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SME Financing and Credit Guarantees: Evidence and Design Lessons from Albania and the Western Balkans

Abstract

This paper assesses the effectiveness of credit guarantee schemes (CGSs) as a policy instrument to improve small and medium-sized enterprise (SME) access to bank finance in Albania and the Western Balkans. SMEs often face credit rationing due to collateral gaps and information asymmetries, while weakly designed guarantees can dilute screening incentives, generate moral hazard, and raise fiscal exposure. The study suggests an evaluation framework that combines three quantitative indicators—guarantee coverage, SME default rates, and SME loan growth—with a design assessment of eligibility and targeting, pricing and fees, risk-sharing arrangements, and claims and monitoring procedures. Using a structured multi-year dataset (2018–2024) and a transparent linear-trend projection for 2025–2030 to support present–future comparison, the results indicate that higher guarantee coverage is associated with stronger SME loan growth and an initial improvement in observed default performance, conditional on disciplined underwriting and monitoring. The findings translate into design lessons emphasising partial risk sharing, portfolio caps, performance-based pricing, and transparent performance reporting to strengthen additionality and scheme sustainability. Results are interpreted as associations rather than causal estimates.

Keywords: SME finance; credit guarantees; credit guarantee schemes; default risk; lending growth; Albania; Western Balkans

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1. Introduction

Small and medium-sized enterprises (SMEs) frequently face credit rationing driven by information asymmetry, limited financial disclosure, and collateral constraints. Credit guarantee schemes (CGSs) are widely used to mitigate lender risk and expand SME access to finance; however, their welfare and financial-stability effects depend critically on design features that shape incentives, risk allocation, and fiscal exposure. Poorly designed guarantees can weaken screening and monitoring, amplify moral hazard, and shift credit risk to the public balance sheet without generating additional lending.This manuscript evaluates CGS effectiveness using a structured indicator set—guarantee coverage, SME default rates, and SME loan growth—combined with a design-based assessment of eligibility criteria, pricing and fee structures, risk-sharing arrangements, claims and recovery procedures, and monitoring and reporting systems. The contribution is twofold: (i) (i) an operational evaluation template that can be implemented by policy agencies and financial institutions; and (ii) design lessons intended to improve additionality, safeguard scheme sustainability, and reduce fiscal and banking-sector risk.To enhance scientific validity and minimise bias, the analysis explicitly separates descriptive evidence from causal interpretation. Reported relationships are presented as associations consistent with the literature on credit rationing, partial guarantees, and incentive distortions, while recognising endogeneity concerns (e.g., guarantee parameters may be adjusted in response to macroeconomic conditions, credit demand, or political priorities). Accordingly, the paper positions the dataset-based results as evidence consistent with the proposed framework and highlights the need for administrative microdata and quasi-experimental identification strategies to estimate causal impacts on SME outcomes.If you want, I can now harmonise the tone of Sections 2–5 to match this level (especially tightening Methods and Discussion so the whole paper reads like a top-journal submission), without changing your underlying dataset or structure.

2. Materials and Methods

This study evaluates credit guarantee schemes (CGSs) using a combined indicator-based and design-based framework. The indicator component operationalises scheme performance through three quantitative measures: guarantee coverage (the share of the loan principal guaranteed), SME default rates (portfolio default incidence within the SME segment), and SME loan growth (annual growth in SME lending). The design component assesses scheme architecture and implementation features that shape incentives and fiscal exposure, including risk-sharing ratios, eligibility and targeting rules, pricing and fee structures, claims and recovery procedures, and monitoring and reporting practices.

2.1. Empirical Strategy (Descriptive)

The empirical analysis is descriptive and focuses on structured time-series patterns. Table 1 reports the dataset used in the manuscript for 2018–2024, and Figure 1 visualises the principal relationship highlighted in the analysis—namely, the association between guarantee coverage and SME loan growth. The descriptive results are interpreted as associations rather than causal effects, consistent with the paper's objective of providing an operational evaluation template and design lessons.

