenariat)* between public administrations (PA), financial institutions (FI) and MSMBs. Such "alliance" or *partenariat* allows for the development of a coordinated action between these three levels to turn guarantee schemes a real enforcement tool, which enables MSMBs access to long-term and low cost resources to develop their activities. Also, recently, for access to bonds, technical guarantees to access public procurement or bidding and services related to financial advisory. A guarantee scheme not agreed between these three players and, which does not cover their legitimate interests (see Table 1) cannot be developed with full effectiveness and efficiency. This alliance or consensus will be necessary both to develop and establish a legislative framework and essential rules, as well as to implement and develop guarantee institutions promoted in the context of these rules.

Table 1. Benefits of stakeholders from a guarantee scheme

MSMBs	Public Administration	Financial Institutions
• Better access to credit • Lower rate and longer term • Access to financing • Financial consulting • Integration into business network • Improved competitiveness • Support to growth • Greater culture of payment	• Promotion of MSMB • Increased number of businesses and investment • Increased number of jobs • Increased competitiveness • Greater financial formality • Improved tax collection • Policies channeling • Greater transparency and efficiency	• Net guarantee coverage • Qualified and weighted guarantee • Lower provisions and resources • Increased customer basis • Support in analysis • Lower cost monitoring • Backed securitization portfolio • Increased financial culture

Source: Prepared by the author

After all, are guarantee schemes a public policy instrument? This question can be easily answered by simply observing the world map of countries with guarantee schemes. Undoubtedly, they are part of the public policy of almost every country. Also, the most developed countries are the ones that use guarantee schemes most intensively in resources and activities.

Models on which guarantee schemes are established are heterogeneous. As a result, their safety, quality, efficiency, effectiveness, relevance and impact vary from one to another. Structural and operational character variables are logically influenced over them.

Institutional model depends on the public policy decision regarding the granting of resources, either through public financing or through a mixed origin of public and private financing.

Debate on systems' profiles remains open. The guarantee operator is key, and its most transcendent uniqueness supports the risk on assets or not. This decision determines very different legal and operational solutions.

Guarantee schemes such as public policy, must undergo a periodic assessment to define a priori what goals and parameters should be achieved. In some countries, for example in Chile, all public programs include a budget item for impact assessment to be submitted to the National Congress. This practice should be incorporated into guarantee schemes.

In short, the policy impact assessment requires prior setting of goals, by government agencies aimed at ensuring compliance with the established goals. This type of analysis is designed to study the direct impact (e.g. number of beneficiaries, capitalized credit, etc...); however, socio-economic impact studies should also be addressed; we refer to the effects of additionality of systems[11] in response to savings in financing costs, impact on employment or income due to lower credit constraints, etc. It is also necessary to evaluate the impact on macroeconomic factors or data, such as participation in GDFP growth, the balance between contributions of the public sector and revenue inflows generated, etc. These studies must take into account a medium term retrospective reading, since they help business activity promoters to assess the feasibility of such policies.

On the other hand, some results require a time intervals for assessment and therefore, these time intervals must be determined in order to establish the relevant analysis.

Table 1 shows the advantages of guarantee schemes for each of the three main stakeholders involved in guarantee relationships. This relationship of advantages and disadvantages depends on the scheme and the characteristics that describe them in the next chapter.

11 Additionality is the economic effect induced as a consequence of a public policy.

Table 2 shows the disadvantages that such activity can generate for each stakeholder.

Table 2. Disadvantages of guarantee schemes for each stakeholder

MSMBs	Public Administration	Financial Institutions
• Cost of the guarantee operation by the commission of guarantee and / or contribution of own resources to the guarantee scheme equity, possibly in mutual systems.	• System capitalization. • Contribution to own resources guarantee system, if appropriate, in mixed systems, with the beneficiaries (mutual). • Implement a system of counter guarantee.	• Reduced margins if agreements with guarantee schemes are entered into. • System capitalization. • Financial system moral hazard, when the analysis and award decision is imposed to financial institutions.

Source: Prepared by the author

Overall, MSMBs evaluate guarantee schemes as a tool to enable credit access, especially critical when collateral requirements impose a barrier that excludes these MSMBs. A second advantage consists in the improvement in credit access conditions, in terms of cost, term and prices. In many systems it is also frequent the financial advice to MSMBs as part of the comprehensive service offered. Among disadvantages posed for MSMBs, the most relevant one is the possible increased financing cost. This cost can have several forms, such as paying a guarantee price or the provision of capital funds (as in the case of mutual guarantee societies).

However, financial institutions have executed agreements with guarantee schemes, in order to expand their customer base, improve and make more efficient use of their own resources, mitigating provisions and own resources, as well as expected losses on credit granted. Systems with direct contact with customers (such as mutual guarantee societies) reduce their marketing cost, once operations are presented by the system to the credit institution. Disadvantages are much smaller the advantages previously mentioned and are associated with lower profitability in operations if they are made under an agreement negotiated with several credit institutions; as well as capital investments made in certain corporate systems (such as, mutual guarantee societies). On the other hand, we also mention that financial institutions optimize the management of their assets based on guarantees that provide adequate coverage and are optimally qualified and weighted in accordance with international rules.

Finally, for the *public sector,* guarantee schemes constitute a policy that enables reduction in financial exclusion and favors, as a consequence, entrepreneurship;

especially in groups at risk of exclusion. It also improves conditions of access to credit and thus provides the possibility of consolidating business initiatives with little financial support, but with growth potential. All of this generates businesses, business owners, economic activity, financial formality an improved tax collection. The main disadvantage for the public sector is related to system's capitalization, especially in the first years until the consolidation of the activity; as well as control of moral hazard; both for borrowers if their relationship is direct, and for credit institutions if their relationship with borrowers is established through the credit institution (which introduces borrowers to the guarantee scheme).

3
GUARANTEE SYSTEMS CHARACTERISTICS

Success of guarantee schemes depends on the characteristics these schemes present in their relationship with stakeholders with whom activities are developed: State, business owners and financial system. Design of this architecture involves decision-making; however it enables effective development of the activity depending on the goals articulated. By analyzing this framework, four main blocks of relevant factors stand out: legal and regulatory regime; the role of counter guarantee; relationships with the financial system and relationships with business owners. All such factors have been analyzed below.

3.1. LEGAL AND REGULATORY REGIME

Institutional architecture influences on the type of integration maintained with the financial system and establishes the scope of different stakeholders involvement in the decision-making process and the operational scope of the activity.

3.1.1. LEGAL STRUCTURE

Guarantee schemes can be developed under the country's general regulations for certain legal forms or the legal regime may be supported in a specific regulation governing the activity of institutions enrolled in the system. Within Europe, the oldest specific laws are the French, Belgian, Italian, Spanish and Portuguese laws. In Latin America, El Salvador, Venezuela, Argentina and Credit Guarantee Corporations (SGC) of Brazil. In Asia, Japan's CGCs or the Korea Credit Guarantee Fund (KODIT) in Korea.

Normally, general legislation supporting the activity of guarantee schemes are commercial or promotion laws for small and medium businesses or rules governing the activity of the development bank.

3.1.2. NUMBER AND SCOPE OF SYSTEM INSTITUTIONS

Systems can be developed under specific legislation governing a set of independent entities and homogeneous architecture or through an individual institution. When the system is articulated through a network of entities, normally distributed territorially or regionally, it is because there is a territorial political model in some countries where it intends to approach business owners, enabling a better knowledge of such business owners and the possibilities to develop a system in the concrete territory where each system institution is operated. As examples, we can mention the network of European or Latin American mutual guarantee companies: Brazilian SGCs, Japanese CGCs and individual entities, such as FOGAPE from Chile, *Nacional Financiera* (NAFIN) in Mexico, *Fondo Nacional de Garantía,* S.A. (FNG SA) from Colombia, *Fondo de Garantía de Buenos Aires* (FOGABA) from Argentina, *Banque publique d'investissement* (BPFIFRANCE) in France. In Asia, KODIT, from Korea, etc.

3.1.3. LEGAL ENTITY

Legal forms of entities operating the guarantee is an important element in institutional design, as it determines their responsibilities upon third parties and the relationship among guarantee schemes resources contributors.

The most common situations include:

a) **Legal or commercial companies.** Partners establish these companies upon corporate agreements (statutes and other rules) and provide resources, limiting their liability to company's equity. FNG, SA from Colombia, FOGAPE from Chile, FOGABA from Argentina, KODIT from Korea, etc., use this legal form. Mutual societies, in which partners are beneficiaries of the guarantee, stand out among them. Business owners beneficiaries of guarantees, represented individually and, in some cases, by associations or unions and commerce or business chambers participate in social capital and government agencies. The oldest systems, of European origin, respond to this legal formula, such as SGRs, which have recently been expanded in some Latin American countries.

b) **Public institutions.** This is the case of schemes created to administer a net resource under the management of a bank or a government agency for development. Operators are part of a public sector institution in the broad sense, established in the country and can undertake various forms, such as: public development banks, public development agencies, public corporations or public fiduciary trust. In this block, Guarantee Fund for Micro and Small Businesses (SEBRAE FAMPE), *Corporación de Fomento de la Producción de Chile* (CORFO), Brazilian Guarantee Funds, the Operations

Guarantee Fund (FGO), Guarantee Fund for Investments (FGI), NAFIN, the trusts instituted in relation to agriculture (FEGA) from FIRA from Mexico, *Austria wirtschaftsservice* (AWS) from Austria, etc. can be included.

c) Nonprofit foundations or entities. Nonprofit foundations or entities are created sponsored by the private sector and, in some cases, nonprofit international cooperation. One case of this legal regime is the *Fondo de Garantía para préstamo a la Pequeña Industria* (FOGAPI) from Peru.

3.1.4. FUNCTIONS OF THE INSTITUTION OPERATING THE GUARANTEE

This distinction tells if the operator is a guarantee institution that performs its function, or if is it just an administrator of a stand-alone net resource to operate guarantees. Generally they provide for three scenarios:

a) The system institution grants and supports the guarantee directly with its equity. This is the case of European, Venezuelan, El Salvadoran SGRs, etc., (this is not the case of Argentine SGRs, Mutual Guarantee Institutions - IGR - Chilean, etc., since they are structured in other form in which, at the end, they run a risk fund), FNG, SA from Colombia, FOGABA from Argentina etc., Japanese GCGs, KODIT from Korea, BPIFRANCE from France, etc.

b) The entity is only a managing entity of a guarantee fund or risk fund. This is the case of SGRs from Argentina, IGRs from Chile, Brazilian guarantee funds, FGI and FGO, FOGAPI from Peru (although it is also a trust administrator, etc.).

c) The entity is only the trustee of a trust, which is identified as the actual operator of the guarantee, FEGA from FIRA, NAFIN from Mexico.

