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CREDITS AND BANK GUARANTEE LETTERS IN ENTREPRENEURSHIP DEVELOPMENT DURING CRISIS

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Abstract

When the credit crisis started in 2008, a total of 67 entrepreneurs sought advice with the European Centre of Managerial Studies in Business Administration of the Spiru Haret University in Bucharest in order to find alternatives to finance classic loans that could enable them perform their activity. Based on these requirements, the paper aims to identify the impact of the crediting and guarantee instruments employed by entrepreneurs upon the economic-financial indicators and the cash flow. This approach is helpful in the entrepreneurs-banks relationships framework so that the best banking instruments be used in the process of entrepreneurship development within a changing business environment. To achieve the research there were identified, from those who sought advice, 43 entrepreneurs active in manufacturing due to the complexity of the crediting and guarantee instruments used in this field. Data collection and processing has resulted in the determination of cash flow and calculation of the main financial indicators for a five year time interval, indicators that are used by banks in relation to credited or secured entrepreneurs. The main results indicate that entrepreneurs who have secured business through letters of guarantee recorded positive cash flows and a better situation of the main economic and financial indicators with positive effects on their relationship with the business community.

Keywords: entrepreneurship, letters of guarantee, credits, cash flow, banking system

JEL Classification: L26, L25, G23, G32

Introduction

Entrepreneurship development within a constantly changing business environment can hardly be conceived without the support of the banking system. Banks provide the business

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environment a multitude of banking instruments that can finance and develop entrepreneurs' activity. Among these, the crediting and guarantee instruments prevail.

Nevertheless there are circumstances where the employment of banking instruments in entrepreneurs' activity barely impacts on their work, they, per contra, may cause severe disturbances resulting in bankruptcy. In most cases banks recommend entrepreneurs to make appeal to bank loans to finance their activity because of the substantially higher costs, compared to those that other banking instruments, such as bank guarantee letters, imply.

Unfortunately, the financial crisis has highlighted the problems that can occur in entrepreneurs' activity excessively financed by bank loans and the impact they have, under crisis circumstances, upon the financial indicators and the cash flow.

A less common category of banking instruments is that of the letters of bank guarantee; they are provided to entrepreneurs and they secure commercial transactions between them. By issuing letters of guarantee in favour of entrepreneurs, the risks of the transactions are taken over by banks in exchange of some issuing fees which are significantly lower than the loan interest rates.

Current research in the field has been directed toward studying the impact that the high level of indebtedness through loans has on business activity under the circumstances of economic crisis (Collett et al., 2014). The purpose of research is to find and study alternative financing sources that should be based on cash flow would enable the carrying out and development of business activity (Siwale and Ritchie, 2011; Cowling et al., 2012; Lawless, 2013).

The goal of the present paper is to highlight the impact crediting and guarantee instruments had upon the financial-economic activity and particularly upon cash flow, so that entrepreneurs can apply for and, ultimately, employ the most appropriate bank instruments in order to carry out and develop business within an ever-changing business environment.

In order to achieve the research objective we initially reviewed the scientific literature in the field. The research methodology reveals how the entrepreneurs under survey have been identified, the software employed and the reasons accounting for choosing them, the method of collecting and processing data. Following the methodology presentation, the data analysis and processing was performed which resulted in the key economic-financial indicators calculation, cash flow determination and comparison of the results obtained by entrepreneurs.

1. Scientific literature review

Credits and bank guarantee letters are instruments provided by the banking system to companies to finance, respectively guarantee commercial transactions. There are several types of loans for financing among which the most employed are: lines of credit, loans to finance temporary or seasonal stocks, overdrafts, global working credits, discount credits, export pre-financing credits, capital investment loans, refinancing credits etc. (Negruș, 2008).

Without involving cash or accounts, as the case stands with loans, bank guarantee letters are written commitments undertaken by a bank in favor of a company (beneficiary) which commits itself to pay a sum of money, in case another company (credit release authority), on whose behalf the guarantees are issued, failed to implement a particular obligation assumed by contract or improperly executed it to the collateral taker (Negruș, 2006). There

are plenty of types of letters of guarantee, an analytical approach showing that, actually, there are as many as commercial contracts (letter of guarantee to tender, of good performance, of advanced payment refund, of payment for consignment under a contract, of guarantee for payment of the total contract value, of loans repayment, of payment of goods taken on consignment, payment of customs duties, payment of VAT etc.) (Cioc, 2000).

