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ORIGINAL SCIENTIFIC PAPER

Small Companies Access to Multi Guarantee Mechanisms - An Evidence from Serbian Female Companies

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A B S T R A C T

Financial markets and sources of funds are scarce in Serbia for small companies, especially for these owned by women. There is a little mobilized capital for various reasons to support innovative small companies, the lack of private equity funds and various multi guarantee schemes, and private public sources. The main objective of this paper is to show the opportunities for the better transfer of best current practice into the system and practical solutions of the Serbian financial intermediaries and end users in the field of guarantees /loans, equity or joint venture, the proportion of the guarantee/ which covers the loan, interest rate, length, and conditions of the applications /, service/ multi societies or state agencies/. Investments in the Development of small companies, female owned, especially in the innovation of products, services and technology are the main precondition to their greater involvement in exporting, selling goods with higher added value to global market and sustainability of their business

KEW WORDS: *multi guarantee mechanisms, small companies, female owned enterprises*

Introduction

The majority of existing and new businesses are very small. According to a recent statistical data 95-93% of Serbian SMEs are micro-enterprises (0 to 9 employees). Most of these micro-enterprises are self-employed people who do not create additional jobs, do not have the resources or do not want to grow. 14% of them are female owned. Those micro-enterprises wishing to grow, however, often do not have access to the necessary external financing.

Although there is wide debate about the exact role of small enterprises in driving economic change, most authors agree that due to their flexibility, their innovative capacities and their role in strengthening competition and female enterprises in strengthening social cohesion, small firms perform vital productivity and growth-enhancing functions in the economy. In order to make use of their potential, these firms need to be provided with an enabling environment, which encompasses the access to capital. However, one of the greatest obstacles to the entry, development and growth of small firms in emerging economies as Serbia is, is access to formal finance. Depending on their size and environment, enterprises see access to formal finance as more or less challenging. Compared with larger enterprises, small firms are restricted in their access to commercial bank and government funds although the latter play only a marginal role for them. As a consequence of their disadvantaged status, small and, to a lesser degree medium enterprises, seek recourse to (short-term) informal finance. Without sufficient long-term finance, small firms are unable to expand their businesses and to introduce productivity enhancing technology. This will have adverse consequences for the competitiveness of the sector and the economy as a whole, especially from gender aspect of the owners.

Bank branches outside the capital cities frequently provide only cash and do not have the authority to make loans, leaving small enterprises in rural areas un-proportionally disadvantaged. Banks advance four main reasons for their reluctance to extend credit to small enterprises:

- High administrative costs of small-scale lending,
- Asymmetric information,
- High risk perception,
- Lack of collateral.

Since movable property may be difficult to store, its value declines over time (equipment depreciates and livestock dies) and inefficient secondary markets lead to high liquidation costs, lenders typically demand real estate as collateral instead. This, however, is likely to belong to large firms or rich landowners.

In the event of default, foreclosing on collateral will usually involve costly litigation, which may exceed the value of small loans. Alternatively, it may be socially and politically difficult to seize collateral of low-income entrepreneurs. Because of these problems, for Serbia is very important to implement best practices in other source of funding, more favorable for small companies, especially for female ones, as - guarantee schemas, multi guarantee associations, public and private support in resolving collateral problems.

Literature Review

According to Storey and Tether (1998a), looking at the problems of small businesses in relation to the needs of high technology, it is considered that, role of guarantees in various types of support to innovative SMEs grow rapidly because of: lower financial risk for SMEs and providers of guarantees, higher awareness and management skills of small business to use these instruments. Christensen et al (1999) defines a credit guarantee scheme as a security designed to share risk between the lender and the recipient of the high-risk sector for support. Shearman and Burrell in 1988 put accent on the needs of small companies that develop new industries / for example medical lasers /, calling such companies, "high tech SMEs." According to Bannock, 1997, 1998.and Cressy (1997), Vogel and Adams (1997), guarantee schemas are very important for small, female firms with luck of collateral for their innovative efforts. In multi guarantee schemas, private small firms are often associated in sectorial association, or in cluster, / auto and electro industry /, just because of more easy access to finance.

Loan Finance of Micro Sector/Female Eenterprises in the EU

Europe has a long tradition of loan finance, which remains the main source of external finance for small enterprises. Equity finance, which is less developed than in the USA, is not considered to be the solution, indeed not even an option, by the majority of European small enterprises. For those enterprises with growth potential, however, some form of risk finance may be the most appropriate way to facilitate early growth.

Access to loans by new and small enterprises is very different in the Member States and Candidate Countries. Where SME promotional development banks or national risk-sharing schemes are available, access to small loans appears to be easier. The number of SMEs and new enterprises reached by these schemes however, varies considerably.

A “North-South gap” can be observed in the EU: traditionally, access to debt finance by small enterprises seems easier in northern countries than in southern ones. In addition, an “East-West gap” has also become increasingly visible due to the fact that domestic credit as a percentage of GDP is much higher in the EU than in the majority of Candidate Countries where the banking sector is still recent: this feature is one of the reasons for the strong development of non-banks providing microcredit in the Candidate Countries.

Microcredit provision is a difficult activity because of the perceived high risk of failure and the high handling costs. Some credit institutions do so though, either because it is part of their mission to accept low returns; the risk is partially taken by a public guarantee institution or a mutual guarantee society; or, to a lesser extent, it may be a marketing strategy to support enterprise creators, who could later become good clients.

