

Balomenou, Chryssanthi K.

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How the institution of mutual guarantee companies in Greece and in Japan facilitates the access of small and medium sized firms to the banking system and its contribution to their development in both countries

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Chryssanthi K. Balomenou

Ph. D of the Department of Economic and Regional Development, Panteion University,
Athens – Political Scientist - Regionalist (M.Sc) - Professor Consultant in the Post -
Graduated Program in Banking, Department of Social Sciences of the Hellenic Open
University - Marketing Analyst in the Division of Domestic Branches Network of the
National Bank of Greece

Address: 21 Psaron str, 152 32 Halandri, Athens, GR

E – mail:hjlp6543@hol.gr

Phone:++30 1 334 6158 - ++30 1 6891296 - ++ 30 1 6833947 - ++30 1 6814968

Fax: ++ 30 1 334 6118 – ++30 1 3234706

Subject: How the Institution of Mutual Guarantee Companies in Greece and in Japan facilitates the access of Small and Medium Sized Firms to the Banking System and its contribution to their development in both Countries

ABSTRACT: In the first part of my paper I analyze the Institution of Mutual Guarantee Companies in Greece.

The second part refers to the International experience related to the Institution of Mutual Guarantee Companies and generally to the Credit Supplementation System, focussing on the case of Japan, because this is unique by international comparison.

In the last part of my paper, I will work out a comparison analysis between the Greek Credit Supplementation System and the Japanese one. Moreover, a global assessment of the overall analysis will be carried out, which will also include the conclusion and proposals.

Finally, the appendix of my paper contains, the appropriate organizational and operational charts and of course the relevant bibliography.

PART I

THE INSTITUTION OF MUTUAL GUARANTEE COMPANIES IN GREECE

1. Time evolution of the Institution of Mutual Guarantee Companies

The System of Mutual Guarantee Companies was founded in 1917 in France (nowadays, the relevant Institution in France is called SOFARIS e.g Societe Franca;ise de Garantie des Financements des PME. It is supported by the Banque du Development des P.M.E.) and simultaneously, it was developed in the majority of central Europe countries (such as Germany, where there are 2 relevant Organizations a) The Kreditanstalt fur Wiederaufbau “KfW” and b) The Deutsche Ausgleichbank “DtA”, Italy, relevant Organization “Mediocredito Centrale”, which cooperates with “Confindi” e.g Cooperatives of Mutual Guarantee, such as Mutual Guarantee Companies, Belgium etc), during the 1980s’ decade. In the early of 1990 decade, the European Community (E.U), started to support the aforementioned Institution, in order to facilitate the Small and Medium Enterprises to obtain loans from the Banking System. In Greece, the Institution of M.G.C, was adopted in 1995, by the law 2367/1995. This System makes up, in my Country, for facing the financial disadvantages of Greek Small Enterprises and reinforcing their important role, that is the creation of new jobs, by guaranteeing the repayment of their loans, which makes it easier for small businesses to borrow from the banks.

2. Law governing the establishment of Mutual Guarantee Companies in Greece

The establishment of Mutual Guarantee Companies in Greece is governing by the above mentioned Law 2367/29.12.95 and especially by its articles 1-4. According to these articles:

The objective of Mutual Guarantee Companies is to grant guarantees for their members only.

Members of Mutual Guarantee Companies must engage in commercial or industrial activities and their enterprises must employ less than 100 employees. As an exception credit and financial institutions, chambers of commerce and industry and other public bodies are allowed to participate only in the initial capital of a Mutual Guarantee Company.

Minimum share capital for the establishment of a Mutual Guarantee Company is 300 million GRD or 500 million GRD for companies established in the Athens or Thessaloniki area.

Company shares may be transferred only after an Executive Board decision requiring a majority of 4/5.

The maximum share holding by an individual may not exceed 5%, with the exception of the institutions mentioned in (2) above.

Maximum company exposure / guarantee to an individual member may not exceed 5% of the company share capital.