In business, letters of guarantee are used in cases where uncertainty hovers between trading partners in terms of seriousness and ability to cope with their contractual obligations. They are also used where trading partners have a longstanding relationship and know each other very well, in order that they appeal to a lesser extent to loans. In this situation the bank guarantee letters are issued within some limits made available to customers by banks, for each phase of the transaction. If trading partners choose to proceed like this, business generates positive cash flows that enable entrepreneurs to apply for credits to a lesser extent. There are situations where a particular type of loan can be successfully replaced by a specific type of bank guarantee letter. It is the case of the credit for the payment of certain goods which can be replaced with the letter of guarantee for the payment of consignment. This also applies to the export pre-financing credit that may be replaced with the letter of advanced payment refund guarantee, business being thus financed from advance payment received from importers.

The global credit crisis outbreak in 2008, led to a drastic decrease in the entrepreneurs' financing sources and liquidities with serious consequences on their performances and, particularly, their relationships with the business environment.

Under such circumstances several researchers and international organizations in the field focused their studies on finding and exploring alternative sources of finance (Siwale and Ritchie, 2011; Cowling et al., 2012; Lawless, 2013).

The efforts researchers made to discover solutions to finance entrepreneurship within a rapidly changing business environment followed two directions: the former direction considered the entrepreneurship - banking system relationship and the latter the relationship developed with the business environment.

Given the seriousness of the consequences related to the lack of entrepreneurs financing, the researchers who have focused on entrepreneur-bank relationship approached extensive terminology and treated, empirically, a variety of situations. The goal of the current research in the field has been to find and build adequate financing policies based on cash flow.

As early as 1991, researchers noticed the importance of entrepreneur-bank relationship, based, primarily, on the correct understanding of the terminology employed in the course of the financing process (Green, 1991). After the onset of the credit crisis in 2008, some researchers have gone so far as to expand research on the consequences that sex, both at the entrepreneurship and bank management level, played in the crediting relationship. Thus it was concluded that male pairs - entrepreneur manager / bank manager – registered the highest degree of confidence in crediting relationships, which led to a more rapid financing process development and performance growth of entrepreneurs' activity (Saparito et al., 2013).

Numerous studies have tackled the importance of social and human capital in the crediting process (Honig, 1998; Lindbergh and Jonsson, 2013). An error made at the organizations management level is the patriarchal thinking that leads to a false sense of security and ignores the share capital value (Doppelt, 2003). Among the instruments, guidelines, techniques and concepts that can be employed to implement the sustainability of

entrepreneurship financing policies, capital can undoubtedly be counted (Weybrecht, 2009), this being regarded as the instrument which can achieve the transition from words to action. Under these circumstances, in order to achieve organizational transformation that brings about lasting positive effects, an immediate reconsideration of leadership attitudes about the role of profit becomes imperative alongside the urgent change of performance criteria considered so far, by repositioning the role of capital (Dunphy et al., 2007).

Capital is the core of a crediting relationship. On the one hand, banking regulations limit the possibility of a bank to grant loans to the amount of their capital, and, on the other hand, each bank's internal regulations stipulate that the maximum amounts that may be granted as loans cannot exceed, by a certain number of times, the entrepreneurs' equity. In the attempt to build innovative financing policy, the banking environment must give greater weight to bank capitalization but also to entrepreneurs' capitalization. To this end, researchers have concluded that there must be built strong relationships between business community and banking sector in order to ensure sustainable long-term crediting process with effects on entrepreneurial performance increase and, eventually, with effects on the entire business environment, relationships that should have financial equity as their starting point (Medar, 2011; Agostino et al., 2012; Han et al., 2014).

The fact that banking financial institutions are facing new risks along with the enhancement of the existing ones represent the starting point in developing new international rules relating to the capital adequacy (Bemink et al., 2007; Chernobai et al., 2007; Iuga et al., 2009; Zăpodeanu and Gall, 2009; Ilie, 2010; Hong Kong Institute of Bankers, 2013), these being backed by an appropriate organizational management in the crediting process (Petria and Bădulescu, 2010; Stanisic et al., 2013; Ilie and Ungureanu, 2014).