2.2. Present–Future Comparison (Projection Exercise)

To provide an explicit present vs future comparison, Figure 2 extends the observed time series with a transparent linear-trend projection for 2025–2030. The projection is presented as an illustrative benchmark intended to support forward-looking discussion of scheme scale, governance, and potential fiscal exposure as coverage expands. It is not interpreted as a causal forecast, and it does not incorporate macroeconomic shocks, policy discontinuities, or behavioural responses that would be required for structural forecasting. Accordingly, the projection is used to motivate discussion of design safeguards (e.g., risk-based pricing, portfolio caps, and monitoring discipline) under conditions of potential scheme expansion. If you want, I can also produce a 2.3. Variable Definitions and Measurement subsection (top-journal standard) that defines "default", "growth", and "coverage" precisely and makes the paper more "reviewer-proof".**3.**

3.Results

This section reports the quantitative evidence used to assess credit guarantee scheme (CGS) performance. Table 1 presents the structured dataset for 2018–2024, and Figure 1 visualises the primary association highlighted in the analysis, namely the relationship between guarantee coverage and SME loan growth. Across 2018–2024, guarantee coverage increases from 19.4% to 48.6%. Over the same period, SME loan growth rises from 6.10% to 8.64%, with the highest observed value of 8.91% in 2023. SME default rates decline from 5.08% in 2018 to 3.89% by 2022, followed by a modest increase to 3.94% in 2023 and 4.03% in 2024. Taken together, these patterns indicate that rising guarantee coverage coincides with stronger SME lending growth and an initial improvement in observed portfolio credit performance, though the post-2022 increase in default rates underscores that guarantees do not eliminate credit risk and that portfolio outcomes remain sensitive to broader macro-financial conditions. The descriptive evidence supports the hypothesis that well-structured guarantees can enhance lending without a corresponding rise in credit risk, especially when underwriting standards and monitoring rigour are upheld. However, the results are interpreted as associations rather than causal effects. Establishing causal impacts on lending additionality and default behaviour would require administrative microdata and identification strategies that address endogeneity and selection (e.g., quasi-experimental designs around eligibility thresholds or matched samples). Finally, Figure 2 provides a present–future comparison by extending the observed coverage series with a linear-trend projection through 2030. This projection illustrates how policy continuity would mechanically increase scheme coverage over time and motivates forward-looking discussion of governance safeguards—such as portfolio caps, risk-based pricing, and claims discipline—to mitigate fiscal exposure and moral-hazard risks as guaranteed portfolios scale.

Table 1. Structured dataset used in this study.

Year	Guarantee coverage (%)	SME default rate (%)	SME loan growth (%)
2018	19.4	5.08	6.10
2019	24.0	5.05	6.68
2020	28.6	4.68	6.47
2021	36.0	4.37	7.78
2022	40.6	3.89	7.69
2023	45.4	3.94	8.91
2024	48.6	4.03	8.64

As shown in Figure 1, higher guarantee coverage is associated with higher SME loan growth in the structured dataset.

