
Bank Perceptions of Credit Guarantee Schemes in SME Lending: The Case of Albania

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Abstract

Credit guarantee schemes (CGSs) are a widely used policy tool to ease small and medium-sized enterprises' (SMEs) access to bank finance, particularly in environments where collateral constraints and information asymmetries are severe. Despite their growing importance, there is limited evidence on how commercial banks perceive and use these schemes in emerging markets such as Albania. This paper explores bank perceptions of CGSs in SME lending, drawing on semi-structured interviews with SME credit managers in seven second-tier banks operating in Albania. The analysis focuses on three dimensions: the perceived role of CGSs in relaxing credit constraints and generating additionality, their impact on loan terms and portfolio performance, and the operational challenges associated with their use. The findings suggest that banks view CGSs as a dual instrument that both expands access to finance and reduces credit risk, with donor-funded schemes perceived as more effective and predictable than temporary sovereign guarantee schemes. Interview evidence points to lower non-performing loan ratios for guaranteed portfolios, but limited pass-through of risk mitigation into lower interest rates for borrowers. Banks also report implementation challenges, including product alignment, eligibility criteria and administrative burdens, and offer concrete recommendations to improve scheme design. The paper contributes to the literature by providing bank-level qualitative evidence from a Western Balkan economy and by deriving policy implications for the future development of guarantee schemes in Albania.

Keywords: SMEs; credit guarantee schemes; bank perceptions; access to finance; Albania; SME lending.

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are widely recognized as key contributors to employment, value added and innovation, yet they face persistent constraints in accessing external finance, particularly bank credit. These constraints are especially acute in emerging and developing economies, where weak collateral frameworks, limited credit information and high transaction costs reinforce banks' conservative lending practices and collateral-based credit decisions. Credit guarantee schemes (CGSs) have therefore become a central policy instrument to mitigate lender risk and support SME lending, by providing partial guarantees on bank loans while leveraging relatively modest amounts of public resources (OECD, 2018; World Bank, 2015).

In Europe and beyond, the use of CGSs expanded markedly in the aftermath of the global financial crisis and again during the Covid-19 pandemic, as governments introduced emergency guarantee windows to stabilize credit flows to smaller firms

(OECD, 2020; Asdrubali & Signore, 2015). International organizations such as the World Bank, the OECD and the Financial Stability Board have documented the rapid proliferation of schemes and have issued principles and guidelines for their sound design, governance and evaluation (World Bank, 2015; OECD, 2018; FSB, 2015). Much of the existing evidence, however, focuses on mature systems in advanced economies, often assessing impact at the firm level or using administrative data from large, well-established guarantee institutions (Asdrubali & Signore, 2015; Agnese, 2019; Mullins & Toro, 2018).

By contrast, less is known about how commercial banks in smaller emerging markets perceive credit guarantee schemes and integrate them into their SME lending strategies. Albania offers a particularly interesting case in this regard. Over the past decade, several guarantee schemes have operated in the country, including donor-supported facilities and public guarantee windows introduced by the Albanian government in response to the Covid-19 crisis. Recent assessments of credit guarantee schemes in Albania point to both the potential of these instruments to support SME finance and the challenges related to scheme design, eligibility criteria, administrative procedures and claim management (World Bank, 2020). At the same time, empirical evidence on how banks actually use these schemes, and how they assess their effectiveness and constraints, remains scarce (Agnese, 2019; World Bank, 2020).

This paper addresses this gap by examining the perceptions and experiences of second-tier banks with credit guarantee schemes in SME lending in Albania. It draws on semi-structured interviews with SME credit managers in seven commercial banks to investigate how banks view the role of CGSs in easing access to finance, how guarantees affect loan terms and portfolio quality, and what operational constraints and design features shape banks' willingness to use these instruments. By focusing on the lender perspective, the paper complements existing firm-level and scheme-level evaluations and contributes to a more nuanced understanding of how CGSs function within the Albanian financial system (World Bank, 2020).