3. Terms and Conditions for the establishment of a Mutual Guarantee Company in Greece

The Law 2367/1995, cedes basic responsibilities to the Bank of Greece, concerning the establishment and the operation of the MGCs. Thus, according to the Bank of Greece Governor's Act 2434/3.6.1998:

- Before obtaining the license to start operations, the Company has to submit to the Bank of Greece the following:

A list of all institutional shareholders and of the private shareholders holding 5% of equity or at least the ten biggest shareholders.

The curriculum vitae of two persons responsible for the company, one of whom must be a member of the Executive Board, and of all members of the Executive Board. These persons must have professional experience in the financial-banking sector, no criminal record and no bankruptcy record.

Its statutes, including information on the terms under which it grants guarantees to its members and on its internal audit procedures.

A business plan for the first five years, including expected sources of financing, expected solvency and liquidity ratios and basic balance sheet items.

- The Company has to fulfill the following conditions throughout its operation:

Minimum provisions equal to 3% of the sum of its outstanding guarantees, plus claims from unpaid loans minus any accumulated <<co-guarantee>> capital. The

co-guarantee capital is formed by member fees and is used first to pay Company obligations to banks.

Minimum liquid assets equal to the sum of the <<co-guarantee>> capital plus 3% of outstanding guarantees minus the portion of the <<co-guarantee>> capital not insured by the Counter-Guarantee Fund (I will refer to it below). This conditions ensures that, at all times, the Company has liquid assets at least equal to 3% of its outstanding guarantees.

Minimum solvency ratio equal to 10%. For the calculation of the ratio, <<own funds>> include provisions in excess of the minimum required in (1) above. The denominator is calculated using the coefficients of the European Union Solvency Directive. The minimum provisions of (1) above plus 80% of guarantees covered by the Counter-Guarantee Fund are subtracted from the denominator.

4. The Institution of the Counter-Guarantee Fund

The legislative framework which governs the Mutual Guarantee Companies, has not been completed and, therefore, no such Companies exist yet. In particular, a Ministry of Industry bill for the establishment of a Counter-Guarantee Fund is still pending. Once the Fund is established, Companies will have to sign an agreement with it defining their rights and obligations.

Moreover, an issue which may complicate the relationship between the Counter-Guarantee Fund and the Companies, concerns the point of activation of the Counter-Guarantee Fund. There are two possibilities, either the Fund insures each loan individually or it insures the Company as a whole. In the former case, the Fund would intervene (i.e. compensate the Company) each time a loan is not repaid. In the latter case, the Fund would intervene only once a Company has exhausted its provisions and is unable to fulfill its guarantee obligations.

5. The European Union, Small Enterprises and the Institution of Mutual Guarantee Companies

The European Union aid for the reinforcement of the competitiveness of Greek small medium enterprises is always of crucial importance for the development of Greek productive environment. For that purpose, during the period of the third CSF

(2000-2006), in the context of Business Plan << Competitiveness >>, axis 2, measure 2.6. for <<the financial support and encouraging of the SME>> and in cooperation with the National Sector << Ministry of Development>>, is planning the establishment of a Guarantee Fund for SME.

The role of the above mentioned Institution is to allocate the business risk and to guarantee part of the bank loans to the SME. In particular, the aforementioned Fund will provide the SME with the following products/services:

- Guarantees to bank loans for operating capital for investments and generally business activities in Greece and abroad.

- Guarantees to short-term bank credits (such as exports financing etc).

- Guarantees for long term bank loans to SME.

- Guarantees for leasing services, etc.

The Guarantee Fund of SME (GFSME) will cooperate with the Banking System, in order to:

- cover part of the business risk. More specifically, according to the relevant Project of Law of the Hellenic Ministry of Development, that is still working out, it will cover the 50%. The projects' evaluation, clients' solvency audits and all the rest engagement in commercial/industrial activities are left to the Banks and SME respectively,

- allocate reasonably the risk among the different sectors, the bank clients and the financing business activities, in Greece and abroad,

- create multiplying/additional benefits and resources than its initial share capital,

- reduce the cost of foreign funds of SME, and finally to

- support, yearly. a great number of SME.

