8-15-2016

Cross-Cultural Comparison of Credit Transfer Practices, Lending and Financial Inclusions in North America, Europe and the Middle East

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CROSS-CULTURAL COMPARISON OF CREDIT TRANSFER PRACTICES, LENDING AND FINANCIAL INCLUSION IN NORTH AMERICA, EUROPE AND THE MIDDLE EAST

A Capstone Experience/Thesis Project

Presented in Partial Fulfillment of the Requirements for

The Degree Bachelor of International Business with

Honors College Graduate Distinction at Western Kentucky University

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2016

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ABSTRACT

Many events highlight the relationship between credit availability and aggregate output. Macroeconomic models and financial market conditions have major impacts on the world economy. In addition, these represent the responses to financial chunks that differ in developed countries like the United Kingdom, France, United Arab Emirates, Saudi Arabia, Canada and the United States. The impact of credit conditions is concerned, as well as the differences in the quality of banking supervision and the effectiveness of monetary policies in different parts of the world. The experience of developed countries sets an example of the integration process inevitably contributing to create an environment favorable for the development of the business sector and finance in general in the countries aspiring to integration to the global economy. In this research, I cover different elements to evaluate credit transfer practices, pricing and financial inclusion. I evaluate the countries' gross domestic product (GDP), government regulations and the ways they overcome difficulties, as well as the expansion and inclusion of the Small and Medium Size Enterprises (SMEs), Partial Credit Guarantee Schemes (PCGs), along with culture, religion and behaviors.

Keywords: Credit transfer practices, lending practices, small and medium size enterprises, partial credit guarantee schemes, access to finance.

Dedicated to

My family: my parents Orlando and Martha and my sister Yulizza.

ACKNOWLEDGEMENTS

I will first I like to thank my dear friend Uthman Ghani for his unconditional support during this project. Secondly, I want to thank my advisers Dr. Ismail Civelek and Dr. Helen Liang from the Gordon Ford College of Business and Dr. Tiara Na'puti from the Diversity and Community Studies, for the guidance, feedback and encouragement throughout this learning process.

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CHAPTER 1

The international banking industry, the differentiation of financial inclusion, government regulation, and culture are essential for economic development. Globalization has produced a world where capital is highly mobile and deployed across multiple taxing jurisdictions by single corporate taxpayers. More precisely, this contribution assesses if countries are still innovative in relation to financial inclusion. In this article I consider the economic influence of Canada, United States, France, United Kingdom (U.K.), The United Arab Emirates (UAE), and Saudi Arabia. These six countries were selected due to their economic history and leadership over the rest of the countries in continents studied in this paper.

There are different approaches to different types of financing practices around the world. [1]Developed countries have a high Gross Domestic Product (GDP) per capital and represent an economical example for emerging countries. In this research it is important to not only understand the economic impact of developed countries towards developing countries but also the stability and sustainability of the economic structure of those nations. I evaluate the risk in each of the six countries, as well as their GDP,

[1] Developed country: A country with a lot of industrial activity and where people generally have high incomes (Cambridge Dictionaries)

government regulations, and economic history. At the same time, the expansion and inclusion of the Small and Medium Size Enterprises (SMEs) represents the benefits and government incentives added to financial inclusion. The Partial Credit Guarantee Schemes (PCGs) embodies the guarantee for private lenders that covers the risk of investment while investing in a public project. Therefore, PCGs help to cover private lenders against all risks during a specific period of the financing term of debt for a public investment, also defining access and accountability. Data based on PCGs to support SMEs suggests that SMEs serve a significant portion of employment opportunities and GDP in developing societies. Lastly, there are three key factors or elements to understand the usage of credit in the countries covered in this study. These three factors are: culture, religion, and behaviors, all of which are essential to comprehend why people in developed countries implement monetary policies to establish stability of the demand for money. Why are religious families more likely than other households to spend spare money on clothing or jewelry? How does one's culture and the geographic identity influence the spending behaviors? In this research these questions will be addressed by doing an examination on the economical history of the countries mentioned above.

Macroeconomic models, like the six countries studied in this research and the financial market conditions, impact the world's economy immensely. The experience of developed countries sets an example of the integration process inevitably creating an environment favorable for the development of the business sector and finance in general in the countries aspiring to integration.

INTRODUCTION

In this research, the assessment of financial inclusion in three areas of the world, are identified by constraints, opportunities, and priorities for the access of finance. In this research, I compare six developed countries to determine financial inclusion in North America, Europe, and the Middle East. Financial inclusion represents the delivery of financial services at affordable costs to disadvantaged and low income parts of society (Sharma, 2013). Constraints embody a limitation or a restriction in financial access, and priorities are conditions treated as more important. Moreover, opportunities are a set of circumstances that make it possible to change or improve financial situations. Promoting financial inclusion means giving individuals of a group access to the financial products they require to satisfy their needs. It consists of providing appropriate access to relevant products. Most of the banks' clients have access to the products they need to receive, save, and distribute their money through deposit accounts and modern forms of payment (Gloukoviezoff, 2010). These forms also assist clients in spreading out the impact of major expenses or fluctuations in the level of their resources. Therefore, the options allow the customers to diversify the risks through various forms of credit or by anticipating them through savings.

1.1 North America:

United States (U.S): In terms of fiscal policy, the federal budget deficit is on track to be the smallest level and share of GDP since 2008. The deficit is projected to finish the fiscal year of 2016 at approximately 2.5% of GDP, compared with 1.1% in 2007 and a high of nearly 10% in 2009. The political process of appropriations produced several successive years of threatened government shutdowns and debt ceiling crises. As a result of the Bipartisan Budget Act of 2015, the debt ceiling has been suspended until March 2017 and the spending caps triggered by sequestration were lifted for the fiscal year of 2016 and 2017. As a result of this legislation, economic risk from fiscal policy is minimal (IHS Economic and Country Risk, 2015). In the information below, the Source for Critical Information and Insight, IHS presents the key macroeconomic indicators for the U.S.