The remainder of the paper is organized as follows. Section 2 sets out the research questions and contribution. Section 3 reviews the relevant literature on SME finance and credit guarantee schemes, with a particular focus on bank behavior and perceptions. Section 4 presents the institutional context of CGSs in Albania. Section 5 describes the data and methodology. Section 6 discusses the empirical findings from the interviews. Section 7 concludes and outlines policy implications for the design and implementation of credit guarantee schemes in Albania.

2. RESEARCH QUESTIONS AND CONTRIBUTION

Building on the international literature on SME finance and credit guarantee schemes, this paper is guided by three main research questions (OECD, 2018; World Bank, 2015).

Research Question no.1: How do Albanian banks perceive the role of credit guarantee schemes in easing SMEs' access to finance and generating additionality in SME lending?

Research Question no.2: How do credit guarantee schemes affect the terms and risk profile of SME loans from the perspective of banks (interest rates, maturity, loan size and portfolio performance)?

Research Question no.3: What operational challenges and design features shape banks' use of credit guarantee schemes, and what improvements do banks recommend for the Albanian context?

The paper contributes to the literature in three ways. First, it provides qualitative evidence on bank perceptions of CGSs in a Western Balkan economy, complementing predominantly quantitative evidence from larger European systems. Second, it links bank-level experiences to international principles for public CGSs, highlighting where Albanian schemes align with or diverge from emerging good practice. Third, it offers policy recommendations tailored to Albania's institutional context, based on detailed interview data from seven second-tier banks that are active in SME lending.

3. LITERATURE REVIEW

A large body of research documents that SMEs face greater difficulties than large firms in accessing bank credit, due to higher information asymmetries, lack of collateral and higher perceived risk (Beck & Demirgüç-Kunt, 2006; Berger & Udell, 2006). In many countries, especially emerging markets, lenders rely heavily on collateral-based lending technologies and standardized scoring models, which can disadvantage younger and smaller firms with limited tangible assets or short credit histories (Beck et al., 2008; De la Torre et al., 2010). Empirical studies consistently find that collateral requirements, high interest rates and short maturities are among the main obstacles reported by SMEs when seeking bank loans (World Bank, 2011; OECD, 2018).

Credit guarantee schemes were introduced as a policy response to these constraints, aiming to share credit risk between the state (or donors) and private lenders while preserving banks' screening and monitoring functions (Honohan, 2010; World Bank, 2015). In a typical CGS, a guarantor covers a pre-specified share of the lender's losses on defaulted loans, subject to eligibility criteria and guarantee caps. Well-designed schemes can generate "additionality," meaning that they enable loans that would not otherwise be granted, or improve loan terms for eligible firms (OECD, 2018; Zecchini & Ventura, 2009).

The design of CGSs involves several key parameters, including coverage ratios, pricing, eligibility rules, claim procedures and governance arrangements (World Bank, 2015; FSB, 2015). International guidelines stress the importance of sound risk-sharing, financial sustainability, transparent reporting and regular evaluations to avoid moral hazard and ensure that schemes effectively reach constrained but viable SMEs (OECD, 2018; World Bank, 2015).

Empirical studies on the impact of CGSs have expanded in recent years, particularly in Europe and East Asia. Using micro-data from EU-level and national schemes, researchers find that guaranteed firms often experience higher loan volumes and, in some cases, improved performance outcomes relative to comparable non-beneficiaries (Asdrubali & Signore, 2015; Agnese, 2019). Similar evidence from East Asian and emerging markets suggests that CGSs can support firm survival, growth and investment, although results vary depending on scheme design and implementation quality (GIZ, 2015; Oussouadi et al., 2024). At the same time, several evaluations highlight that guarantees do not always translate into significantly lower interest rates for borrowers, as lenders may retain pricing power or use guarantees primarily to relax collateral requirements rather than to reduce overall borrowing costs (Asdrubali & Signore, 2015; Mullins & Toro, 2018). In the case of Albania, Lika, Agaj, and Lleshaj (2024) analyse a sample of SMEs benefiting from a credit guarantee scheme and find improvements in key financial indicators after the guarantee is granted, suggesting positive real effects of CGSs on firm performance in the local context.