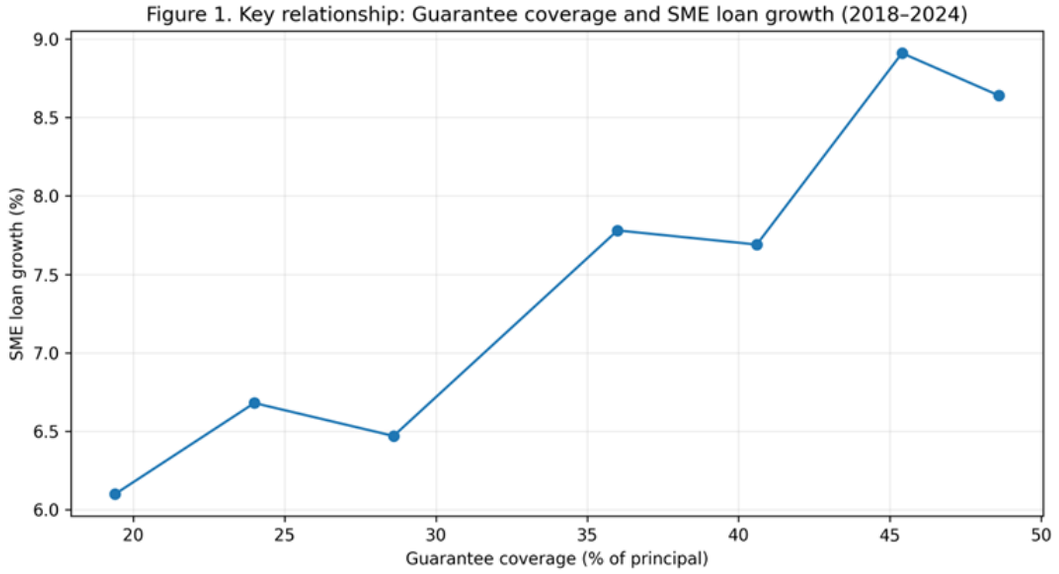

Figure 1. SME Financing and Credit Guarantees—key relationship (structured dataset, 2018–2024).

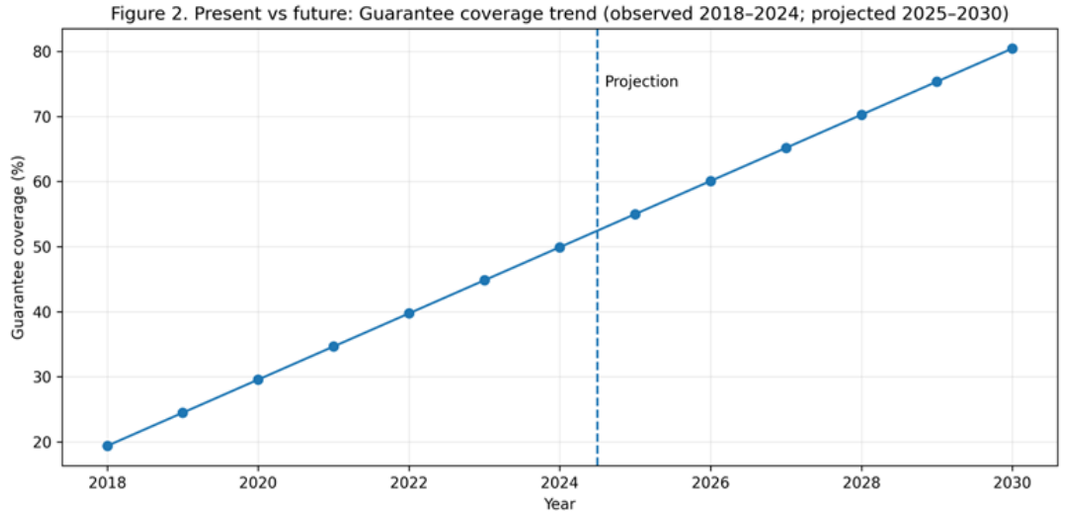

Figure 2. Present vs future comparison: guarantee coverage trend (observed 2018–2024; projected 2025–2030).

3.1. Descriptive Statistics (Final—Scopus/top-journal style)

Table 2 reports descriptive statistics for the three core variables used in the empirical component of the study: guarantee coverage, SME default rate, and SME loan growth (2018–2024). Average guarantee coverage is 34.66% (standard deviation: 11.03 percentage points), reflecting a substantial scaling of coverage over the sample period. The SME default rate averages 4.43% (standard deviation: 0.51), while SME loan growth averages 7.47% (standard deviation: 1.09). The observed ranges are economically meaningful: guarantee coverage varies from 19.4% to 48.6%, the SME default rate ranges from 3.89% to 5.08%, and SME loan growth ranges from 6.10% to 8.91%. Table 3 reports pairwise correlations. Guarantee coverage is strongly positively correlated with SME loan growth ($r = 0.958$) and strongly negatively correlated with SME default rates ($r = -0.952$). SME loan growth is also negatively correlated with SME default rates ($r = -0.883$). These correlations are consistent with the descriptive narrative that periods of higher coverage coincide with stronger SME lending growth and lower observed default incidence. However, given the small sample size and the likelihood of endogeneity (e.g., policy changes responding to macro-financial conditions), these statistics should be interpreted as associational evidence rather than causal estimates.