Key Macro-Economic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP (% change)	1.6	2.2	1.5	2.4	2.5	2.7	3.0	2.7	2.5
Nominal GDP (US$ bil.)	15,517.9	16,155.2	16,663.2	17,348.1	17,957.6	18,777.0	19,732.5	20,675.9	21,625.8
Nominal GDP Per Capita (US$)	49,663	51,321	52,544	54,304	55,791	57,865	60,320	62,700	65,062
Consumer Price Index (% change)	3.1	2.1	1.5	1.6	0.1	1.4	2.8	2.4	2.4
Exchange Rate (LCU/US$, end of period)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Source: Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF). Written analysis may include references to data made available after the release of the GIIF bank.

The economy remains on a path of slow and steady growth consistent with a moderate recovery (Fig.1.1). The U.S. has weathered turmoil and slowdowns in international markets and is beginning to resemble an economic locomotive for the rest of the world. The industrial sector is being hurt by the dollar's relative strength, and low oil prices are creating disruptions in the domestic energy industry, but the solid performance of domestic demand means that underlying growth remains sturdy (IHS Economic and Country Risk, 2015).

Adversarial legalism in the U.S. is characterized by a highly codified tax system and dependence on controversial resolutions for transfer pricing disputes (Martin Przysuski, 2015). This approach led to some innovative practices and flexible solutions to transfer pricing issues. Legal transparency provided by adversarial legalism provides the much needed trust in the tax authorities. However, Multi-National Enterprises (MNEs), used to a non-confrontational approach, are usually critical of adversarial legalism and can push taxpayers into a game playing posture or creative agreement. The U.S. regulations are constantly being updated and revised based on the evolution of the MNEs and also the court proceedings (Martin Przysuski, 2015).

Canada: Although Canada has enjoyed a strong fiscal position and modest economic growth through the past four years, the global recession has weighed heavily on Canada. The government's focus on returning to surplus remains an uphill battle, as economic woes from Europe and weakness in emerging markets continue to act as a drag on the Canadian economy. Despite external difficulties, Canada has continued to prosper due to its close integration with the United States, business friendly environment, and its vast natural resources. The near term fiscal policies will focus on job creation and deficit reduction as stimulus measures wind down (IHS Economics and Country Risk, 2015). In the information below, IHS presents the key macroeconomic indicators for Canada.

Key Macro-Economic Indicators

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real GDP (% change)	1.7	2.2	2.5	1.2	1.7	2.1	2.3	2.3	2.3
Nominal GDP (US$ bil.)	1,824.0	1,836.8	1,786.0	1,559.7	1,557.1	1,733.0	1,905.2	2,073.0	2,233.7
Nominal GDP Per Capita (US$)	52,566	52,328	50,314	43,534	42,979	47,329	51,483	55,433	59,110
Consumer Price Index (% change)	1.5	0.9	1.9	1.2	2.4	2.0	2.0	2.0	2.0
Exchange Rate (LCU/US$, end of period)	0.99	1.06	1.16	1.35	1.29	1.22	1.17	1.12	1.11

Source: Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF). Written analysis may include references to data made available after the release of the GIIF bank.

Inflation continues to be a non-issue, as it is expected to remain at the bottom of the 1–3% target range set by the Bank of Canada. Canada's economic outlook is vulnerable to waning global demand, and the Bank of Canada is committed to responding with appropriate monetary policy in order to support a sustained economic recovery (IHS

Economics and Country Risk, 2015). Additionally, according to IHS, the macroeconomic models for Canada are estimated to investigate links between non price lending standards, business loans, and output.

The Canadian tax authorities are considered to be the most aggressive in terms of valuation of transfer pricing issues. Meaning, the use of secret comparable leads to an increased risk factor for taxpayers. The regulations are borrowed from the Organization for Economic Co-Operation and Development (OECD) guidelines and the applications of the methods are ordered as in these guidelines (Martin Przysuski, 2015).

1.2 Europe:

United Kingdom (U.K.): The U.K. economy ranks around the sixth largest in the world and is one of the most open and accessible. Having enjoyed a prolonged period of strong, low inflationary growth between 1993 and 2007 when GDP growth averaged 3.3% per year and consumer price inflation averaged 1.8%, the economy increasingly unraveled in 2008 and suffered particularly badly during the 2008–09 global recession. GDP fell 7.2% from a first quarter of 2008 peak to the trough in the second quarter of 2009. The U.K. then saw only fluctuating and gradual overall recovery through 2013, but the upturn gained appreciable momentum as 2013 progressed and the economy has seemingly enjoyed a stagnant 2014 so far (IHS Economics and Country Risk, 2014). In the information below, IHS presents the key macroeconomic indicators for United Kingdom.

Key Macro-Economic Indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP (% change)	1.7	1.1	0.3	1.7	3.1	2.8	2.7	2.4	2.3
Nominal GDP (US$ bil.)	2,295.4	2,463.4	2,470.1	2,521.2	2,816.6	2,955.1	3,117.8	3,231.4	3,387.3
Nominal GDP Per Capita (US$)	36,575	38,926	38,775	39,341	43,661	45,507	47,683	49,091	51,117
Consumer Price Index (% change)	3.3	4.5	2.8	2.6	1.7	2.0	2.2	2.0	2.0
Exchange Rate (LCU/US$, end of period)	0.64	0.65	0.62	0.61	0.61	0.60	0.60	0.61	0.60

Source: Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF). Written analysis may include references to data made available after the release of the GIIF bank.