A smaller but growing strand of the literature examines banks' behavior and perceptions in relation to CGSs. Studies suggest that banks may view guarantees as a way to expand lending to riskier or under-served segments while managing regulatory capital and provisioning requirements (Columba et al., 2010; Beck et al., 2010). However, operational complexity, administrative burdens and uncertainty about claim enforcement can limit banks' willingness to use guarantee products (GIZ, 2015; World Bank, 2015). Survey-based work indicates that banks value predictable, standardized schemes with clear rules and efficient claim procedures, while ad hoc or politically driven programmes may be perceived as less reliable (OECD, 2018; FSB, 2015).

Understanding banks' perceptions is therefore critical to interpreting the real-world functioning of CGSs and to explaining differences between scheme design on paper and actual utilization in practice. This perspective is particularly relevant in markets where multiple schemes coexist and where institutional capacity and legal frameworks are still evolving.

Evidence on CGSs in transition and Western Balkan economies is more limited but growing. Regional studies point to structural SME financing gaps, underdeveloped capital markets and a high reliance on bank credit (OECD, 2019; World Bank, 2020). Several countries in the region have introduced guarantee schemes with donor support, often focusing on export-oriented SMEs, innovation or green investment (EIB, 2014; EU–EBRD, 2026). Assessments for Albania highlight a fragmented landscape of schemes, relatively low utilization rates in some programmes and implementation challenges related to eligibility criteria, communication with banks and claim processing (World Bank, 2020). At the firm level, recent evidence shows that guaranteed SMEs in Albania experience better financial performance after receiving support, reinforcing the view that CGSs can have tangible real-sector effects (Lika et al., 2024). However, systematic evidence on how banks themselves perceive these schemes and incorporate them into SME lending remains scarce, which motivates the present study.

4. INSTITUTIONAL CONTEXT: CREDIT GUARANTEE SCHEMES IN ALBANIA

Albania's financial system is bank-dominated, with commercial banks accounting for the vast majority of credit to the private sector (World Bank, 2020). SMEs constitute a large share of registered enterprises and employment, but their access to formal finance has historically been constrained by informality, limited financial reporting and a strong reliance on collateral in bank lending (Dushku, 2025). In this context, a number of credit guarantee schemes have been established over the past decade to support SME financing. One of the key instruments is the Albanian Development Guarantee Foundation (ADGF), which provides guarantees to partner banks for SME loans, sharing credit risk and aiming to ease collateral constraints (World Bank, 2020). ADGF and related facilities have been supported by international donors and operate with defined coverage ratios, eligibility criteria and reporting requirements, positioning themselves as specialized guarantee instruments consistent with international practice (World Bank, 2015; World Bank, 2020). In addition to these structures, Albanian banks have participated in regional or EU-backed guarantee facilities such as those of the European Bank for Reconstruction and Development (EBRD) and the European Investment Fund (EIF), including programmes like COSME that provide partial guarantees for SME lending (Asdrubali & Signore, 2015; EIB, 2014).

During the Covid-19 pandemic, the Albanian government introduced sovereign guarantee schemes to support firms affected by the crisis, including specific windows for

salaries and working capital. These schemes typically offered partial guarantees on new loans, combined with caps on interest rates and defined implementation periods. While they helped maintain credit flows during the crisis, available assessments point to challenges related to administrative procedures, eligibility rules and, in some cases, delays or disputes in claim settlement (World Bank, 2020).

Recent initiatives at the European level, such as the EU–KfW and EU-EBRD guarantee facility launched in 2026 to support Albanian SMEs and green projects, indicate a continued policy emphasis on risk-sharing mechanisms to foster SME lending and sustainable investment (EU–KfW-EBRD, 2026). Overall, Albania thus presents a heterogeneous landscape of guarantee instruments—donor-funded, EU-backed and sovereign—which interact with banks’ own risk management frameworks and SME strategies. Understanding how banks navigate this landscape, which schemes they prefer and why, and how they perceive the benefits and costs of participation, is essential for designing more effective CGSs in the future.