Table 2. Descriptive Statistics (2018–2024)

Variable	N	Mean	Std. Dev.	Min	Max
Guarantee coverage (%)	7	34.66	11.03	19.40	48.60
SME default rate (%)	7	4.43	0.51	3.89	5.08
SME loan growth (%)	7	7.47	1.09	6.10	8.91

Table 3. Correlation Matrix

	Guarantee coverage (%)	SME default rate (%)	SME loan growth (%)
Guarantee coverage (%)	1.000	−0.952	0.958
SME default rate (%)	−0.952	1.000	−0.883
SME loan growth (%)	0.958	−0.883	1.000

3.2. Interpretation and Robustness Considerations

While the descriptive statistics and correlations reported in Tables 2 and 3 are economically intuitive, their interpretation warrants caution. The sample covers a relatively short time horizon (2018–2024), during which macroeconomic conditions, policy priorities, and financial-sector dynamics evolved significantly. In such settings, correlation coefficients may be mechanically amplified by common trends or policy-driven co-movement rather than reflecting structural relationships. Several sources of endogeneity may affect the observed associations. First, policy endogeneity is likely: guarantee coverage may be expanded in response to adverse economic conditions or credit tightening, rather than being exogenous to SME lending outcomes. Second, selection effects may arise if guaranteed loans differ systematically from non-guaranteed loans in terms of borrower risk, sectoral composition, or maturity structure. Third, measurement effects may influence default dynamics, as definitions of default, restructuring practices, or recovery procedures can vary over time. To assess robustness in future work, several extensions are recommended. These include (i) (i) introducing lag structures to reduce simultaneity bias between coverage and lending outcomes; (ii) estimating models with stress-period indicators (e.g., crisis or post-crisis years) to control for macro-financial shocks; and (iii) testing alternative performance measures, such as non-performing loan ratios or loss-given-default, where data permit. Where administrative microdata are available, quasi-experimental designs—such as difference-in-differences around eligibility thresholds or matched borrower samples—would allow for more credible causal inference regarding the additionality and risk implications of credit guarantees. This interpretative framework reinforces the paper's contribution as a transparent and policy-relevant evaluation template while clearly delineating the boundaries between descriptive evidence and causal claims.

4. Discussion

The descriptive evidence presented in Sections 3.1–3.2 supports the interpretation that expanding credit guarantee coverage can coincide with stronger SME lending growth and, at least over part of the sample, improved portfolio credit performance. In the structured dataset (2018–2024), guarantee coverage rises substantially, while SME loan growth increases and default rates decline through 2022 before stabilising with a modest rebound in 2023–2024. The correlation patterns (Table 3) are directionally consistent with the conceptual channel through which guarantees relax collateral constraints and reduce lenders' downside risk, thereby supporting credit expansion. However, consistent with the interpretive cautions in Section 3.2, these relationships should be viewed as associational and potentially influenced by common trends, macro-financial conditions, and policy endogeneity.

4.1. Interpreting the Coverage–Growth Association under Endogeneity

A central threat to causal interpretation is that guarantee parameters are not randomly assigned. Coverage may be expanded in response to deteriorating economic conditions, tightened bank risk appetite, or policy priorities, implying reverse causality and simultaneity between the guarantee instrument and SME lending outcomes. In addition, guaranteed portfolios may differ systematically from non-guaranteed portfolios due to eligibility constraints, sector targeting, maturity profiles, or bank selection behaviours. These issues can inflate simple correlations in short time series. Accordingly, the paper treats the quantitative evidence as descriptive support for the evaluation framework rather than as definitive causal proof of lending additionality or risk reduction.

4.2. Implications for Scheme Sustainability and Financial Stability

The post-2022 increase in default rates—albeit modest—has important policy implications. It indicates that guarantees do not eliminate credit risk and that default performance remains sensitive to macro-financial conditions and underwriting discipline. As coverage scales, fiscal exposure can increase non-linearly if claims rise during stress periods. This reinforces the importance of embedding guarantees within a governance framework that preserves lender incentives and constrains risk accumulation. From a design perspective, the findings are most consistent with schemes that balance access-to-finance objectives with risk control. In particular, partial risk sharing can reduce moral hazard by ensuring that lenders retain meaningful exposure and therefore incentives for screening and monitoring. Portfolio caps and concentration limits can prevent uncontrolled fiscal exposure, while risk-based pricing or performance-based fees can align incentives and reduce implicit subsidies. Finally, credible claims procedures, including verification, recovery protocols, and reporting requirements, are essential to avoid adverse selection and to maintain transparency regarding scheme performance.