There is a clear need for the country to rebalance and become less dependent on consumer spending (IHS Economics and Country Risk, 2014). The U.K. transfer pricing provisions, like most others, cover transactions on tangibles, intangibles, funding and services. What this means is that any transactions between group entities need to be priced on an arm’s length basis. The concept of an arm's length transaction is to ensure that both parties in the deal are acting in their own self-interest and are not subject to any pressure or duress from the other party (Martin Przysuski, 2015). Therefore, the UK-IR (Investor Relations) can tax the profit that would have been earned if “arm’s length” pricing had been used. Transfer pricing enquiries from the UK-IR can be drawn out and costly, and adjustments to profit can be very large. The transfer pricing provisions in the U.K. have covered only transactions between U.K. and non U.K. resident entities. Non-confrontational negotiation in the United Kingdom is characterized by informal agreements with individual inspectors. U.K. MNEs generally maintain a good relationship with the UK-IR. The non-confrontational negotiation approach can be distressing to smaller companies due to their lack of resources and their infrequent dealings with the UK-IR and lack of transparency (Martin Przysuski, 2015).

France: France economic conditions are expected to remain challenging over the medium term (Fig. 1.4). Relatively tight fiscal policy, a difficult labor market, and structural barriers to growth will keep the recovery muted. Unemployment is high, and labor market conditions are likely to remain tough for a prolonged period. In addition to high unemployment, a weak economy will make it more difficult for France to meet its fiscal targets. The budget for 2015 confirmed that France will reduce its deficit to below 3% of GDP in 2017, two years later than previously projected (IHS Economics and Country Risk, 2015). In the information below, IHS presents the key macroeconomic indicators for France.

Key Macro-Economic Indicators

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP (% change)	0.1	-2.9	1.9	2.1	0.2	0.7	0.2	1.1	1.2
Nominal GDP (US$ bil.)	2,918.6	2,695.0	2,644.8	2,861.7	2,680.8	2,811.9	2,830.7	2,414.3	2,335.8
Nominal GDP Per Capita (US$)	46,862	43,057	42,044	45,259	42,195	44,050	44,103	37,419	36,018
Consumer Price Index (% change)	2.8	0.1	1.5	2.1	2.0	0.9	0.5	0.0	0.8
Exchange Rate (LCU/US$, end of period)	0.72	0.69	0.75	0.77	0.76	0.73	0.82	0.96	0.92

Source: Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF). Written analysis may include references to data made available after the release of the GIIF bank.

Interest rates have remained low and France's debt structure is solid, but high public debt puts the economy in a vulnerable situation. France has lost significant external competitiveness since entering the Eurozone, meaning the 28 countries in the European Union (IHS Economics and Country Risk, 2015).

The French cooperative banks are the main financial service providers for households. They are therefore facing serious profitability constraints. At the same time, the need for banking services has considerably changed: nowadays in order to lead a normal life, households not only need access to credit but also to basic banking services (a bank account, means of payment, etc.). Financial inclusion, which has appeared during the last 10 years, and the role that the cooperative banks have played in their emergence and promotion. (Gloukoviezoff, 2010). The heart of financial inclusion in France is access to a current account. Despite the existence of a right to an account since 1984, there are still around 500,000 people without access, around 1% of the population (Jauneau, Olm, 2010). Based on several studies, it is possible to assess the market shares of different banks (Gloukoviezoff, 2010).

1.3 Middle East:

In the countries constituting the Gulf Cooperation Council (GCC), financial inclusion holds prime importance when it comes to creating employment, increasing income and eliminating poverty. There are methods of financial inclusion which include credit cards, bank deposits, bank accounts, payments, pensions and insurance. Organizations in the region require a path to financial services in order to innovate, invest, exploit opportunities in the market, manage expenses and the flow of cash and minimize risks associated. Microenterprises in the GCC contribute a significant share of employment. Families and individuals reap the benefit of financial inclusion by having a secure place to save money, cheaper paths to access remittances, along with loan and insurance payment. This in turn covers their education and health expenses and pensions for senior citizens (Miniaoui, 2015).

United Arab Emirates (UAE): With over 15 mainline card issuers catering to a bankable population of 3.5-4 Million, the U.A.E. is one of the most competitive and fastest growing markets in the region (Bruggink, 2015). The U.A.E. has proved its economic resilience during the past 30 years, highlighting its favorable financial position, a relatively diverse economy, and pro-business economic policies that have made it attractive for foreign investment. The economy remains supported by its huge oil wealth, which is derived primarily from the capital emirate of Abu Dhabi (IHS Economics and Country Risk, 2015). Although the UAE will remain dependent on the oil sector for many years to come, its level of dependency is gradually declining. Due to the large part to the phenomenal development of Dubai, which has become a regional trading and financial powerhouse, the UAE is one of the Gulf region's prime tourism destinations. In the information below, IHS presents the key macroeconomic indicators for the UAE.

Key Macro-Economic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP (% change)	5.2	6.9	4.3	4.6	3.0	3.3	3.9	4.2	4.7
Nominal GDP (US$ bil.)	348.5	373.4	387.2	399.5	380.1	411.9	458.7	505.8	553.1
Nominal GDP Per Capita (US$)	39,901	41,712	42,831	43,963	41,505	44,446	48,812	53,000	57,096
Consumer Price Index (% change)	0.9	0.7	1.1	2.3	4.0	2.9	3.0	3.0	3.1
Exchange Rate (LCU/US$, end of period)	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67

Source: Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF). Written analysis may include references to data made available after the release of the GIIF bank.