Having a share capital of about 30billion GRD, the above Institution, will aim to support and reinforcement 40.000 SME approximately and to grant guarantees of an amount of 700billion GRD within a decade.

As regards the way of realization of the aforementioned mechanism, we can say that the loans guarantees will be granted by the GFSME, which will perform like a financial Institution (such as the Banking System) in the context of Law 2076/92, under the audit of the Bank of Greece. The establishment of the GFSME will be

governed by a specific legislative framework, which, as it has already mentioned, has not been completed yet, but it is expected that it will be completed by the end of Jun 2002. In this framework will be pointed out the role and the obligations of the Institution, while the rules of its performance will be arranged by the Regulation of guarantees and loans grant which will be worked out by the GFSME. This Regulation must be sent for approval to the relevant, for the ex-ante, on going and ex- post evaluation and appraisal of the Program Committee of the E.U.

The aforementioned Institution, will replace maybe the Institution of Mutual Guarantee Companies.

6. The New Economy Development Fund S.A. (“TANEO”)

The above mentioned Fund is a new Institution with relevant purpose to those of Mutual Guarantee Companies and Guarantee Fund. More specifically, the New Economy Development Fund will participate in investment vehicles interested in creating Greek Venture Capital Companies or Venture Capital Mutual Funds or similar venture capital entities operating under the laws of a European Union member state. This participation is regulated by the provisions of article 28 of the Law 2843/2000 as amended by article 8 of Law 2992/2002 and of the implementing decision 1609/B.811/12.4.2002 of the Greek Minister of Economy and Finance. The investment organizations to be formed, as above, must undertake to invest in small or medium-sized enterprises that are preferably at the start-up or other early stage and which are registered and based in Greece. The maximum duration of such investment vehicles would be twelve years. TANEO would take a maximum participation of less than 50% of the capital, together with any corresponding voting rights of the investment vehicles which will be selected.

The criteria for TANEO’s participation in those investment vehicles, which must be managed by private entities under private sector business criteria, are the the reliability of the business proposals and of the managers and the contribution of the investments to the development of sectors of the new economy. For this reason, TANEO will give priority to those investment proposals which focus primary on investment in innovating business that:

-are active in sectors of the new economy (e.g. information technology, telecommunication, e-commerce, biotechnology, new materials) and
 -are in their start-up or other early stages, as such stages are defined in the State Aid and Risk Capital Communication of the European Commission (2001/C 235/03).

For this Purpose, TANEEO will consider investment proposals until December 2004. These proposals would be examined as and when receive on a continuing basis and detailed due diligence will be carried out before they are submitted to TANEEO's investment committee for consideration. This Committee consists of highly regarded individuals from the business and academic communities and its approval will be a prerequisite for "TANEEO" participation in any investment vehicle.

PART II

THE INTERNATIONAL EXPERIENCE RELATED TO THE INSTITUTION OF MUTUAL GUARANTEE COMPANIES – THE CASE OF JAPAN

1. The Small Enterprises in Japan and the financial difficulties that they face

The small enterprises have played a very important role in the economic development of Japan. In fact, 99% of the 6,5 million enterprises in Japan in 1994 fell into the <<small business>> category. These firms accounted for 80% of total employment in Japan.

Important as they are, small business are behind large companies in terms of productivity, technological experience, financial and other areas. Particularly, they often lack creditworthiness. They have trouble securing funds needed for their business activities, such as purchasing materials and products and investing in plant and equipment. Since most small companies have only limited capital resources, they have to rely on banks and other financial institutions for their funds. Banks require sufficient collateral or a well-established surety for their debtors to secure a loan. The lack of such assets or appropriate surety makes it difficult for many small business to obtain loans from financial houses.

