

Role of credit guarantee in improving financial access to Micro SMEs

History of Credit Guarantee in Thailand

Thai Credit Guarantee Corporation or TCG is a state-owned specialized financial institution under the supervision of the Ministry of Finance (MoF). TCG was established on December 30, 1991 under the Small Industry Credit Guarantee Corporation Act. B.E. 2534 (1991) to take over all the business and operations of the Small Industry Credit Guarantee Fund. It officially commenced operations on February 21, 1992 with an initial registered capital of Bht. 400 million, On July 3, 2000, the government by the MoF made additional capital increase of Bht. 4 billion for TCG. Making up a total capital of Bht. 4.4 billion. Later at the end of 2005, TCG was approved by a special resolution of its extraordinary general meeting of shareholders to increase its registered capital by another Bht. 2 billion. In 2008, it called partial share payment of Bht. 302.47 million from the shareholders who had expressed their intention to take up new shares, hence a total capital of Bht. 4,702.47 million. The latest capital increase was approved by the extraordinary general meeting on September 25, 2009 by another Bht. 2,137.47 million of which Bht. 2,000 million was intended to be acquired by the MoF, TCG accordingly on October 14, 2009 registered the capital increase with the Ministry of Commerce pursuant to such special resolution of the shareholders' meeting. Thus, at present, TCG's total registered capital is Bht. 6,839.95 million of which Bht. 6,702.47 million is paid-up.

The objectives of TCG's establishment are :

1. To assist small enterprises in obtaining a greater amount of credit from financial institutions ;
2. To strengthen the confidence of financial institutions in providing credits to small enterprises
3. To accelerate the credit extension to small enterprises throughout the country ;
4. To assist in the achievement of the small industry development target under the National Economic and Social Development Plan.

Role of Thai Credit Guarantee Corporation

Thai Credit Guarantee Corporation (TCG) was established to provide support to small and medium enterprises (SMEs) through credit guarantee service for the SMEs that have potentials but lack of collateral security in order to enable them to acquire the adequate amounts of loans from financial institutions and, at the same time, enhance the financial institutions' confidence in credit expansion which will benefit the overall economic development.

TCG's operations not only help boost SMEs' capability in business and investment expansion but also encourage the emergence of new entrants, hence contributing to the country's economic development. The collaboration between TCG and the public and private sectors together with the consistent supports from the government will allow for its achievement of the operational targets. It has been a universal practice that most credit guarantee institutions across the world get supports from their respective governments, though in different forms, since they are on of the key financial mechanisms of government in developing and promoting entrepreneurial circles.

With the above nature of business, TCG has been a non-profit organization committed to operating for the benefit of the country as a whole. It's credit guarantee service will be a key driver to the strengthening of the SMEs and the healthy social and economic growth of the country.

TCG Performance as of June 2017

As of June 2017, TCG has approved credit guarantee total amount Baht. 611,378 million. Total outstanding guarantee amount Baht. 334,400 million and total number of guarantee SMEs 237,795 projects. Guarantee amount by Business Sector which are Service, Goods Production & other business, steel product & machinery, food & beverage and

agriculture. These has contributed to a revolving credit amount Baht. 915,362 million in the economy and helping maintain employment of workforce and create new job opportunities for another 583,862 persons.

The mention above has served as a driving engine for the country's micro-economic development and paved strong foundation for SMEs businesses which represent as high as 98% of the total number of enterprises nationwide, in concurrence with fueling the country's macroeconomic expansion.

Package Guarantee Scheme Model for TCG

The main purpose of this model for Micro Entrepreneurs, who don't have the collateral and difficulty access to finance.

Micro Entrepreneurs Product

The main purpose of this model for Micro Entrepreneurs, who don't have the collateral can access the loan from the bank and their business is very small so they may be affected by economics recession and this model will solve informal debts problems also.

1. The guarantee scheme limit is total thirteen thousand and five hundred million baht.
2. The target are very small enterprises such as community enterprise / hawker / stall / online business.
3. The definition loan of each Micro Entrepreneurs is not over than two hundred thousand THB for long term loan 3 years to 10 years.
4. The bank can select the rate of guarantee fee one percent to 3 percent for each customer depend on the credit scoring risk.
5. Fee rate is one to three percent each year.
6. Max claim is fifty percent.
7. The SME's primary qualification for applying this scheme must own fix asset included land not more than five million baht and have evidence to operate business and have definitely location confirmed by bank.

Example of Package Guarantee Scheme Model for Micro SMEs

The principle for claim payment

The bank can select the rate of guarantee fee one percent to 3 percent for each customer depend on the credit scoring risk.

Form the slide we show the claim payment from the SMEs fee (one percent to 3 percent) and the Government support (20%) of approval amount but we separate payment in 5 years.

- Year one is 7%
- Year two is 7%
- From year three until year five is 2% per year

So TCG Claim payment of This scheme is between 30%-50%

If the bank selected fee rate 1% for 10 year SMEs will pay 10% and The bank got the government support 20% so the bank can get claim payment from TCG 30%.

If the bank selected fee rate 2% for 10 year SMEs will pay 20% and The bank got the government support 20% so the bank can get claim payment from TCG 40%.

Conclusion of Credit Guarantee

TCG's overall policy and strategy were focused on growing customer base through proactive market making. These included contact with financial institutions, direct linkage with and approach to entrepreneurs, set up of SMEs center and Call center to render assistance in form of consultancy, preliminary problem solution, feasibility study for financial support, coordination with financial institutions in lending credits to SMEs with business potential to ensure they have sufficient liquidity for continued business operations, and development of entrepreneurial potential by disseminating necessary knowledge among entrepreneurs, encouraging formation of business networks among entrepreneurs and provision of advises and financial assistance to fortify these enterprises and entrepreneurs. Moreover, TCG has given importance to prevention and resolution of non-performing credit guarantee (NPGs) and employing prudent measures in rendering new credit guarantee to contain NPGs.