The economy slowed down in 2015 given the drag from the oil sector restrained output and weaker prices but also received support from healthy non-oil activity (Fig 1.5). Non-oil sectors account for around 70% of overall GDP, leaving the UAE still vulnerable to oil market volatility, but somewhat less so relative to other regional oil exporters (IHS Economics and Country Risk, 2015).

Saudi Arabia: Saudi Arabia's economic risks are related to its status as one of the world's largest oil producers. While its vast petroleum resources have helped fuel the kingdom's economic development, they have subjected the economy to an over reliance on petroleum exports and volatile global oil prices. Saudi Arabia's oil dependence has also led to structural inefficiencies such as high unemployment among Saudi nationals and a heavily subsidized welfare system. Since 2000, however, the kingdom has looked to move away from being a strictly petrodollar state, implementing market friendly reforms to increase private sector participation, attract foreign investment and promote development in the non-oil sectors of the economy (IHS Economics and Country Risk, 2015). With its development plans, Saudi Arabia has continued to show its commitment to diversifying the economy by investing in infrastructure and human resource development in efforts to reconcile the needed skills to help transition Saudi Arabia into a knowledge-based economy (IHS Economics and Country Risk, 2015). In the information below, IHS presents the key macroeconomic indicators for Saudi Arabia.

Key Macro-Economic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP (% change)	10.0	5.4	2.7	3.6	3.0	3.1	3.4	4.8	4.8
Nominal GDP (US$ bil.)	669.5	734.0	744.3	752.5	638.7	682.3	761.3	851.2	946.9
Nominal GDP Per Capita (US$)	23,256	24,883	24,646	24,362	20,252	21,217	23,252	25,563	27,982
Consumer Price Index (% change)	5.7	2.7	3.4	2.7	2.1	2.7	2.9	3.2	3.3
Exchange Rate (LCU/US$, end of period)	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75

Source: Historical data from selected national and international data sources. All forecasts provided by IHS Global Insight. Table updated on the 15th of each month from monthly forecast update bank (GIIF). Written analysis may include references to data made available after the release of the GIIF bank.

Fiscal and external balances were in 2015 and will continue to be fragile in 2016 on reduced oil income. Indeed, Saudi Arabia's huge oil wealth and prudent macroeconomic management have allowed the economy to weather periods of crisis reasonably well. Taking a longer view, Saudi Arabia's economic and financial strength is bound to continue to increase over the coming decades, (Fig 1.6), especially given that, with growing global energy demand, the rest of the world will become increasingly dependent on Saudi oil (IHS Economics and Country Risk, 2015).

CHAPTER 2

According to the World Bank, Small and Medium size Enterprises (SMEs), collectively are the largest employers in many low income countries, yet their viability can be threatened by a lack of access to such risk management tools as savings, insurance and credit. Their growth is often stifled by restricted access to credit, equity and payments services (McCourtie, 2013).

In July 2009, the International Accounting Standards Board issued a new International Financial Reporting Standard (IFRS) designed for use by SMEs. This self-contained standard is a result of a five year development process with extensive consultation with SMEs worldwide (Epstein, 2009). Regulatory authorities in the United States and Canada recognize the changing needs of investors making allocation decisions in globally integrated markets. They also acknowledge a significant shift in global market capitalization with U.S. market share steadily declining (Epstein, 2009).

Small and medium size enterprises (SMEs) are highly dependent on bank financing, which is why they have been particularly hit by tighter credit conditions in the aftermath of the global financial crisis. Given that SMEs account for about 60% of value added and 70% of employment in the Euro Area, they are crucial for economic recovery (The Economist, 2014). Consequently, several policy initiatives have been launched to alleviate SMEs’ financing constraints. This policy gives an overview of the current debate about financing obstacles of SMEs in Europe and collects policy recommendations from the economic literature (Bremus, 2015). Years after the financial crises, SMEs are still reporting financial difficulties. New bank credit to SMEs in the Euro Area has declined 35% between 2008 and 2013 (The Economist, 2014).

If Europe’s economy ever increase speed, more SMEs will generate their own resources. Additionally, they will want more external finance to grow, not just survive. European banks, laden with bad debts and forced by new prudential rules to hold more capital against corporate loans, which is risky to SMEs (The Economist, 2014).

State banks still play an important role in financing SMEs in the Middle East and North Africa (MENA) region, but they use simpler risk management systems than private banks. On the other hand, credit guarantee schemes are a popular form of support to SME finance in the region, and are associated with higher levels of SME lending (Rocha R., 2011).