2. Small Enterprises finance and the Credit Supplementation System

- **The role of the Credit Supplementation System**

The Credit Supplementation System is endowed with a vital role in addressing the problem of Small Enterprises' / Business' access to finance. The system makes up for the financial disadvantages of Small Business by guaranteeing the repayment of their loans, which makes it easier for small businesses to borrow from banks.

The success of the above mentioned System has been well verified by the fact that approximately million small enterprises had utilized this System to obtain loans (March 31,1997).

The Credit Supplementation System consists of the following two interrelated sub-systems:

- The Credit Guarantee System, and
- The Credit Insurance System.

and has been undertaken by the CGCs and the Japan CIC.

This two-tier structure of Credit Supplementation is unique by international comparison.

- **The objective of Credit Guarantee and Credit Insurance System**

- The objective of Credit Guarantee System

The main instrument of the Credit Guarantee System is the Credit Guarantee Corporations (CGCs), which have been established in each prefecture, (the largest unit of local administration), as public institutions, are the key players in the first sub-system. More specifically, the CGCs consists of 52 credit guarantee organizations established in each of all the Japanese prefectures (including Tokyo Metropolitan Area), plus 5 cities (Yokohama, Kawasaki, Nagoya, Gifu and Osaka). This System is an effective mean to strengthen the fundraising capacity of Small and Medium Enterprises (SMEs), thereby helping them gain access to financial institutions and promoting their sound development. In other words The CGCs provide financial institutions with guarantee for their loans to small enterprises.

So, the principal mission and role of the CGCs, can summarized as follows:

- For SMEs striving to maintain, establish and develop operations.

- Strengthening credit standing of SMEs by accurately assessing their future growth potential and management capability, facilitating sound, smooth loan processing

from financial institutions and meeting diverse financial requirements through <<credit guarantee service>>.

Contributing to the establishment and strengthening of financial and management foundations of SMEs by consultation, analysis of the operations and providing information, and finally,

Contributing to the prosperity of such SMEs and promote strong regional economic development.

The aforementioned System coordinates activities of the individual credit guarantee organizations, provides them with necessary advice and assistance and serves as a principal contact with related organizations, such as the Small Business Credit Insurance Corporation (Japan CIC). In particular, the CGCs borrow their operating funds from local governments and the Japan CIC, which also plays a central role in the Credit Insurance System, that I am examining below.

The objective of Credit Insurance Corporation

The Small Business Credit Insurance Corporation (Japan CIC), is a government affiliated institution with 100% of its capital provided by the national government. It was established in order to smoothly finance small business. The Japan CIC handles the following 4 operations:

Offers insurance to guarantee liabilities that arise when the Credit Guarantee Corporations guarantee small business loans from financial institutions.

Lends to CGCs the necessary funds for their operations.

Offers insurance to guarantee liabilities that arise when the Authorized Support Organizations guarantee corporate bonds issued by small business.

Offers insurance on leasing contracts and installment-sales contracts for machinery (including software programmes).

Furthermore, the Japan CIC facilitates loans from commercial financial institutions to small enterprises by extending insurance coverage to guarantee liabilities of the CGCs for such loans and by lending funds to the CGCs to enhance their guarantee capabilities.

- **The Legal background of CGCs and CIC**

The Legal background of CGCs

The CGCs are special judicial corporations established under the Credit Guarantee Corporation Law 196 of 1953. No other organization is allowed to use the name <<Credit Guarantee Corporation>>.

Each CGC maintains its own articles of association and work standards setting forth the scope of work, set up on the basis of model articles of association and work standards issued by the government in the form of circular (Circular on Fundamentals of Credit Guarantee Corporation).

The Legal background of CIC

The corporate status of the CIC is Special juristic person (public corporation) established under the Small Business Credit Insurance Law Corporation Law (July 1958) and finally it was completed by the establishment of the Machinery Credit Insurance Business which was transferred from the Ministry of International Trade and Industry to the Japan CIC (October, 1984). But the System was enacted in December 1950, by the Small Business Credit Insurance Law.

