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Impact of guarantees for SMEs during the crisis

Bank guarantees play a fundamental role in the stability and resilience of the financial system, especially in times of economic crisis. These tools allow companies to access crucial financing, mitigating risks and facilitating operational continuity.

During the COVID-19 pandemic, public guarantee programs became an essential pillar to sustain liquidity and support the most vulnerable businesses, particularly small and medium-sized enterprises (SMEs).

Here, we present a comprehensive analysis of various international experiences with guarantee programs that highlight both the successes and challenges faced, providing valuable lessons on how to improve the efficiency and sustainability of these policies, ensuring that SMEs can successfully overcome economic crises.

LATIN AMERICA

Peru: reduction of arrears and expansion of credit in SMEs

In Peru, the loan guarantee program implemented by the Banco Central de Reserva and the Government during the COVID-19 pandemic had a significant impact on reducing arrears rates and expanding the supply of credit. According to Burga et al. (2023), a 10% increase in credit granted under this scheme is associated with a 1.4 percentage point decrease in the probability of late payments, with effects especially marked in SMEs in highly exposed sectors.

In Peru, the loan guarantee program implemented by the Central Reserve Bank and the Government during the COVID-19 pandemic had a significant impact on reducing default rates and expanding credit supply.

However, these SMEs, despite having benefitted the most from the reduction in arrears, accessed lower credit amounts due to their lower operational scale and capacity for indebtedness, as well as the strict credit evaluations carried out by financial institutions. This finding underscores the importance of designing policies focused on more vulnerable segments of the credit market to maximize aggregate impact.

The use of auctions differentiated by market segments, which incentivized competition among financial institutions, turned out to be key to increasing the effectiveness of the program in terms of financial stability and reduction of arrears. This highlights the importance of combining innovative design strategies with an implementation adapted to the needs of the financial and entrepreneurial system.

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Uruguay: efficiency and vigilance in credit support

According to Dassatti (2023), this scheme effectively reached target industries, highlighting the capacity of the private financial sector as an efficient conduit to channel government-backed liquidity to MSMEs. However, indications of opportunistic behavior were also identified, such as the substitution of illiquid guarantees, which poses the need to monitor incentives in the design of these programs. In addition, the study underscores the crucial role of state-owned banks in providing credit during the pandemic, strengthening their role as support in contexts of economic crisis.

This experience highlights the importance of combining a well-targeted approach with mechanisms that minimize distortions in order to maximize the impact of public credit guarantee policies.

EUROPE

Spain: optimization and regulation to avoid systemic risks

Experiences with public guarantee programs in Spain during the COVID-19 crisis offer important lessons on their design and implementation. Public guarantee schemes were essential to provide immediate liquidity to SMEs and affected sectors, although they were less effective for companies without previous credit relationships (Blanco and Mayordomo, 2023). However, the allocation of guarantees was not always efficient, excluding some SMEs with temporary needs and leading others to unsustainable debt levels (Baixauli-Soler et al.,

2024). Moreover, weaker banks prioritized riskier companies, transferring risk to the public sector and distorting public policy objectives (Jiménez et al., 2023).

Taken together, these pieces of evidence highlight the need to improve efficiency in the allocation of public guarantees, prioritizing companies with temporary needs, and regulating the private incentives of the banks to prevent them from amplifying systemic risks.

United Kingdom: regional lessons and risk mitigation strategies

The loan guarantee programs implemented during the COVID-19 pandemic offer valuable lessons about their impact and design. Firstly, although the schemes were national in scope, their implementation unexpectedly favored businesses in the most disadvantaged regions, highlighting how regional differences in lending institutions influenced the nature of lending (Cowling et al., 2023).

Moreover, the subsequent increase in inflation boosted the early repayment of the guaranteed loans. This reflects an entrepreneurial strategy to reduce debt in the face of economic uncertainty, higher interest rates and potential liquidity problems (Cowling and Wilson, 2024).

Aside from this, the administration of the Enterprise Finance Guarantee (EFG) program revealed that the risks of default vary significantly depending on the type of lender. Large banks managed to better mitigate risks by filtering out high-risk enterprises, compared to smaller banks or non-profit

entities, which adopted more flexible approaches to assessing credit risk (Cowling et al., 2024).

Taken together, these experiences underscore the importance of considering regional factors and lender characteristics in order to optimize the effectiveness and sustainability of public guarantee programs.

France: inequality in entrepreneurial financial support

Support policies during the COVID-19 pandemic, such as the Wage Subsidy Plan, the Solidarity Fund and the Loan Guarantee, were crucial in mitigating the financial impact on businesses. According to Guillou, Mau and Treibich (2023), these policies compensated for liquidity losses, albeit unevenly. A microsimulation showed that a quarter of businesses were overcompensated, improving their liquidity beyond the losses, with an excess of 7.4 billion euros in subsidies. This was common in sectors such as trade, manufacturing, and leisure, and increased to 39% when including guaranteed loans. However, many businesses did not receive enough support, especially affecting illiquid companies in 2020, the largest ones, the highly productive and those in the hospitality and construction sectors.

This underscores the need to design supportive policies that are more tailored to the specific needs of companies in order to maximize their effectiveness and equity.

Portugal: boosting the export development of SMEs

Access to credit is a critical factor for companies to be able to export and expand their operations in international markets. According to the study by Custodio, Hansman and Mendes (2024), a government program that granted credit guarantees to Portuguese SMEs had a significant positive impact on their export activity.

The study highlights that the effects of access to credit are persistent and have a greater impact on businesses that did not previously export and on smaller ones. This supports international trade models that suggest that credit helps businesses overcome high upfront costs, such as building trust with international customers and improving the quality of their products or services.

In conclusion, the program not only facilitated access to credit, but also promoted the export development of companies, especially the smallest ones, boosting their participation in

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international trade and generating lasting benefits for their growth and competitiveness.

AFRICA

Morocco: resilience and growth of SMEs with credit guarantees

Credit guarantee schemes have shown a significant impact on the resilience and survival of the beneficiary SMEs. According to Oussouadi and Cherkaoui (2024), access to greater amounts of credit favors financial resilience and growth, increasing the chances of business survival. Moreover, the profitability of companies emerges as a crucial factor, as it attracts investors and facilitates access to additional financing.

In contrast to previous studies, it was found that high levels of debt do not necessarily reduce the odds of survival, nor was the ability to repay significantly impacted, suggesting that non-financial factors play a relevant role. These include mature management decision-making, which promotes long-term viability and the adaptability of SMEs, which demonstrate resilience in the face of change.

Finally, the personal involvement of the manager, reflected in his or her participation in the company's capital, is associated

with greater probabilities of success, underscoring the importance of solid and committed governance for business sustainability.

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