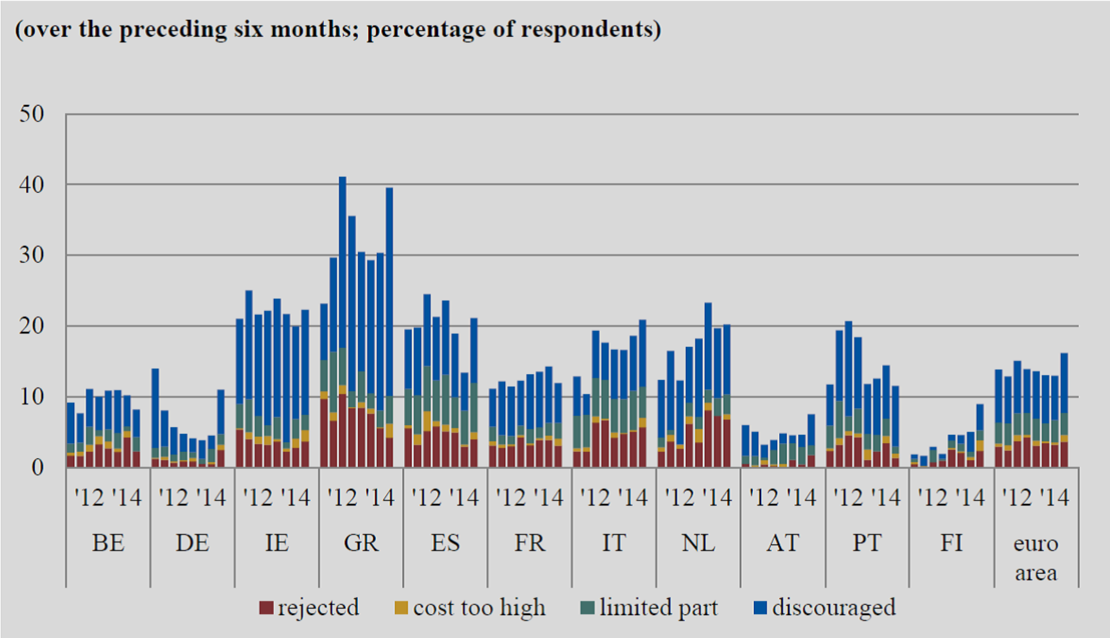
2.1 SMEs that are owned by shareholders or by other firms are shown to be less financially constrained (Bremus, 2015). It is important to recognize that the potential for SME finance is also a function of the structure of the economy and the size of the SME sector. Competition policy can also contribute to further SME lending (Rocha R., 2011).

In the case of non-GCC countries, there is huge potential for expanding SME finance. Meaning, there are large numbers of smaller enterprises that are underserved through low levels of banks' competition. In the case of GCC countries, the size of the SME sector may remain more constrained by the nature of oil economies, but there is also a scope for further SME finance, especially if access to finance is expanded for resident non-nationals. Consequently, several policy initiatives have been launched to alleviate SMEs' financing constraints (Rocha R., 2011).

2.2 When seeking to internationalize, the managers of many SMEs often turn to government incentive programs to help them achieve their goals. The experience of a French firm shows that, in doing so, however, there is a risk of becoming dependent on the financing party for funding, as well as management.

When applied to both internal and external business relationships, Agency Theory, which focuses on the behavior and contracts between principals and agents, provides a tool for understanding the process by which a business owner can become financially dependent on. Even also surrender decision-making rights to an outside agency, particularly in a declining market environment (Moore, 2014). The entrepreneurship literature also argues that by obtaining external finance specialty from venture capital SMEs or start-ups receive valuable managerial consulting and support from the funders so as to enhance SMEs' survival.

Given that it is difficult to clearly separate credit supply from credit demand factors, there is no consensus so far as to what extent the observed financing constraints of European SMEs are driven by credit rationing or fundamentals (Bremus, 2015). Still, due to the important role that young and small firms play for innovation and employment, many observers are in favor of policy initiatives that improve the access to finance of SMEs (Bremus, 2015).



Base: SMEs for which bank loans (including subsided bank loans) are relevant. Figures refer to rounds four (October 2010-March 2011) to 11 (April-September 2014) of the survey.
Note: Financing obstacles are defined here as the total of the percentages of SMEs reporting loan applications which were rejected, loan applications for which only a limited amount was granted, and loan applications which were rejected by the SME because the borrowing costs were too high, as well as of SMEs which did not apply for a loan for fear of rejection (i.e. discouraged borrowers). The calculation of the indicator starts in 2010 when the question on applications for bank overdrafts was included in the questionnaire.
The components of the financing obstacles indicator are affected by the amendments to the questionnaire in round 11 (i.e. filtering based on the relevance of the financing instrument and addition of the new category "My application is still pending"), and past data have been revised accordingly. The figures are calculated including the new category "My application is still pending" and "Do not know". See Annex 4 for more information on the changes introduced in the questionnaire and their potential impact on the indicator.

Smaller and newer firms typically face greater external financing obstacles than larger and older ones because of their opaqueness. As SMEs are mostly not publicly listed, hard information about their profitability and financial situation is not available to potential lenders. Due to this information asymmetry, SMEs do not have many alternatives to bank financing: they strongly rely on banks that gather soft information through, for example, a long term relationship (Bremus, 2015).

To identify the characteristics that matter for the access to finance of SMEs, the SAFE data, Artola and Genre (2011) confirm, that especially small and young SMEs have faced credit constraints during the global financial crisis. In a similar vein, younger SMEs have been more likely to experience financing obstacles. Concentrating on perceived financing constraints, in addition to firm age, ownership structure is an important determinant of access to finance (Bremus, 2015). SMEs that are owned by shareholders or by other firms are shown to be less financial constrained.

CHAPTER 3

The partial credit guarantee schemes (PCGs) is a guarantee for private lenders that cover the risk of investment while investing in a public project. It is widely understood that small and medium sized enterprises (SMEs) contribute disproportionately to job creating and economic prosperity but it is actually the growth of young ventures that accounts for much of this job creation (Haltiwanger, 2013).

