STUDY ON THE CREDIT GUARANTEE SYSTEM: THE CASE OF THE V4 COUNTRIES

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SUMMARY

Credit guarantee is an effective policy tool which is used by many countries around the world to support enterprises, especially in helping small and medium enterprises (SMEs) to easily access capital. Through this, credit guarantee promotes the development and prosperity of the enterprises as well as the development of the economy. Understanding the importance of credit guarantee, the V4 countries have also applied credit guarantee as an important policy tool to boost enterprises and develop the economy. This paper focuses on analyzing the operational model of credit guarantee system in the V4 countries using in-depth analysis of four case studies. Through this paper, the author analyzes the different experiences in the application of the credit guarantee system in the V4 countries. This study could provide useful information to managers, policy makers, credit institutions, the government etc., thereby helping them make policies and solutions to improve the efficiency of the credit guarantee system.

INTRODUCTION

Credit guarantee system have already been operating in the V4 countries and most coutriesin the European region. Credit guarantee is an important part in the financial system of the V4 countries. It is used to aid SMEs overcome obstacles in access to finance by providing guarantee services. Credit guarantee helps banks to unfreeze credit to enterprises, minimize risk, reduce cost of monitoring and supervision of banks in the lending process. At the same time, credit guarantee is a tool for governments to promote the economy of the V4 countries, help overcome the financial crisis in 2008 such as in the case of Hungary. During operation, credit guarantee system of the V4 countries have achieved the followingresults:

Table 1: Outstanding guarantees in the V4 countries

Country	Outstanding guarantees (Million €)						
	2007	2008	2009	2010	2011	2012	2013
Czech RP	451	530	701	943	829	855	661
Hungary	1,481	1,580	1,706	1,575	1,356	1,419	1,327
Poland	na	na	442	385	484	392	1,540
Slovak Rp	128	140	208	196	204	Na	Na

Source: http://www.aecm.eu (European Association of mutual guarantee societies)

Table 2: Outstanding guarantees to GDP in Europe

Country	Outstanding guarantees to GDP (%)						
	2007	2008	2009	2010	2011	2012	2013
Austria	0.16	0.15	0.17	0.16	0.14	0.13	0.12
Belgium	0.10	0.10	0.14	0.17	0.19	0.20	0.19
Czech RP	0.34	0.34	0.49	0.63	0.53	0.56	0.44
Estonia	0.26	0.26	0.49	0.68	0.64	0.64	0.55
France	0.51	0.49	0.71	0.83	0.82	0.79	0.80
Germany	0.22	0.22	0.24	0.20	0.23	0.22	0.21
Greece	0.04	0.06	1.51	1.14	0.64	0.30	0.32
Hungary	1.49	1.50	1.87	1.64	1.37	1.46	1.36
Italy	1.89	1.92	2.11	2.13	2.08	2.28	2.11
Latvia	0.09	0.19	0.23	0.47	0.44	0.40	0.37
Lithuania	0.57	0.59	0.83	0.78	0.66	0.53	0.56
Poland	na	na	0.14	0.11	0.13	0.10	0.02
Portugal	0.27	0.52	1.63	2.18	1.89	1.80	1.83
Romania	0.31	0.33	0.60	0.74	1.09	1.34	1.14
Slovakia	0.23	0.22	0.33	0.30	0.30	na	Na
Slovenia	0.04	0.08	0.28	0.44	0.57	0.55	0.55
Spain	0.54	0.55	0.62	0.62	0.59	0.54	0.46
Turkey	0.34	0.30	0.45	0.39	0.52	0.58	0.63

Source: http://www.aecm.eu, http://ec.europa.eu/eurostat and own elaboration

To assess the performance of the credit guarantee system of one country, the researchers often use 2 uses two indicators: Outstanding Guarantees and Outstanding Guarantees to GDP. These indicators are higher it mean that this credit guarantee system operate more efficiently. Table 1 indicates this indicator of V4 Countries has tended to raise particularly credit guarantee system in Hungary with higher indicator than other countries. Besides, according to ACM (European Association of Mutual Guarantee Societies), the country with indicator of Outstanding Guarantees to GDP more than 1% which means that the credit guarantee system works well and efficiently. Based on Table 2, we can see only Hungary in V4 Countries with the indicator of Outstanding Guarantees to GDP higher than 1%. This demonstrates that other countries in the V4 Countries only operate at normal level. Also this index of Hungary is higher than other countries in Europe and its rank is second after Italy.

