

# Start-up support for SMEs through credit –guarantee schemes



Pražské mosty

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## Transition of the national economy

- The process of re-establishing the market economy started in 1989. The recovery of the SME sector was one of its elements.
- There were 3 typical models of start-ups: privatization of state property, spin-offs, start-ups of new ventures.
- Financing of start-ups has depended on bank loans, lack of own capital. The private banking sector was in its starting phase as well. The banks were inexperienced and accepted the credit risk which they weren't able to manage. The credit crunch in 1997 caused a lot of problems.
- Conclusion: It is impossible to achieve quick and massive expansion of SMEs without bank loans.



## Current situation of the national SME sector and SME assistance

- There were more than 1 million enterprises registered at the end of 2008. 99,8 % of them were SMEs.
- The share of SMEs on:
  - employment: 62 %
  - added value : 51 %
  - export: 46 %
- Institutional framework: special banks, governmental funds and agencies ( with local branches).
- Assistance is provided from the state budget, EU funds, local or regional budgets. European financial institutions ( EIF, EIB, CEB , in the past EBRD) are/were providing support as well.



## Guarantee – the efficient measure of public assistance

- Guarantees construct the virtual bridge between an entrepreneur and a bank.
- Guarantees have a leverage effect – multiplies public funds.
- Guarantee is required only if useful and necessary. It extends the amount of projects which can be realized.
- Guarantees are very flexible - their terms and conditions can be designed depending on the type of the liability which is secured ( different type of banking loans, leasing, bid for tenders) and adjusted to the situation on the financial market.

## Key elements of the guarantee system

- Legal framework
- Sponsor: state budget, private investors (?), international financial institutions
- Product - variety of options: for individual deals or for portfolios; guaranteed liability – capital, interest; percentage of a guarantee; terms of guarantee payments, sharing of collateral.
- Institution: fund, bank, private company ( Basel 2 requirements)
- Banks: co- operation necessary, bilateral agreements useful .

## Guarantees in the Czech Republic

- SME Support Act – adopted in 1992. Ministry of Industry and Trade (MIT) responsible for the SME assistance. Only the Czech – Moravian Guarantee and Development bank can use funds to provide guarantees and loans with lower interest rates
- State programmes of SME assistance – approved by the government. They stipulate: eligible beneficiary, projects, industry branches and costs, basic terms of guarantees, penalties.
- The agreement between CMZRB and MIT – terms and conditions regarding usage of budget funds, settlement of funds, reporting.
- Guarantees are provide for individual loans and loan portfolios as well.



## AECM

- ❑ It operates as an open, democratic organisation, independent of any political or financial group.
- ❑ AECM is now representing 34 companies or federations that operate as networks of guarantee societies in 18 countries of the European Economic Area.
- ❑ Contact: [www.aecm.be](http://www.aecm.be)





## Conclusions

- Guarantees are applied in many countries in the world. They are a substantial part of public assistance provided to SMEs.
- It is useful to analyze experience in different countries before starting or innovating a guarantee system. Mistakes can be avoided.
- The establishment of a guarantee system in economies in transition requires political support which is able to provide reliable funding.