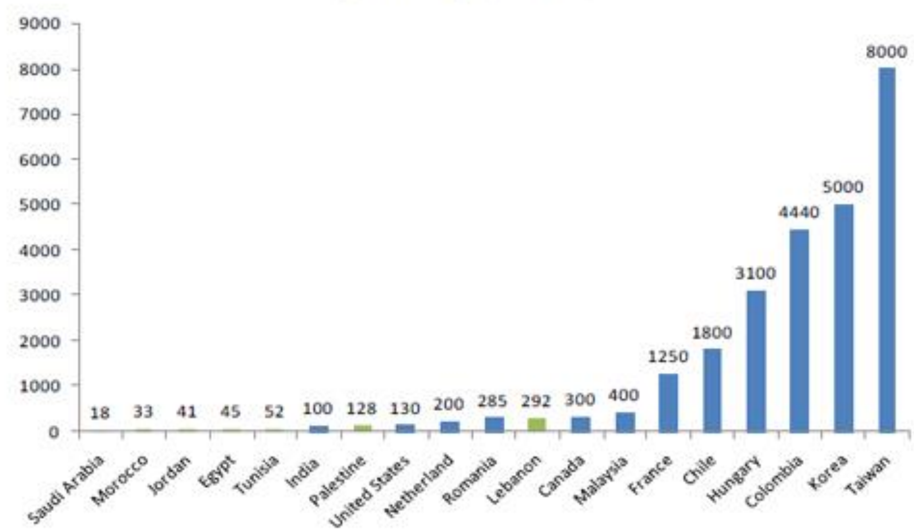
As a means of mitigating perceived financial constraints, governments in many nations have adopted credit guarantee schemes: programs through which guarantors, meaning tax payers money, share with lenders some of the default risk posed by SME borrowers. (Riding, 2015). The Canada Small Business Financing Program has provided government guarantees of bank loans to SMEs since 1961. With current lending volumes of approximately $1 billion annually, the federal government faces a significant contingent liability at a time when it is attempting to reduce deficits. The study of the Canada Small Business financing program identifies the factors that most expose the government guarantor to risk of default, finding that age of firm is a key determinant of risk. The work also finds that the costs to taxpayers of honoring defaults is more than compensated from incremental tax revenues and the fees paid by borrowers. The program also supports substantial job creation (Riding, 2015).

Many countries in the MENA region have established partial credit guarantee schemes (PCGs) to facilitate SME access to finance. (Rocha, 2010). MENA governments are working hard to reduce the risks for lenders by improving the effectiveness of credit registries and strengthening creditors' rights. However, this will only be achieved if the credit guarantee schemes to SME are well designed. As presented in the World Bank, PCGs may also accumulate losses by providing overly generous and underpriced guarantees, and ultimately become a burden to public finances (Rocha, 2010).

The following graph presents a survey of 10 guarantee schemes in early 2010 covering all relevant aspects of scheme design and operations, including mission statements, rules of the schemes, operational procedures and the main outcomes.

Figure 5: Number of guarantees issued per year

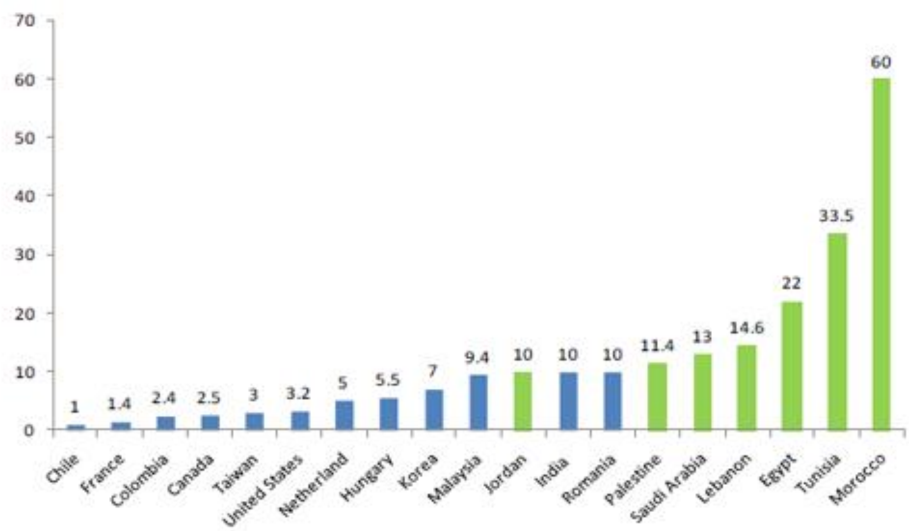
(per million people, 2009)



Source: Respective PCG schemes

Figure 6: Average size of guarantees

(scaled by GDP per capita, 2009)



The research from the World Bank found that the average size of credit guarantee schemes in MENA (measured by the total value of outstanding guarantees) is about 0.3% of GDP. Moreover, the number of guarantees looks generally small by international comparison while their average value looks generally large. This suggests that guarantee schemes are not yet reaching the smaller and possibly more constrained firms. Guarantee schemes in MENA look financially sound and most schemes have room to grow. However, this growth should be accompanied by improvements of some key design and management features, as well as greater efforts to evaluate the impact of the schemes (Rocha, 2010)

3.1 The data based on PCGs to support SMEs suggests that SMEs serve a significant portion of employment opportunities and GDP in developing societies. Given the contribution of SMEs, there remain barriers that limit the access to loans when compared to large corporations. This holds true in the case of developing economies. The problem is much more severe in North African countries where approximately 33% of SMEs encounter issues in acquiring loans. The figure is drastically lower in other regions where it stands at 25%. The limitations to finance are understood to be a result of weak or improper policies governing financial resources.

3.2 In developed economies, PCG schemes have been working for more than forty years. In North African countries, the concept was introduced only recently. PCG scheme aim to provide and ease access to loans and finances via trusted firms. Such access for SMEs is restricted due to collateral and inaccurate credit information. PCGs often have risk sharing mechanisms associated with them in order to lessen the impact of potential losses for loan providers. This expands to borrowers that operate under riskier conditions (Pearce, 2011). Moreover, PCGs are known to have lesser distortions in the market in comparison with other intervention policies devised by state banks (Pearce, 2011). This is due to the fact that PCGs contain less intervening procedures concerning fund allocation through private banks. Private banks are often the main providers of PCG loans to SMEs (Pearce, 2011).