Outside of public-private schemes, credit institutions are often reluctant to offer loans to enterprise creators. If they do so, they normally offer credit lines or overdrafts (with substantially higher interest rates) rather than short or medium term loans (with normal interest rates). Credit lines represent a much higher risk for entrepreneurs, as they are more expensive and can be recalled at any moment by the credit institution. For this reason, small entrepreneurs would prefer the better contractual stability provided by short or long-term loans. Public subsidies are often used to share the risks through counter-guarantees and cover at least part of the handling costs. When offering a loan, credit institutions ask for collateral, usually a personal guarantee or a mortgage on real estate. The collateral requirement for microloans often exceeds the amount of the loan (up to 150% in certain countries). As banks were not able to bridge the gap in the provision of microcredit, in some Member States and Candidate Countries, non-banks emerged, in the form of limited liability companies, trusts, charities or other forms of associations to fill this market gap. The specific objective of the paper is to give an overview of existing good practices concerning microcredit (<€ 25,000), as well as associated guarantee schemes, to new and existing small enterprises in the Member States and

Candidate Countries, with width to transferee best practices into Serbian SMEs environment.

Microcredit Lending

The finance activities known as “microcredit” in a broader sense are focusing in EU on loans below € 25,000, as well as associated guarantee schemes, to new and existing micro-enterprises. Microcredit is generally considered to be a tool to boost start-ups creation and promote entrepreneurship: over the last decade, Member States have been encouraging microcredit provision by financial institutions. Micro-lending differs from conventional bank lending in a number of technical aspects. Credit assessment methods used focus more on the borrower and the likely impact of their business on their community than on the business plan. Micro-finance providers generally attempt to reduce or avoid the need for collateral. Step lending techniques, in which larger follow-up loans are provided if the initial loan is successfully repaid, reduce risk and transaction costs. The maturity period is normally short and the interest rate often relatively high compared to traditional bank loans.

Member State governments can intervene by offering an enabling environment in which microcredit can operate, by providing direct financial support and/or adopting appropriate rules on social protection for microenterprises, in particular for start-ups. Similarly, some of the schemes subsequently described are in the form of direct financial support and others are part of a wider enabling environment. Most microcredit operations generally involve public banks, either acting as finance providers to institutional customers or providing finance directly to small enterprises. Their legal framework is the European banking directive and national legislation on credit institutions. Credit institutions, commonly called banks, shall mean an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account. However, deposit taking, credit extension and guarantee activities fall under the supervision of different public entities (e.g. respectively under Financial Services, Fair Trading and Insurance legislation in the United Kingdom). Depending on the national traditions and practices, several national schemes have been implemented in the last ten years. ALMI of Sweden (microloans) and Funds de Participation of Belgium (subordinated loans) began their current microcredit activity in

1992, followed by ICO of Spain (SME loans) in 1995 and Finnvera of Finland in 1996-97 (microloans; loans to ***women entrepreneurs***).

Between 1998 and 2011, other Member States, such as France, Germany and the United Kingdom, have also adopted measures. The national schemes often have common features:

- national measures to promote the availability of funding to institutional customers;
- a retail operator, to extend the credit to the micro-enterprises.

In this period, several schemes have been launched: partial credit provision; partial risk sharing; tax incentive.

The national schemes take into account the fact that a national finance provider is generally less well placed to establish effective business relationships with micro-enterprises, with specific accent to women, than locally or regionally-based finance providers. Where a state-owned promotional bank exists for microcredit, activities (Austria, Belgium, Finland, France, Germany, Italy, Luxembourg, Spain, and Sweden), it is the finance provider of the system and local banks that are the retailers to small enterprises. These schemes have the advantage that both, promotional banks and private banks, are under public control or banking supervision. The risk of mismanagement and irregularities is therefore limited. In addition, the operations are subject to EU State Aid and competition rules. The recently implemented schemes are large-scale operations with an important impact on enterprise creation.

In above mentioned states, there are also state-owned promotional banks which are either under public supervision or receive specific treatment, for, in particular, the function of finance provider for institutional customers in charge of the direct contact with micro-enterprises. In some countries, microcredits to small enterprises are awarded by micro-finance institutions under Civil Code, which are generally compliant with the Directive on Consumer Credit. As for credit institutions, these micro-finance institutions are commercially driven and following a sustainable business model. Microcredits provided by NGOs primarily for social inclusion purposes are also significant in some Member States (France, United Kingdom) and Candidate Countries: here they contribute to the promotion of enterprise as a tool to fight social exclusion, especially of women and unemployment. Depending on national legislation and traditions, their legal framework is diverse: non-profit associations (France), charities, not-for-profit companies (United

Kingdom). Depending on the national traditions and practices, several national schemes have been implemented in the last ten years. ALMI of Sweden (microloans) and Fonds de Participation of Belgium (subordinated loans) began their current microcredit activity in 1992, followed by ICO of Spain (SME loans) in 1995 and Finnvera of Finland in 1996-97 (microloans; loans to ***women entrepreneurs***).

The recently implemented schemes are large-scale operations with an important impact on enterprise creation.

- *Finland:* FINNVERA small loans and women microcredits, lends directly to the Borrower, corresponded to 12% of the number of start-ups per year (absolute figure): almost half of them are resulting from microcredits to women. In addition to the loan, Finnvera offers also guarantees, if the collateral provided by the borrower is not considered sufficient.
- *France: Prêt à la Création d'Entreprise* (PCE) of BDPME, with more than 11,000 microloans per a year, the "Get your Business Started Loan" PCE corresponded to 7% of the number of start-ups.In addition, a 70% guarantee is issued through a subsidiary (Sofaris) for the complementary part of the loan provided by the retailer with its resources to the business creator. Fonds de Participation (FdP) was created in 1984, offers loans directly to the final borrower
- *Spain:* ICO SME programme in last 5 years, ICO provided an average of € 120 million p.a. of microcredit (below € 25,000) to micro-enterprises. Special attention has been paid to quickness in decision-making or even to giving decision autonomy to retailers. Avoiding unnecessary delays is a major concern for micro-enterprises and a factor in their competitiveness.
- *Germany:* Mikro-Darlehen has a practice that a one-page application received by KfW through a local bank, which could be any bank in Germany, where KfW then gives its decision within three days, to make its credit assessment. KfW provides guarantee up to 80% on the loan amount to the local bank. The borrowers' survival rate is 93% after 3 years. The product has been extended to an annual average of 7,000 operational sustainability ratio is 100%36.