3.1.5. OPERATOR QUALIFICATION AS FINANCIAL INSTITUTION, REGULATION AND SUPERVISION

Integration of institutions in the financial system implies a better quality of guarantees granted, since guarantees come from institutions subject to the regulations of authorities responsible for issuing the financial regulation and control of the financial supervisor.

Consideration as financial institutions allows the guarantee coverage granted by guarantee schemes to be particularly advantageous in economic and financial terms and in terms of legal certainty, for the banking sector. Integration into the financial sector requires them to be regulated and supervised according to certain capitalization and solvency criteria imposed by competent authorities for the entire sector; as well as the establishment of high quality control mechanisms, both for granting and following guaranteed credit operations, which are supervised by the same agencies supervising other financial institutions. This is the case of SGRs from El Salvador, Spain, FNG SA from Colombia, FOGAPE from Chile, etc.

3.1.6. RECOGNIZING THE GUARANTEE

The banking sector requires the guarantee coverage offered by guarantee schemes, as a subsystem of the financial system in favor of borrowers, are qualified and weighted, in order to mitigate credit institutions capital needs, as well as the adoption of provisions.

Guarantees are more efficient for beneficiaries if they are also under the contractual structure required by Basel II and III Accords. In order to be recognized by contract, guarantee coverage must be:

a) **Direct** to the beneficiary and on behalf of the guarantor.

b) **Explicit,** as it protects specific exposures, defined in a clear and indisputable manner.

c) **Irrevocable,** so that there are no clauses that allow the guarantor to revoke the credit coverage unilaterally, to increase the cost of protection, to restrict the maturity of the demand or to prevent the payment in due time.

d) **Unconditional,** with no clauses to subject payment methods.

e) **Enforceable** in all relevant jurisdictions.

3.1.7. RESPONSIBILITY OF THE INSTITUTION OPERATING THE GUARANTEE

This characteristic differentiates guarantee coverage operators who support them with their equity from those who do not take risks on their equity. Due to this feature, two possibilities are contemplated: a) the entity assumes the risk of Stockholders' equity (it is responsible for guarantee coverage before third parties with its social capital or balance resource) and b) the entity does not assume the guarantee coverage risk of its equity (the operator is not responsible for the guarantee coverage with the equity). The first case includes SGRs from El Salvador, Venezuela, FNG, SA from Colombia, FOGABA from Argentina, etc., Japanese GCGs, KODIT from Korea, BPIFRANCE from France, etc. And the second case includes operators of Brazilian guarantee funds, FGO and FGI, FEGA from FIRA, etc.

3.1.8. GUARANTEE SCHEME CAPITALIZATION

Guarantee scheme operators may be capitalized through various formulas: a) through the social capital or equity resource, which is part of the equity, under the corresponding corporate and / or legal formula of the institution operating such guarantee coverage and b) through stand-alone net resource (guarantee fund, risk fund, guarantee trust, etc.), administered by a third party operating the guarantee coverage and whose resources are not integrated in the net equity. The first case includes all situations under a legal commercial formula, such as SGRs, FNG, SA from Colombia, FOGABA from Argentina, FOGAPE from Chile, etc., Japanese GCGs, KODIT from Korea, BPIFRANCE from France, etc. The second includes Brazilian guarantee funds, FGO and FGI, trusts from FEGA of FIRA, etc.

3.1.9. ORIGIN OF GUARANTEE SCHEMES RESOURCES

Guarantee schemes can obtain their own resources from private, public or mixed sources in which guarantee schemes contribution of resources are associated and shared, both from the public and private sector.

The legal formula should allow the origin funds provision; therefore, in public entities, contributions will be made only by these sector; however, in private formulas only the public sector can participate, including in some cases, there is a majority of the public sector, although voting is limited (SGR).

Guarantee state policy establishes a constitutional framework that promotes it, and may involve the injection of capital by the public sector. If this policy is to involve the private sector (e.g., financial institutions or borrowers) it should establish mixed capitalization formulas.

3.1.10. TYPES OF PUBLIC CONTRIBUTIONS

Public contributions may have different formulas, some of which have higher capitalization and a number of other incentives for its operation. Which include:

a) Tax exemptions and other fiscal charges. Such as SGR from Argentina.

b) Public contributions to permanent resources in the form of social capital or stand-alone net resources. Such as SGR, FNG, SA from Colombia, FOGABA from Argentina, etc., Japanese GCGs, KODIT from Korea, BPIFRANCE from France, etc. And, in the second case, Brazilian Guarantee Funds, FGO and FGI, Trusts in Mexico, FEGA of FIRA, NAFIN, etc.

c) Public contributions to a regulated hedging fund (having different names, such as: Guarantee fund, risk fund or technical provisions fund), such as the Spanish, El Salvadoran SGRs, etc.

d) Public contributions for expected losses. Secretary of Economy for NAFIN in Mexico, ICO in Spain, etc.

e) Counter guarantee programs[12], at national or international level. National Mutual Guarantee Fund for Small and Medium Businesses (FONPYME) from Venezuela, Development Trust from Mutual Guarantee System (FDSGR) from El Salvador, Guarantee Fund for SMBs (FOGAPYME) from Argentina, CERSA, FEI, FLAG of CAF, FG MERCOSUR.

f) Subsidies for business owners to guarantee service costs. Autonomous Communities in Spain, etc.

3.1.11. PARTICIPATION IN GOVERNMENT AND MANAGEMENT

Clearly, in legal corporate formulas, the administration is made by Governing agencies defined in statutes. In Guarantee Funds and Trusts, administration and management are in the hands of the operator, i.e., an institution that does not contribute with resources.

Credit granting decision should incorporate a qualitative and technical analysis of economic and financial character of borrowers. Knowledge of their business history and their economic and financial situation is relevant to grant financing. For this reason, one of the advantages of mutual or business associations' models consists mainly in the incorporation of this knowledge related to the corporate network in making risk decisions. In many cases, granting of guarantee, although a normally risk-related decision, should have its approval filtered by the government agency as a collective decision.

On the other hand, involvement of business interests in government decisions regarding the system also allows for awareness-raising of this stakeholder in strategic design. Participation in government agencies can be made at various levels, from boards to the general meetings or assemblies.

Such participation in government decisions is inevitable if guaranteed business owners make contributions to institution's resources.

As a mechanism that softens conflict of interest, in some systems, representation is made by representatives of chambers of commerce and business associations or business unions, etc.

3.1.12. MANAGEMENT CONTROL MECHANISMS

Provision of guarantees is a risk activity on schemes performance. Thus, mechanisms to mitigate risks upon granting and to review financial statements as a basic instrument to control the solvency of the institution are established.

12 Counter guarantee in the grant of guarantee to a guarantor. The counter guarantee institution is a second-tier institution.

Regarding *preventive* mechanisms established to optimize process of granting of guarantees, in terms of effectiveness and efficiency, we can mention certification in quality standards, for example ISO-9000.

On its own, the main mechanism controlling the financial information is the audit of accounts. Sometimes developed *preventively,* such as internal audit, as an instrument of the institution's control system, and others as *detection* mechanisms, when carried out by external auditors or matches the public sector as the case of institutions belonging to it.

3.1.13. ACTIVITY GUIDANCE

Definition of areas of activity is an important point in the scheme design. With this decision, at constitutional level, definitions are made in terms of subject, recipient, geography, industry and duration.

Decision on the *object* of the activity should define whether it is an exclusive activity or part of broader actions. Logically, if the operator acts based on commercial legal formulas, the object of granting of guarantees must be exclusive, as the case of SGR, FNG, SA, FOGABA, etc., Japanese GCGs, KODIT from Korea, etc. However, if the operator is only an administrator, for example, a development bank that logically operates several activities, they would operate where guarantee activity is not exclusive. At other times, certain schemes with the primary mission of granting guarantees, also develop a broader financial consulting service to their clients, such as the "ultimate" SGRs.

On the other hand, the institution may be intended in certain cases, to serve micro, small and medium entrepreneurs, and including low percentage of large business owners. Design of the product portfolio and the form of distribution are determined by this decision on the *recipient,* which may be more or less formalized in the articles of incorporation, but, otherwise, they should have been decided in the strategic framework. A typical example of micro entrepreneurs as target audiences are the French micro and small entrepreneurs SOCAMAS, FOGAPE from Chile, etc.

The *geographical* scope is also a structural decision that determines the future institution strategy. The geographical scope is linked to the entrepreneur country of origin who is the beneficiary of the guarantees, since it is very likely that, although the scope is national or local, some concessions of guarantees are made by international operations and involve agreements with other systems elsewhere in the world.

On certain occasions, the articles of incorporation define *sectoral* operational areas, establishing systems focused on solving financial exclusion problems (in terms of access to operations or costs) of certain activity sectors (e.g., the rural sector). In the latter case, FEGA of FIRA in Mexico, FAG from Colombia, *Sociedad Anónima Estatal de Caución Agraria* (SAECA, SA) in Spain, etc.

Finally, duration is another strategic decision influenced by schemes practices. Temporary schemes are originated with the purpose of promoting a fund that, once consumed, excludes the operator activity. In practice, these temporary mechanisms end up being renovated by benefits derived from the continuity of such policies. Corporate forms are usually originated for long-term (indefinite duration).

3.2. THE ROLE OF COUNTER GUARANTEE

Risk management is most effective if the volume of operations to be covered is wider; therefore, transfer of risk to an institution that assumes a part of each guaranteed operation allows optimizing management. In theory, the transfer of guarantee operations should allow for transferors of these portfolios to have benefits, so that they can choose to manage a larger portfolio. Obviously, the holder should establish appropriate mechanisms to enable confidence in the quality of transactions, but mainly in the guarantee operator.

Notwithstanding the foregoing, the counter guarantee system in guarantee schemes stands out as a support mechanism to mixed or private systems in the public sector, since they tend to grant partial coverage at no cost to systems. The counter guarantee is in fact a State public support mechanism to guarantee schemes, in order to mitigate risks taken on their guarantee portfolios and allow for a better use for such portfolios expansion. On the other hand, in addition to the coverage, counter guarantee is a way take the decision of granting of credit away from the public sector and thus avoid one of the risks highlighted in 1996 BID Round Table, which consists in the possible political instrumentation of these entities.

The role of the public sector evolves as the guarantee scheme matures. Its implication should be important at the time of its creation and its further development, both in the preparation of previous studies, initial assessments and resource contribution.

This implication, with a clear impact on public coffers, suggests a very active participation in institutions management and in the early stages of the scheme. In systems with private sector participation (financial institutions and business owners), public sector's resources contribution can be diluted with contributions from the private sector and the benefits generated by the scheme itself. Guarantee schemes under different schemes operating in a complementary way can coexist in the same territory. There is a greater chance of meeting the expectations of those applying for financing if they have all guarantee instruments suitable for every situation.

