

Management Tools on Guaranteeing and Financing SMEs in Times Of Crisis

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Abstract

The present study has as main theme the presentation of the two major guarantee programs launched in times of crisis, namely the period of the Covid-19 pandemic and that of Russia’s invasion of Ukraine, with major effects on the world economy. The study is structured in three parts, as follows: the first part presents general elements on the situation of SMEs in Romania and the degree of their financing. The following two parties present the 2 guarantee programs, SMEs Invest Romania and SMEs Invest PLUS.

Key words: SMEs, entrepreneurship, SMEs financing, guarantee programs

J.E.L. classification: G20, G21, M10, M20, F61, F65

1. Introduction

The SMEs sector has an essential role in the national and implicitly European economy, representing more than two thirds of the workforce in the private sector, being one of the most important factors in supporting and developing the economy.

In Romania, the SMEs sector accounts for 99.7% of the total number of enterprises, contributing about 55-56% to Romania's GDP. They generate 52.7% of the value added in the economy and employ 65.8% of the total employees. (Figure no. 1)

Figure no. 1 Total number of companies in Romania and their implications for the economy

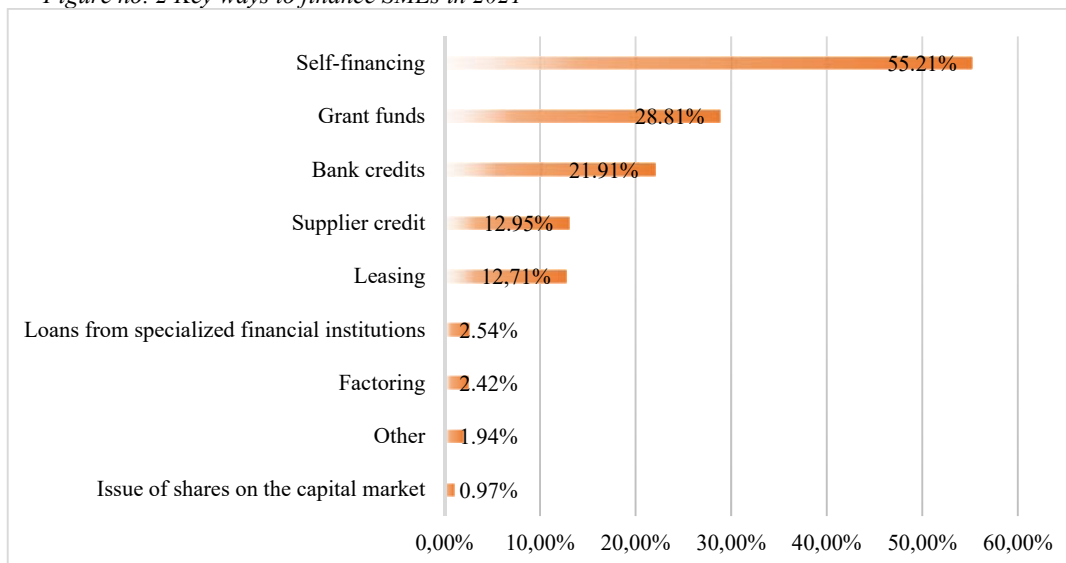
Class size	Number of enterprises			Number of persons employed			Value added		
	Romania		EU-28	Romania		EU-28	Romania		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	430,925	88.4%	93.0%	930,720	22.8%	29.7%	13.6	17.6%	20.8%
Small	46,299	9.5%	5.9%	903,635	22.1%	20.1%	13.5	17.5%	17.6%
Medium-sized	8,533	1.8%	0.9%	857,129	21.0%	16.8%	13.6	17.6%	18.0%
SMEs	485,757	99.7%	99.8%	2,691,484	65.8%	66.6%	40.8	52.7%	56.4%
Large	1,667	0.3%	0.2%	1,397,566	34.2%	33.4%	36.6	47.3%	43.6%
Total	487,424	100.0%	100.0%	4,089,050	100.0%	100.0%	77.3	100.0%	100.0%

Source: Small Business Act, 2019

According to the latest research report published by CNIPMMR, White Paper of SMEs in Romania in 2021, the main problems faced by SMEs in Romania are access to finance, liquidity, lending, uncertainty in the market, decrease in internal demand, as well as training and retaining of employees.

According to the same source, in 2021, in the complex and difficult context generated by the Covid-19 pandemic, 46.59% of SMEs self-financed, 31.72% accessed non-reimbursable funds, 16.31% turned to bank loans and 10.75% turned to bank loans guaranteed with guarantee funds. (Figure no. 2)

Figure no. 2 Key ways to finance SMEs in 2021



Source: (Nicolescu et al., 2021)

The figure mentioned above reveals that the access to finance of the SMEs sector is extremely difficult for entrepreneurs, only 16.31% of entrepreneurs turn to bank loans. In contrast, self-financing is at a level well above that of lending, i.e. over 46%. This percentage, combined with the low percentage of SMEs lending applied in financial institutions – about one-sixth of the existing SMEs – indicates a serious situation for Romanian companies, with major negative effects in the future.