From the outset, French cooperative banks appeared to meet the credit needs of a part of the population that main banks refused to serve. Promoting financial inclusion was basically at the heart of the cooperative movement.

3.2.1 It is important to be restrictive while evaluating the firms for guarantees, the portfolio of companies should be assessed thoroughly in order to have a clear view about its financial positions. However, being overly restrictive can exclude the SMEs that are facing financial constraints from the eligibility criteria of lending loans.

3.2.2 In the international banking industry, types and sizes of loans differ from region to region. In MENA, Tunisia and Morocco provides SMEs with the guarantee schemes that covers the loan up to 600 times GDP per capita. Ratios in these countries are relatively higher than international set standards. Whereas if talking about Jordan, Syria and Egypt, ratios are lower covering up to 150 times GDP per capita, which is still higher than international set standards. However, if taking into consideration countries like Palestine, Saudi Arabia and Lebanon, loan eligibility standards are much more like other PCGs around the globe at 50-60 times GDP per capita (Rocha R., 2011).

3.2.3 In order for SMEs to be eligible for loans, in countries like Denmark, UK and France, set standards are defined related to the size of firm by European Union that need to be followed. A company should have at least 250 employees with a turnover of 50 euros. On the other hand, limiting loans on the basis of firm size is relatively low in other countries. US, Canadian and European schemes are more restrictive compared to Asian schemes, imposing limits on loan size based on the firm size and turnover per capita.

3.3 Interventions made by governments can be justified when there is sufficient time provided to develop an effective and enabling system to access hard-to-reach groups. Governmental interventions can also be justified when there are efficient financial policies. In recent years, these governmental interventions in policy have taken into account PCG schemes, state-owned financial bodies, and direct lending institutions.

CHAPTER 4

The difference on the reasoning behind how people spend and invest their money in different parts of the world is very complex. In order to understand this actions, the following chapter is dedicated to culture, religion and behaviors. It is important to understand that because this paper focusses in six developed countries, those countries also have a variety of people migrating from different parts of the world. Therefore, this chapter is an overview of the majority of natives' performance.

4.1 North America

4.1.1 Building credit score in the United States by borrowing money to determine the score: Having a credit history in the US is essential for every citizen. Generally, having a credit card is the easiest way to begin scoring. The factors that have a bearing on credit scores include payment history which is considered to be most influential point. Regardless of the type of loan, debtors are required to make loan payments on time. Positive credit scores are linked to minimal use of credit cards. Based on the tool of choice of the loaner, lower credit balance is the best way to score high on your credit rating.

The US and Canada: Both countries have freedom of religion. Even though both countries ensure a big variety of different nationalities, there are some incentives and behaviors that go along with people's residency. Vince Showers, a finance professor and specialist in econometrics at Bradley University, made an assumption that if devout folk, Christians in particular, take their faith as seriously as they claim to, then one would expect it to have a big impact on the way they spend money (The Economist, 2014). Also Showers argued that, households with a strong commitment to faith, meaning higher spending on religious activities, are less likely to be weighed down by excessive mortgage outgoings or loan payments for cars. Devout households seem brighter on mitigating risk and therefore spend more on life insurance and health insurance; they pay less on alcohol and tobacco and more on domestic appliances, including cooking utensils. Showers notes such homely behavior is most heavily correlated with religious belief in the American South and Midwest, which are also the regions with the most conservative interpretation of Christian bible (The Economist, 2014).

Religion in Canada

Catholic 40.6% (includes Roman Catholic 38.8%, Orthodox 1.6%, other Catholic .2%), Protestant 20.3% (includes United Church 6.1%, Anglican 5%, Baptist 1.9%, Lutheran 1.5%, Pentecostal 1.5%, Presbyterian 1.4%, other Protestant 2.9%), other Christian 6.3%, Muslim 3.2%, Hindu 1.5%, Sikh 1.4%, Buddhist 1.1%, Jewish 1%, other 0.6%, none 23.9% (2011 est.) (United States Central Intelligence Agency, 2010-2015).

Religion in the United States

Protestant 51.3%, Roman Catholic 23.9%, Mormon 1.7%, other Christian 1.6%, Jewish 1.7%, Buddhist 0.7%, Muslim 0.6%, other or unspecified 2.5%, unaffiliated 12.1%, none 4% (2007 est.) (United States Central Intelligence Agency, 2010-2015)

4.2 Europe

Contrary to North America, Europe gives an initial perfect credit score that can either go up or down depending on usage. Since there are over twenty different countries in Europe, the credit score in Europe will depend on the protocols used by each individual country. Each loan application is reviewed based on your current salary, family situation, current debts, residence status, and other factors. However, if consumers do not make timely payments on loans, the lender puts that person in a special file that is shared by all lenders across most of Europe, and the person will have a great deal of difficulty getting a loan. In the U.K., each lending institution uses its own criteria for issuing credit, but their decisions are influenced by England's three main credit reference agencies- Experian, Equifax, and Call Credit.

United Kingdom and France: Both countries have freedom of religion. Europe as the oldest economic system on earth and with the most history, is also a continent with very well-marked differences in cultures, languages and behaviors between countries. According to the survey made by Independent newspaper, the United Kingdom is among the less religious countries, with 54% calling themselves not religious versus 30% who are and 13% who are atheists (Boren, 2015). At the same time, marketing specialists unanimously agree that consumer's behavior is defined not only by what is going on at the moment; consumer behavior must be treated as a non-stopping process.