3.2.1. ORIGIN OF COUNTER GUARANTEE RESOURCES

Counter guarantee resources may come from public institutions and different geographical areas. Public sector counter guarantees can come from supranational areas or national or regional level. The existence of these risk distribution mechanisms is important to define a guarantees scheme. These are the cases of CERSA in Spain and SPGM in Portugal, FOGAPE in Chile, as national institutions and FEI from the EU, Guarantee Fund from MERCOSUR or the Latin American Guarantee Fund FLAG from CAF, as supranational institutions.

The experience of the European Union and its interregional solidarity funds ensure that the development of the associated countries benefits State net contributors to such funds as it strengthens the corporate muscle by expanding their markets. The challenge is to overcome the short-term visions with self-limiting application, which would prevent its development and the fulfillment of the object for which they were created.

In short, this type of project requires the attention and the support of multilateral and / or regional agencies, with the participation of States. These agencies may participate, especially in the beginning, to contribute intellectually and to disseminate and facilitate best practices and experiences-related knowledge, in order to further become players and agents in the contribution or funding of necessary resources.

3.2.2. CHARACTERISTICS OF THE COUNTER GUARANTEE PRODUCT

The counter guarantee has greater quality and efficiency in relation to the guarantee scheme if the financial regulator declares to mitigate the needs of capital or provisioning requirements thereof. The guarantee may be qualified or weighted, being explicit in the case of public entities.

Coverage percentage is based on the risk they want to share. As the percentage covered by indemnity increases, the scheme increases moral hazard. On the other hand, as this percentage increases, scheme's granting capacity is multiplied. Therefore, counter guarantee coverage percentage is a decision determined by the binomial level of activity and risk.

Finally, the counter guarantee can be free or bear a cost. In the latter case, resource is rationalized by the schemes and the availability of funds for this purpose is increased by counter guarantee system.

3.3. RELATIONS WITH THE FINANCIAL SYSTEM

Guarantee schemes activity provides value not only to business owners who obtain the guarantee and thus access credit, but also the financial institution granting the credit, which can reduce the consumption of own resources to support their asset, as well as provisioning needs, and finding a valuable follow-up in the analysis and monitoring of risks. Therefore, both credit institutions and guarantee schemes share processes, such as analysis of the borrower's solvency and refund capacity and operation monitoring. Relations between both must balance the attractiveness of the received guarantee for the credit institution with the risk taken by the system, preventing the system ineffectiveness due to lack of attractiveness (for example, guarantees cover only a significant amount of the guaranteed operation) as opportunistic behavior of the credit institution on scheme of a "great coffer" to place their lower quality credits.

Several issues determining the relationship with the financial system are addressed at this point. First, it is necessary to define what kind of institution (usually financial) will receive guarantee coverage. Second, it is necessary to define guarantee product attributes offered by the guarantee scheme for financial institutions. Third, the system design must decide how the operation and the relationship with the financial system will be, which is determined by quantity of liability and other key factors.

3.3.1. INSTITUTIONS RECEIVING THE GUARANTEE

Institutions receiving the guarantee may be credit institutions, such as banks, savings banks or credit cooperatives. These institutions have a regulatory regime and strict control, since they manage third-party funds.

In transactions with credit institutions, the relationship may be exclusive or closed with only one institution (with one bank or exclusive) or can be opened (with several banks). In order to achieve a higher and better credit contribution, the first one may arise from a mutual, very experienced collaboration relationship or as a consequence of a bidding including conditions to encourage competition among financial resources providers. A good example are the French SOCAMAS, which are the source of guarantee schemes worldwide. In this case, the guarantee scheme is based on a great guarantee coverage for the banking group and is translated into the assumption of system operating costs; the latter being a mere legal framework, with financial resources to be capitalized.

However, an open relationship arises from a scheme of greater independence between financial institutions and the guarantee scheme leaves in the hands of the borrower the choice for the financial institution, always under agreements entered into between the guarantee scheme and the financial institution. Entirety of schemes is mainly included in the latter case.

They may also be leasing institutions, venture capital companies which, even though they are financial institutions, they have a less strict control regime, since they do not manage funds on behalf of third parties.

Finally, guarantees may be granted to cover transactions with public or private sector service providers, both to cover the credit risk and to grant technical guarantees. Normally, guarantee schemes activity should be conducted with credit institutions.

3.3.2. THE PRODUCT OFFERED TO FINANCIAL INSTITUTIONS

Guarantee schemes product attributes depend largely on how the responsibility is divided. These liability mechanisms have an impact on: the type of responsibility, how much, how to respond and when to respond. The answer to these questions defines a risk-sharing map between the credit institution and the guarantee scheme, which must be consistent and agreed, as well as meets the legitimate interests of all parties. In short, there is an interrelation between these variables.

a) Type of liability

Liability before the financial system can be solidary or subsidiary.

Where liability is solidary, the debt is due and the insured party is faulty, it may be claimed equally to either party (secured or guarantor). If the guarantor answers, compensation can be from the secured party, provided that a guarantees mechanism has been provided with the guarantee scheme.

Where liability is subsidiary, guarantee scheme is not required to pay the principal debtor, until it has been declared insolvent or other requirements have been agreed.

Solidary liability is the most interesting for credit institutions, because it is much more executive than the subsidiary. On the contrary, subsidiary liability is a second instance which does not provide the best scenario for collection the credit institution, thus creating incentives to avoid situations of default.

b) How much is covered?

The guarantee granted may defined as a certain or limited amount to a percentage of a portfolio losses.

In the first case, the credit institution assumes a certain risk for each operation guaranteed, since the degree of loss it may assume is determined. In the limit case with a 100% guarantee there would be no reason why to control operations, and agreements are established in order to avoid this, since the institution would be fully compensated in case of default. Estimated percentage covered is a balancing act between attractiveness and sharing of risks for credit institutions.

Higher coverage percentages reduce the capacity of the system to capitalize credit, because they absorb more assets and increase moral hazard by the credit institution (both in granting and control), which increases the operating costs of the system taking over these functions. However, high coverage percentages are a stimulus to the financial institution as it increases the capacity of institutions to capitalize credit, limiting the risks.

On the other hand, smaller percentages increase system capacity in capitalizing credit, limiting the risks. The problem lies in the loss of attractiveness for the financial institution, and especially among business owners with lower own guarantee levels, which in turn, influence negatively the system's effectiveness.

When guarantee is limited to a percentage of the portfolio expected loss, the credit institution must actively manage credit risk, as it is guaranteed only up to the limit established for expected losses.

Consequently, this second answer mode limits the risk of the system by contract, whereas when it provides for a percentage of the transaction, the system must establish a risk estimation system able to assume and stop granting guarantees.

Finally, the coverage may be limited to the main operation or also include current interest, including due to late payment. In the first case, commitment level is lower than in the other two. As the institution's commitment level increases, the financial system will consider the guarantee at a greater extent.

c) How to respond?

The event response that generates the system responsibility can have two types: first request by the financial institution or be conditioned.

The answer to the first request is more executive and interesting for the credit system; on one hand, the conditioned response allows for guarantee schemes to limit certain circumstances by establishing those conditions.

Again, the decision ranges between efficacy and safety. The answer to the first request provides greater efficiency and hence greater risk; whereas the conditioned response offers less efficiency to the system, but risks may be limited. Basel Accords emphasize assessing a guarantee to be of first request.

d) When to respond?

The response time may be at the time of default declaration or when the bankrupt is secured. In the first case, the credit system is treated before and reduces recovery time in case of bankruptcy; in the second, the guarantee scheme delays payment until the insolvency becomes final with credit statement as bankrupt. Regulations of supervisors usually provide that the guarantee scheme must make the payment at least 90 days of maturity so that credit is not passed to the defaulting debtor, and period for provisions start to be counted from such date.

3.3.3. OPERATION WITH THE FINANCIAL SYSTEM

Another type of decision in the system design includes the operation that will be maintained with the guarantee scheme. These guarantees concession mechanisms address the level of details of the guaranteed operation, the degree of involvement in operations analysis and the degree of openness to credit institutions, which will design and structure these relations.

a) Guaranteed operation formalization level

Guarantees can be granted in accordance with the guaranteed operation formalization level:

- **Individual guarantee,** transaction by transaction.
- **Ensure a portfolio** in which some eligibility criteria should be determined, evaluating the entire portfolio.
- **Intermediate guarantee** through support in financing to financial intermediaries that allocate a specific portfolio for MSMBs. The credit institution choses operations with guaranteed funds raised.

As the activity level increases, the involvement of the guarantee scheme and consequently, the consumption of resources, operating costs increase, leaving fewer resources to secure operations. In short, the business model responds to the universal operating model of financial institutions, whereby, to grow at risk, it should also grow in resources.

Portfolio models are the most operational ones for credit institutions, although guarantee scheme runs the risk that such instruments are used to “wash their portfolios”, are those who get a faster distribution using the financial institution channel. In contrast, in individual grant models, the guarantee scheme can drive the allocation of resources more effectively in relation to the types of operations and beneficiaries to be supported, although less efficiently by increasing administration costs.

Notwithstanding the foregoing, there is a relationship between these entities and coverage. Typically, individual operation models are presented when coverage is high and portfolio models when the coverage is medium or low.

Guarantees formalization or documentation depends in large part on the mechanism by which operation is made. The guarantee may require the signature of the operator of each agreement or the credit or financial institution loan document. Another form of formalization includes the issuance of a letter of guarantee or certificate and guarantee of the operator to the financial institution. A third method is to prepare a contract or automatic agreement of the institution's portfolio with the financial institution.

Finally, guarantees may be granted with the intervention of a notary, clerk or notary public or also without such need. In the first case, it gives legal certainty to the credit institution.

b) Degree of implication in the analysis of operations and decision

Operations analysis depends on the level of coverage or responsibility assumed by the system. The higher it is, the higher is the implication of the system in issuing the guarantee. Depending on involvement degree, from the highest to the lowest, we can find different approaches.

Systems can internalize the transaction analysis, preparing, for that purpose, methodologies, procedures, internal operation or rating classifications for determining the degree of commitment to be assumed in the transaction.

A second level of involvement is the outsourcing of risk analysis with external methodologies and operation, but entrusted to an institution other than the one which granted the guarantee. Outsourcing of the function can produce effects similar to the first option if adequate control mechanisms are established and if they seek fundamentally to streamline, optimize and gain efficiency in the process. In systems where there is a more active attitude in managing the risk of insolvency, being part of the core business, makes sense in developing processes internally.

The third level is to delegate the analysis to the beneficiary financial institution. These cases are frequent when the system aims to reduce costs with structure to a minimum and allocate most of its resources to the granting of guarantees. In these cases, mechanisms are sought to limit the amount of expected losses in order to control the adequacy of resources from the system.