According to the latest report published in June 2022, by the NBR, entitled Report on Financial Stability, the growth rate of loans granted to non-financial companies reached from 8% in March 2021 to 19% in March 2022, and represents the largest increase from an absolute point of view (over 24 billion ron) in the post-2008 period. Both corporations (over 25%) and SMEs (over 17%) made significant contributions. In this context, it should be noted the importance of the government programs "SMEs Invest" and "Agro SMEs", which represent 30% of the balance of loans granted to SMEs.

2. Theoretical background. Guarantee programs carried out by FNGCIMM SA IFN in times of global crisis

2.1. SMEs Invest Romania program

The SMEs Invest Romania program is a governmental program, which started in 2020, as a result of the Covid-19 pandemic. The program is designed to support the entrepreneurial environment, facilitating the access of SMEs to finance, to ensure the necessary liquidity in order to continue the economic activity or for investments in times of crisis.

Among the main advantages of a loan granted with the state guarantee through the program, we list:

- 90% state guarantee from the value of the loans that the SMEs accesses.
- the payment of the interest owed by the companies for a period of eight months from the date of granting the loan is borne by the state, and the management fee and the risk fee are fully subsidized throughout the duration of the loan.
- the high value of the loans that can be accessed by an SME, which can be up to 10,000,000 RON for investments and up to 5,000,000 RON for working capital.

According to the FNGCIMM press office, in the period 2020-2022, 60,000 guarantees were granted, worth 33 billion RON, which supported loans of 40 billion ron, the value of the state aid registering 1.4 billion RON. As a result of this injection of capital into the economy, one million jobs were saved. Most of the guarantees were accessed by micro and small enterprises in the fields of road freight transport, constructions, wholesale of timber, building materials and sanitary equipment and trade in cars and other vehicles.

The National Credit Guarantee Funds for Small and Medium Enterprises (FNGCIMM SA-IFN) is a non-banking financial institution with venture capital, established with the purpose of supporting the lending of SMEs, by providing guarantees for financing instruments contracted from commercial banks or other sources. FNGCIMM instruments governmental programs aimed at economic recovery, business environment development, as well as job creation and support.

SMEs eligible for the program must meet the eligibility criteria of the financing institution and, cumulatively, the following mandatory criteria:

- a. It is not in dispute, as a defendant, with the Romanian state and/or the credit institution;
- b. It does not appear with overdue appropriations;
- c. Is not prohibited from issuing cheques on the date of approval of the loan and does not appear with major incidents with promissory notes in the last six months prior to the date of requesting the state guarantee in the database of the Payment Incidents Central;
- d. Presents to the credit institution collateral guarantees which, in the case of investment loans together with the state guarantee and the legal mortgage on real estate and/or furnishings on the assets financed from the loan, cover 100% of the amount of financing, proportionally to the percentage of guarantee. For loans/credit lines intended to finance working capital, a legal mortgage is established on the credit balances of all accounts opened by the beneficiary of the programme with the financing credit institution, proportionally to the percentage of guarantee;
- e. It is not in insolvency;
- f. Companies in the sectors/fields of: financial intermediation and insurance, real estate transactions, gambling and betting activities, production or sale of weapons, ammunition, explosives, tobacco, alcohol, substances under national control, plants, narcotic and psychotropic substances and preparations, rental and leasing activities, are not eligible for guarantees under the program, investigation and protection activities.

The maximum duration of financing is 120 months, in the case of investment loans, and 24 months in the case of loans/lines of credit for working capital. The credit lines may be extended by a maximum of 24 months, and in the last year of extension they will be reimbursed under the conditions established by the methodological norms of FNGCIMM.

The granting and development of state guarantees is carried out on the basis of agreements for guaranteeing and paying grants concluded between FNGCIMM and the credit institutions participating in the program.

In order to access state guarantee financing under the SME Invest programme, companies must follow **the following steps**:

a. Phase I consists of registering the company on the www.imminvest.ro website. During this stage, the SMEs must upload on the website three mandatory documents, namely: the company's registration certificate, the SME declaration and the identity card of the administrator. These three documents are preliminary analyzed by FNGCIMM and are then sent to the bank.

b. In the second phase, the SMEs addresses the bank with which it wants to collaborate. Here is drawn up the credit file with documents specific to each financier. The credit institution submits to FNGCIMM, directly or through its territorial units, the request regarding the granting of the State guarantee, after the approval of the loan by its competent structures, through the internal working application between the banks and FNGCIMM.

c. The guarantee request shall be submitted through the working application of the credit institution to FNGCIMM together with the following documents:

- declarations required for the granting of State aid;
- declaration on the beneficiary's own responsibility regarding the classification in the SME category;
- declaration on own responsibility of the beneficiary of the guaranteed financing, showing the fulfillment of the eligibility criteria;

- the outcome of the consultation of the Central Credit Risk Office showing that the SME does not appear with major incidents with promissory notes in the last six months prior to the date of the state guarantee claim;
 - the agreement of the beneficiary of the financing to consult the database of the MFP.
- d. After analyzing the file and granting the financing, during the third stage, the documents are sent to FNGCIMM by the financier for the granting of the guarantee. FNGCIMM analyzes the guarantee request together with the mandatory documents sent by the credit institution in order to meet the eligibility conditions mentioned above, as follows:
- the result of consulting the National Trade Register Office materialized in the extract of the certificate obtained from RECOM
 - the result of the consultation of the Insolvency Bulletin
 - financial data related to the last two completed fiscal years, obtained from a provider of integrated financial data with which FNGCIMM has concluded a contract for the provision of financial services.

If the applicant registers overdue tax liabilities and/ or other budgetary claims administered by the central tax body, he undertakes to pay them from the credit / credit line for financing the working capital granted under the program.

After verifying the documents and information mentioned above, FNGCIMM communicates to the credit institution its decision within 5 working days from the date of correct and complete transmission of the documents. FNGCIMM transmits to the credit institution the guarantee contract and the financing agreement for signature, in at least four original copies, depending on the number of signatories.

e. During the fourth, final stage, the enterprise together with the bank signs the contracts and effectively transfers the loan based on the supporting documents submitted by the SME to the bank.

2.2. SMEs Invest Plus program

Recently launched towards the end of 2022, by the Romanian Government together with the European Union, the SMEs Invest Plus program aims to support SMEs affected by Russia's invasion of Ukraine. The program contains 6 components, namely: SMEs Invest, Agro SMEs, Prod SMEs, Garant Construct, Innovation and Rural Invest, through which state aid can be accessed in the form of guarantees for loans and in the form of grants. Through the implementation of the state aid scheme, it is estimated that state aid is granted to a maximum of 24,786 beneficiaries.

Under the State aid scheme, the following categories of State aid are granted:

a. State aid in the form of loan guarantees - State guarantees, up to a maximum of 90% of the amount of financing, excluding interest, commissions and bank charges related to the guaranteed loan, for one or more loans for the realization of investments and/or one or more loans/credit lines for financing working capital.

The maximum value of each financing granted to an SME cannot exceed 5,000,000 RON for loans/credit lines for financing working capital, respectively 10,000,000 RON for investment loans. The maximum cumulative value of the state-guaranteed financing that can be granted to a beneficiary under the program cannot exceed 10,000,000 RON, respectively 5,000,000 RON for beneficiaries in the field of primary agriculture, aquaculture and fish farming.

b. State aid in the form of a grant consists in the granting of a grant within the limit of the cumulation resulting from the amount of the risk fee, the management fee, related to the guarantee granted, throughout the period of validity of the guarantee granted, and the interest on the loans/credit lines, granted for a maximum period of 12 months.

The grant granted to a beneficiary cannot exceed the equivalent in lei of the amount of: 500,000 euro / enterprise / ATU, 62,000 euro / enterprise in the case of beneficiaries in the field of primary production of agricultural products and 75,000 euro for beneficiaries in the field of aquaculture and fisheries.

The way of accessing financing through an SMEs Invest Plus component, as well as the eligibility conditions of the companies, are similar to those of the SMEs Invest Romania program.

3. Research methodology

The analysis of this study takes into account information from several sources (see the bibliography) regarding the situation of SMEs in Romania, as well as legislative information regarding the guarantee programs initiated by the government in times of crisis, namely the Covid-19 pandemic and the war in Ukraine. Based on them, the results and conclusions below are summarized and stated.

4. Findings

During two years of implementation, SMEs INVEST registered 60,000 guarantees granted, amounting to 33 billion RON, which supported loans of 40 billion RON. The value of state aid amounted to 1.4 billion RON. As a result of this injection of capital into the economy, one million jobs were saved. Most of the guarantees were accessed by road freight transport contractors, followed by those in construction, wholesale of timber, building materials and sanitary equipment, retail and trade in cars and motor vehicles. Most of the companies that have turned to the program are microenterprises and small enterprises.

5. Conclusions

The programs SMEs Invest Romania and SMEs Invest Plus represent the largest financial support approved at European level, which has as main objective the support of SMEs. The use of financial instruments such as state guarantees related to the SMEs Invest program proved to be the most successful measures to support the entrepreneurial environment in times of crisis. The above-mentioned results, as well as the success of the program SMEs Invest among the Romanian entrepreneurs attest to the importance of state intervention in supporting the business environment, especially in times of crisis.

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