- Deutsche Ausgleichsbank (DtA) launched two microcredit products DtA-StartGeld and DtAMikro- Darlehen ehich are now part of KfW Group.
- The UK's Community Tax Relief (CITR), provides an incentive to investors providing patient capital to specialist micro-finance institutions known as Community Development Finance Institutions (CDFIs). An individual or corporate investor willing to provide capital to a CDFI either as a loan or as share capital for at least five years will receive a tax relief of 5% of the amount invested in each of five successive tax years. CDFIs, which must be accredited by the UK government's Small Business Service to attract this investment, then lend to start-ups, existing enterprises and community projects. CITR has been cleared by the Commission as a compatible State Aid.

In EU, the best estimates (€) by country found by the Microcredit Working Group in 2010, were the following:

Table 1: Share of typical collateral for specific microcredit programmes /%/ by country

Share of collaterals for the microcredit provider/%/ by country	Real estate	Other fixed assets	Guarantees	Receivables	No collateral
Austria	0%	0%	100%	0%	0%
Belgium	0%	0%	0%	0%	100%
Germany	0%	0%	80%	0%	20%
Estonia	5%	53%	41%	0%	0%
Finland	0%	0%	10%	0%	80%
France	0%	0%	70%	10%	24%
Hungary	90%	10%	0%	0%	0%
Ireland	0%	0%	0%	0%	100%
Latvia	60%	26%	14%	0%	0%
Lithuania	55	20	10	15	0%
Poland	30%	19%	50%	0%	0%
Romania	up to 100%	up to 100%	Accepted if available	0%	Depending on the programmes
Slovenia	50%	0%	50%	0%	0
Sweden	0%	0%	0%	60%	40%
U. Kingdom	0%	0%	0%	0%	100%

Source: Survey of UK micro-lenders below € 30,000 by CDFA

The wide variation of reported handling costs for the lender depends mainly on four aspects and the varying amount of time awarded to each one:

- support to the preparation of an enterprise loan application, reflecting the level of "investment readiness" of the borrower;
- internal process to secure the credit deal, including the assessment and approval costs, identification of collateral as well as back office costs;
- internal loan monitoring, including late payment and default procedures;
- Non-financial business support and mentoring, which is the largest single operating cost in certain cases.

Transaction costs vary between 6% and 35%. Calculated lending margin of some major microcredit programmes: 0.9% for KfW with Startgeld; 1% for FINNVERA ***microloans to women and female enterprises***; 1.7% for BDPME with the PCE.

Very important issue of microcredit support to female enterprises is connected to the new created jobs. For example in *Slovenia a* National microcredit scheme for job creation was jointly introduced in 1996 by Small Business Development Centre and National Unemployment Office with the main objective to secure a number of new jobs. The scheme was introduced in five regions where national funds were complemented by local sources of finance. The real interest rate of 2 % p.a., combined with the aids of regional guarantee schemes and a six month repayment lag period was interesting enough to encourage strong demand for the credit line. The final result at the end of the project was 548 new jobs.

Table 2: No. of jobs created by microcredit

Belgium	**Germany**	**France**	**Hungary**	**Latvia**	**Lithuania**	**Poland**	**Sweden**	**U. Kingdom**
1.17	1.7	1.7	1.2	1.04	1.5	1	1.7	2

Source: Eurostat

In Candidate Countries, under the PHARE SMEs finance facility, EBRD, CEB-KfW and EIB are the finance providers to institutional customers and national credit institutions are providing loans to SMEs. Regarding the enabling environment to promote microcredit, the United Kingdom offers an interesting scheme of tax incentive. This incentive is not a direct financial intervention by the national government, but a part of the national enabling environment to promote the provision of microcredit to disadvantaged communities by increasing the supply of funds for the microcredit retailers.

Multi Guarantee Schemas

Guarantees schemes are also major microcredit facilitators, including mutual guarantee schemes. Micro-enterprises are perceived as very risky by a credit provider and very often, the micro entrepreneur has no suitable collateral to offer. A way of sharing the risk is to ensure the participation of either a public, private or mutual guarantee scheme. Guarantee schemes are not generally exclusively targeting microcredit or small entrepreneurs: depending on their individual features, they are open to SMEs in general, to a specific economic sector, to a certain area or to members only in the case of mutual societies. At the European level, two main financial programmes for SMEs have been active: counter-guarantees for SME lending. The activities carried out in the framework of the Growth and Employment initiative. A SME guarantee facility, with a specific window for microcredit guarantee, has been available within the Multiannual Programme (MAP) for the promotion of entrepreneurship and enterprise, five microcredit institutions signed an agreement with EIF: ADIE (France), Funds de Participation (Belgium), ICO (Spain), KfW (Germany), Prince’s Trust (United Kingdom). Since 2003, the MAP has been opened to Candidate Countries, after the signature of a Memorandum of Understanding with the European Commission. The window for microcredit guarantee, aiming at encouraging financial institutions to play a greater role in microcredit, is managed by the EIF. As part of the enlargement process, Phare SMEs Finance Facility has been the most important programme to promote access to finance to SMEs in the Candidate Countries.