- **Organizational Overview of CGCs and CIC**

The Organization of both the CGCs and CIC are presented in charts 1 and 1(a) of the Appendix, respectively.

- **Capital of both CGCs and CIC**

The capital of CGCs

- Sources of paid – in capital

The endowment of the CGCs consists of the fund and the reserve. The fund consists of contributions by local governments, financial institutions and trade organizations. The reserve is an accumulated total amount of annual profits (i.e. difference between revenue and expenditure) of the CGC. Contributions by local governments and financial institutions are made annually to the CGCs.

- Sources of income

There are two principal sources of income for the CGCs, credit guarantee fees and interest income (interest on deposit and dividend from securities). Besides, subsidies consist of government subsidy to CGC Funds and Contributions by local governments and financial institutions. In addition, special types of policy

guarantee promoted by local governments are backed up by the “loss subsidy system” under which local governments compensate for loss not covered by credit insurance.

The capital of CIC

The capital of the Japan CIC has been supplied by the government every year as part of the national budget. This is the only source of paid – in capital. The total amount of capital stock is JPY1,141 billion as of the end of March 1998. The capital is made up of the following three funds:

The Small Business Credit Insurance Reserve Fund is the ultimate security for payment of insurance money. The total amount reached JPY 392 billion at the end of March 1998.

The loan Fund is lent to the CGCs from the Japan CIC and is to be deposited in financial institutions to be used for the guaranteed loans of these financial institutions. The Loan Fund registered a total of JPY 747 billion as of the end of March 1998.

The Machinery Credit Insurance Operating Fund recorded a total of JPY 1,6 billion as of the end of March 1998.

• **The Operation and Outline of the Credit Supplementation System**

Operation of the System

The operation of the Credit Supplementation System is analysed as follows:

- The SME applies to a financial institution for a loan or directly to the CGC or its representative organizations, for credit guarantee service.
- The CGC evaluates the credit rating of the applicant.
- If the application is suitable for credit guarantee, the CGC issues the letter of guarantee to the financial institution. In the case of direct application, the letter of guarantee is issued after a financial institution is mediated by the CGC and receives the loan application.
- The financial institution extends a loan to the SME according to terms and conditions set forth in the letter of guarantee. The enterprise pays a specific credit guarantee fee to the CGC.

- The enterprise repays the loan to the financial institution according to specified terms and conditions.
- Should the enterprise fail to repay all or part of the loan for a certain reason, the financial institution requests subrogated payment of the CGC.
- The CGC repays the financial institution in place of the SME. As a result, the CGC acquires an indemnity right (i.e. the CGC has the right to receive indemnification from the enterprise, upon completion of subrogated payment).
- The CGC claims payment of insurance money from the Japan CIC, after making payment in subrogation.
- The CIC pays the CGC 70% or 80% of the subrogated amount in principal.
- When the CGC recovers money by exercising the above mentioned right of indemnity, it pays the Japan CIC the sum equivalent to the proportion covered by the insurance.

The aforementioned steps are presented in 2 Schematic flow diagrams (1 and 1(a)) in the Appendix of the present paper.

Outline of the System

From the above, it is obvious that the relations between the CGCs and the CIC are based on the fact that:

- The CGCs, which are the key players of the System, have been established at 52 independent institutions in each prefecture and particular cities throughout the Country.
- The CIC is exclusively furnished with the function of reinsuring the guarantee liabilities of the CGCs and covering their risks in order to help promote their guarantee activities.

In the frame of the Credit Supplementation System, the CGCs and the CIC relate with other institutions as well. More specifically, apart from the financial institutions and SMEs, they cooperate with the Central Government (Ministry of Finance), as regards the capital supply to CIC and the supervision of both CIC and CGCs. Moreover the CGCs cooperate to Local Governments that provide them with contributions and loans and of course they supervise the CGCs.