Researchers consider that in order to find alternative financing solutions, as a result of global credit crisis onset, one should start primarily from a better understanding of the credit risks (Brigo, 2013). In their view, within an economic system where entrepreneurship is the key driver, crediting can create wealth provided it is used wisely (Joseph, 2013). The global crisis showed that a correct understanding of credit risk is crucial. The best way of using credits and getting results is to understand the crediting risk (Orăștean, 2011; Deventer et al., 2013).

In their attempt to find funding solutions, researchers, who have focused on the entrepreneur business environment relationship, have approached the issue both at regional level where entrepreneurs operate and in what concerns their relationships with external partners. The goal was to decrease indebtedness and increase entrepreneurial cash flow. Thus, they proved that regional environment is of outmost importance when it comes to the entrepreneurial capital accumulation and in the process of entrepreneurial knowledge acquisition (Drakopoulou and Hynes, 2012; Kibler, 2013) but the scarcity of resources is more easily funded by innovative companies that have ties with experienced, well connected, serial entrepreneurs and that developed relationships with foreign partners (Robson et al., 2013; Fitjar et al., 2013).

In recent years due to the problems in the enforcement of bank guarantees, many authors have focused on finding applicable principles and rules to eliminate abuses in this respect and solve disputes between trading entrepreneurs in partnership (Kurkela, 2007; Enonchong, 2007, 2010; Horowitz 2010). The purpose of this research was to primarily ensure continuity and safety of transactions between entrepreneurs. The results of research conducted until 2009 greatly contributed to determine authorities of the International Chamber of Commerce to review the rules applicable to letters of guarantee, and research

conducted since 2010 focused on issues related to the practical application of new international regulations adopted in 2009.

In the global crisis context, the requirements to deleverage entrepreneurs, to further finance activity and generate cash flows determined the international organizations to focus on letters of bank guarantee. Thus, at the New Delhi reunion of December 4, 2009, the Executive Board of the International Chamber of Commerce adopted, for the first time in 18 years, the revision of the Uniform Rules for Demand Guarantees, which came into force on July 1, 2010. The press release given on this occasion, shows that the changes include innovative applications for contingency payments. It is also revealed that these changes are expected to reduce the ratio of guarantee applications rejection and increase the safety of this instrument. Consequently, banks received many applications to issue letters of guarantee on their clients' behalf and accounts.

Unfortunately, in Romania, banks did not react firmly to these financing alternatives because, until 1999, most export commercial transactions were carried by the Romanian Bank for Foreign Trade (BANCOREX) that used to employ such guarantee instruments. With the closure of the Romanian Bank for Foreign Trade in 1999 bank guarantees received a major blow due to the fact that the said bank used to guarantee commercial transactions amounting to billions of dollars and had the utmost performing management team in terms of bank guarantees. Following the bankruptcy of BANCOREX its specialists in the field of bank letters of guarantee were taken to a limited extent by other banks. This was due to the fact that through the legislation that stated the merger with the Romanian Bank of Commerce (RBC), the managerial staff of BANCOREX (with some exceptions provided by law) were not taken by RBC. On the other hand, under that economic and social context, BANCOREX was regarded as a pariah of the Romanian banking system, its specialists being wrongly accused of having robbed the bank and among members of civil society appeared a real current against them. As soon as the bank closed Romanian companies, which had developed contracts with foreign countries, would turn their attention to other banks. The lack of experience of the other banks regarding bank guarantees caused many transactions to fail.

Between 1999-2009 banking top management disregarded letters of guarantee and encouraged, under economic growth, the infusion of funds into economy. Since 2008 the financial crisis deprived economies of cash and attention turned again to bank guarantees.

This revealed the inability of some banks to conduct business transactions by way of letters of guarantee, the lack of training of employees at all levels as well as the lack of unitary national rules to regulate the field of letters of guarantee.