Potential Strengths of Guarantee schemes

- Counter-guarantee element (reg., nat., EIF)

– Individual risk assessment and follow-up
– Leverage effect of regulatory own funds

A leverage effect of 10 x € 1 with e.g. a 50% coverage allows:

– € 10 of guarantees
– € 20 of bank loans
– even higher amount of final investment

Typologies of Guarantee schemes. General: great variety of different legal and operational frameworks for guarantee schemes => Reflection of local needs. Three main models:

1. Mutual, fully private sector, guarantee scheme
2. Mixed model of with private mutual guarantee and public counter-guarantee (a sort of PPP)
3. Public guarantee scheme or fund

Table 3: Differences between public and private schemes

Public ⇒	**Private**
Initiative taken by Public Authorities	Initiative taken by SMEs and representative organizations
Mainly public shareholding	Mainly private shareholding
Directory Board elected or nominated by state authorities	Directory Board composed by SMEs, bankers.
Solvency- responsibility through funds + public umbrella	Self-protected solvency-public support though counter guarantee
Mission-SME support	Mutuality principles-member SME support
Ltd company with majority from state or endowment	Cooperative or Ltd Company
Other goals-subsidies	Other goal-no

Important guarantee schemes are available in several Member States (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Portugal, Spain, The Netherlands, United Kingdom). They share the risk with the microloan provider. Some Candidate Countries have also created a national or regional guarantee scheme (Czech Republic, Estonia, Hungary, Poland, Romania, Slovakia and Slovenia).

- *Estonia*: Credit and Export Guarantee Fund, supports the growth and development of SMEs by improving their access to finance through guarantees for credit arrangements between companies and their banks. The loan application is submitted directly to a bank. If the bank is prepared to grant the loan contract subject to the agreement of Kredex to provide a guarantee, then the bank forwards the application to Kredex. The scheme is focused on cases which without the guarantee, would be appraised negatively by the banks. The guarantee covers up to 75% of the outstanding loans. So there will always be a risk for the banks of a minimum of 25% to 40% of the outstanding debt. The loan guarantee scheme has been in place since 2001. Kredex also runs a risk, which is reflected by the fact that there is a guarantee fee of 1.5-3% of the loan. This means that, although the scheme is intended for higher-risk activities and also projects, Kredex will see to it that the risk is within limits, regardless of the potential value of the particular project. In addition to national guarantee schemes, Mutual Guarantee Societies (MGS) play a major role in micro-finance.
- *A MGS* is a private society or organization created by owners of small enterprises. When they are in charge of assessing a guarantee application or even the loan application before the bank, they offer a unique service: the knowledge of the economic sub-sector at local level, the precise technical skills required for the applicant and a detailed estimation of revenue prospects. They generally use qualitative methods for their application assessment. A guarantee provided by a MGS will drastically reduce the risk for the credit institution, which will therefore provide a loan more easily, and could even provide a lower interest rate to a micro-entrepreneur backed by a MGS. MGS are quite important because they are particularly complementary to banks by providing data on applicants based on deep local market knowledge thereby fighting the information asymmetry. They also reduce the risk of adverse selection and provide a guarantee from members' funds and/or public funding, as guarantee, co-guarantee or counter-guarantee.
- *Italy*: CONFIDI is en nationwide mutual guarantee scheme for the craft sector as well as industrial and commercial micro-

enterprises. The CONFIDI system includes 680 private companies (each with its own legal and administrative autonomy), where almost 1,000,000 entrepreneurs are members. The system facilitated the access to finance of SMEs for a total amount of € 4.3 billion and a loan amount average of € 37,800 through 113,000 operations. As regards microcredit in 2001, 90,000 operations were below € 25,000, which gives in 2001 a total amount of microcredit reaching € 1.5 billion. For each € guaranteed by the CONFIDI scheme, the multiplier effect is from 10 up of awarded loan, depending on the individual CONFIDI involved. Each credit assessment is made by a local CONFIDI. The past results are excellent: 1.6% of default rate, instead of 8% for the craft sector in general. When a CONFIDI credit assessment is positive, the loan application is transmitted to the bank with a CONFIDI financial deposit of 50% of the loan amount (the remaining 50% are covered by collateral provided by the micro-entrepreneur, generally a real estate mortgage). In this 50%, there is a mix of some 10% coming from the members' fees paid to the CONFIDI and 40% coming from public (often regional) budget. In the framework of a specific agreement ("convenzione") negotiated by each CONFIDI and each bank (establishing the amount of operations, type of financial product, interest rate and other terms and conditions), the bank will apply to the loan a favorable interest rate corresponding to a lower default risk of an application directed by a CONFIDI. In certain cases, the credit assessment is made by volunteers (without remuneration) selected by the MGS from amongst local small entrepreneurs. Some important characteristics that have made Confidi a success are its: High quality technical management; Focus on risk sharing and strengthening of SMEs: the large size of the MGAs under Confidi has led to decreased levels of peer pressure and social capital. Despite this drawback, Confidi has been able to maintain its success because of the principle of equality amongst its members. By empowering vulnerable SMEs, it has strengthened the links between SMEs, SME associations and the MGAs. This has given the MGAs in Confidi a strong negotiating position and allowed them to obtain more favorable loan conditions (De Gobbi, 2003).