This paper focuses on the characteristics of the credit guarantee system in the V4 countries. Each country has its own characteristics and experiences in the process of operation. Therefore, by studying the characteristics of the credit guarantee system of each country, this study will help credit guarantee activities in the V4 countries to become more effective.

LITERATURE REVIEW

Credit guarantees are widely used in the world and are applied by many countries and regions around the world. Credit guarantee is used as a financial tool to promote SMEs, thereby promoting the development of economy. There are many authors who spend more time researching about the credit guarantee activities in the world. Jacob Levitsky and N. Ranga Prasad (1989) has performed research on guarantee system in 27 countries and continents around the world. This study have shown the basic characteristics of credit guarantee activities in 27 countries in the world. Through which the author analyzed and assessment of characteristics such as elements, scope, impact, additionality of Lending, creating in confidence, loss rate etc.

Credit guarantees have an important role in promoting, supporting SMEs in lending activity. According to studies were made by Levitsky (1997b); Beck, Klaper & Mendoza (2010) indicates that credit guarantee to increasing lending to SMEs, increases access to finance of SMEs, reduce the costs of borrowing.

Besides credit guarantee also encourages and support lenders by providing collateral as compensation in case the loan is not repay (Bookcock and Shariff, 2005), to diversify risk across of the loan guarantee means that credit institute will cooperate with many lenders to under write loans (Beck etal, 2010), allowing lenders to transfer risk of recovery of loan to guarantor (Levitsky, 1997b). Credit guarantee incentives the lenders to help them overcome the problem of information asymmetry (Beck et al., 2010). The guarantors will participate in the application and monitoring process.

At the regional level, the research by Hachinohe University Research Institute carried out a study on the credit guarantee system of the ASEAN countries. This study described the characteristics of the credit guarantee system of the ASEAN countries. At the same time, it offered some solutions to develop the credit guarantee system and credit information system of the ASEAN region based on the successful experience of Japan. The research conducted by the OECD (2012), studied the solutions to strengthen access to finance of SMEs through credit guarantee programs in Central Asia. Iihyock Shim (2006) studied the credit guarantee institutions in ASIA. This study focused on analyzing the role and activities of the government and the credit guarantee institutions in ASIA. This study also analyzed the lessons from the failure of the credit guarantee institutions.

All these studies indicate that credit guarantees have significant role in the financial system, bringing many benefits to SMEs, banks, economy etc.

CREDIT GUARANTEE SYSTEM IN THE V4 COUNTRIES

Credit guarantee system in Czech RP

In Czech RP, credit guarantee system was established and operated mainly by Czech and Moravian Guarantee and Development Bank–CMGDB. Credit guarantee is used quite commonly in Czech as evidenced, two thirds of banks have used such products for more than five years. CMGDB help simplement the state policy in the economic development objectives and financial support for SMEs. Moreover, it also supports financing specific projects like helping to improve regional technical infrastructure and panel-block apartment houses reconstruction. CMGDB involved in a network of organizations to support SMEs. These institutions received considerable support through the PHARE program of the European Union. It helps CMGDB have adequate financial support to assist SMEs in the best way. Summing up the Czech experience over the 1992-1998 periods, it shows thatCMGDB could become an effective instrument for supporting SMEs.