2. Research methodology

Since 2008 when the credit crisis began, the research centre received requests from a number of 67 entrepreneurs who were looking for further alternatives to finance classic loans. In order to conduct research, we selected all those entrepreneurs – the total amounting to 43 (64,18% of those who asked for counselling) - active in the field of manufacturing who, between 2009-2013 appealed to credit and bank guarantee instruments so that they could carry out their business. Manufacturing is the specific activity of the entrepreneurs and they were selected for our research because of the complexity of crediting and guarantee instruments used in this field. At the same time, unlike other fields of activity, it is in manufacturing that the full range of lending and guarantee instruments

offered by banks is employed. Among the 43 selected entrepreneurs we identified 24 who financed their activity by credits and 19 who secured business by using letters of guarantee. The latter financed their business on the basis of the advance payments received from partners, their own sources and the amounts requested from banks in the process of the letters of guarantee execution.

It should be noted that the 24 entrepreneurs who had financed their business by credits also used, in their activity, letters of guarantee but at a rate that hardly exceeded 3% of the loans value. The 19 entrepreneurs who had secured their business by using letters of guarantee appealed to credits, too, but in a significantly smaller percentage, which did not exceed 6% of the value of letters of guarantee employed.

Besides the 43 entrepreneurs selected from the total number of 67 there was identified a total of 24 entrepreneurs who used both credits and letters of guarantee but to a relatively proportional extent. These entrepreneurs were working in other fields of activity not in manufacturing. Under these circumstances it was very difficult to quantify the influence of the two banking instruments upon the indicators analyzed, the results of research were not relevant and therefore they were not selected in the sample.

In conducting the research we used DIAFIN and RISC.ev software. The reason underlying our choice was the fact that these are some of the most complex educational software, allowing dynamic analysis of economic and financial indicators and cash flow. By way of data processing, the results allow a professional approach, similar to that carried out by software used in banks.

Entrepreneurs have provided year-end financial statements for 2009-2013. Based on these financial statements, using the DIAFIN and RISC.ev software, the key financial indicators and cash flows, and afterwards an average of these were calculated for the two groups of entrepreneurs under study, data being centralized in Table no. 1 and Table no. 2. Worth mentioning that these financial statements were the basis of analysis carried out by banks when these entrepreneurs were granted credits and guarantee.

Finally there we compared the results obtained by entrepreneurs who funded their business by means of loans and the results of the entrepreneurs who secured business by using letters of guarantee.

3. Data analysis and results highlight

Entrepreneurs who funded their business by means of loans used a wide variety of short-term, medium and long term loans. Among these, credit lines, object finance and overdrafts were the most common.

Entrepreneurs who secured business by using letters of guarantee, basically complied with a guarantee scheme which complied with the following stages: (1) The offer and the letter of guarantee to tender, issued either by the manufacturer's or customer's bank, depending on who holds the tender, are transmitted; (2) The trade agreement, with special provisions for issuing letters of advanced payment refund guarantee, of payment, of good performance and warranty, is signed; (3) The manufacturer's order is sent to his bank so that the letter of advanced payment refund guarantee be issued; (4) The letter of advanced payment refund guarantee is issued and sent to the buyer; (5) Advance payment is made in the manufacturer's account stipulated in the letter of advanced payment refund guarantee; (6) The manufacturer's order is sent to his bank so that the letter of good performance

guarantee be issued; (7) The letter of good performance guarantee is issued and sent; (8) The sender sends the order to his bank to issue a letter of payment guarantee; (9) The letter of payment guarantee is issued and sent; (10) Goods are delivered and services are provided; (11) The manufacturer's order to issue a letter of warranty is sent to his bank; (12) The letter of warranty is issued and sent.

After the key economic and financial indicators for the 2009-2013 period were calculated, based on the year-end financial statements, an average for the two study groups of entrepreneurs under study was made and centralized data can be found in Table no. 1 and Table no. 2.

Following the year-end financial statements processing of the 24 entrepreneurs under study who funded their business by way of loans we made a synthetic financial statement (Table no. 1). We specify that the table includes the indicators averages for the 24 entrepreneurs under study.