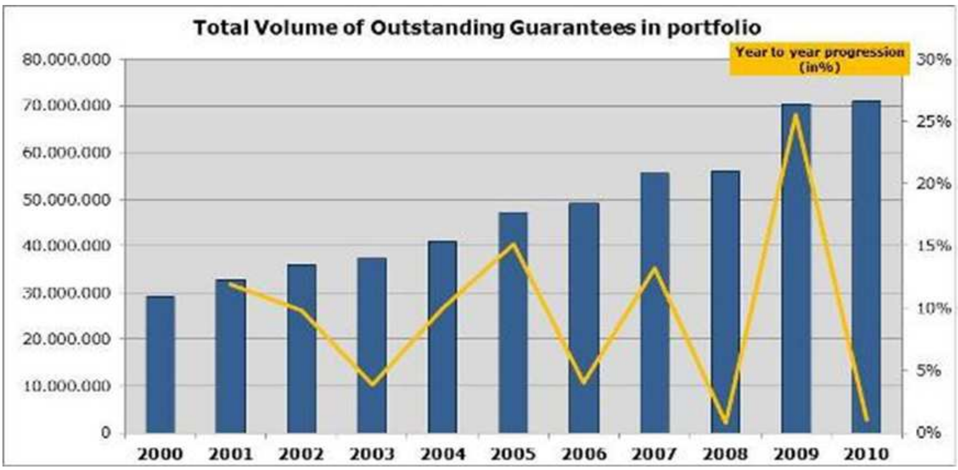
- *France*: SOCAMA, is a Mutual /MGS/ scheme related to the Banques Populaires. It provides guarantees to 25,000 micro-enterprises, net losses in % of outstanding portfolio are 1% and the average loan guaranteed € 21,000. In this scheme, the cost of the guarantee is very low: SOCAMA members, who are experienced small entrepreneurs themselves, make the guarantee application assessment by participating in the Credit Committee as volunteers. This system does not receive public financial support, except from EIF acting as a counter-guarantor. For an amount below € 25,000, the decision is delegated to the Credit Committee, resulting in a quick process (“Prêt Express”).
- *Spain*: CESGAR and CERSA are regional MGS, represented at national level by CESGAR, have been active in Spain for 25 years. They guarantee an amount of around € 1 billion of generally long-term loans to 27,000 micro-enterprises (<10 employees). The MGS administrative costs per file are estimated at € 171. These MGS are supported by a national state-owned counter guarantee society: Compañía Española de Reafianzamiento, CERSA. Parts of CERSA’s activities are counter-guaranteed by the EIF.
- *Austria*: AWS GmbH, success based loan guarantee fund (SBGF), with a fixed guarantee fee percentage of the guaranteed loan amount (0.5%), with a choice between two types of success based fee: either a success based guarantee fee as a percentage (0.5%) of the outstanding guaranteed loan amount, when the enterprise is generating a profit in a particular year of the guarantee term, or; a success based guarantee fee as a percentage of the profit generated by the enterprise in a particular year of the guarantee term Premature termination of the guarantee. SBGF becomes a fixed guarantee fee, with two possibilities: if charged as a percentage of the outstanding guarantee loan amount, the total amount of the guarantee fee for the remaining term of the guarantee is to be paid at the termination; if charged as a percentage of the profit, instead of the profit-share, a fixed percentage of the guarantee loan is charged for the remaining term of the guarantee.
- *Portugal: PPP* SPGM/SGM, Mission: Guarantees to member SME, mutual+advisorz; Ownership: Mutual SME,

majority+SPGM /public manager of the counter guarantee+banks; Statutes: Legislation SGM, Bank Act, Ltd companies; SolvencY: Own Funds+Risk Provisions +average 65% sunter-guarantee from public FCGM , getting 50% EIF cpimter-guarantee to 2/3 of the operations; Guarantee rate: up to 80%

As such, the access to finance by micro-enterprises is not a new phenomenon. Savings banks and co-operative banks have been partly created and developed in the 19th century to facilitate access to finance such as microcredit. In 2002, 50% of German start-ups were financed by the Sparkassen-Finanzgruppe (Savings banks). Between the “Hausbanken” (local retailing bank) involved in DtA programmes targeting start-ups, 60% are Sparkassen (+8.3 % in the last five years). Credit Unions are members of European Association of Co-operative banks. Savings Banks are members of the European Group of Savings Banks. Savings Banks and Co-operative Banks, such as Banques Populaires in France or Caixa Catalunya in Spain, remain probably the main traditional operators in the field of microcredit. To take an example, the German nonprofit-oriented, public sector-owned retail savings banks, Sparkassen, private co-operative banks (“Volks- und Raiffeisenbanken”) account for more than half of the loans to SMEs and two thirds of customer deposits. In France and Spain, Savings Banks and Co-operative Banks have partnerships with nonprofit organizations, acting as business support service providers and directing customers to these credit institutions.

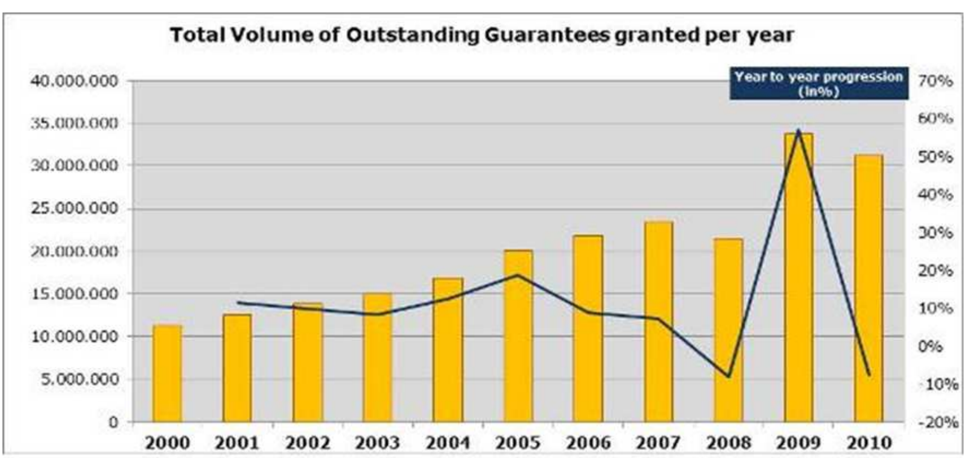
Recent initiatives in Candidate Countries**,** Credit Unions are also active in the Candidate Countries: for example in Poland, 1,500 credit unions are currently active. In the Candidate Countries, the credit extension to SMEs is however still a recent activity. The amount of loans compared to GDP is far lower than in the EU – 15 Member States. The overall supply of loans is quite low, except in Malta and Cyprus, because banks are often reluctant to offer loans except with high interest rates and collateral sometimes higher than the loan amount. Consequently, some Central European micro-finance institutions are very active in this market segment. ProCredit Bank, Bulgaria, was founded in 2001 by IFC, EBRD, DEG-KfW Group, Commerzbank AG and IMI AG to provide credit and general banking services to entrepreneurs and businesses throughout Bulgaria. ProCredit Bank applies generally high interest rates reflecting the inherent risk perceived. ProCredit Bank is part of a network of specialized microfinance institutions. In Romania, Banca de Microfinatare is part of the network.