Besides CMGDB, credit guarantee system of the Czech Republic has two credit guarantee institutions whichfocus on supporting export enterprises, these are Export Guarantee and Insurance Corporation (EGIC/EGAP) and Czech Export Bank (CEB). EGAP isspecialized in supporting large business transactions over CZK 1 billion, however, it also extends simplified version of bank guarantees for SMEs insuring against the risk of their calling (2 percent of new contracts in 2013). Czech Export Bank (CEB), which is partially owned by EGAP and the state, offers EGAP bank guarantees issued in relation to an export contract for which funding is provided by a commercial bank.

In the process of developing one of the successful experiences of credit guarantee system in Czech Republic as shown by the case of CMGDB which succeeded by the application of the Staff motivation. CMGDB performed staff motivation by adopting an internal system of financial motivation incentives through the following:

- Dividing the planned target volumes among the bank's branches according to their size (calculation based on the number of employees);
- Setting apart a certain sum from the bank's yearly payroll budget to be disbursed as a premium depending on the branches' share of target achievement to be paid out as branch employees' salary bonus;
- Determining the criteria for assessment of the branches' share of the realization of the business plan and achievement of specific targets, which shall be decisive for the corresponding yearly bonus payment.

Credit guarantee system in Hungary

Credit guarantee system in Hungary includes 2 big players: Garantiqa Creditguarantee Co.Ltd (Garantiqa Hitelgarancia Zrt) and Rural Credit Guarantee Foundation. Credit guarantee system in Hungary is one of the most developed in the region and successful in the world. Credit guarantee in Hungary has different guarantee schemes and they are actively supported by the government.All financial institutions have been using credit guarantees for more than five years in Hungary. It has an important role in promoting SMEs and the economy, particularly in the 2008 financial crisis.

In the development of creditguarantee system, Garantiqa Hitelgarancia Zrt Hungary plays an important role and in a case of best practice in Europe and in the world as presentedinthe following:

(1) Guarantee for working capital needs:
Garantiqa developed a guarantee linked with a credit card. This service provides full security, cash can be drawn, and suppliers can be paid from a guaranteed account. It is favorableandsafefor customersin paymentandensuresthe necessary workingcapitalforbusiness operations.

(2)Procedure of issuing grants under special agreements with banks:
Garantiqa has developed a procedure of issuing guarantees under special agreements with banks:
+ The institution had been looking for a method to undertake guarantees in bulk, yet in a prudent, risk-sensitive, cost-saving way for both the banks and the guarantor.
+ Conditions of creditworthiness have been defined jointly for each specific product initiated by the partner bank.
With its efforts, Garantiqa has achieved more success in promoting the development of SMEs and the Hungarian economy.
National Bank of Hungary analyzed the "entrepreneurial financing" and concluded that Garantiqa impacts the GDP. The analytical approach was on a " What if basis "; i.e., what could have been the GDP level without the credit guarantee support to SMEs:

- The GDP decline in 3 consecutive years could have reached 293 billion
- The direct public cost of credit guarantee is drawdown of state counter-guarantee: i.e., 0.06 of the year GDP

Table 3. The impact of credit guarantee activity on the budget

Year	GDP (Million HUF)	Potential GDP decrease p.a. in the lack of GHG-credit guarantee	Potential GDP decrease (MillionHUF)	Drawdown ofstate counter guarantee in HUF million	Counter guarantee drawdown/ est.GDP decrease, %	Counter guarantee drawdown /annual GDP,%
2009	25,626,480	-0.40%	102,506	16,894	16%	0.07%
2010	26,607,339	-0.40%	106,429	20,084	19%	0.08
2011	27,886,401	-0.30%	83,659	13,675	16%	0.05
Total	80,120,220	-	292,254	50,654	17%	0.06

Source: Zoltán Urban, CEO of Garantiqa

Table 4. The proportion of Loans extended to SMEs by Garantiqa/ Loans extended to SMEs by bank sector

Year	Loans extended to SMEs by Bank sector (cases)	Loans extended to SMEs by Garantiqa (cases)	Loans extended to SMEs by Garantiqa/ Loans extended to SMEs by bank sector
2005	82,206	23,668	28.8 %
2006	134,668	23,478	17.4 %
2007	143,673	25,669	17.9 %
2008	179,117	28,329	15.8 %
2009	292,476	33,880	11.6 %
2010	472,530	32,227	6.8 %
2011	442,957	30,635	6.9 %
2012	382,862	30,604	8.0 %
2013	618,671	28,208	4.6 %
Total	2,749,160	256,698	14.1%

