

THE ROLE OF THE RURAL CREDIT GUARANTEE FOUNDATION (AVHGA) IN SUSTAINABLE RURAL DEVELOPMENT

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ABSTRACT

The Rural Credit Guarantee Foundation (AVHGA) plays an important role in rural development by issuing credit guarantees for small- and medium-sized (SMEs) rural enterprises. AVHGA was founded in 1991 and has since issued more than 30,000 credit guarantees connected to more than 550 billion HUF credit. The aim of credit guarantees is to increase the creditworthiness of SME's, to improve their access to finance, and to ensure their financial viability. A credit guarantee is a type of credit collateral, in the legal form of an on-demand guarantee. With such a guarantee creditable enterprises can get financing from banks, even though they do not have enough collateral to cover the credit. In case of a bankrupted credit, AVHGA pays a certain percent (the maximum guarantee coverage is 80%) of the loss to the credit institution immediately. This makes credit guarantees one of the most efficient forms of state subsidy, because effective monetary payment occurs only in the case of defaulted loans. In this study we describe the activity of AVHGA and provide detailed analysis of data by rural development areas, financial products, and borrowers' experiences.

Keywords: Rural Credit Guarantee Foundation, credit guarantee

INTRODUCTION

Regional development is one of the core issues in Hungary nowadays, because the high proportion of agricultural production of the total GDP is not sustainable anymore. Therefore a number of Hungarian farmers have to finish its work or other rural inhabitants should diversify their activity as well to other related businesses in order to ensure or enhance their cost of living. In this study we examined the contribution of the Rural Credit Guarantee Foundation (AVHGA) in the access to finance of rural enterprises through regional breakdowns.

The activity of AVHGA

“Over one and a half centuries ago, Count István Széchenyi saw the absence of lending as the greatest obstacle preventing Hungarian enterprises from growing as fast as their Western peers. The situation is largely similar today. Even though the political changes brought about greater opportunities, the scarcity of capital remained the most serious problem facing small and medium-sized enterprises, especially in rural areas, in agriculture and the related sectors, unable to provide

enough collateral to borrow from banks. Having recognized the situation, the developed part of Western Europe tried to offer help by establishing the Rural Credit Guarantee Foundation under the PHARE Programme in 1991. It was the first credit guarantee institution in Hungary, improving the access of Hungarian rural enterprises to lending.

The mission of the Rural Credit Guarantee Foundation is to increase the creditworthiness of rural small and medium-sized enterprises: improve their access to financing and ensure their financial viability by issuing guarantees” (*www.avhga.hu*, 2011).

The Rural Credit Guarantee Foundation (*AVHGA*) issues credit guarantee for all regions in Hungary, and have been provided guarantee for more than 30 000 cases of more than 550 billion HUF credit amount from the start of its operation until the end of year 2010.

The guarantee provided by AVHGA is considered as state aid, due to the 70% state counter guarantee; therefore it has to apply all EU state aid rules. Since in case of guarantees payment is made only at the time of default, not the whole amount of the guarantee is counted as an aid. Based on the EU competition rules the aid element of the guarantee is the difference between the annually discounted market price and the effectively paid guarantee fee.

MATERIALS AND METHODS

The examination based on the statistical data of AVHGA and the regional GDP data and regional GDP/capita index (total country=100) of Hungary issued by the Hungarian Central Statistic Office in the year of 2008. During the analysis we assume, that the GDP/capita index shows the degree of development by regions. We used only data of 2008, because the previously examination of data before 2008 showed not significantly different breakdowns by regions neither in AVHGA guarantee aid element and redemption amounts, nor in GDP data. Therefore the examination of one year can be considered significant. The territory of Hungary was divided into seven regions in 1999.

By applying a bubble chart for the regional breakdown of issued guarantee aid element amount and deemed amount/GDP/capita index we can divide four segments, and can analyze the data by groups.

RESULTS

The Deed of Foundation of AVHGA prescribes, that the target group of credit guarantee is those rural SMEs that have not enough collateral to obtain external finance, but are creditable. As it is mentioned before we use the regional GDP as the indicator for regional development. During the examination we assume that in less developed regions the available collateral amount is less as well. If we correlate the regional guarantee aid element amount to regional GDP we can see how efficient the guarantee in the certain region was (*Figure 1*).

Figure 1

Seven regions of Hungary



Source: <http://hu.wikipedia.org>, 2011

In order to present all the three dimensions in one diagram, we can create the following four quadrants bubble chart. On the X axis is the guarantee aid element/GDP data, on the Y axis is the regional GDP/capita index. The size of the bubbles shows the issued guarantee aid element amount in the certain region. The intersection of the two axis is at the average of data (Figure 2).

Using the Figure 2 chart we can divide the data into four segments. In quadrante I. there are the relatively developed regions with relatively low aid element amount of guarantees. In quadrante II. would be the place of developed regions with high aid element amount of guarantees. In quadrante III. we can see the less developed region with low guarantee aid element, and quadrante IV. shows the less developed regions with more guarantees both by the aid element amount and the percentage of the GDP.