5. METHODOLOGY

5.1 Research design

Given the exploratory nature of the research questions and the focus on perceptions and experiences, the study adopts a qualitative research design based on semi-structured interviews with bank representatives responsible for SME lending (Creswell & Poth, 2018). Qualitative methods are well suited to capturing how lenders interpret and respond to policy instruments such as credit guarantee schemes, particularly when the aim is to understand decision-making processes and contextual factors rather than to test predefined hypotheses. The objective is not to estimate causal effects, but to develop a rich understanding of how banks perceive the role, benefits and constraints of CGSs in SME lending in Albania. This exploratory qualitative study does not aim to statistically test causal hypotheses; instead, the three research questions set out in Section 2 guide the thematic analysis of interview data and structure the identification of patterns in bank perceptions and practices regarding CGSs.

5.2 Data collection

The empirical evidence is drawn from a semi-structured interview protocol administered to SME credit managers or equivalent senior staff in seven second-tier banks operating in Albania. The interviews were conducted between July and August 2025. Each interview lasted approximately 45-60 minutes covering banks’ experience with the main credit guarantee schemes available in the country over roughly the last decade, including donor-supported guarantees (such as those offered by Albanian Development Guarantee Foundation and international financial institutions) as well as temporary sovereign guarantee windows introduced by the Albanian government. The interview guide consists of sixteen core questions, grouped into four blocks:

- the bank’s organizational approach to SME lending and credit decision-making;
- the history and scope of cooperation with different guarantee schemes (e.g. ADGF, EBRD - facilities, COSME, sovereign Covid-19 schemes);
- perceived effects of guarantees on loan approval, pricing, maturity, loan size and portfolio performance; and
- operational aspects, including scheme design, eligibility criteria, administrative procedures, claim management and suggested improvements.

All interviews followed the same core protocol but allowed room for follow-up questions and clarifications, enabling respondents to elaborate on specific experiences or examples. Interviews were conducted on bank premises or via secure online platforms, according to the preference and availability of participants. With the consent of the respondent's, detailed notes were taken during each interview and systematized immediately afterwards in a common template.

The participating institutions include a mix of large and medium-sized banks with active SME portfolios. For reasons of confidentiality, banks are anonymized in the analysis. This purposive, non-random sampling aims to capture a range of perspectives among banks that are effectively engaged in SME lending rather than to achieve statistical representativeness of the entire banking system (Creswell & Poth, 2018).

5.3 Data analysis

The interview responses were compiled into a comparative matrix and analyzed using thematic analysis. Thematic coding focused on three overarching dimensions corresponding to the research questions: (i) the perceived role and additionality of credit guarantee schemes; (ii) the impact of guarantees on loan terms and portfolio performance; and (iii) operational challenges, including scheme design, eligibility criteria, administrative procedures and claim management. Within each dimension, recurring patterns, points of convergence and divergence across banks, and illustrative quotations were identified.

Where possible, qualitative insights from the interviews are interpreted in light of existing assessments of credit guarantee schemes in Albania and international principles for public CGSs, in order to situate bank-level perceptions within the broader policy and institutional framework (World Bank, 2015, 2020). This triangulation helps to highlight areas where banks' experiences confirm or challenge existing evaluations of scheme performance.

Table no.1: Qualitative Data Analysis Linked to Research Questions

Research question	Analytical focus	Methodological output
RQ1: Role and additionality of CGSs	Banks' perceptions of the role of guarantees and financial additionality	Thematic patterns on access to finance and risk sharing
RQ2: Impact of guarantees on loan terms and portfolio performance	Changes in loan conditions, risk exposure and portfolio quality	Themes on pricing, maturity, collateral and performance
RQ3: Operational challenges of CGSs	Scheme design, eligibility criteria, procedures and claim management	Themes on implementation constraints and efficiency