Source: http://felugyelet.mnb.hu, http://www.hitelgarancia.hu and own elaboration

Credit guarantee system in Poland

Credit guarantee system in Poland was characterized by the credit guarantee funds and Bank Gospodarstwa Krajowego (BGK). The credit guarantee funds have 13 regional funds with 120 millions Euro and 47 local funds with 30 millions Euros. The credit guarantee funds have the following characteristics:

(1) National Credit Guarantee Fund

- Independent guarantee activity
- Supporting the development of the system by:
  - Organization of, and supervision over regional and local funds
  - Capital participation in regional & local funds
  - Re-guaranties for regional & local funds

Co-operation with 25 banks having 4 232 branches over the country provides guarantees according to 4 different procedures:Ordinary, Simplified, Portfolio, and Stand-by guarantees – borrower.

(2) Regional funds

Characterized by a heterogeneous, non-standardized product line, lack of transparency and regulation, and low, decreasing activity.

- Capital from 1 to 5 millions Euros

- Area of activity – at least one province
- Assessment of credit ability procedural, based on professional knowledge and tools

(3) Local funds

- Capital from 0.25 to 1 million Euros
- Area of activity - several municipalities or counties
- Assessment of credit ability based primarily on local knowledge and networking

Besides credit guarantee funds, Bank Gospodarstwa Krajowego (BGK) plays an important role in promoting SMEs and the Polish economy. BGK is owned by the state and is a tool policy for Polish government to promote SMEs. BGK implemented many credit guarantee programs for SMEs in which The BGK de minimis portfolio guarantee facility has significance and is one of the programs that are successfully applied. Itbeganoperating in2013 by BGK and the Polish government. The purposeofthis programwas a reaction to the economic slowdown, and the low efficiency of the existing framework of credit guarantees to provide support to SMEs. BGKperformedcreditguaranteeto 23commercialbanks. This program allows SMEs to seek guarantee for working capital and investment loans of up to 3.5 million PLN for the period of up to 27 months (working capital loan) or 99 months (investment loan), with the following key characteristics:

- Simple procedures for SMEs,
- Zero charge for guarantees in the first year of the guarantee,
- Low commission of 0.5% of the guarantee amount for the second and third year,
- Possibility of getting the financing without own collateral (Formally, the bank may request the collateral for the part of loan not covered by the guarantee.).

The program was designed also to encourage banks to increase their supply of credit, by:

- A risk transfer to the government up to 60% of the loan value,
- Short period of guarantee payout (15 working days),
- No capital charges on the guaranteed amount.
- The success of the BGK de minimis guarantee program points to the followings:
  - The scope of public intervention should be sufficiently large to make an impact, but adjusted to the current needs of SMEs. State aid regulations should be fulfilled.
  - Guarantee fees should be subsidized, as fees set at a level covering all costs are usually unacceptable for the SMEs.
  - Guarantee products should complement the operations of commercial banks: terms of guarantee should be unified and standardized to fit commercial banks' centralized structures and standardized credit products.
  - A portfolio guarantee scheme is the best choice for low value guarantees as it minimizes bureaucracy and speeds up procedures. However, portfolio guarantees need efficient IT solutions on both the public and private side.
  - As credit risk assessment is performed by the guarantor only at the level of the portfolio, the portfolio quality should be carefully monitored, and decisions on granting/renewing limits to the participating banks should be based on the assessment of the portfolio quality.

- Unfunded credit risk protection and capital relief is an important incentive for the banks to participate in the program. A clear recognition by the financial regulator/supervisor is needed in this regard.
- The impact of the program on SME sector should be constantly monitored.