The Outline of the System is shown briefly in chart 2 and is analysed more in charts 2.(a) (working relations in the Credit Guarantee Complex) and 2(b) (relations among the CIC and related institutions).

- **Conditions for guarantee and insurance eligibility**

Enterprises

The CGC adopts the following requirements for credit guarantee service, as set forth under the Small Business Credit Insurance Law, provided that each guarantee is covered by credit insurance. Note that the CGC may extend guarantee outside the requirements, subject to the provisions of the Credit Guarantee Corporation Law, which is not covered by credit insurance:

SMEs (an individual, a corporation or a cooperative either with working capital of 100 million yen or less or with 300 employees or less). In the case of a wholesaler, either working capital of 30 million yen or less or with 100 employees or less and in the case of retailers and service industries, either working capital of 10 million JPY or less or with 50 employees or less. Whichever applies means eligibility for guarantee service. Since June 5, 1998, the “Small Business” category stipulated in the Small Business Credit Insurance Law has been expanded in terms of capital for the retail and service industries and the whole sale industry. More specifically, the increased maximum amounts of capital for corresponding industries, are from 10million to 50 million and from 30million to 70 million, for retail and service industries and wholesale industry respectively.

Types of business are based on those designated under the Credit Insurance Law. Mostly commerce, manufacturing and service industries (not including financial), agriculture, forestry, certain types of real estate and entertainment, religious organizations and non – profit organizations.

Past business record

The SME which has been paying business, income and other taxes, with sufficient sales record.

Purpose of loan is limited to business fund

The purpose of the loan eligible for credit guarantee is limited to business fund (working capital and equipment investment).

Financial facilities

Credit guarantees made by the CGC are limited to business fund (working capital and equipment investment). It is further divided into general guarantees which do not specify the purpose of use and the terms of repayment and institutional guarantees extended in accordance with special policy of the central government or local governments (the term of repayment and the purpose of use are specified according to the purpose of the policy). In particular, the institutional guarantee is provided, under specific terms and conditions, including eligibility, term of repayment and guarantee amount. The interest rate and guarantee fee, however, are lower than those applied to the general guarantee. Generally, only loans on deeds or bills, bill discounts and overdrafts can be insured in this scheme. Guaranteed loans are required to be used as operating funds and equipment funds necessary for the business operations of the applicant enterprise. Loans to be used for purposes irrelevant to business operations, such as those to be used as living / consumption expenses or funds for speculative investment, are not insured (see table 1 of the Appendix). With respect to duration and interest rate, there is no regulation.

Financial Institutions

Financial institutions eligible for guarantee service are defined in work standards under the Circular on Fundamentals of CGCs, as follows:

Private financial institutions (such as City Banks, Regional Banks, Trust Banks and Long – term Credit bank).

Financial institutions for small and medium enterprise (such as Labor Credit Associations, Credit Cooperatives, National Federation of Credit Associations etc)

Financial institutions for agriculture, fishery and forestry (such as Agricultural Cooperatives, Fishery Cooperatives etc). Loans from agricultural co-operatives have been insured since April 30, 1998.

Government and affiliated financial institutions (such as Export-Import Bank of Japan, Japan Finance Corporation for Small Business, People's Finance

Corporation, Environmental Sanitation Business Finance Corporation and Agriculture, Forestry & Agriculture, Forestry & Fisheries Finance Corporation.

Foreign banks operating in Japan

Maximum amount / Insurance premium

There are seven types of insurance. The maximum amount of coverage varies from one type of insurance to another (see Table 1 of the Appendix). For ordinary, No-collateral, Special Small Sum and New Business Development Insurance, preferential insurance conditions can be offered for the maximum insurance amount, coverage and premium rate in such specific cases as a serious natural disaster or a bankruptcy of clients. Except for the above mentioned, in table 1 is shown and the Insurance premium.