A second issue is the award decision. If the degree of involvement in the analysis was in relation to the liability coverage assumed in the guarantee product; the award lies in the guarantee system to a greater extent. Decision is not delegated when the operation is studied by the operator or a subcontractor; when deciding transaction by transaction and when responsibility assumed and coverage levels are higher.

However, when the guarantee is from portfolio, the system does not study the risk and the decision should be transferred to the financial system. The financial system prefers mechanisms which makes the decision, however, in a logical step when its degree of responsibility in the course of operation is higher.

Nevertheless, in all cases, the financial institution will never renounce the study and concession of operations, although results are similar to those from the guarantee system, where they are analyzed (individual guarantee).

3.4. RELATIONSHIPS WITH BUSINESS OWNERS

Guarantee schemes are designed to promote equal opportunities for business owners in financing access, improving the level of competitiveness of most MSMBs that lack the required quality guarantees. The situation of inequality may have different levels: from the exclusion of credit at a higher cost and term for financing. One of the system success' key is that its activity addresses this asymmetrical situation.

In relationships with business owners secured by guarantee schemes, the scheme must define and negotiate types of products and their basic features, which are nothing less than the optimal financing conditions for their beneficiaries. So there are systems very oriented for the offer, much attention to resources supplier, that is, the bank, and others for the demand, that is, the business owner.

3.4.1. RELATIONSHIP WITH THE BUSINESS OWNER

Relationship of guarantee schemes with business owners can be direct or indirect. When the relationship is direct, business owners lacking guarantees refers to a guarantee institution studying their operation. If the guarantee is granted or approved, the borrower presents the guarantee authorization to the financial institution, which, in turn, grants the credit upon agreements or arrangements made with the guarantee institution.

In addition, there are guarantee institutions that do not have a direct relationship with business owners, only indirect. In this case, guarantee operators and credit or financial institutions establish an agreement granting guarantees to their customers under certain conditions (e.g., business sector, type or size of the company, credit destination, etc.). Consequently, guarantee operators delegate to the financial institution responsibility for the analysis and the decision or application to link the guarantee to operations established for the loan portfolio created with the financial institution. For this reason, guarantee operators will try to share risks with the credit institution in order to avoid unfair behavior.

3.4.2. TYPES OF PRODUCTS THAT MAKE UP THE PORTFOLIO

Guarantee schemes offer as a primary activity, financial or technical guarantee to business owners. As a consequence of this activity, systems can detect the need for information and financial advice to business owners, and can incorporate it into their portfolio of services.

The financial guarantee requires knowledge of return capacity of the principal and interest of the secured party. This analysis does not differ from the analysis conducted by a credit institution; however, technical guarantees require an analysis of the institution's technical capacity to be able to fulfill its commitment.

Both types of guarantees intend to reduce the uneven competitive position of businesses with fewer financial resources and guarantees, which can lead competitive projects from an economic perspective. The financial guarantee solves the problem of access to finance, while the technic solves the access to certain markets, particularly public markets. Provision of financial advice and information services is induced by previous activity, being an extension that can help improve the competitive position, especially in organizations with fewer resources available to remain in the financial market.

In addition, the financial guarantee has particular characteristics, depending on the financed operations. This is also a crucial decision in the strategy as it specifies which measure the system wants to endorse some commercial or other investments. More complex financing needs for business owners are related to investments in fixed assets, since they are subjected to a higher level of risk, both because the payback periods are longer and due to the higher risk of realization of these assets over others, such as current assets.

In addition, systems can be used to finance the working capital in order to allow for work in certain sectors where it is necessary to finance inherent working capital. Working capital are assets with lower risk of realization therefore, at first, they are lower-risk operations, but which are affected by the immediacy of withdrawal of liquidity.

A third type of operation to receive guarantee is the leasing operation, in which the identification of the asset object of financing reduces the risk of recovery there is break, because the lessor (to whom the guarantee is granted) repossesses the good it owns.

Furthermore, guarantee schemes, due to globalization of trade relations detects the existing need to provide such guarantee. Guarantee schemes sign guarantee agreements with systems from other countries and can offer this service to customers in their international transactions, both guaranteeing them, as obtaining the guarantee for them and covering credit risk in international sales.

Finally, guarantee operators can perform other activities since, in some cases, besides the activity of administrator, they can be assigned to other purposes; for example, an agency or development bank. Sometimes they become dedicated to venture capital.

3.4.3. BASIC CHARACTERISTICS OF PRODUCTS

Guarantee product characteristics refer to: the price and how to determine it, terms and value. In the way they are set, they will include or exclude certain types of business owners.

a) Price and its determination

A first decision is to establish the concepts of cost. Due to its legal nature, concepts may include contribution to permanent resources, typical in mutual entities, internal contributions to technical provisions, risk or guarantee funds. Also quite common: remuneration for the management or administration of financial guarantees that rewards the activity of operation study and monitoring and commission of the financial guarantee that pays off the credit risk assumed. In the case of technical guarantees, the commission compensates the risk of default by the secured party.

There is also the possibility that the guarantee is free and even subsidized.

Pricing influences directly the system's sustainability and its ability to obtain funds. The recognized value of the guarantee scheme favors offering of competitive financing costs to business owners. If the system executes very advantageous financing agreements with credit institutions, the price of the guarantee possibly does not imply a major competitive disadvantage for such businesses. On the other hand, if prices are high the system is likely to implement more activities and avoid financial exclusion, however guaranteed activities are less competitive than others.

In short, a balance between the guarantee of the offer to the financial institution (structural conditions) and the required operating conditions for business owners on the demand side, are part of the architecture balance of guarantee models.

Pricing can be fixed or variable according to various criteria such as: coverage percentage, amount, type of operation, size of the company, period of operation, time when the transaction is in, company age in its relationships with the system, object or purpose of the operation, type of guarantees provided by the borrower to the system, probability of loss in case of default and business classification.

Mixed prices systems help to better define the types of operations, type of business owner, mitigate the risk and thus improve sustainability.

b) The guaranteed amount

Maximum guaranteed amount shall be consistent with the type of operations to be guaranteed. In the case of guarantees for financing investment, amounts should be higher than amounts for financing working capital.

The amount also depends on the type of beneficiary business owner to be impacted.

In any case, the higher the guaranteed value, the less it is likely to make the action more extensible, since funds are consumed faster and the risk concentration is higher.

c) Guarantee period

The guarantee period depends on the type of financial operation to be guaranteed. Financing of investments in fixed assets logically requires longer terms.

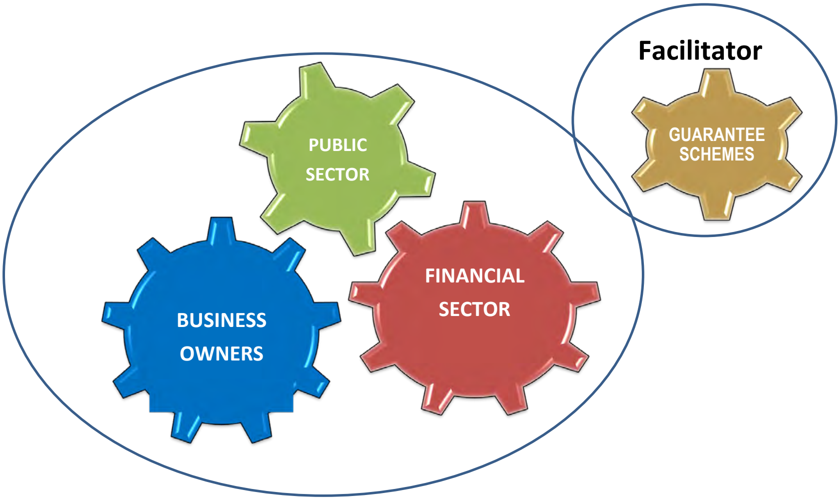
As in the case of value, longer terms limit the ability to make more extensive guarantees and increase the risk of concentration.

3.5. EXTENSION AND EXPANSION OF GUARANTEE SCHEMES: FACTORS FOR CREDIT EXPANSION

The first reflection necessary is for all agents to have converging interests. The public sector attempts to boost the economy as a tool to create wealth and welfare. Business community needs funding to conduct operations and, in certain types of business, banking guarantee rules prevents access to credit or make credit significantly more expensive, which hinders competitiveness. Finally, financial sector needs to improve portfolios credit rating to consume less own resources and provisions. An alliance that should safeguard all legitimate interests of players in the system emerges at this point.

A second question is, once set up a guarantee scheme, with its structural conditions, for whom are systems exercising their extent and permanence oriented? Towards offer, financial sector to boost credit. Towards demand?, business sector to make the guarantee scheme attractive and useful.

Chart 10. Instrumental historical view



Source: Prepared by the author

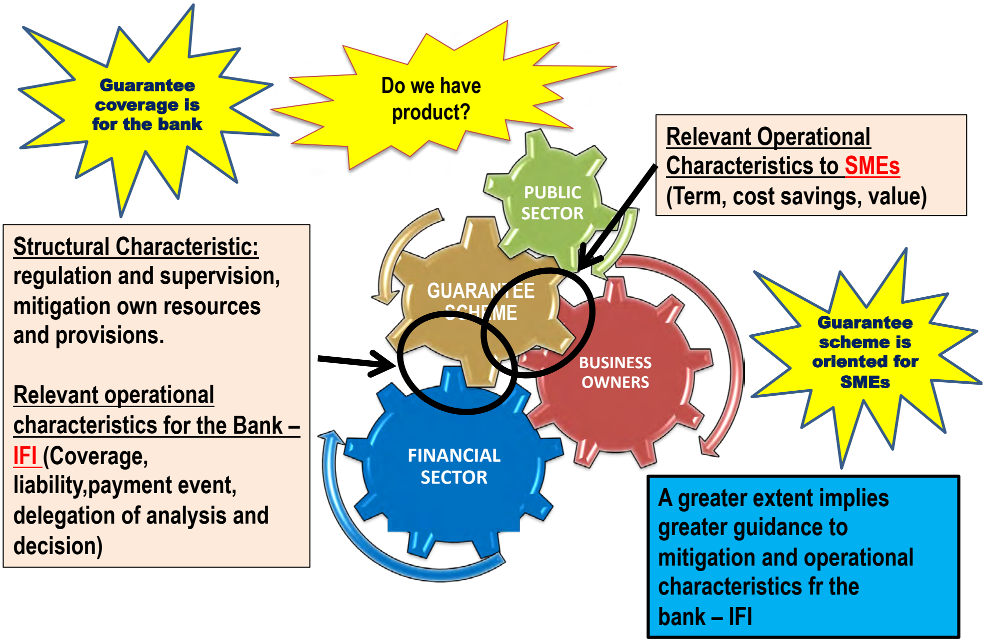
Decisions taken in order to offer an attractive product for business owners are related to term, value of collateral and economy; while those directed to make a compelling product for financial institutions would be highlighted; on the one hand, structural decisions related to regulation and monitoring, mitigation of own funds and provisions, and on the other hand, the most favorable operating characteristics related to credit coverage percentage, solidary or subsidiary responsibility, payment or refund upon first request, in the event of default, or conditioned, etc. Regarding decision making related to grant, if the analysis and the decision granting is delegated, financial institutions play a more active role.

