THE ROLE OF BANK GUARANTEES IN THE DEVELOPMENT OF SMALL AND MEDIUM-SIZED BUSINESSES AND THE SUPPORT OF TRADE

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Abstract

Small and medium-sized enterprises (SMEs) play a vital role in economic development by generating employment and fostering innovation. However, limited access to finance remains a major constraint for their growth. Bank guarantees serve as effective tools to reduce credit and performance risks, enabling SMEs to obtain financing, participate in tenders, and engage in trade activities. This article analyzes the mechanism and types of bank guarantees, examines international best practices, and evaluates the current state in Uzbekistan. It concludes with recommendations to improve the guarantee system, raise awareness among SMEs, and enhance institutional support to promote trade and business development.

Introduction

Small and medium-sized enterprises (SMEs) constitute a fundamental part of modern economies, accounting for over 90% of businesses worldwide and generating a significant share of employment and GDP. In both developed and developing countries, SMEs are recognized as key drivers of economic growth, innovation, and social stability. Despite their important role, SMEs often face considerable challenges, particularly in securing adequate financing and participating in large-scale commercial and trade activities. These challenges are usually tied to issues such as limited credit history, lack of sufficient collateral, and perceived high risk by financial institutions.

One of the key financial instruments designed to address these barriers is the bank guarantee. A bank guarantee serves as a promise by a financial institution to assume liability for a debtor's obligation if the debtor fails to fulfill contractual duties. This instrument reduces risk for counterparties—whether lenders, suppliers, or customers—and thereby facilitates trust in financial and trade transactions. For SMEs, bank guarantees can open access to previously unattainable credit opportunities, enable participation in government procurement processes, and support involvement in cross-border trade, all without requiring heavy collateral or long credit histories.

Bank guarantees are particularly relevant in international trade, where trust between unfamiliar partners is often limited. In such cases, guarantees mitigate the risk of non-payment or non-performance, encouraging both exporters and importers to engage in transactions they might otherwise avoid. Moreover, in project-based contracts, performance and advance payment guarantees serve as important risk management tools for buyers and contractors alike.

Globally, many countries have developed institutional mechanisms and guarantee funds to promote the use of bank guarantees among SMEs. For example, countries like Germany, Japan, and South Korea have established well-functioning public-private guarantee schemes that support SMEs in obtaining guarantees through simplified procedures and government-backed risk sharing. These practices have contributed significantly to the success of SMEs in those economies.

In contrast, many developing countries - including Uzbekistan - have only recently begun to implement reforms in this area. Although Uzbekistan has made strides in improving SME financing, the use of bank guarantees remains relatively limited due to factors such as lack of awareness, underdeveloped institutional frameworks, and high transaction costs. As a result, many SMEs are still excluded from participating in larger trade and investment opportunities.

This paper aims to explore the theoretical and practical dimensions of bank guarantees, assess their role in enhancing SME development and trade support, analyze successful international experiences, and propose policy recommendations tailored to the needs of emerging economies like Uzbekistan. By doing so, the study contributes to the broader understanding of how financial instruments like bank guarantees can serve as catalysts for inclusive economic growth and private sector development.

Literature review

The significance of bank guarantees as financial instruments in supporting SMEs and trade has been widely discussed in academic and policy literature. Scholars and international institutions have emphasized that one of the main barriers to SME development is the lack of access to affordable financing and risk-mitigation mechanisms (OECD, 2022; IFC, 2020). Bank guarantees are recognized as essential tools that can bridge this gap by substituting collateral requirements and increasing trust between SMEs and their financial or trade partners (World Bank, 2021).

According to Kirschenmann (2016), bank guarantees reduce information asymmetry between lenders and borrowers by providing a third-party commitment, which is particularly crucial in economies where credit registries and legal enforcement mechanisms are weak. Similarly, Beck and Demirgüç-Kunt (2006) argue that bank guarantees can significantly improve credit allocation to SMEs, especially when paired with public guarantee schemes or credit enhancement programs.

In the context of trade, bank guarantees are seen as vital components of trade finance. Di Caprio, Beck, and Da Silva (2020) highlight their role in international transactions where the counterparty risk is high. Performance and payment guarantees facilitate participation in global supply chains and public procurement, enabling SMEs to scale up and internationalize.

Several studies have explored the successful implementation of guarantee schemes across various countries. For instance, Honohan and Beck (2007) note the effectiveness of Germany’s Bürgschaftsbanken, which offer government-backed guarantees through regional banks. Likewise, Japan’s Credit Guarantee Corporation (JCGC) supports nearly half of all SME loans by absorbing credit risk and enabling banks to lend to smaller firms. These models provide valuable lessons for emerging economies looking to improve SME access to finance.