Table no. 1: The synthetic financial statement of the 24 entrepreneurs who, between 2009-2013, funded their business by way of loans

INDICATORS	2009	2010	2011	2012	2013
Sales of goods + production of exercise (thousands lei)	5171	4136	3447	2062	1184
Current result of the exercise (thousands lei)	521	471	414	226	100
Result before interest and income tax payments (thousands lei)	568	502	456	269	155
Net result of the exercise (thousands lei)	421	387	310	139	74
Value added Rate (%)	24.8	22.1	21.8	19.1	23.1
Operating net return (%)	15.0	16.1	13.1	12.3	13.3
Net financial return (%)	67.3	75.8	74.3	129.7	69.1
Interest covering (no.)	13.2	12.1	11.0	8.8	2.7
Total balance (thousands lei)	3072	2457	2048	962	793
Equity (thousands lei)	625	510	417	107	107
Total debts (thousands lei)	1902	1597	1354	855	685
Total financial debt (thousands lei)	762	599	508	151	105
Current liquidity (%)	76.9	65.3	51.1	47.0	35.1
Immediate liquidity (%)	38.1	27.1	26.1	22.1	18.2
Current solvency (%)	161.5	153.8	151.2	112.5	115.7
General indebtedness degree (%)	304.3	313.1	324.7	799.0	640.1
Financial indebtedness degree(%)	121.9	117.4	121.8	141.1	98.1
Net working capital (thousands lei)	-137	-141	-39	-152	-190
Required working capital (thousands lei)	-97	-160	-113	-142	-159

After the year-end financial statements of the 19 entrepreneurs who secured their transactions by way of bank letters of guarantee have been processed we made a synthetic financial statement (Table no. 2). We mention that the table includes the averages of indicators for the 19 entrepreneurs under study.

Table no. 2: The synthetic financial statement of the 19 entrepreneurs who, between 2009-2013, funded their business by way of bank letters of guarantee

INDICATORS	2009	2010	2011	2012	2013
Sales of goods + production of exercise (thousands lei)	4902	4311	3210	1916	1218
Current result of the exercise (thousands lei)	470	328	308	197	123
Result before interest and income tax payments (thousands lei)	487	351	328	211	132
Net result of the exercise (thousands lei)	410	295	276	178	111
Value added Rate (%)	21.2	19.1	18.9	22.0	21.0
Operating net return (%)	13.1	11.2	14.0	10.8	12.3
Net financial return (%)	68.4	51.7	54.7	45.5	39.6
Interest covering (no.)	37,9	28,2	26,1	24,5	16,9
Total balance (thousands lei)	3418	3216	2611	1113	904
Equity (thousands lei)	599	570	504	391	280
Total debts (thousands lei)	1812	1620	1211	709	510
Total financial debt (thousands lei)	110	127	98	56	62
Current liquidity (%)	160.1	157.2	170.1	147.1	137.4
Immediate liquidity (%)	101.2	97.1	80.0	72.1	68.1
Current solvency (%)	188.6	198.5	215.6	156.9	177.2
General indebtedness degree (%)	302.5	284.2	240.2	181.3	182.1
Financial indebtedness degree(%)	18.3	22.2	19.4	14.3	22.1
Net working capital (thousands lei)	-148	-98	-102	-138	-114
Required working capital (thousands lei)	120	147	87	58	105

The comparison of the data in the two tables reveals several issues worthy of consideration, namely:

- The sales of goods, production of exercise, current result of the exercise, result before interest and income tax payments, net result of the exercise registered significant decreases in all entrepreneurs in the sample. These negative developments during the period under review (2009-2013) were caused by the economic crisis materialized in the loss of traditional markets, the collapse of trading partners, buyers liquidity shortages, lower demand for products manufactured etc. The negative evolution of these indicators cannot be attributed to the influence of the two banking instruments analyzed in the paper and therefore we consider that a widening of their analysis is not relevant to our approach.

- Value added rate registers relatively constant values for both categories of entrepreneurs, fact that shows that, at the level of the relationship between goods sales and cost of goods, neither of the categories of entrepreneurs could significantly change anything because of the shock caused by the crisis.

- Net returns from operating registers relatively constant values for both categories of entrepreneurs, because both operating income and turnover have decreased in a similar rate.

- Net financial return in the case of entrepreneurs financed by bank loans is superior to that of entrepreneurs who had secured transactions through letters of guarantee.

- Interest coverage is superior in the case of entrepreneurs who secured transactions through letters of guarantee because the interest they paid was significantly lower. They financed their activities through loans only in a proportion of 6% of the value of letters of guarantee employed.