Collateral and Guarantor

In most cases collateral and guarantor are required by the CGCs or financial institutions. No material collateral can be taken for No-collateral Insurance. Neither collateral nor a guarantor is required in utilizing Special Small Sum Insurance . For all other types of insurance, collateral and a guarantor can be demanded when necessary.

Payment under Guarantee / Payment of Insurance Money

- Conditions for payment: The Japan CIC is not informed of the credit deterioration of each guaranteed enterprise. When the CGCs make payment in subrogation, they must report to the Japan CIC without delay. The CGCs cannot claim payment of insurance money unless one month has elapsed after its subrogated payment. Also, the Japan CIC pays insurance money within 30 days in principle after examining the claim notes. If any point is found in the claim for payment that does not comply with any insurance and procedure requirements, the Japan CIC is exempt from the responsibility of paying insurance money. This applies, for example, when it has been found that the borrower does not fall under the small business category, or the loan has not been used for business operation.
- Coverage of payment

The CGCs guarantees to repay the whole amount of the outstanding loan and interest which a defaulting enterprise has borrowed from a financial institution. In particular, 70% or 80% of the amount paid by the credit guarantee to the financial institution are covered by insurance issued by the Small Business Credit Insurance Corporation (Japan CIC). Thus, the CGC has to bear 20% to 30% of the defaulted loan. The rest 70% or 80% covered by insurance is called the coverage rate, which is specified according to the type of insurance (see Table 1 of the Appendix).

Recovery of Insurance Money Paid

The CGC must try to recover the subrogated amount from a debtor. If the CGCs can recover money from the debtor, they must pay 70% or 80% of the recovered money to the CIC. This proportion corresponds to the ratio of the CIC's insurance coverage for the CGCs' subrogated loans.

- **Result of Operations**

As of 1997, about 2,1 million enterprises in Japan enjoyed the benefits of the Credit Guarantee and Credit Insurance System. (see Tables 2 and 2(a) of the Appendix). About 90% of the enterprises are small companies with 50 employees or less. The amount of Insurance applications accepted by the Japan CIC reached JPY 13,1 million and the relevant cases were about 1,4 million, in the same period (see Table 2). As regards the Acceptance of Guarantee, as we observe in Table 2(a), the amount of guarantee applications accepted by the CGCs reached 0,2 million JPY , while the relevant cases were about 1,6 million.

- **Changes in the System**

In order to promote creative business activities among small business, a new insurance system, called "Insurance for Encouragement of Research & Development", was created in April 1996. In the system, Authorized Support Organizations, called "Venture Foundations", guarantee risk borne by venture capitals, by supplying funds to venture business that issue corporate bonds (see chart 3 of the Appendix). The Japan CIC reinsures the guarantee liabilities of the Authorized Support Organizations and covers their risks to help promote their guarantee activities. In two years period (1996-97), it was pointed out that the

relevant, to the aforementioned new insurance system, cases and amount were increased from 1,7 to 2,0 (19,1%) and from 4,421 to 4,690 JPY million (6,1%) respectively.

In addition to the Small Business Credit Insurance, the Japan CIC also offers a unique insurance called the “Machinery Credit Insurance”. The CIC insures lease contracts and installment –sales contracts for machinery (including software programs to run the machinery regardless of whether it is produced in Japan or abroad). The types of machinery covered by this system have been designed by a relevant cabinet order, in which special emphasis has been placed on the type of machinery mainly used by small enterprises. Also, in April 1996, was created another System, called “ Special Comprehensive Insurance”, in order to promote the introduction of machinery needed for creative business activities, such as technological development and business start-ups.

- **System Problems**

The credit guarantee system is closely related to the economic conditions inside and outside the country as well as to the government policy. Therefore, various problems concerning the system have arisen from time to time. The main recent problems are as follows:

Promotion of institutional guarantee under government policy to stimulate general economy.

Strengthening of financial foundation of the CGCs.

Reviewing the method of collecting the guarantee fee (reduction of the borrowing enterprises’ burden).

Effective measures to preserve of guarantee loan.