In the context of Central Asia, the literature is relatively limited, but some regional studies, including those by the Asian Development Bank (ADB, 2021), stress the importance of expanding financial infrastructure, including guarantee schemes, to enhance SME competitiveness. In Uzbekistan, recent government reforms have aimed at introducing and scaling up guarantee instruments; however, empirical evidence on their effectiveness remains scarce, signaling a gap in both academic literature and policy evaluation.

Overall, the reviewed literature suggests that while bank guarantees are a powerful financial tool, their success largely depends on the existence of supportive institutional frameworks, regulatory clarity, financial literacy among SMEs, and active cooperation between public and private sectors. Further research is needed to explore context-specific applications of these instruments in developing economies like Uzbekistan.

Methodology

This study adopts a qualitative and comparative approach to examine the role of bank guarantees in supporting the development of small and medium-sized enterprises (SMEs) and facilitating trade. The research design is based on a multi-stage methodology that combines theoretical analysis, case study comparison, and contextual evaluation of the situation in Uzbekistan.

The conceptual basis of the study relies on financial intermediation theory and credit risk mitigation models. These frameworks help explain how third-party guarantees such as those issued by banks can enhance trust in financial transactions and improve access to credit for SMEs with limited collateral or credit history.

While the study provides valuable insights into the role of bank guarantees, it is limited by the availability of up-to-date empirical data in Uzbekistan and by the reliance on secondary sources. Further research using primary data collection methods—such as surveys of SMEs and financial institutions—could provide a more in-depth understanding of practical challenges.

Result and discussion

The analysis of international practices confirms that bank guarantees significantly enhance SMEs' access to finance by substituting traditional forms of collateral. In countries such as Germany and Japan, more than 40–60% of SME loan portfolios are backed by credit guarantee schemes. This allows banks to reduce their credit risk and encourages them to extend loans to smaller firms that would otherwise be excluded from the formal financial system.

For example, Germany's Bürgschaftsbanken (mutual guarantee banks) and Japan's Credit Guarantee Corporation (JCGC) provide partial guarantees (typically 70–80%) to commercial banks, which dramatically increases loan approval rates for SMEs. These guarantees are supported by government contributions and operate within a transparent legal framework. As a result, SMEs in these countries are able to invest in capacity expansion, innovation, and internationalization.

By contrast, SMEs in developing countries often lack access to such institutional mechanisms. In many cases, guarantees are underutilized due to high fees, bureaucratic hurdles, and limited awareness. The World Bank (2021) notes that in lower-middle-income countries, less than 10% of SME financing is supported by guarantees, compared to over 50% in high-income economies.

2. Role in Trade Facilitation

Bank guarantees also play a vital role in enabling SMEs to participate in trade activities—both domestic and international. Instruments such as bid bonds, performance guarantees, and advance payment guarantees reduce risks for trading partners and make SMEs more competitive in public procurement and export markets.

In South Korea, the Korea Trade Insurance Corporation (K-SURE) issues guarantees and insurance products that protect SMEs against commercial and political risks in international markets. As a result, SMEs account for over 40% of the country's exports. Similar effects have been observed in European economies where SMEs participate in public tenders and infrastructure projects thanks to readily available guarantee mechanisms.

In developing economies, the absence of reliable guarantee systems often limits SME engagement in trade. Many SMEs are excluded from tenders and export markets due to their inability to provide the required guarantees. This exclusion limits their growth potential and weakens their contribution to national economic development.

According to Central Bank data (2024), less than 12% of total SME loans were covered by guarantees, and a significant number of businesses—particularly micro and rural enterprises—lack access to guarantee services. Commercial banks often require additional collateral, defeating the purpose of guarantees. Moreover, procedural complexities and low awareness among SMEs hinder wider adoption.

A survey conducted by the Ministry of Economy and Finance (2023) found that:

- Only 27% of SME respondents were aware of bank guarantee products;
- 64% indicated that high fees and strict conditions discouraged them from applying;
- 58% of bank officers admitted that they lacked training in evaluating guarantee-backed loans.

This highlights the need for stronger institutional frameworks, better integration between banks and the NGF, and widespread financial education campaigns.

Table 1.

SWOT Analysis of the Bank Guarantee Ecosystem in Uzbekistan

Strengths	**Weaknesses**
Government commitment to SMEs	Low awareness among entrepreneurs
Presence of a national guarantee fund	Limited bank participation

Legal reforms under way	Bureaucratic and time-consuming procedures

Opportunities	Threats
Digitalization of banking services	Risk of misuse/fraud in weak oversight systems
International donor support	Economic instability affecting SME creditworthiness

The results underscore the critical role that bank guarantees can play in unlocking SME potential. They are not merely risk mitigation tools but act as enablers of growth, competitiveness, and inclusion in financial and trade systems. However, their effectiveness depends on how well the guarantee ecosystem is integrated with broader financial and institutional infrastructure.