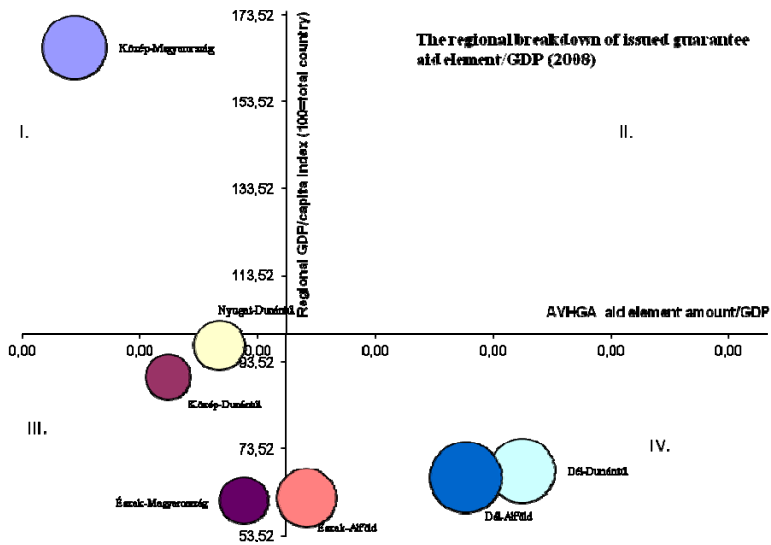
First of all if we consider the fundamental goal of AVHGA, namely the support of less developed areas, the diagram verifies it, because three of the less developed regions dispose with more guarantee aid element. On the other hand the most developed region (Közép-Magyarország) has significantly the fewer guarantees, which also complies with the Deed of Foundation.

One region (Nyugat-Dunántúl) has fewer aid elements, but is relatively developed based on the GDP data. In this case we have the information, that these rural enterprises have enough capital for their activity, therefore the credit and guarantee demand is not so high.

The two areas that would be more subsidized by AVHGA are Észak-Magyarország and Közép-Dunántúl, because there is not too much guarantee aid element although they are relatively less developed (Figure 3).

Figure 2

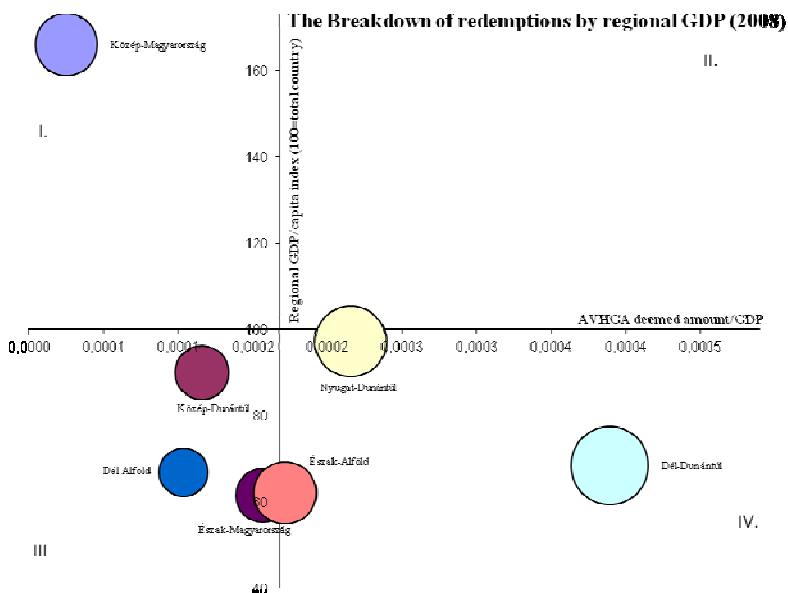
The regional breakdown of issued guarantee aid element/ GDP (2008)



Source: Based on Hungarian Central Statistical Office, 2011; AVHGA data, 2008

Figure 3

The breakdown of redemptions by regional GDP (2008)



Source: Based on Hungarian Central Statistical Office, 2011; AVHGA data, 2008

Comparing the redemption bubbles to the previous chart by issued guarantee amount one can observe, that two regions (Közép-Magyarország, Közép-Dunántúl) has not moved from the original place. It means that the proportion of deemed amount equals to the proportion of guarantee aid element amount. Two regions (Nyugat-Dunántúl, Észak-Magyarország) moved to the right side, in these cases the redemption was relatively higher than the average. It is interesting, that in the less developed regions (Észak-Alföld, Dél-Alföld, Dél-Dunántúl) moved to the left side only, meaning that in these areas the guarantee was really efficient, because despite of the high level guarantee aid element percentage the redemption amount is relatively low.

CONCLUSIONS

Based on the fundamental goals of AVHGA, the data show the verification of the higher subsidization of less developed regions. The significantly low percentage of Közép-Magyarország also fulfils the main requirement that the most developed area is not promoted too much. There are possibilities in two regions for more guarantees: Észak-Magyarország and Közép-Dunántúl.

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