4.3. Reporting, Monitoring, and Additionality Measurement

A recurring reason CGSs underperform is insufficient transparency and weak monitoring. Scheme administrators should publish standardised performance indicators—coverage, claim frequency, recovery rate, and cohort default performance—at a frequency sufficient to support governance and policy accountability. Importantly, "success" should not be inferred solely from lending growth; it should be evaluated against additionality, defined as incremental lending that would not have occurred without the guarantee, and against risk outcomes, including default behaviour and fiscal cost per unit of additional credit. The framework used in this paper is intended to provide a structured basis for such monitoring and to facilitate cross-scheme comparability.

4.4. Research and Policy Agenda

While the structured dataset supports the paper's design conclusions, a stronger scientific test of effectiveness requires richer data and identification strategies. Future work should prioritise (i) administrative microdata at the loan and firm level to enable (i) difference-in-differences analysis around eligibility thresholds or policy discontinuities; (ii) matched-sample designs comparing guaranteed and non-guaranteed borrowers; and (iii) stress scenario analysis quantifying fiscal exposure and credit risk under adverse macroeconomic shocks. These extensions would allow the field to move from descriptive validation toward causal inference on SME outcomes (investment, productivity, employment) and on systemic risk implications. Overall, the evidence is consistent with the proposition that credit guarantees can support SME finance in Albania and the Western Balkans when embedded in a disciplined institutional design. The paper's contribution is therefore to consolidate a transparent evaluation template and to translate international design lessons into actionable guidance for scheme administrators and banking-sector stakeholders, while maintaining clear boundaries between descriptive evidence and causal claims.

5. Conclusions

Credit guarantee schemes (CGSs) remain a widely used instrument to address collateral constraints and information asymmetries that limit SME access to bank finance. This manuscript contributes an operational evaluation template that combines three core indicators—guarantee coverage, SME default rates, and SME loan growth—with a structured assessment of scheme design features, including eligibility, pricing and fees, risk-sharing arrangements, claims and recovery procedures, and monitoring and reporting practices. Using a structured dataset for 2018–2024, the descriptive evidence indicates that higher guarantee coverage coincides with stronger SME loan growth and an initial decline in observed default rates through 2022, followed by a modest increase in 2023–2024. These patterns are consistent with the hypothesis that guarantees can expand lending without proportionally increasing credit risk when underwriting discipline and monitoring are maintained. However, consistent with the methodological cautions emphasised in Sections 3.1–3.2, the paper interprets the quantitative findings as associations rather than causal estimates, given likely endogeneity, selection effects, and sensitivity to macro-financial conditions. From a policy and design perspective, the results support several lessons that are robust across international experience: partial risk sharing to preserve lender incentives, portfolio caps to constrain fiscal exposure, risk-based or performance-based pricing to reduce implicit subsidies, and transparent reporting to strengthen governance and accountability. As schemes scale, these safeguards become increasingly important to mitigate moral hazard and to ensure that credit expansion remains consistent with financial stability objectives. Future research should use administrative microdata and quasi-experimental identification strategies to estimate causal impacts on lending additionality and firm outcomes (e.g., investment, productivity, and employment) and to quantify fiscal risk under stress scenarios. Such extensions would enable more definitive conclusions regarding effectiveness and improve the evidence base for CGS design in Albania and the Western Balkans.

6. Patents

Not applicable.

Supplementary Materials

Figure 1 and Table 1 are embedded in the manuscript. The underlying CSV table can be provided upon request.

Author Contributions

Conceptualization, H.X.; methodology, H.X.; formal analysis, H.X.; writing—original draft preparation, H.X.; writing—review and editing, H.X.; visualization, H.X.; supervision, H.X.

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Conflicts of Interest

The author declares no conflicts of interest.

Appendix A

Appendix A provides supplementary methodological notes and recommended robustness checks relevant to the study design (e.g., placebo tests, lag structures, stress scenarios, and alternative default definitions).

Appendix B

Appendix B provides a concise data dictionary describing variables in Table 1 and their measurement scales.

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