Figure 1: Total Volume of Outstanding Guarantees in portfolio, 2000-2010



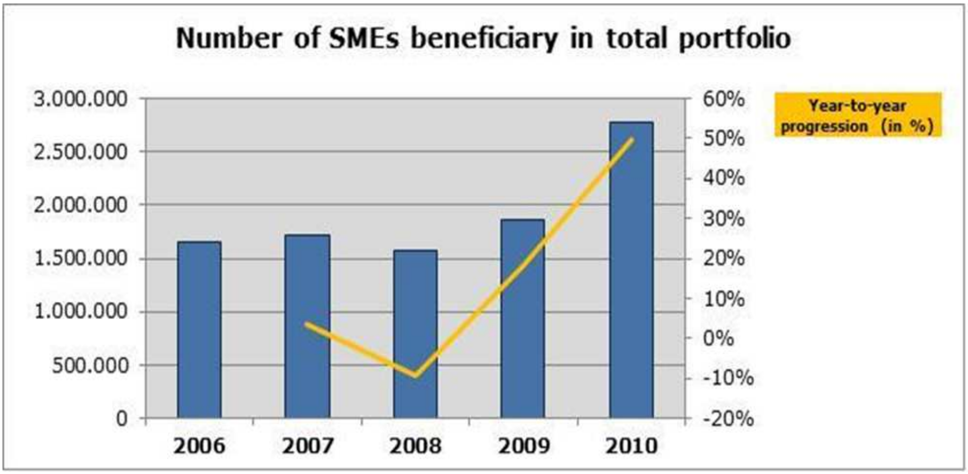
Source: De Gobbi, M. *Making Social Capital Work: Mutual Guarantee Associations for Artisans*, Social *Finance Programme, Employment Sector*, *ILO*

Figure 2: Total Volume of Outstanding Guarantees granted per year, 2000-2010



Source: De Gobbi, M. *Making Social Capital Work: Mutual Guarantee Associations for Artisans*, Social Finance Programme, Employment Sector, ILO

Figure 3: Number of SMEs beneficiary in total portfolio, 2006-2010



Source: De Gobbi, M. Making Social Capital Work: Mutual Guarantee Associations for Artisans, Social Finance Programme, Employment Sector, ILO

In the above-mentioned practices, the guarantee fee paid by the entrepreneur is a fixed percentage of the loan amount. Recently, there was a reflection in order to introduce a risk reward relationship between the guarantor and the entrepreneur through a success-based approach. The advantage for the entrepreneur arises from the fact that part of the guarantee fee is variable and to be paid when and if the enterprise is generating a return. In particular, the entrepreneur will pay less at the beginning of the guarantee term. The concept is interesting but its profitability remains to be established.

Serbian Case

Small Business Act (SBA) implementation in Serbian small companies, especially female owned, consider that after the administrative burden, finding appropriate financing for SMEs is major problem in their development. The reason for this is reluctance of banks to finance the initial phase of small companies' development, luck of venture capital and microfinance.

Traditional sources of financing are dominant as informal ones, as: personal capital, financial support of relatives and friends. In some cases, the equity investment can be replaced with a bank loan. These loans can be approved on the basis of personal credit, which evaluates bank, such as checking and savings accounts ability to provide adequate collateral loans. Many small enterprises are not in a position to use these loans under such conditions. The fact that the banks own funds based primarily on the role of their clients, since banks are taking care of these deposits, they are required to maintain prudent lending policies.

Mature and profitable companies have the better access to banks than beginners. The situation is nothing more reassuring to any new companies that operate one or two years. Banks do not have enough experience in lending to small businesses, as well as undeveloped infrastructure and the capability of micro enterprises to write convincing business plan to the trust collateral. When it comes to established small or medium size company, funding for expansion of its operations most often come from retained earnings, additional equity investments and bank loans. For existing SMEs, good financial management is critical to achieving higher profits from which would be able to fund further development. Most companies already operate a certain number of years finance its expansion projects combining business retained earnings and long-term bank loans. When it comes to companies that need to achieve an increase in the newer technologies, the research could be the significant investment required, they are simply not available.

Positive signs in the expansion base lending to SMEs in Serbia are due to greater foreign participation in Serbian banks that encourages lending to SMEs, many websites promote bank lending to SMEs, which indicates that the SME is now seen as an important factor in the customer base, the presence of micro-credit institutions aimed at SMEs in Serbia, ProCredit bank and Opportunity, are widespread network of branches, not only produced higher credit opportunities for SMEs but also popularize their lending. Opportunity bank has also two credit lines especially for women enterprises and female farming.