Structural conditions of the system model facilitates better acceptance or rejection of transactions by credit institutions (Chart 11).

Guarantee schemes in exercising massification of its use, aim to achieve a difficult balance to meet supply and credit demand. Obviously, the ideal situation is to provide structural and operational features necessary to the financial sector and business owners.

Guarantee schemes can be designed with an independent distribution scheme of the financial system, seeking to improve business owner's financial conditions in negotiations with credit institutions, or with a strategy focused on quickly disseminating their activity using the commercial network of credit institutions, even sacrificing conditions for MSMBs.

Chart 11. Guarantee scheme orientation in its expansion: efficient relationship with financial institutions and MSMBs?



Source: Prepared by the author

Due to moral hazard problems transferred from the credit institution to the guarantee scheme, decision must be balanced between meeting the needs of product demanded by business owners or do it in terms of operation with the credit system.

Meanwhile, business owners are interested in facilitating access provided by a guarantee scheme to a number of financial products, with extended deadlines to meet any type of financing, including involving assets and assuming savings, as well as access to technical guarantees. On the other hand, an entity should control limitation of own resources and possibilities to serve a higher number of business owners.

Regarding the fight against financial exclusion, results are conclusive (Gallurt et al, 2013). The most influential operating characteristics are related to guarantees oriented design or aimed at establishing advantages or benefits to the financial system; that is, systems more oriented to banks can cause better impacts against financial exclusion. A greater extent presupposes a greater orientation to risk mitigation structural characteristics and operations to credit institutions. Such presumption is in line with changing current approach, which states that guarantee, and thus, the system activity, is a very valuable product for the credit institution.

On the other hand, if the system is focused on generating significant cost savings for MSMBs, chances are that system has less ability to fight financial exclusion, which is why we have an inverse relationship (largest economy with credit costs presupposes fewer MPMBs served). This scenario is distorted in Latin America, due to the short history of mutual systems. Therefore, this situation does not reflect the situation in Europe, as shown in the case of SOCAMAS.

The conclusion shows that it is necessary to implement a balance to seek reducing exclusion, but with improvement of conditions for MSMBs, which is a very important condition to meet the needs of financial institutions and facilitate their operation.

The clearest model of such balance or interrelation between the financial institution, the guarantee system and business owners would be, among others, the French SOCAMAS (whose capital corresponds 100% to microbusiness owners). About 26 regional SOCAMAS support 250,000 members, in which the system (Mutual Guarantee Society) is managed by these microbusiness owners, through their Government bodies and with the support of credit institutions in their operation, with which they are integrated and which are exclusive beneficiary of the guarantees. The credit institution makes the whole operation (analysis and monitoring of operations) to the Mutual Guarantee Society easier, and optimizes financial products for micro business owners.

Regarding additionality, we observed that characteristics that make the product attractive to MSMBs consume less public resources and generate less additionality, while conferring a focus on major advantages to banks, they have a higher volume of public resources, thus achieving greater expansion of credit in relation to their investment.

These results highlight the important role played by the financial sector and the struggle against financial exclusion, and improvement of additionality recommends the design of guarantee coverage products to facilitate their acceptance.

4
CLASSIFICATION OF GUARANTEE SCHEMES

Classification of guarantee schemes demonstrates how these systems are designed to meet goals. Classifications, formulated from characteristics defined in the third chapter of this document help to identify different guarantee schemes and provide a point of reference in time to address the creation or evaluation of a particular entity. Different schemes should be chosen according to the intended goals and the economic environment in which the entity will operate.

Realities with which it was tried to address the problem of access to finance, through a guarantee scheme, present different institutions profiles. Classification is the first task when discussing its study. Once these realities have recently been studied, there is a group of large studies intended to rank them.

In this chapter, we collected three classifications using more sophisticated criteria. Starting with those having a semantic justification, we move to a second and a third semantics, with a methodology that addresses the source of funds (Pombo et al, 2007) and depending on how operators take the risk (Pombo *et al,* 2013). The two last ratings have been prepared based on an empirical methodology that gives them consistency.

4.1. NOMINATIVE DESCRIPTIVE CLASSIFICATION

The first attempts of classification have a semantic or nominative descriptive character. It is about overcoming conceptual limitations that existed in the professional and academic community, due to the generic use of the term “guarantee fund” that still exists and it seems difficult to eradicate. In addition to this limitation, there are language limitations related to “nationality” and even by erroneous operational approaches that remain despite progresses made.

Based on the legal form and operation in which the activity is developed, a first rough attempt of classification distinguishes guarantee funds, guarantee programs and guarantee societies (Herrero and Pombo, 2001). Therefore, those operating through a legal society system are called "guarantee societies", those operating with a guarantee fund are "Guarantee Fund" and those operating based on an agency or government body, are called "guarantee program".

4.2. CLASSIFICATION BASED ON SOURCE OF FUNDS

A second type of classification serves the origin of funds, as it will determine institutions modus operandi and their relationship with the financial sector and business owners. This classification was observed by Pombo (2006) and Pombo et al (2013) in systems in Europe, differentiating three groups of systems:

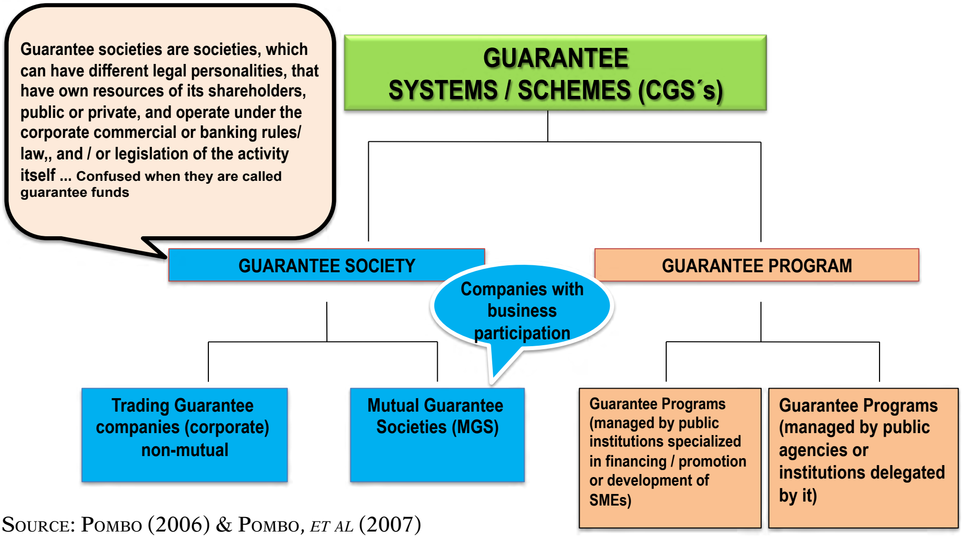
- ✓ Guarantee schemes with 100% of public share or public majority: that virtually coincides with the proposed theoretical classification for *guarantee program*.
- ✓ Guarantee schemes of private majority of financial sector, which are practically integrated with the proposed theoretical classification of the *guarantee society*.
- ✓ Guarantee schemes of private majority of business sector: formed practically with the proposed theoretical classification of *mutual guarantee society*.

Each group corresponds to a different legal entity from the rest (legal and regulatory framework); in short, who is the guarantor? What's behind the guarantor in terms of legal certainty? Basel II accords in this area are based on these issues. A series of characteristics derive from this premise, but there are primary attributes certainly defined by the legal form all business-commercial entity, whether individual or legal entity, have to "exist" in any state of law, which are essential.

Guarantee societies group (guarantee schemes of private majority, including commercial, non-mutual institutions and mutual systems) is characterized for having all its corporate legal regimes, exclusive corporate purpose aimed at guarantee activities, a permanence or undefined time horizon and preference of serving micro businesses, upon groups of public majority and non-mutual.

On the other hand, mutual subgroup is characterized by having a cost for social capital contribution and service fixed pricing policy. Mutual systems often have a higher number of guarantee entities, a higher number of beneficiaries and longer existence. The presence of business owners in Government bodies to decide about guarantee granting in mutual systems leads to a better performance in terms of volume of portfolios.

Chart 12. Classification of guarantee schemes based on origin of funds



Source: Pombo (2006) & Pombo, *et al* (2007)

Private sector participation, sometimes along with the public sector, provides for greater efficiency and additionality, understood as the ability to generate higher credit with public funds invested.

On the other hand, *guarantee programs* are public majority systems characterized by having higher guaranteed average values. This means serving companies in more evolved sectors comprised by public majority (guarantee programs) at first.

4.3. CLASSIFICATION OF GUARANTEE OPERATORS COVERAGE BASED ON RISK-TAKING

A third classification criterion assumes that guarantee schemes have operated and supported guarantee coverage over their equity or act as operators and mere administrators of a stand-alone net resource, named Guarantee Fund or Trust. The latter schemes predominate in the public participation systems that often do not support guarantee coverage on their equity. These classifications define and establish different operational and administrative situations.