In Uzbekistan's case, despite commendable policy initiatives, the guarantee system is still in a nascent stage. International evidence suggests that a well-functioning public-private partnership model, combined with simplified access procedures and increased awareness, can significantly enhance the impact of bank guarantees. Additionally, digital platforms can streamline application and monitoring processes, making the system more efficient and accessible to a broader segment of SMEs.

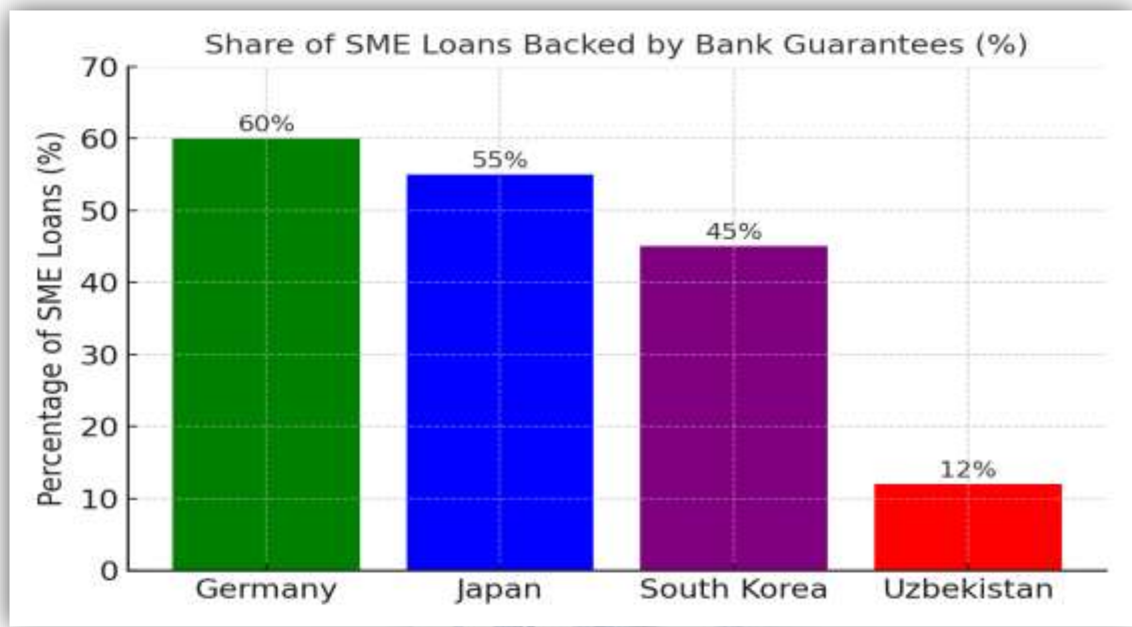

Figure 2. Share of SME Loans Backed by Bank Guarantees in Selected Countries

This chart compares the percentage of SME loans that are secured by bank guarantees in four countries: Germany, Japan, South Korea, and Uzbekistan. The data illustrates that developed economies such as Germany (60%), Japan (55%), and South Korea (45%) have robust institutional frameworks and guarantee schemes that facilitate SME access to finance. In contrast, Uzbekistan shows a significantly lower percentage (12%), highlighting the need for further development of its bank guarantee infrastructure to support SME lending and reduce credit risk.

Conclusion

Bank guarantees are proven financial instruments that play a crucial role in enhancing the growth and resilience of small and medium-sized enterprises (SMEs), particularly by improving access to finance and enabling participation in trade and procurement markets. As this study demonstrates, well-structured guarantee mechanisms not only reduce the perceived risk for financial institutions but also promote trust in commercial transactions, thereby stimulating entrepreneurship and private sector development.

International experiences from countries such as Germany, Japan, and South Korea show that strong public-private partnerships, supportive regulatory frameworks, and targeted SME policies are essential for the successful implementation and scaling of bank guarantee systems. In these economies, guarantees are widely used to facilitate SME lending, reduce collateral requirements, and unlock opportunities in both domestic and international markets.

In contrast, developing countries like Uzbekistan are still in the early stages of building an effective guarantee ecosystem. Although recent reforms—such as the establishment of the National Guarantee Fund—represent a positive step, the actual usage of bank guarantees remains low due to various barriers, including limited awareness, institutional inefficiencies, and high transaction costs. Without further policy intervention and capacity-building efforts, many SMEs will continue to face financial exclusion.

To fully harness the potential of bank guarantees in Uzbekistan, it is essential to adopt a more comprehensive and inclusive approach. This includes streamlining guarantee issuance processes, increasing outreach and education among SMEs, enhancing coordination between commercial banks and guarantee institutions, and leveraging digital technologies to improve efficiency. By addressing these areas, Uzbekistan can significantly expand SME financing, increase trade competitiveness, and support broader economic development goals.

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