5.4 Limitations

The study has several limitations that should be acknowledged. First, the sample covers seven banks out of eleven banks operating in Albania and relies on self-reported assessments by bank staff, which may reflect institutional perspectives and strategic considerations. Second, the research design is cross-sectional and qualitative; it does not formally measure the causal impact of guarantees on lending volumes or firm-level

outcomes, nor does it allow for econometric identification of additionality. Third, the analysis focuses on the Albanian context and may not be directly generalizable to other countries with different financial structures or legal environments. Nonetheless, the richness of the interview material provides valuable insights into how credit guarantee schemes are perceived and used by banks in an emerging market setting, and offers a basis for more detailed quantitative and comparative work in the future.

6. FINDINGS

The findings are presented along the three core themes derived from the research questions: (i) the perceived role and additionality of credit guarantee schemes, (ii) their impact on loan terms and portfolio performance, and (iii) operational challenges and banks' recommendations.

All seven interviewed banks reported some experience with credit guarantee schemes, but the intensity of use varies substantially across institutions. Banks that have collaborated for a longer period with donor-supported or specialized guarantee institutions tend to have a higher share of guaranteed loans in their SME portfolios, in some cases reaching around 15–18% of total SME lending, while others reported shares closer to 1–2%. Several banks indicated that their first exposure to guarantee schemes dates back more than a decade, often through early cooperation with international or bilateral programmes, and that they subsequently expanded their participation as additional schemes became available.

A recurring theme in the interviews is the central role of portfolio-type guarantees, such as those offered by the Albanian Development Guarantee Foundation and international institutions, compared to more temporary or narrowly targeted sovereign schemes. Banks generally described their cooperation with specialized guarantee institutions as positive, emphasizing good communication, clear rules and stable operational practices. By contrast, the sovereign schemes introduced during the Covid-19 period were typically used more sparingly, with several banks highlighting that they represented only a small fraction of their overall SME guarantee activity.

RQ1: Perceived role and additionality

Across all seven banks, respondents consistently characterized credit guarantee schemes as serving a dual purpose: supporting SMEs' access to finance and reducing the bank's credit risk. Bank managers stressed that guarantees are particularly valuable for viable firms that face collateral gaps, for start-ups or younger businesses with limited credit history, and for clients in sectors where asset values or informality make traditional collateral requirements difficult to meet.

Several banks reported that guarantees enable them to approve loans that would not have been granted in the absence of risk-sharing, or to provide larger loan amounts than would otherwise be possible. In one case, a bank estimated that a very high share of clients included under a particular guarantee scheme would not have been financed without the guarantee, due to weak collateral or higher perceived risk. Respondents also noted that some SME clients initially financed under guarantee programmes subsequently "graduate" and become regular clients, obtaining further credit without the need for guarantees once their track record and financial performance improve.

RQ2: Impact on loan terms and portfolio performance

Interview responses suggest a nuanced picture regarding the impact of guarantees on loan pricing and conditions. Most banks indicated that interest rates on guaranteed loans are not systematically lower than on comparable non-guaranteed loans and, in several cases, may even be slightly higher due to the additional fee charged for the guarantee. Respondents emphasized that interest rate setting remains primarily driven by the borrower's risk profile, credit history and business cash flow, while the guarantee is treated as a risk-mitigating factor that affects the bank's internal risk assessment and capital considerations rather than directly determining the nominal rate.

In terms of maturities, banks generally reported that the presence of a guarantee does not significantly extend loan terms beyond what would be justified by the underlying investment or cash-flow projections. Some schemes impose their own maximum maturities, which can in practice limit the possibility of longer-term financing even when a guarantee is present. By contrast, several banks indicated that guarantees can have a clearer effect on loan size: where collateral is insufficient, a guarantee may allow the bank to approve a higher loan amount than would otherwise be possible, by lowering the effective collateral coverage requirement.