Guarantee schemes operational characteristics designed as operators of guarantee coverage allow for their classification into two large groups which, in turn, are subdivided into two other groups (Pombo *et al,* 2013)[13]. The heaviest criterion

13 Guarantee operators is the entity developing and performing guarantee coverage granting and formalization, in a real and effective way, according to operation rules.

in this classification is the guarantee operator's responsibility over the supported guarantee coverage. In the group of operators supporting guarantee coverage over their own equity, legal societies and public institutions with similar characteristics in the public sphere are included. In the subgroup of guarantee operators not supporting the risk from guarantee coverage on their own equity, guarantee funds and trusts are included. These groups have the following institutional characteristics:

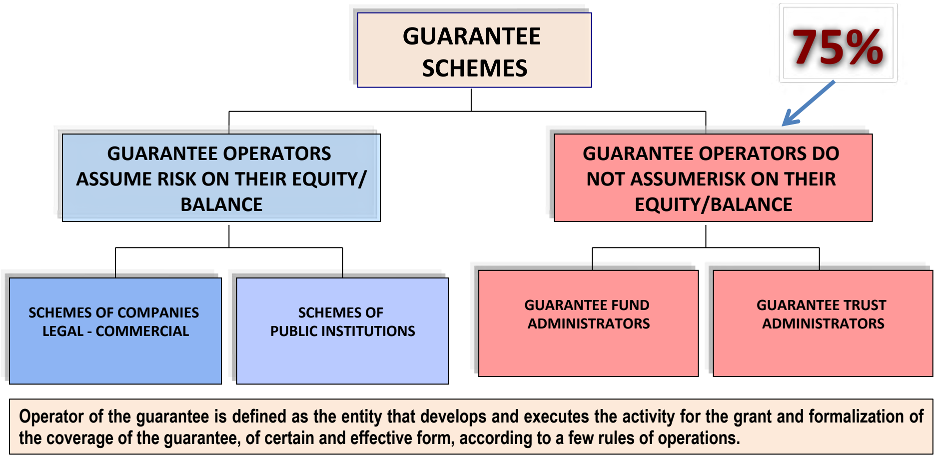
4.3.1. OPERATORS THAT SUPPORT GUARANTEE COVERAGE ON EQUITY

This group includes operators of guarantee coverage that support their own equity, such as legal commercial companies and public entities. They operate the guarantee based on their equity, and the social capital of their capitalization formula and the guarantee is administered by their own corporate bodies.

4.3.2. OPERATORS THAT MANAGE RESOURCES WITHOUT SUPPORTING GUARANTEE COVERAGE OF THE ACTIVITY ON THEIR EQUITY

Guarantee coverage operators who do not support on their own equity are prevalent in public institutions. Operators are mere administrators of stand-alone net funds that do not support risk on their equity, are capitalized with stand-alone net funds administered by the operator, that is, a third party other than the fund contributor (trustees in trusts).

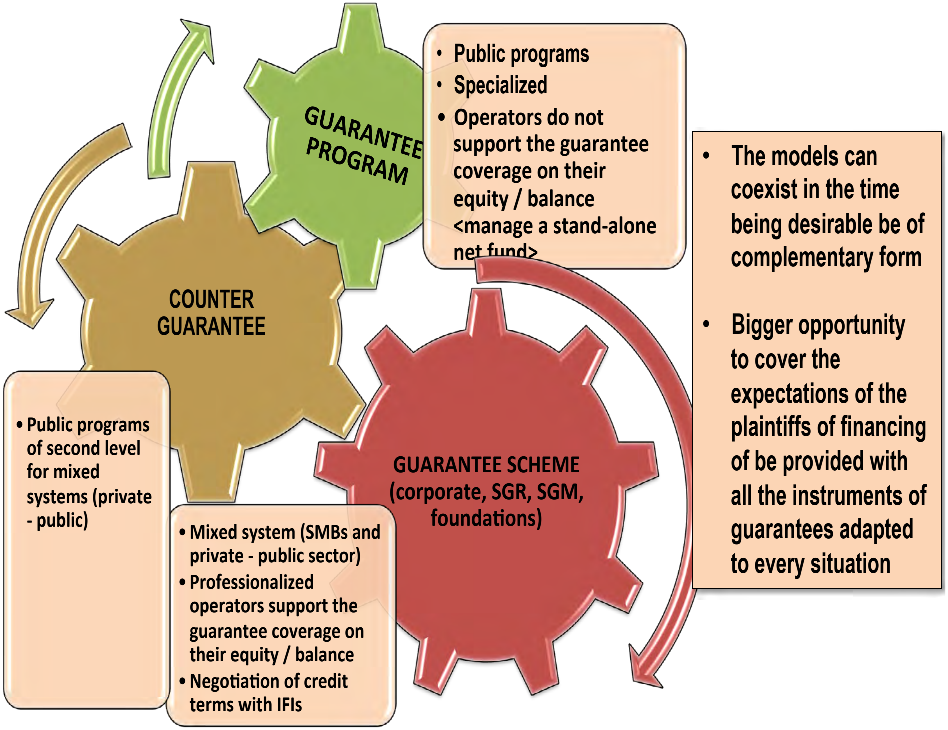
Chart 13. Classification of guarantee schemes in Latin America



SOURCE: PREPARED BY THE AUTHOR

Basically, risk liability is the attribute that best classifies schemes in this classification. Then it would be a legal entity and, in the case of those who take risk on their equity, guarantee fund or trust functionality.

Chart 14. Complementarity of guarantee schemes in Latin America



Source: Pombo *et al* (2013)

Therefore, operational decisions are shown in Chart 14. Will guarantee coverage operators assume responsibility for their equity or not? If so, will it be a private law system, a legal or public society? If not, will it be managed as a guarantee fund or trust?

Finally, models can coexist in time, and they should be complementary to each other. From this perspective, there is a greater chance of meeting the expectations of those seeking funding if they have the proper guarantee instruments suitable for every situation.

4.4. CLASSIFICATION OF GUARANTEE SCHEMES AND STRUCTURAL AND OPERATIONAL CHARACTERISTICS

The logical path that we follow throughout the document begins by identifying problem of access to credit, and competitive conditions for certain business units (MSMBs). This problem is reinforced by international rules governing the banking sector and deepening such exclusion. At the same time, the solution lies in setting up systems which provide such guarantees to MSMBs with solvents projects.

The second step of our analysis requires the identification of structural and operational characteristics, which should allow systems upgrade to be useful for the intended purpose. Solutions proposed do not represent a homogeneous model, however, depending on the promoter's objectives and resources available, various schemes can be adopted.

This section attempts to summarize typical characteristics of each derived type from systems classifications due to risk assumption. This classification of guarantee schemes identify two major types: a) Guarantee operators supporting the risk of guarantee coverage on their equity or balance; b) Guarantee operators that do not support the risk from guarantee coverage on their equity of balance practically coinciding with the characteristics of the European classification for *guarantee societies* and *guarantee programs,* but from another perspective: in the European case, the *source of funds* and in Latin America, the *support of the responsibility.* Although there is a great approach to the reality of both models, there may be hybrid and unorthodox situations in relationships with stakeholders: mutual guarantee societies (MGS) to "manage Guarantee Funds"; guarantee societies using portfolio guarantee alternately with individual analysis and guarantee programs in contrary, guarantee societies and guarantee programs that make bidding activities with quotas banks, etc.

Schemes characteristics should also show us the business model. An additional issue is to establish a balance between guarantee public policy objectives: to control the scope, extent and distribution, as well as operational risk. Therefore, we are much worried with these points of view.

Chart 15. Classification and characterization of guarantee schemes

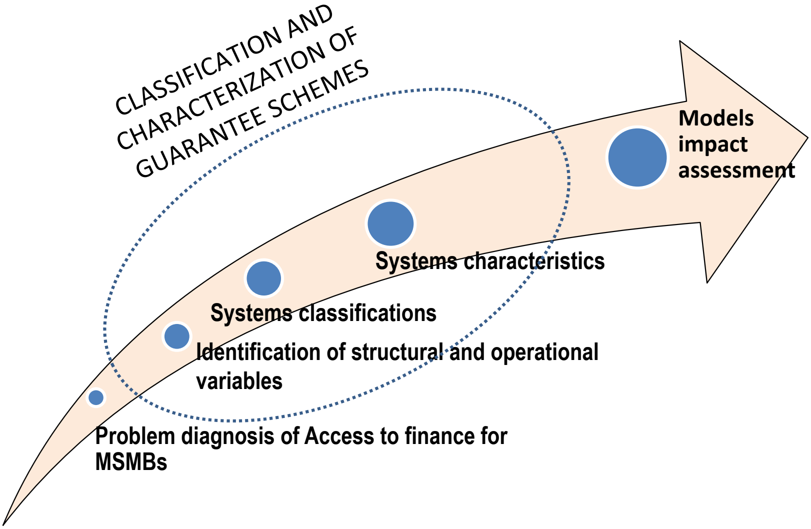


Table 3. Classification of guarantee schemes and structural and operational variables table for relationships with groups of interest

Structural characteristics or variables

Guarantee operators support coverage risk on their equity GUARANTEE SOCIETY	Guarantee operators that do not support guarantee coverage risk on their equity GUARANTEE PROGRAM
From the structural point of view, guarantee operators in this model, adopt predominantly: • Corporate legal formulas. • Capitalized with social capital contributions, some of them specific, with variable capital, in mutual models. • Contributions of mixed public-private nature. In mutual systems, MSMBs beneficiaries are shareholders. The financial sector often has shares.	From the structural point of view, guarantee operators in this model, adopt predominantly: • Development Bank, development agencies formulas, etc., as “managers of stand-alone net funds” facilitated by the guarantee scheme. • Capitalized with funds from contributions for “stand-alone net funds” in the form of Guarantee Fund or Trusts and, if applicable, as a state budget allocation for its implementation. • Contributions of public nature.

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• Guarantee activity's corporate purpose is exclusive. • It is administered by government agencies. • There is no time horizon or budget limit. It meets regulator's requirements related to own resources and provisions. • It is created or established under corporate agreements. • Integrated into the financial system and guarantee coverage assessment, as own funds and provisions mitigating agent, it is more ordered and transparent from the regulation and supervision point of view. • In mixed public-private schemes, there are national and international counter guarantee schemes.	• Guarantee activity's corporate purpose is shared with the "stand-alone net fund administrator". • Operator's administration of resources and activity: institution authorized in Guarantee Funds and Trustee in Trusts. • There is a time horizon or budget limit. • Created upon administrative or Government decision. • Integration into the financial system and guarantee coverage assessment, as own funds and provisions mitigating agent, is more complex from the regulation and supervision point of view. • In public schemes, there are no national counter guarantee schemes, however, there may have multinational counter guarantee schemes.

Operational characteristics or variables

Guarantee operators support coverage risk on their equity **GUARANTEE SOCIETY**	**Guarantee operators that do not support guarantee coverage risk on their equity** **GUARANTEE PROGRAM**
From the operational point of view, guarantee operators in this model, adopt predominantly: • Guarantee schemes conduct study and approve operations not delegated to the financial institution. There is a relationship framework (agreement) between the parties: guarantee system and bank. • Prevailing guarantee coverage is solidary. • Guarantee scheme pays defaults on first request. • Guarantee scheme is responsible for charging defaulting parties and bankrupt.	From the operational point of view, guarantee operators in this model, adopt predominantly: • Study and approval of operations are delegated to the financial institution. Guarantee scheme administers terms with the bank and the bank gives companies the guarantee contract (portfolio agreement). Establish ex-ante risk control, under the conditions agreed with the bank for eligibility. • Prevailing guarantee coverage is subsidiary. • Defaults payment is conditioned, among other banking conditions in the first instance, as responsible for collecting payments from bankrupt.