Credit guarantee system in Slovakia

In Slovakia the use of credit guarantees is relatively small and has two main credit guarantee providers: the Slovak Guarantee and Development Bank; and the Slovak Business Agency focusing on the development of SMEs operating in the fields of infrastructure, environment, renewable energy sources and efficient energy. According to the banks, clients in Slovakia often face excessively restrictive conditions from guarantee providers. Moreover, the cost of using guarantees and the cumbersome administrative burden associated with the products are also important drawbacks.

Although the credit guarantee system of Slovakia is small but it has one outstanding characteristic that other countries can refer and study. This is the diversity of the product guarantees**.** Slovakia has applied the diversity and specific guarantee programs and loan programs, it cludes:

Guarantee programs:

(1)Bank Guarantees for Loans:

Providing guarantees to start-ups and expanding SMEs: Focusing on exploitation of new technologies, small craftsmanship and small family businesses, businesses operating in the processing of raw materials and materials, energy savings and renewable energy sources, environmental enhancement, export and tourism industry, agriculture industry.

Providing guarantees especially for financial loans used for: procurement of tangible assets, reconstruction and upgrade, including the renewal of tangible assets and the infrastructure in the regions, procurement of intangible assets, payment of the operating costs related to the procurement of new material stock, raw materials, partly prepared goods, for a preliminary shortage of money related to the payment of operational costs.

(2) Fast Bank Guarantees

The Slovak Guarantee and Development Bank provide bank loan guarantees to SMEs operating for at least 12 months.

Loan programs:

(1) Slovak Growth Capital Fund: provides funds in the form of venture capital investment for SMEs based in Slovakia

(2)Slovak Development Fund:provides venture capital investment for SMEs in development phase operating in Slovakia

(3) Micro-loan Program: supports start-ups and small enterprises. Micro-loan can be used for: equipment; refurbishment and repair of operating premises; and the acquisition of necessary

stock, materials, raw materials or goods. The program is open to entrepreneurs in selected districts of Bratislava and Trnava regions

(4) MICRO loans: provide direct loan to start-ups and expanding small entrepreneurs. The fund offers short-term and medium-term loans to fund working capital, fixed tangible and intangible assets, and to refurbish and modernize fixed assets.

CONCLUSION AND SOME SOLUTIONS TO IMPROVE THE SYSTEM OF CREDIT GUARANTEE IN THE V4 COUNTRIES

The Governments of the V4 countries, policy makers are aware of the importance for the country's development of economic support measures for SMEs. They have done different intervention approaches over the years and use many different tools to promote SMEs and the economy. Credit guaranteeis one oftheeffective toolstopromoteSMEsandthe economyofthe V4 countries.Guarantee system of the country in the V4 countries have different characteristics, each country has its own strengths in processing the application service guarantees for SMEs. Among them,creditguarantee system of Hungary is the best model and is a case study by more researchers. To complete guarantee system in the V4 countries more effectively, the author propose some solutions follows:

- Governments should have policies to support credit guarantee system and SMEs
- The credit guarantee system should diversify products and services simultaneously to guarantee programs consistent with economic conditions
- Building suitable risk-sharing mechanism between the guarantee organization and the bank for attaching responsibilities and rights of banks in credit guarantee activities
- Building guarantee procedure quick and short will save time and costs for SMEs banks and guarantee organization
- Improving the credit information system;thissystemwill be a placeto shareinformation aboutSMEs, the credit statusofSMEs, thenon-financialinformationetc.Based on these information the banks and the guarantee organizations can assess the financial situation of SMEs, risk of SMEs, from which they make better plans, loan etc.
- Creation of an enabling legal and regulatory environment for SMEs and business operations;
- Improvement of capacity-building, development of physical business support infrastructure -especially the establishment of micro-credit guarantee schemes-; for fostering entrepreneurship etc.

This article will help researchers, policy makers and governments have more experiences and knowledge of best practice cases in the application of credit guarantee in the V4 countries. From these experiences and lessons they can take measures and more effectiveprograms in operation of credit guarantee activity and promote the economy.

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