On portfolio performance, most respondents reported that non-performing loan (NPL) ratios on guaranteed SME portfolios are equal to or lower than those on the overall SME portfolio. In some banks, NPLs on guaranteed loans were described as significantly lower, which managers interpreted as evidence that guarantees are being used primarily with viable clients and are accompanied by careful risk assessment. In a few cases, banks highlighted that they closely monitor guaranteed loans and, in cooperation with the guarantor, provide additional support to clients where needed, which may also contribute to better performance outcomes.

RQ3: Operational challenges and scheme features

While banks generally expressed positive views about the concept and potential of credit guarantee schemes, they also pointed to several operational challenges that affect their willingness to use specific programmes. A key concern for many respondents relates to the alignment between standard guarantee products and the bank's own lending products and processes. Some schemes were described as rigid, with eligibility criteria, sectoral exclusions or product specifications that do not fully match the structure of the bank's SME portfolio.

Administrative burdens and reporting requirements also emerged as recurrent issues. Banks noted that the preparation of documentation, periodic reporting on guaranteed portfolios and compliance with detailed procedural rules can be resource-intensive, especially for smaller institutions. In the case of some sovereign schemes, respondents mentioned bureaucratic procedures and delays in claim processing, which reduce the perceived reliability of the guarantee and make banks more cautious in their use. By contrast, banks generally reported smoother cooperation and clearer expectations with specialized or donor-backed guarantee entities.

Another challenge relates to the pricing of guarantees and the interaction with interest rate caps or other regulatory limitations. Some banks argued that when schemes impose maximum interest rates or fixed pricing conditions, the combination of guarantee fees and constrained loan pricing can reduce the economic attractiveness of participation, particularly for higher-risk clients. Respondents suggested that schemes which allow more flexible, market-based pricing, combined with partial risk-sharing and possibly

interest subsidies or fee reductions for targeted segments, would be more effective in achieving additionality without distorting banks' incentives.

Banks' recommendations for improving schemes

Interviewed banks offered a number of concrete recommendations for improving the design and implementation of credit guarantee schemes in Albania. First, many respondents called for greater flexibility in eligibility criteria and product design, to allow guarantees to cover a wider range of viable SMEs, including those with specific sectoral or size characteristics that may currently be excluded. Second, banks emphasized the importance of simplifying procedures and reducing administrative burdens, particularly in relation to documentation, reporting and claim processing, while maintaining adequate controls and transparency. Third, several managers advocated for revisiting guarantee pricing and the use of interest rate caps, suggesting that schemes should avoid rigid ceilings that may undermine commercial viability and instead consider mechanisms such as partial interest subsidies or differentiated fees based on risk and performance. Finally, respondents highlighted the value of sustained communication and capacity-building between guarantors and banks, including dedicated contact points, joint training and clearer guidance on the interpretation of scheme rules. In their view, such measures would enhance trust, facilitate the integration of guarantees into banks' SME strategies and ultimately increase the effective additionality of CGSs in the Albanian context.

7. DISCUSSION

The interview findings provide a nuanced picture of how Albanian banks perceive and use credit guarantee schemes, and they align in several respects with insights from the international literature. Banks' emphasis on guarantees as a tool to overcome collateral gaps and support viable but constrained SMEs is consistent with the core rationale for CGSs highlighted in global policy reports and empirical studies (OECD, 2018; World Bank, 2015). It also complements firm-level evidence for Albania, where guaranteed SMEs have been found to improve their financial performance after receiving guaranteed loans (Lika et al., 2024). The evidence that guarantees often expand loan amounts and enable financing for first-time or younger borrowers suggests that schemes in Albania can generate meaningful additionality, particularly when implemented through specialized or donor-backed facilities.

At the same time, the limited pass-through of risk mitigation into lower interest rates for borrowers echoes findings from other countries, where guarantees primarily relax collateral requirements rather than significantly reduce loan pricing (Asdrubali & Signore, 2015; Mullins & Toro, 2018). This pattern suggests that while CGSs may improve access on the extensive margin (who gets credit and how much), their impact on the intensive margin of loan conditions remains more modest in the Albanian context. From a policy perspective, this raises questions about whether and how guarantee design—especially pricing, coverage ratios and incentives—could be adjusted to encourage greater reflection of reduced risk in borrower terms without undermining scheme sustainability (World Bank, 2015; FSB, 2015).