But generally, there are no major problems in the Credit Supplementation System. However, the Japan CIC is required to further improve the Credit Insurance System to meet the needs of small business by timely responding to changes in economic and financial circumstances.

PART III

1. COMPARISON ANALYSIS BETWEEN THE CREEK CREDIT SUPPLEMENTATION SYSTEM AND THE JAPANESE ONE

The two Systems of course have some differences, due to their different legal background, such as corporate status and law /government regulation. Moreover they have difference concerned the status of the separate financial institutions and those of the eligible SMEs.

However, the whole structure of both Systems is similar as far as their main axes concerned.

In particular:

The Institution of “Hellenic Mutual Guarantee System” is corresponding to Japanese “Credit Guarantee System”

The key player of the above mentioned Greek and Japanese Systems are the “Mutual Guarantee Companies” (MGC) and the “Credit Guarantee Corporations” (CGCs).

The Institution of “Hellenic Counterguarantee Fund” is corresponding to Japanese “Credit Insurance Corporation” Japan (CIC).

As regards the objective of both the above mentioned Systems, we can say that they are similar, given that both of them are endowed with a vital role in addressing the problem of SMEs access to finance. These two Systems make up for the financial disadvantages of SMEs by guaranteeing the repayment of their loans, which makes it easier for small business to borrow from financial institutions.

2. CONCLUSIONS AND PROPOSALS

The Mutual Guarantee Companies have been endowed with the role of facilitating SMEs’ access to funds needed to run their operations. Since its founding this Institution has timely and actively responded to newly emerging policy needs for small business, thus greatly contributing to their development.

In Greece, the business environment surrounding SMEs, has become more severe, in the frame of banking system deregulation, due to the abolition of older ways of SMEs’ reinforcement, such as the particular status of small industries financing (Bank of Greece Currency Committee Decision 197/78). According to a study of the Hellenic Organization for SMEs, the successful operation of the Mutual Guarantee Companies in Greece, presuppose the grant of 500 at least guarantees yearly. Thus, the amount of MGC, that can be established in the whole country, is limited and because of this the efficiency of them, due to the great number of Greek SMEs, is become very doubtful. For the enlargement of MGCs, the national Authorities (Ministry of Development) has taken all the appropriate measures for the establishment 2 or 3 MGCs, in Attiki, Thessaloniki and Patra, which are

the 3 biggest core regions in Greece. In addition, the relevant subsidies of the E.U. and of the Public expenditure as well, may be provided to Hellenic Bank of Industry Development and to Hellenic Organization of SMEs, via the Program of Public Investments, in order to participate in the initial share capital of the MGCs up to 35% (relevant Law 2702/7.4.99, article 1, paragraph 1).

Generally, we can say that in establishment, development and build up of the Institution MGCs in my Country, the role of National Authorities, the Chamber of Commerce and Small Industries and the Banking System, is vital and very crucial. In particular:

The National Authorities must certify the outstanding issues regarding the legislative framework of MGCs operation, and to subsidize also the MGCs, by participating in its initial share capital and developing in that way the funds of Industry Business Program. The Chambers, acting as representatives of SMEs, must undertake initiatives for the development of co-operations and for the mobilization / activation of small business in order to support the aforementioned Institution and to become members of the MGCs. And,

The Banking System which contribution to the development of the Country is vital, passes through the reinforcement of the competitiveness of SMEs. For that purpose the banks must participate in the initial share capital of MGCs (the same has happened in many countries). Furthermore, banks may trust the above Institution by accepting the guarantee grants provided by the MGCs.

In conclusion, we can say that the Mutual Guarantee Companies, as financial Institutions, are obliged to rely on credibility / trust worthiness and solvency and these have to ensure, especially in the first difficult years of the new Institution operation in my Country, all the involving authorities, because, only in that way they will manage to contribute to the development of Greek SMEs as an engine developing new markets by positively overcoming the wave of structural change and by developing creative business activities through energetic and flexible entrepreneurship.

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