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• Guarantee coverage is higher (up to 100%). • Such guarantee schemes have a greater bargaining power and competition in favor of MSMBs in the trading relationship with the Bank. They can get better terms from the bank, as they provide, along with high coverage, the amount of guarantee coverage as mitigation of own resources and provisions. All this provides consolidation to get better interest rates and terms for companies. • In this model, beneficiary companies establish a direct relationship with the guarantee scheme. MSMB knows its guarantor before the bank. Guarantee scheme may provide financial information and counseling for the company. • Beneficiary companies pay directly to the guarantee scheme the cost (guarantee commissions) for service. In mutual guarantee societies (MGS), MSMBs also provide temporary capital funds. • In this model, the guarantee scheme obtains a higher application in Europe. This is underdeveloped in Latin America, except for a few specific examples.	• Guarantee coverage is lower (between 50% and 80%). Credit risk is shared with the bank in order to avoid moral hazard. • Such guarantee schemes have a lower bargaining power and competition in favor of SMBs in the relationship with the Bank. Therefore, these models have weaknesses when getting better interest rates and terms for companies. • Guarantee schemes do not have any relationship with the beneficiary company. • Beneficiary companies do not pay directly the guarantee scheme the cost (guarantee commissions) for services provided by the guarantee scheme; these costs are included in the fee charged by the bank, and the bank pays the guarantee scheme. • In this model, the guarantee scheme obtains a higher application in Latin America, in general, because some cases are the opposite.

5
METHODOLOGY TO IMPLEMENT A GUARANTEE SCHEME

Guarantee schemes are mechanisms that articulate an alliance between the State, business owners and the financial sector. Establishment of such institution suggests cooperation between these agents.

5.1. HOW TO DECIDE ON THE MODEL OR GUARANTEE SCHEME THAT WILL BE IMPLEMENTED?

Improvement in facilitating access to financing for MSMBs is made possible thanks to guarantee schemes, which involves the transfer of risk from the financial institution to them. Guarantee schemes also comply with heterogeneous schemes. Therefore, models have a series of different characteristics and several concepts, such as: legal standards, form of capitalization, administration, operation in analysis and guarantee granting decision, etc. An example is provided in Table 4.

Table 4. Relationship of guarantee scheme and financial institution with the following variables: guarantee coverage, delegation of analysis and granting decision

COVERAGE	Analysis Delegation	Granting Decision Delegation	Model
Scheme with 100% coverage or very high	NO	NO	SGR / MGS or guarantee societies
Scheme with 100% coverage or very high	YES	NO	Mixed situation being experienced right now by the SGR / MGS
Scheme with low coverage of 50% or lower	YES	YES	Guarantee Programs

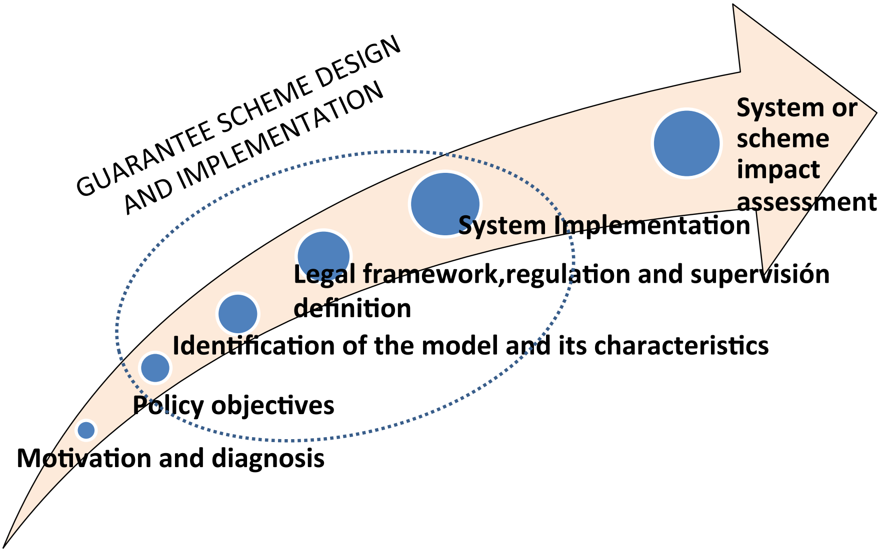
Fuente: elaboración propia

In order to choose a guarantee scheme model to be implemented, existing possibilities should be known. In analysis conducted, operational matters are frequently addressed instead of strategic matters.

A guarantee scheme implementation requires two steps. Step one has a conceptual nature, which is the scheme design based on classification and characterization. The other is related to the guarantee scheme implementation and the steps that will be developed to compromise stakeholders in this policy.

Thus, based on a diagnosis, it is necessary to define and articulate a methodology to implement project goals, as well as its implementation, in order to establish the system's institutional and operational aspects. Such schematic methodology is presented in chart 16.

Chart 16. Guarantee scheme design and implementation



5.2. WHAT IMPLEMENTATION METHODOLOGY SHOULD BE EMPLOYED?

Leadership of such a project often lies with the public sector as part of public policy based on facilitating access to financing for MSMBs. This leadership should facilitate the identification of institutions that could monitor the guarantee system implementation. This procedure consists of several steps:

- Open a process of socialization and awareness raising to support a guarantee scheme implementation project based on a particular guarantee regime.
- Prepare and write a legislative and regulatory project. In this sense, the financial authority with technical assistance authority should be responsible for a specialized consultant, as applicable, for its implementation. At this stage, it is very important to commit institutions participating in the scheme.
- Provide for the identification and define a "profile" for a first institutional project of a guarantee institution based on the new guarantee scheme as a reference or efficiency and "good practices" model. Basic activities to be developed should be focused on identifying and forming a promoter group to start, conduct, develop and oversee a pilot project (such as, in the case of a SGR, as future system stimulation, the role of the promoter would be assigned in the participation of interest groups: Public administration, financial system institutions and business owners, along with regional bodies, as the case may be, which would form the seed capital of the pilot SGR being implemented).

Environment analysis, as well as progress with respect to support policy for MSMBs, is required to determine the most effective model. Therefore, the project starts with general and specific goals identification, which should follow an implementation schedule. General goals include:

✓ Strengthen MSMBs sector.

✓ Favor, with universal nature, access to finance and public procurement for business owners in the reference territory, promoting the obtaining of financial resources with the best term and interest conditions, by providing financial guarantees, sureties or technical guarantees and information services and related financial advice.

Specific goals include:

✓ Guarantee scheme implementation: implementation of guarantee institutions institutional project and expansion (promotion, structuring, establishment and tutoring in creating guarantee institutions).

Principles for implementation:

1. Conceptually, it is necessary to operate in three steps: Identification, definition and proposal of a guarantee scheme policy.
2. Identification, definition and development of a complementary legislative and/or regulatory project to implement a guarantee scheme with the purpose of integrating it into the financial system.

3. Promotion, impulse, establishment and tutoring for the creation of guarantee institutions (e.g., SGR within a SGR Act) within the context of a guarantee scheme drawn, seeking an initial institutional project (one SGR, for example).

Next, we develop content for each of step proposed:

5.2.1. STEP I: POLICY DEFINITION "IDENTIFICATION, DIAGNOSIS AND PROPOSAL OF A GUARANTEE SCHEME POLICY"

This step intends to identify, prepare and propose policy related to guarantee schemes for the MSMB sector, once it is the basis for all actions that can be undertaken then.

On one hand, this step establishes the need to identify, design and propose a guarantee scheme, its motivation, opportunities, characteristics, applicability and the methodology for its legislative and regulatory enactment with the corresponding political and socio-economic support and, on the other hand, evaluates objectively if conditions justify the possibility of reaching a potential activity above the guarantee institution profitability threshold. Prescribers should be from country's the highest level of decision (Ministries, Departments, Central Bank and Superintendence of the financial system, business sector, financial sector, public sector, cooperative, multilateral agencies, etc.). These objectives and activities can be addressed through the implementation of an identification workshop with a guarantee scheme diagnosis report and policy proposal.

Based on this, the proposal should deepen the diagnosis of the problem and possible solutions. Use of other experiences may be useful, however, in each case, diagnosis will allow for the preparation of a broader proposal prepared. Therefore, it is important to know the historical experiences occurred in the country, and meet the expectations and the will of involvement of possible agents promoting a guarantee scheme for its definition, adoption and launching in territorial and / or established sector level.

Expected product: Final results report containing the proposal of the policy agreed between players involved in the Guarantee Scheme implementation.

Conclusions and recommendations to be included in Step I final report:

- ✓ Make a formal decision based on the guarantee system or scheme policy proposal for the country's MSMBs, on a guarantee scheme model from an agreement entered into by consensus and socialized among all players involved.
- ✓ Make a decision on leadership, institutional coordination of the project agreed by all players.

- ✓ Consider setting up an institutional coordinated group - directed by an institution, which allows for continued political and technique for drafting guarantee scheme pre-project Law and boost the guarantee institution initial project.
- ✓ Establish the country's Central Bank and the Superintendence of the financial system as a technical authority preparing the guarantee system billing pre-project; in short, regulating and supervision authority, with technical assistance from the project consultant and the institutional follow-up.
- ✓ Continue activities to raise awareness in directors of institutions responsible or involved in the drafting of the legal text and in implementation of the guarantee scheme.
- ✓ Compilation of compared legislation according to different models characteristics: identify and obtain existing legal texts in other countries (for example: Spain, Portugal, El Salvador, Nicaragua, etc. Guatemala and Honduras pre-project of law, in case of a SGR Act) with the changes in legislation, if any.
- ✓ Identification, definition, execution and coordination of boost, socialization and future meetings strategies to process the bill.
- ✓ Identification of target audiences for awareness raising.
- ✓ Conduction of a project presentation for disclosure and awareness raising.
- ✓ Execution of activities provided for in different project steps, according to the final report content.

5.2.2. STEP II: IMPLEMENTATION OF THE POLICY: "GUARANTEE SCHEME DEFINITION AND LEGAL DEVELOPMENT"

This step consists in the implementation of policy approved in step one and especially in identifying and implementing the set of activities to be developed and in the coordination, along with the consultant, in order to provide technical assistance in the guarantee process billing and support in legal proceedings within a broad consensus among the different institutions involved and to disseminate guarantee schemes advantages for the MSMB sector, under the business plan approved by the local counterpart.

Under technical assistance, this step includes proposal of a legislation - usually by the Central Bank and / or Superintendence designated coordination of each country - with corresponding meetings (by conducting technical assistance workshops to define the legislative profile and legislative thrust) and a feasibility study or business plan (necessary tool in project development) to identify and evaluate steps, activities and tasks and prepare a budget to correctly determine which guarantee scheme must be expanded and the first reference project (mutual guarantee society, if any).