- The total balance indicator decreased by 74.3% in 2013 compared to 2009 in case of entrepreneurs financed by loans and 73.5% for entrepreneurs who secured transactions by letters of guarantee. Therefore we estimate that there is no difference between the two groups of entrepreneurs.

- Shareholders' equity decreased by 82.8% in 2013 compared to 2009 in the case of entrepreneurs financed by loans and 53.2% for entrepreneurs who secured transactions by letters of guarantee.

- Entrepreneurs who have secured their transactions through letters of guarantee registered very good levels of current liquidity ranging between 137.4% and 160.1, whereas at the level of entrepreneurs who financed their business by way of bank loans, current liquidity recorded values between 35.1% in 2013 and 76.9% in 2009.

- Immediate liquidity ratio that estimates even more accurately the entrepreneurs' ability to meet short-term liabilities because it does not take into account the value of stocks, records significant levels for entrepreneurs who have used letters of guarantee, ranging between 68.1% and 101.2%, while at the level of entrepreneurs financed through loans, immediate liquidity recorded values ranging from 18.2% in 2013 and 38.1% in 2009.

Although the two above mentioned indicators decreased year after year in the case of all entrepreneurs in the sample one can notice that with entrepreneurs who secured transactions by letters of guarantee, the levels of current liquidity and immediate liquidity were superior, which allowed them to cope better with short-term debt.

Entrepreneurs who used letters of guarantee have achieved some higher levels of quick and current liquidities because they registered positive cash flows throughout the period under study. This was possible because, where entrepreneurs buyers have not honoured their contract payment obligations, banks paid the amounts owed by them to entrepreneurs manufacturers.

- The required working capital of the entrepreneurs who used letters of guarantee is positive throughout the period under review, however, in case of other entrepreneurs it is negative throughout the period under study. The positive values of the required working capital are due to some higher levels of current assets compared to short-term debt levels. This was possible for entrepreneurs who secured sales by way of letters of payment guarantee because their current assets were supplied by banks when sellers failed to pay products and short term debts were much lower than those of the entrepreneurs financed by loans as there were no instalments on loans from banks.

Positive values of the required working capital were reflected ultimately in the achievement of positive cash flows for entrepreneurs who secured transactions through letters of guarantee.

- Entrepreneurs who secured transactions by letters of guarantee recorded a current solvency of 177.2% in 2013 compared to entrepreneurs financed by loans that reached a

level of 115.7% in 2013. Entrepreneurs financed by loans obtained a lower level of current solvency since total debt was higher because of the instalments due on loans.

- The overall indebtedness of entrepreneurs financed by loans was much higher as a result of loans to be repaid. Thus they registered a general indebtedness ranging between 304.3% and 799.0% in comparison to the entrepreneurs with a general indebtedness ranging between 181.3% and 302.5%.

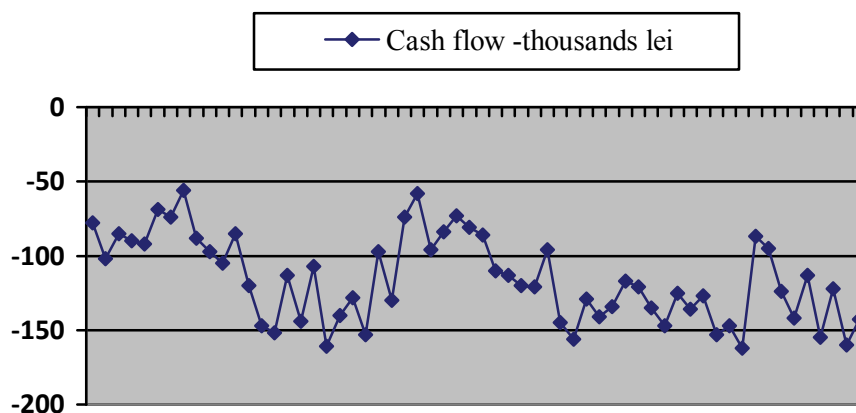
- The pressure of instalments led, in the case of the entrepreneurs financed by loans, to increased levels of financial indebtedness ranging between 98.1% and 141.1% compared to others that experienced significantly lower levels ranging between 14.3% and 22.2%.

The very high levels of overall and financial indebtedness of the entrepreneurs financed by loans determined a more and more difficult access to loans which entailed the risk of activity blockage by disrupting the financing lines.

