Czech Group Aims to Fill Data Gap to Spur Loans

By Nick Carey
Dow Jones Newswires

PRAGUE—Czech bankers only know how to say "no," say many Czech small- and medium-size businesses.

"Unless you have a lot of property you can mortgage or can show you've been profitable for the past five years, you can forget getting a loan," gripes Jiri Belinger, whose two garden-machinery companies employ 160 and have combined annual revenue of roughly $12 million, or about €10 million. "We're lucky. We have a track record and property, but many companies here don't have that good fortune."

Bankers respond that they are eager to lend to the lucrative small- and midsize enterprise segment, if only owners would provide more data to qualify for financing.

Their reluctance to open up is understandable, bankers say. Memories of a nosy communist regime have made many Central and Eastern European companies wary of disclosing information. "Company owners don't really want anyone to know anything about them, what they own or what they make," says Ales Pospisil, head of the SME division at Ceskoslovenska Obchodni Banka AS, a unit of Belgium's **KBC Bank**. "It's a throwback to the days when the state wanted to know everything about everyone."

The Prague Chamber of Commerce has stepped into this information gap with a credit-rating program intended to give bankers enough information to approve financing to companies that were previously refused loans. In a pilot project, 260 Czech companies ponied up $150 apiece for a SME rating based on their earnings, property, assets, debts, markets and company history. The Czech Credit Bureau, a company that has previously focused primarily on operating a consumer-loan register for Czech banks, then adds statistical information on the company's line of business and a commentary on its growth prospects.

The new information source, similar to systems in place in Western Europe and the U.S., is "a positive development for Central Europe," says an official at international credit-rating firm Fitch Ratings in London.

Ceskoslovenska Obchodni Banka participates and another of the Czech Republic's largest three banks has signed up, with eight smaller banks gearing up to follow. Officials in Slovakia and Italy have expressed interest in mimicking the service.

Prague Chamber representatives say they're negotiating with a major mobile-phone provider, several utility firms and government institutions. That would allow the service to be broadened into a universal credit-scoring system for small companies—an expansion that is crucial to the system's long-term success, bankers say.

"If a rating would serve as a tool for getting a good deal on mobile-phone services or proving to a corporation that you're a good supplier, then the added value would be much clearer to SMEs," Mr. Pospisil says. "Without that added value, I don't think an SME rating will have a broad appeal."

Throughout the 1990s SMEs were largely overlooked by Czech banks, which mostly went after corporate clients. But with the corporate market now saturated and fierce competition pushing margins lower, financial institutions during the past three years have repeatedly stressed their desire to lend more money to SMEs. Just as frequently, their statements have been dismissed as lip service by business owners.

Antonin Taks, chairman of Prague-based security-door manufacturer Napako, which employs 85 people and has annual revenue of about $2 million, says Czech banks "still have trouble evaluating business plans and a company's future perspectives for growth." Although he says financing is more readily available, Mr. Taks has largely given up on the banks. "I don't borrow money unless I absolutely have to," he says. "I use my own reserves to fund new projects."

Czech companies with annual revenue of at least $1 million are required to register balance-sheet details plus recorded profit or losses with the Czech commercial register, but only 15,000 of an estimated 700,000 active Czech companies meet those disclosure requirements, Mr. Pospisil says.

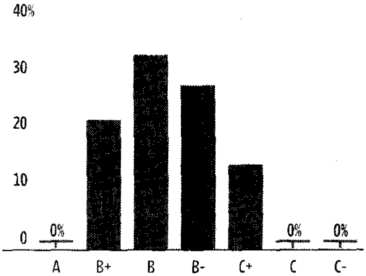
In addition to the legacy of hiding information from communist officials, companies sometimes understate profits to avoid paying taxes, making it difficult to analyze their financial situation and see how much companies are earning, says Petr Slaby, deputy executive director in charge of marketing at Komercni Banka, a unit of France's Société Générale. "If a company doesn't show a profit for years in a row and comes to us looking for a loan, they'll find it difficult to obtain any money," Mr. Slaby says.

Prague Chamber Chairman Petr Kuzel proposed the rating system after watching conferences intended to create understanding between bankers and SME owners turn into shouting matches. "The SMEs complained the banks wouldn't lend to them, the banks said the SMEs weren't cooperative enough," he says. "We needed a simple solution that could be used by both sides."

In cooperation with the Czech Credit Bureau and with the backing of Ceskoslovenska Obchodni Banka, the Chamber invited companies with annual revenue of as much as $12 million to apply. Of the 260 companies that participated in the pilot project, which started last September, most companies have received a solid B rating on a scale of A to C-, meaning they're slightly above average, relatively financially stable companies with good prospects for growth and average ability to meet financial obligations.

The Czech Curve

Breakdown of grades given to 26 Czech companies participating in a credit-worthiness scoring system*

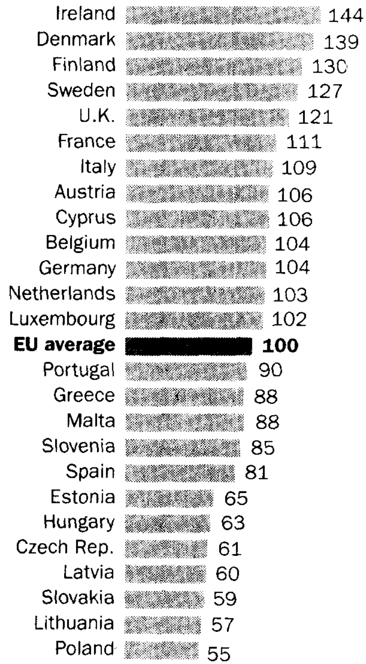


*Rating system has several levels for each grade

Source: Czech Credit Bureau

The Price of Eating, Drinking and Smoking

Price level indices for food, beverages and tobacco in most central and eastern Europe countries are less than 80% of the average for the European Union's 25 members (EU25=100)*



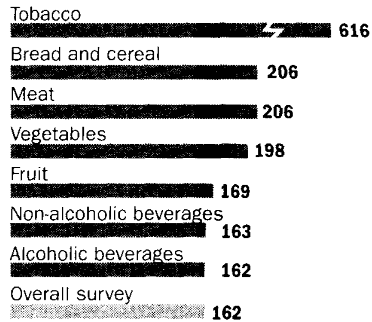
*Indices above 100 indicate country is relatively expensive compared to EU average; survey of about 450 comparable products conducted in spring 2003

**Expressed as a percentage of the minimum price level index among EU countries

Source: Eurostat

Comparison Shopping

Product groups where the difference between the maximum and minimum price level index of EU countries is greatest**



A comparable basket of food, beverages and tobacco in the most expensive EU country, Ireland, costs about 2.6 times more than in the least expensive country—new member Poland. But it's even pricier in non-members Iceland and Norway. Southern Europe countries rank with the East as lower priced, with the exception of Cyprus and Italy. Cyprus is also the only new EU member where prices are above the EU average. Among product groups, the price of tobacco varies the most because of different national regulations, excise duties and taxes. Smokers in the U.K. pay about twice as much as the EU average, while tobacco prices in Latvia and Lithuania are about 70% below the average.