Religion in Germany

Protestant 34%, Roman Catholic 34%, Muslim 3.7%, unaffiliated or other 28.3%.

(United States Central Intelligence Agency, 2010-2015)

Religion in France

Christian (overwhelmingly Roman Catholic) 63-66%, Muslim 7-9%, Jewish .5-.75%, Buddhist .5-.75%, other .5-1.0%, none 23-28%

Note: France maintains a tradition of secularism and has not officially collected data on religious affiliation since the 1872 national census, which complicates assessments of France's religious composition; an 1872 law prohibiting state authorities from collecting data on individuals' ethnicity or religious beliefs was reaffirmed by a 1978 law emphasizing the prohibition of the collection or exploitation of personal data revealing an individual's race, ethnicity, or political, philosophical, or religious opinions; a 1905 law codified France's separation of Church and State (2015 est.) (United States Central Intelligence Agency, 2010-2015)

4.3 Middle East or Arabic Countries

Governments' decisions about financial inclusion strategies, improve data that has both public and private sector commitments. Credit lending practices are related to religion but are more aligned with relationships. [2]Islamic banking, unlike conventional banking, does not yet enjoy the same growth. Due to the lack of infrastructure, low number of bank branches and, inadequate information detailing the mechanics of Islamic banking, individuals often choose to opt for traditional banking. However, those who denounce and disapprove the concept of interest have taken up Islamic banking. This acceptance of the idea of interest free banking has led to the modest rise of Islamic banking. In countries such as Pakistan, the share of international businesses is relatively low due to the religious believes the interest (Riba) is forbidden in Islam (Miniaoui, 2015). Since countries like Saudi Arabia, (where there is a lack of religious freedom), are

[2] Islamic Banking: A system of banking based on the statutes of Islamic law and economics. Paying or collecting interest, or riba, is prohibited by Islamic law. Sharing profit and loss is a banking principle and shareholder capital and deposits are kept separate to ensure fair revenue sharing (InvestorWords).

harder to gather information about religion. Consequently, is it true to say that due to the successful growth that went along with the oil business, both Saudi Arabia and the United Arab Emirates follow barriers for growth through Islamic financial services, so they opt for conventional banking to better meet market demand.

Religion in Saudi Arabia

Muslim (official; citizens are 85-90% Sunni and 10-15% Shia), other (includes Eastern Orthodox, Protestant, Roman Catholic, Jewish, Hindu, Buddhist, and Sikh) (2012 est.)

Note: Despite having a large expatriate community of various faiths (more than 30% of the population), most forms of public religious expression inconsistent with the government-sanctioned interpretation of Sunni Islam are restricted; non-Muslims are not allowed to have Saudi citizenship and non-Muslim places of worship are not permitted (2013) (United States Central Intelligence Agency, 2010-2015)

Religion of the Emirates

Muslim (Islam; official) 76%, Christian 9%, other (primarily Hindu and Buddhist, less than 5% of the population consists of Parsi, Baha'i, Druze, Sikh, Ahmadi, Ismaili, Dawoodi Bohra Muslim, and Jewish) 15%

Note: The percentages represent the total population; about 85% of the population consists of noncitizens (2005 est.) (United States Central Intelligence Agency, 2010-2015)

CHAPTER 5

Conclusion

Debt financing is the lifeblood for much of the productive economic activity in developed countries. In this research, it is estimated that the level of liquidity within the banking systems of developed countries and the potential impact on rates of economic growth goes from prudently redirecting a porting of liquid assets into credit to the private sector. The serious disproportion between the levels of financial intermediation in developed and developing countries is reflected in the amount of domestic credit provided by the banking sector to private enterprises. Based on financial inclusion goals, transparent evaluation and serious incentives may help to promote more appropriate financial services, as well as giving the opportunity to be economically and socially efficient. The main innovative practices regarding financial inclusion for the last 10 years have been inspired and promoted by banks. They have been proving dedicated structures to deal with financial difficulties, while States' regulation promotes financial inclusion as a goal.

This study examines the Islamic and conventional banking indices of developed countries in North America, Europe and the Middle East. The performance of the six developed countries (Canada, United States, France, U.K., Saudi Arabia and United Arab Emirates) discussed in this report represents the foundation across cultural comparison of credit transfer practices, pricing and financial inclusion in the world. After evaluating the

Economy of each country and the stability and sustainability of those nations, I evaluated the risks and regulations for the expansion and inclusion of the Small and Medium Size Enterprises. The Partial Credit Guarantee Schemes embody the guarantee for private lenders that covers the risk of investment while investing in a public project. The primary objective is to understand the differences of economic volatility. In fact, the results show that SME loans are total SME loans expressed as a percentage of total loans. Consequently, ownership structure is an important determinant of access to finance for SMEs. Still, due to the important role that smaller and newer firms play for innovation and employment, many observers are in favor of policy initiatives that improve the access to finance of SMEs.

Moreover, when evaluating the elements of culture, religion and behavior, I came up with some propositions. Some of the assumptions are related to devout households seeing brighter on moderating risks and therefore, spending more on life insurance and health insurance. Additionally, they pay less on alcohol and tobacco and more on domestic appliances (The Economist, 2014). Other findings indicate that theoretical studies on how social factors influence consumer behavior exhibited that the main social factors, which influence consumers are family, influence groups, social class and culture. Therefore, it is important to consider that together with North America, Europe and the Middle East are very diverse and multicultural. Customers’ spending will vary depending on culture, behaviors and religious concentrations.

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