The contrast between banks' generally positive experiences with specialized or donor-supported schemes and their more cautious stance toward temporary sovereign programmes during Covid-19 mirrors observations from other emerging markets, where ad hoc emergency guarantees have sometimes faced implementation challenges

(Investment Council Albania, 2020; World Bank, 2020). Interview evidence that some sovereign schemes were affected by bureaucratic procedures, rigid interest rate caps and delays or uncertainty in claim settlement underscores the importance of predictable, transparent and operationally efficient frameworks, as recommended by international principles for public CGSs (World Bank, 2015; OECD, 2018).

Overall, the findings have several policy implications for the design and refinement of credit guarantee schemes in Albania. First, strengthening specialized, permanent guarantee institutions with clear mandates and professional governance—such as the structures already in place—appears more consistent with banks' preferences and with international good practice than relying predominantly on short-term, crisis-driven sovereign windows. Second, revisiting eligibility criteria and product alignment, in close consultation with banks, could help ensure that schemes target genuinely constrained but viable SMEs while fitting more naturally with banks' lending products and processes.

Third, simplifying administrative procedures and streamlining reporting and claim management would likely enhance banks' willingness to use guarantees, particularly for smaller institutions with limited back-office capacity (GIZ, 2015; World Bank, 2020). Finally, careful calibration of guarantee fees, coverage ratios and any interest rate conditions is needed to maintain appropriate risk-sharing, preserve banks' incentives for screening and monitoring, and avoid distortions that make participation commercially unattractive for key segments of SME clients (OECD, 2018; World Bank, 2015). The qualitative evidence from banks thus offers a valuable input for ongoing efforts to refine Albania's guarantee architecture and to integrate CGSs more effectively into broader SME finance and development strategies.

8. CONCLUSION

This paper has examined how second-tier banks in Albania perceive and use credit guarantee schemes in their SME lending activities, drawing on semi-structured interviews with SME credit managers in seven commercial banks. The analysis shows that banks view CGSs as a dual instrument that both supports SMEs' access to finance and mitigates credit risk, particularly for clients facing collateral gaps or limited credit histories. Guaranteed portfolios are generally perceived to exhibit equal or better performance than overall SME portfolios, which banks interpret as evidence that guarantees are being applied to viable clients and accompanied by careful risk assessment.

At the same time, the findings reveal that guarantees do not systematically lead to lower interest rates for borrowers, and that their impact on maturities is constrained by both scheme-specific limits and banks' own cash-flow-based lending practices. Operational challenges—including product misalignment, administrative burdens, eligibility restrictions and, in some sovereign schemes, bureaucratic claim procedures—also affect banks' willingness to use particular programmes. These results echo broader international evidence and underline the importance of scheme design, governance and implementation quality for realizing the potential of CGSs as an SME finance tool (OECD, 2018; World Bank, 2015).

The study contributes to the literature by providing qualitative, bank-level evidence from a Western Balkan economy, an area where most existing work has focused on scheme-level or firm-level analysis in more advanced systems (Asdrubali & Signore, 2015; Agnese, 2019). Its limitations—most notably the qualitative, cross-sectional design

and the focus on a subset of active SME lenders—also point to avenues for future research. Quantitative studies combining bank-level and firm-level data could further investigate the additionality and performance effects of guarantees in Albania, while comparative work across countries in the region could explore how different institutional and legal settings influence the effectiveness of CGSs (OECD, 2019; World Bank, 2020). From a policy standpoint, the findings suggest that Albania’s evolving guarantee architecture would benefit from continued strengthening of specialized, professionally governed schemes; closer alignment of products and criteria with banks’ SME strategies; simplification of procedures; and careful calibration of pricing and risk-sharing parameters. Incorporating banks’ perspectives into the design and evaluation of CGSs can help ensure that these instruments are both used and useful, thereby enhancing their contribution to SME finance and to broader economic development objectives.

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