For the relevance of the results obtained by the two groups of entrepreneurs under study in the issue of cash flow, this was calculated on a monthly basis - the DIAFIN software was employed - for the 2009-2013 period (60 months), whereupon an average for each group of entrepreneurs was made, the results being shown in charts no. 1 and 2.

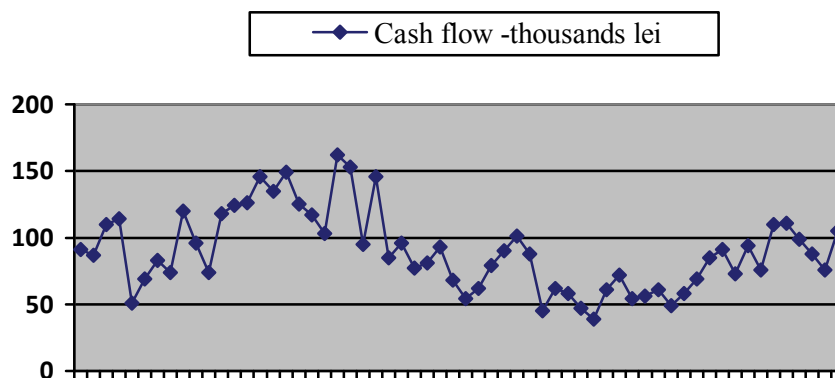
The monthly average cash flow in case of the entrepreneurs who funded their business by bank loans was negative throughout the period. The monthly average cash flow of entrepreneurs who secured their business by letters of guarantee was positive throughout the period.

The fact that entrepreneurs who employed letters of guarantee recorded positive cash flow values is primarily due to the regularity with which they collected contractual amounts from customers. The issuance of the letter of payment guarantee by the customers' bank for manufacturers, made the latter confident that they would cash their contractual amounts. Where entrepreneurs qua customers failed to honour their payment obligations, the banks that issued letters of payment guarantee paid from their own treasury the manufacturers.



The months between 2009-2013 are indicated on the horizontal axis

Chart no. 1: Graphical representation of the monthly average cash flows registered between 2009-2013 in the case of entrepreneurs who financed their business by bank loans



The months between 2009-2013 are indicated on the horizontal axis

Chart no. 2: Graphical representation of the monthly average cash flows registered between 2009-2013 in the case of entrepreneurs who secured their business by letters of guarantee

The cash flow positive values were also generated by the fact that entrepreneurs in their capacity of manufacturers used letters of advanced payment refund guarantee as some genuine financing instruments as they financed business with the customers' advance payments. Entrepreneurs qua customers, in their turn, were certain to regain their advances in case manufacturers failed to honour their obligation of delivery. This certainly was granted by the letters of advanced payment refund guarantee issued by the manufacturers' banks for customers.

The successful businesses of those entrepreneurs who used letters of guarantee was also due to the fact that in the guarantee scheme there were observed several principles, namely:

- *Guarantee letters were sent through banking channel.* This allowed authenticity of the issuing banks signatures be verified. Under these circumstances each letter of guarantee contained an identifying provision, according to which the request to execute it must reach the issuing bank through a leading bank.
- *The form and contents of the letters of guarantee were drafted following a pattern of the letters of guarantee issued by Swiss banks.*
- *Compliance with the conditions of form and content:* authorizing officer and beneficiary, object of guarantee, value of guarantee, form of bank commitment, payment terms and conditions, period of validity, discount clause, identifying clause, legislation clause.
- *In the case of the advanced payment refund letters, the validity clause was determined by the actual recording of advance payment in the manufacturer' account opened with the issuing bank.* The discount clause states that the amount of the guarantee

will decrease by a percentage quota of each delivery value, the quota being equal to the advance payment. In this case the validity of the guarantee automatically covered the whole delivery period. In practice there were cases when taking advantage of the guarantee buyer's lack of experience, they stipulated that the guarantee amount decreases by the value of commodities delivered. The guarantee value equalled the advance value but the indication of interest payment, calculated from the date of advance payment remittance to the guarantee payment date, was also stipulated.