Information on banking services available to SMEs has improved. For example, the National Bank of Serbia (Central Bank) regularly publishes a list of services that every large commercial bank makes available to small and medium-sized enterprises: the type of loan (loan) repayment, interest rates and terms (collateral). However, banks are still more focused on consumer lending and less on lending to SME sector. Loans granted to small enterprises are mostly short and usually not more than one year. Most long-term loans (over a year) that banks approve SMEs are financed through external credit lines, through the European Bank for Reconstruction and Development (EBRD), etc., and not from the bank's own funds. In Serbia, the ICJ requires high collateral, from 150 - 200% for loans ranging from 10,000 to 50,000 euros, which is a major obstacle for many micro female enterprises. In practice, banks usually require a mortgage on real estate / or ownership of the land as collateral, but most of the real estate has not yet been registered in the land registry and can not be used as a guarantee. Even if the real estate is accepted as collateral for loans, banks are often of little value to the assessment. This is a particular problem with small-sized enterprises in disadvantaged areas, because of their extremely under estimated property values. Another problem could be the reason that the previous years small enterprises, driven by lower interest rates, taking loans denominated in foreign currencies and not in dinars, and increasing exposure to changes in the value of foreign currencies against the declining value of the dinar. The dinar loans that granted Serbian banks also granted on condition that the borrower is obliged to return the loan in the counter-indicated in Euros. In fact, about 75% of all local currency loans, whether consumer or commercial, are "indexed". Excluding more than welcome lines of credit institutions such as the EBRD, it appears that the Serbian banks will have to continue to source their loans rely solely on their deposits. One should not expect that funds will be available from foreign banks. Access to deposits depends on the results of the Serbian economy, employment and disposable income as well as share personal savings. Financial assistance to small sized state enterprises in Serbia recorded a number of state-funded support for SME businesses, including the allocation of credit, have included a number of institutions, of which the most important are:

Financial Institution	**Kind of Support**
National Development Fund	The main channel of funding in order to provide (subsidized) financing programs in the field of economic and regional development and SME development, strengthening competitiveness and related activities. Approved loans can provide security to the Fund and other

	institutions on a commission basis or are provided by the Fund's own resources. Includes: Long-term loans of up to five years at an annual interest rate of one percent, financed by the Ministry of Economy and Regional Development; Short-term loans (6 months), with an annual interest rate of 3.5% from own resources of the Fund, long-term loans of up to five years at an annual interest rate of 4.5% and a one-year grace period; loans for the development of trade and services - entrepreneurial loans (4) years with one year grace period and an annual interest rate of 1-3%; guarantees issued at an annual interest rate of 2.5% . The work of the Development Fund of the Republic of Serbia is highly centralized. There are regional offices, and contacts with clients are small. The Fund publishes regular competitions and awards credits based on applications received. As a result, there is an estimate that is based on a meeting with a client or a tour of his / her company, and there is no monitoring of the results in relation to a loan that has been approved and paid
Guarantee Fund	The aim is to facilitate bank lending to small and medium-sized enterprises. The main function of the Fund is to provide guarantees to commercial banks for loans to small and medium enterprises, both private individuals and retail shops, in order to reduce the risk of banks and, consequently, the level of collateral required of small and medium enterprises. The original intention was that the Fund issues guarantees to commercial banks as collateral orderly repayment of loans granted to small and medium-sized enterprises up to 50% of their value. Guarantee Fund has never achieved a significant level of activity and in 2009. The annexed to the Development Fund of the Republic of Serbia. Capital Guarantee Fund transferred from the merger amounted to 1.885531 billion dinars (18.2 million euros). - The total value of guarantees issued in 2009 amounted to 400 846 000 dinars (3.86 euros). No information on the number of guarantees. Seems to be the current warranty provided coverage for 30% of the collateral and not 50% as originally planned.
Especial loan lines	*Subsidized loans for liquidity of the economy*. Ministry of Economy and Regional Development through the

	Development Fund of the Republic of Serbia launched a program with commercial grandmothers that provide subsidized loans for liquidity of the economy covering investments, liquidity, long-term working capital finance permanent assets, export activities and financial leasing. A number of banks signed the contracts for participation in this program
External sources of funding	Venture capital and "business angels", funds from private sources, and provide them, companies that invest in enterprise-beginners or expansion of business and wealthy individuals who invest in beginners. Average investment of a "business angel" is usually less than the investment of a venture capital company, and the reason, venture capital companies and "business angels" is usually regarded as a separate category. Unlike bank financing, venture capital companies and "business angels" do not require repayment schedule of the loan, but for the money you invest want to buy a minority stake in the share capital of the company. Venture capital investors typically seek to realize their investment within five years, was going public, selling a strategic partner or a company selling its stake. To venture capital companies, and "business angels" function, you need to have investment opportunities. Currently there is no information about such opportunities in Serbia. Besides the capital injection, venture capital investor is likely to contribute to a company's credibility with its expertise in the management and support, and access to your contacts. Within the mentoring and monitoring of its investments, is likely to seek membership of the Board of Directors. Again it should be noted that many venture capital funds prefer to invest in companies with high growth potential in much riskier than "beginner" company. Sometimes different "pure" venture capital for beginners, also known as seminal capital (seed capital) and development capital to the expansion of existing businesses. In Serbia there are no registered venture capital funds or rounded legislation that would allow the establishment of these funds, but operates several foreign private venture capital funds, which restrict their investments to acquire stakes in major companies in Serbia. At the end of 2009 year, established the first Business

Angel Network in Serbia, titled "Business Angels Network of Serbia" (Serbian Business Angels Network SBAN). SBAN allows entrepreneurs through web portal that serves as a "matchmaking" platform, put their business ideas and projects that require investment. Investors, business angels, who are members of the network, have the ability to view all of these projects and their search to areas of interest or the amount of capital needed to invest.

The Law on Investment Funds of the Republic of Serbia stipulates: open (similar to American and European investment funds, mutual funds investing in transferable securities-UCITS) and closed-end investment funds, which are designed to incorporate the savings of small investors to invest in marketable securities that. Government bonds and shares traded on stock exchanges, private equity funds, which are more flexible in terms of their investment. An investor who founded the private fund must invest at least EUR 50,000. This law does not provide venture capital or the state's share of these funds.