The purpose of this study is to support a presentation document for decision-making for future founding partners to participate in a guarantee institution. As complementary activities, a best practices identification workshop should be conducted and facilitate knowledge on guarantee schemes. This workshop should provide knowledge on the reality of a full scheme, with societies duly operating, as well as best practices - with proceedings certificated by ISO-9000 - in order to establish contacts and bonds to identify strategic, technical profiles - analysis, assessment, monitoring and risk administration - management - sector-specialized software - for training and qualification, as well as possible technology transfers. Secondly, in order to learn about other guarantee schemes, it is advisable to participate in international industry events and foresee organization of a national and international event, if any, for the presentation of the text of the Law, once promulgated.

Step II is the most critical one, once billing and legislation foreseen should be of the highest quality, timeliness and accuracy, so that the guarantee coverage activity can be performed effectively and efficiently by directors and officers from guarantee institutions.

Expected products: technical assistance to conduct or implement the following products:

- ✓ Texto final del anteproyecto de Ley del Sistema de Garantía revisado y consensuado entre todos los actores involucrados, integrado el sistema de garantía en el sistema financiero.
- ✓ Onsite and online technical assistance to support billing legal procedures and disclosure of guarantee institutions, according to alignment and strategies proposal, as well as their activities.
- ✓ Final report or memorandum of each step detailing activities and, if the case may be, consulting recommendations.

5.2.3. STEP III: GUARANTEE SCHEME IMPLEMENTATION: "INITIAL INSTITUTIONAL PROJECT OF A REFERENCE GUARANTEE INSTITUTION"

The third step consists in the implementation and development of a guarantee scheme (for example, mutual guarantee societies upon the establishment of a SGR initial guarantee institution) as institutional and best practices reference.

Once identified and defined, this project, has its own individual development and will be based on technical assistance for decision-making, if possible, on transfer of technologies tested and qualified according to ISO-9002 in organizational and operational proceedings aspects, and one specific management software for the activity with corresponding training processes.

Regarding policies, programs identification and activities to be performed to develop and implement the guarantee scheme, once promulgated the billing, it should foresee the conduction of a guarantee institutions support and consolidation Program, with corresponding technical assistance to design the program, one national presentation event, technical workshops to promote, encourage, train and qualify human resources through internships or *ad hoc* programs.

Expected product: formation and structuring of institutional initial reference guarantee institution project (construction and operation) and, if applicable, guarantee institutions promotion plan (SGR, for example, as part of an SGR Act).

6
CONCLUSIONS

Implementation of a guarantee scheme, as public policy, requires an initial diagnosis based on a comprehensive analysis, closer to the reality of the situation or problem to be solved.

International rules (Basel) generate a situation of inequality in access to finance by MSMB, which results in a lower economic development level.

The form chosen to implement public policies can take various formulas. Depending on the objectives to be achieved and means available, the decision will be made regarding one or other model; in any case, decisions on the guarantee scheme operating characteristics should be consistent with the model chosen.

Once the model is chosen, its regulatory framework must be complete, appropriate, legally safe and sensitive to structural conditions mainly required by guarantee schemes receptors. This means being integrated into a regulated and supervised financial system, and the guarantee issued must be recognized (qualified and weighted). In short, be a "subsystem of the financial system".

The economic and financial effect for financial institutions as a result of the operation by means of guarantee schemes, whose guarantee is qualified and weighted, presupposes:

- ✓ A lower consumption of own funds in operations (in some cases 8% in equity hedging relationship or 1.6% in solvency).
- ✓ Eliminate the need to adopt provisions related to such operations.
- ✓ Savings with risk monitoring costs, analysis, client acquisition, etc.
- ✓ It is also possible to synthesize similar effects to the Guarantee Scheme, in "mixed" cases as a result of the transaction with counter guarantee, once the guarantee is qualified and weighted.

In short, qualified and weighted guarantee coverage is a key strategic factor for financial institutions. Hence, guarantee qualification and weighting in the financial system is also a key factor in guarantee schemes feasibility.

Therefore, we believe that the community of policy makers should know the options and what the characteristics of each of them are in order to make a decision according to their effectiveness, both related to objectives and efficiency of the operation.

Secondly, from extension and expansion or massification of guarantee schemes point of view, these structural characteristics were analyzed, in addition to operating characteristics from a double vision: oriented to credit supply by financial institutions (coverage percent, payment event, accountability, delegation and decision of granting) or the demand side, by MSMBs (term, savings with cost, value).

After analysis and empirical evaluation, we observe how guarantee schemes aimed at integrating structural and operational requirements of the bank are more effective for extension and expansion or massification in terms of MSMBs served and effective use of public resources.

Regarding schemes aimed at MSMBs operational characteristics, their effects are more important when dealing with "mixed" systems with corporate share.

Therefore, due to their capitalization and the economic system, guarantee schemes evolve for grouping or business association formulas that allow them to leverage public and private resources, to negotiate prices that provide improvements in cost of financing and terms with the bank, as well as sufficient values, thus avoiding financial exclusion.

Such progress is important when assessing the type of scheme and its scope. In short, establishing a balance in their structural and operating conditions to be oriented for credit institutions and/or MSMBs.

Analysis of current operating systems, as well as their ways of interacting with stakeholders reveals a growing appeal of guarantee schemes for the bank and vice versa, with closer collaboration with banking institutions in order to develop the system's activity.

Finally, a public policy to implement a guarantee scheme and / or modify an existing one involves developing a methodology identified in this document with three different steps: the first step of diagnosis, the second of legislative development and the third step of implementation of an initial reference project.

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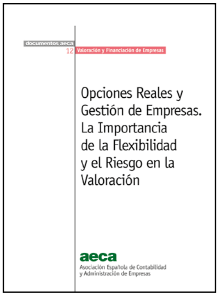
Entre las distintas medidas de protección a las pymes se encuentran cuatro instrumentos financieros destinados a apoyar el desarrollo de sus planes de crecimiento: el capital riesgo, los préstamos participativos, el aval de las Sociedades de Garantía Recíproca y el Mercado Alternativo Bursátil (MAB). El objetivo de este Documento es describir, desde una perspectiva eminentemente práctica, cada una de estas fuentes de financiación. En este sentido, el Documento se ha estructurado a través de un hilo conductor que recoge, para cada una de estas figuras, aspectos tales como condiciones legales y financieras, perfil de las empresas susceptibles de acudir a estos instrumentos, proceso de acceso, coste y ventajas de cada uno de ellos. Con la finalidad de ser un Documento útil en la práctica empresarial, se ha acudido a la opinión de profesionales, tanto del ámbito de las distintas entidades concedentes como de las empresas receptoras y de otros agentes implicados en estas operaciones de financiación. En definitiva, la pretensión final de este Documento es ofrecer a los gestores de las pymes la información necesaria para poder decidir, en cada caso, la elección del modelo idóneo de financiación que requiera el plan de crecimiento.



Opciones reales y gestión de empresas. La importancia de la flexibilidad y el riesgo en la valoración

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Ponentes: **Juan Mascareñas Pérez-Íñigo** y **Manuel Rodríguez López**

Los métodos tradicionales de la valoración de empresas, así como la valoración de proyectos de inversión, que en esencia viene a ser lo mismo, difícilmente valoran de forma adecuada inversiones en entornos con alto grado de incertidumbre o cambio rápido. El método de las opciones reales trata de superar esta importante limitación. Aplicando la teoría de las opciones financieras al entorno de la empresa y proyectos, de ahí el término "real", trata de cuantificar el valor de la flexibilidad en la gestión en un entorno incierto, es decir, trata de aflorar cuánto supone en un proyecto o empresa el valor de la incertidumbre y la posibilidad de adaptación que tiene su gestor. El objetivo de este Documento, partiendo de una base conceptual capaz de ubicar las opciones reales en el contexto de la selección y valoración de inversiones, es poner de manifiesto la contribución que proporciona esta metodología a la valoración y a la gestión de proyectos, resaltando que, aun siendo una estimación aproximada para valorar la flexibilidad de la gestión, su importancia radica en que permite aflorarla.

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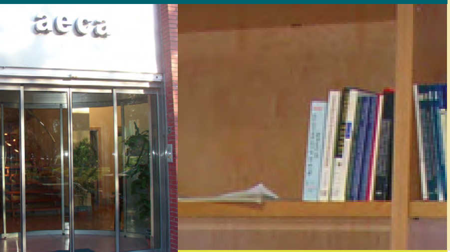

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Los sistemas de garantía: claves para su implantación

Los sistemas de garantía son mecanismos cuya finalidad es facilitar el acceso al crédito, a través del sistema financiero formal, otorgando avales ante terceros a favor de la micro, pequeña y mediana empresa (mipyme) en las mejores condiciones de coste y plazo, ya que las entidades financieras mitigan su riesgo y ello le requiere inmovilizar menos recursos propios y provisiones. Los sistemas de garantía gestionan el riesgo de crédito (avales financieros) o el de ejecución de una determinada responsabilidad (avales técnicos). Hoy día son una realidad consolidada y necesaria.

El objetivo del documento es describir y caracterizar estas instituciones más allá de identificar un modelo concreto como instrumento para satisfacer la solicitud de garantía.

Este documento presenta conceptualmente los elementos que caracterizan los distintos esquemas de garantía; su clasificación; qué funciones y qué riesgos presentan los diversos modelos y cuáles son las soluciones más extendidas. Por tanto, el documento va destinado a los responsables de los entes operadores de la garantía, a las entidades financieras y a las asociaciones empresariales que forman el círculo de *stakeholders* del sistema de garantías. Asimismo trata de servir de (referente) referencia a los responsables de las políticas públicas en materia de garantía, tanto de orden nacional como de organismos multilaterales que tratan de (incentivar) promover el flujo financiero a las mipymes promoviendo el establecimiento de sistemas de garantía.

Guarantee Systems. Keys for their implementation

Guarantee Systems are mechanisms whose aim is to ease the access to credit, through the formal financial system, granting guarantees to thirds for Micro, Small & Medium Enterprises on the best cost and term conditions, because the financial entities mitigate their risk and as a consequence of that reduce the needs of equity and provisions. Guarantee systems manage the credit risk (financial guarantees) or the performance of certain responsibilities (technical guarantees). Nowadays they are a consolidated and necessary reality.

The Objective of this document is to describe and characterize these institutions instead of identifying a concrete model as the instrument for granting guarantees.

This document conceptually shows the characteristic elements for different guarantee schemes; their classification, their functions; what risks take the different models and which the most accepted solutions are. Therefore the document is destined to managers in charge of the guarantee entities, financial institutions, business associations that integrate the stakeholders' circle of the guarantee system.
In addition, it expects to be reference for the public policy makers on guarantee, at domestic and international level and for the multilateral bodies that incentive the financial flows to the Micro and Small and Medium enterprises promoting the establishment of guarantee systems.

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