- *The letter of guarantee payment was considered as a guarantee instrument and not as a payment one.* The purpose of this type of letter was misunderstood by Romanian companies' employers, who, by their attitude towards its execution, considered it rather a payment instrument. Thus, there were arrears in the payment of amounts stipulated in the contract and banks paid from their own treasury. A guarantee execution creates a negative image of the issuing bank among correspondent banks. The validity clause must be conditioned by the time of goods delivery or provision of services, situation where the application of guarantee execution is submitted concurrently with the documents certifying delivery of goods or services.

Practice shows more and more situations where the guarantee is not conditioned by the dispatch documents submission, in which case there is the risk to execute the letter of guarantee and goods and services are not delivered or provided. This occurs in international practice in order to protect the letters of guarantee beneficiaries of any hindrances raised by banks in countries with a higher risk in the process of their execution.

- *Letters of guarantee for good execution* issued by manufacturers' banks in favour of entrepreneurs qua customers represented a counterweight to letters of good payment guarantee issued by customers' banks in favour of manufacturers. Thus customers were sure that manufacturers would fulfil their contract obligations in the amount and within the time stipulated in commercial contracts (Firică, 2011).

- *The coverage of the risks faced by entrepreneurs qua customers after goods were delivered was achieved by letters of good performance guarantee.* Entrepreneurs qua customers negotiated as much as possible the issuing of a technical guarantee, so much the more domestic market which absorbed the products concerned, rejected products of low quality and poor warranty period. Guarantee validity covered entirely the technical guarantee the buyer granted for the products subsequently offered for sale on the domestic market.

Conclusions

Previous research in the field have addressed the issue of cash flow in the entrepreneurs evolution highlighting its impact on business financing (Dincă, 2007; Bogliacino and Cardona, 2010; Becker and Jagadeesh, 2010; Colombo et al., 2013; Collett et al., 2014).

As early as 2003 the National Bank of Romania has brought the issue of creating the proper framework to develop some bank instruments based on methods of analysis and evaluation founded on cash flows forecast (Banca Națională a României, 2003).

The use of letters of guarantee secures the commercial contracts between entrepreneurs, the main consequence being the attainment of positive cash flow which allows entrepreneurs to turn to bank loans to a lesser extent.

In the context of financial crisis that started in 2008, the requirement to decrease entrepreneurs' indebtedness, to further finance business activity and generate cash flows determined the Executive Council of the International Chamber of Commerce to pay more attention to letters of guarantee and adopt, on December 4, 2009, for the first time in 18 years, the revision of the Uniform Rules for Demand Guarantees.

Under these circumstances, the study carried out in our paper highlights two types of financing policies implemented between 2009-2013 by entrepreneurs in partnership with banks. One policy targeted the cash flow deficit financing through the instrumentality of bank loans on short, medium and long term with unsatisfactory results upon the economic-financial indicators and cash flow. This policy, has primarily resulted in the negative cash flows obtained by entrepreneurs and, secondly, in the achievement of certain economic and financial indicators that led to the access to the credit market restriction. A latter policy aimed to secure the entrepreneurs' transactions by letters of guarantee. Its results have led to positive cash flows and a level of the economic- financial indicators that allows access to financing.

To secure the entrepreneurs transactions by letters of guarantee becomes a prerequisite for creating entrepreneurial partnerships within a constantly changing business environment where risks are becoming increasingly complex. Elimination of all risks arising from the letters of guarantee execution was, in the past 18 years, a challenge both for authorities and researchers in the field.

The Secretary General of the International Chamber of Commerce, referring to the revision of the Uniform Rules for Demand Guarantees, asserted, during the New Delhi meeting of 4 December that "this joint effort has paid off, producing regulations that reflect a broad consensus among bankers, users and all members of the guarantee community. This is the result of an ambitious project to create a new set of rules, for the 21st century, that are clearer, more accurate and comprehensive, warranting the best balance so far between the interests of the competing parties and the opportunity to achieve this in innovative ways."

Through a more active involvement of banks in implementing certain cash-flow – based financing policies, one can establish a partnership relationship between banking and national entrepreneurs targeting the simultaneous development of both entrepreneurs and lending resources at banking level.

Since entrepreneurship is the cornerstone of a modern, competitive economy and the banking system is the backbone of the national economy as well as the link between national and European entrepreneurs, the premises for entrepreneurship and business environment development at micro, macro and international level can be created.

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