In Serbia, there are two banks in microfinance - ProCredit Bank and Opportunity International. Despite the legal environment is not favorable for their work, there are three major microfinance institutions in Serbia. These institutions receive financial support from international donors including the Austrian Development Agency, Danida, Netherlands Embassy, ICRC, SIDA, UNHCR and the World. Three Serbian microfinance institutions are: *Agroinvest* associated with the organization World Vision and has for a decade been operating in Serbia. It provides micro loans to approximately 40 000 clients in Serbia and Montenegro. Agroinvest, which is registered as a trading company, primarily focused on improving the lives of the poor in the villages. *Micro Development Fund (*MDF), 2001 registered as an NGO, has a network of nine regional and local offices, supported by 12 630 small businesses in the amount of oko18 million. *Microfins* reregistred in 2000 as a nonprofit organization with the goal of microfinance, providing housing micro loans to vulnerable groups. In the absence of a legal framework to regulate their activities, microfinance institutions in Serbia are working on the basis of a cooperation agreement and the commission to be made with commercial banks. Under this arrangement, the bank pays the contractor loan approved microfinance institutions as a loan on behalf of themselves and non-governmental organization takes full responsibility for delay in payment of wages and bank commission. Among microfinance institutions in Serbia and their supporters of the opinion that international assistance was greater when Serbia was appropriate regulations for these institutions to enable them to directly pay the loans. National Bank of Serbia has consistently rejected proposals for the adoption of any law to regulate this issue.

Without Multi guarantee scheme, with a very hostile commercial banking sector in Serbia SMEs, especially small female firms with development potential to grow in the area of high technology, as well as those with ambitions of developing new products, would have difficulties to achieve their development programs and projects. These guarantees allow small businesses, which make 95% in total structure of SMEs, within 14% of female small companies in Serbia, to pre finance a profitable growth of their income.

Preconditions for small female enterprises to realize better access to finance in Serbia would be more dynamic enterprises themselves, the higher interest to participate in Multi guarantee schemes and support organizations, at the time these schemas would be founded in Serbia.

For small female enterprises would be of importance the further learning of public and private entities and institutions in Serbia, following the guidelines of EIF / EU investment fund / in the designing of these schemes, improving the role of informal investors in the financing of innovative technologies according to the EU Commission with increasing the benefits for small companies as end-users and intermediaries.

Conclusion

Europe does not have enough entrepreneurs and small business founders often have no adequate access to external finance. This insufficient supply of microloans is a major issue, in particular where business founders are unemployed persons, women or part of ethnic minorities. Since the 19th century, savings banks and co-operative banks have been the main microcredit providers. The microcredit provided by banks is however not sufficient to match the microcredit demand. In the last two decades, therefore, new private microcredit institutions have been emerging, especially in the Candidate Countries, but also in some Member States, such as France, Spain, and the United Kingdom. Depending on national laws they are limited companies, microfinance institutions, trusts, foundations, charities or non-profit associations, which provide a significant support to business creation. Supporting the supply of microloans is therefore not only an issue of entrepreneurship and economic growth, but also of social inclusion.

Overall, a large number of financial institutions are not sufficiently active in this segment, but the situation varies: in some Member States, 3 out of 4 business founders receive a bank loan or at least an overdraft, but in other Member States, the ratio is 1 out of 4.

In the majority Candidate Countries, the shortage of credit supply remains a major constraint for business creators and the growth of small enterprises.

Guarantee (co- and counter-guarantee) schemes make it easier for the credit institution to provide microcredit because its risk exposure is reduced and its capital requirement is mitigated.

It would be useful to carry out an overall view of SME financing in Serbia by the banking, government and outside funds in order to assess their effectiveness and profitability, determine whether it may be necessary to adjust priorities to the proposed reallocation and new programs, especially those listed in the paper, pointing to a different address issues like collateral, multi guarantees and solidarity. Some funds financed from the state budget, as well as greater involvement of local budgets in support of small female companies development could be allocated or reallocated to: Initial and development capital for technology-based companies and beginners with development potential - mainly micro enterprise, credit guarantee for young female companies with great potential, the Development Fund- now future Development bank sources for the companies in the early stages of business, more sources for startup venture capital funds with the innovative newcomers as a target, bringing together the public and the private investors, founding local confide system of guarantees as transfer of best practices of EU.

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Dostupnost multi-mehanizama garantnog fonda malim i srednjim preduzećíma: Primer za kompanije u vlasnistvu žena

A P S T R A K T

Finansijsko tržište i izvori sredstava su u Srbiji oskudni za mala preduzeća, posebno ona čiji su vlasnici žene. Mala je mobilizacija kapitala po raznim osnovama da bi se podržala inovativnost malih firmi, ne postoje ni privatni izvori garancija iz različitih multigarancijskih shema i unapređenih privatno javnih odnosa. Osnovni cilj ovog rada da uputi na mogućnosti uspešnijeg prenosa primera dobre pakse u savremenu praksu sistemskih praktičnih rešenja Srbije za finansijske posrednike i krajnje korisnike o: vrstama garancija, zajmova, imovine ili mešovitih vidova, proporcija garancije kojom se pokriva zajam, kamate, dužina, uslovi aplikacije, multi učesnika ili države. Ulaganja u razvoj malih firmi, sa ženskim vlasnicima, posebno u inovaciju proizvoda, usluga i tehnologije jesu glavni preduslov njihovog većeg uključivanja u izvoz, prodaju proizvoda veće dodate vrednosti van zemlje i održivost njihovog poslovanja.

KLJUČNE REČI: *multigarancije, mala preduezća, firme sa ženskim vlasnicima Inovativna tehnologija*

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