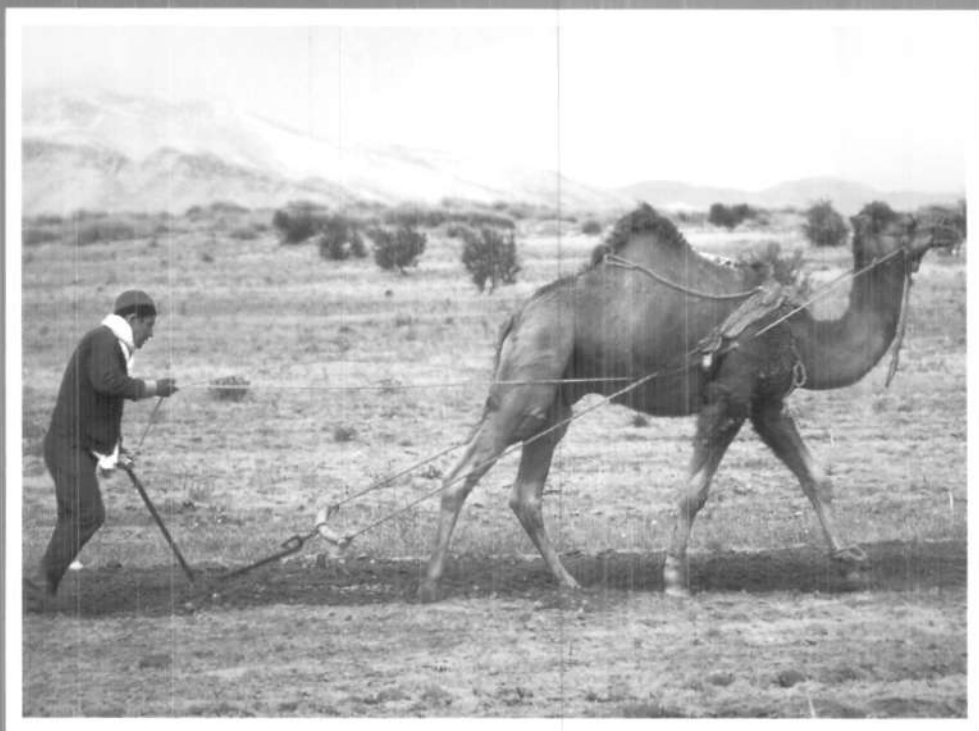


**Laura Viganò**

**RURAL CREDIT GUARANTEE FUNDS:  
BEST PRACTICES,  
INTERNATIONAL EXPERIENCES  
AND THE CASE OF THE NENA REGION**



A research project promoted by NENARACA, in cooperation with FAO and financed by C.I.C.A.

**Fondazione Giordano Dell'Amore**

Established by **Fondazione Cassa di Risparmio delle Provincie Lombarde**

**GIUFFRÈ EDITORE**

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# MONEY AND FINANCE IN DEVELOPING ECONOMIES

Arnaldo Mauri, Editor

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money and finance in developing economies

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Established by Fondazione Cassa di Risparmio delle Provincie Lombarde

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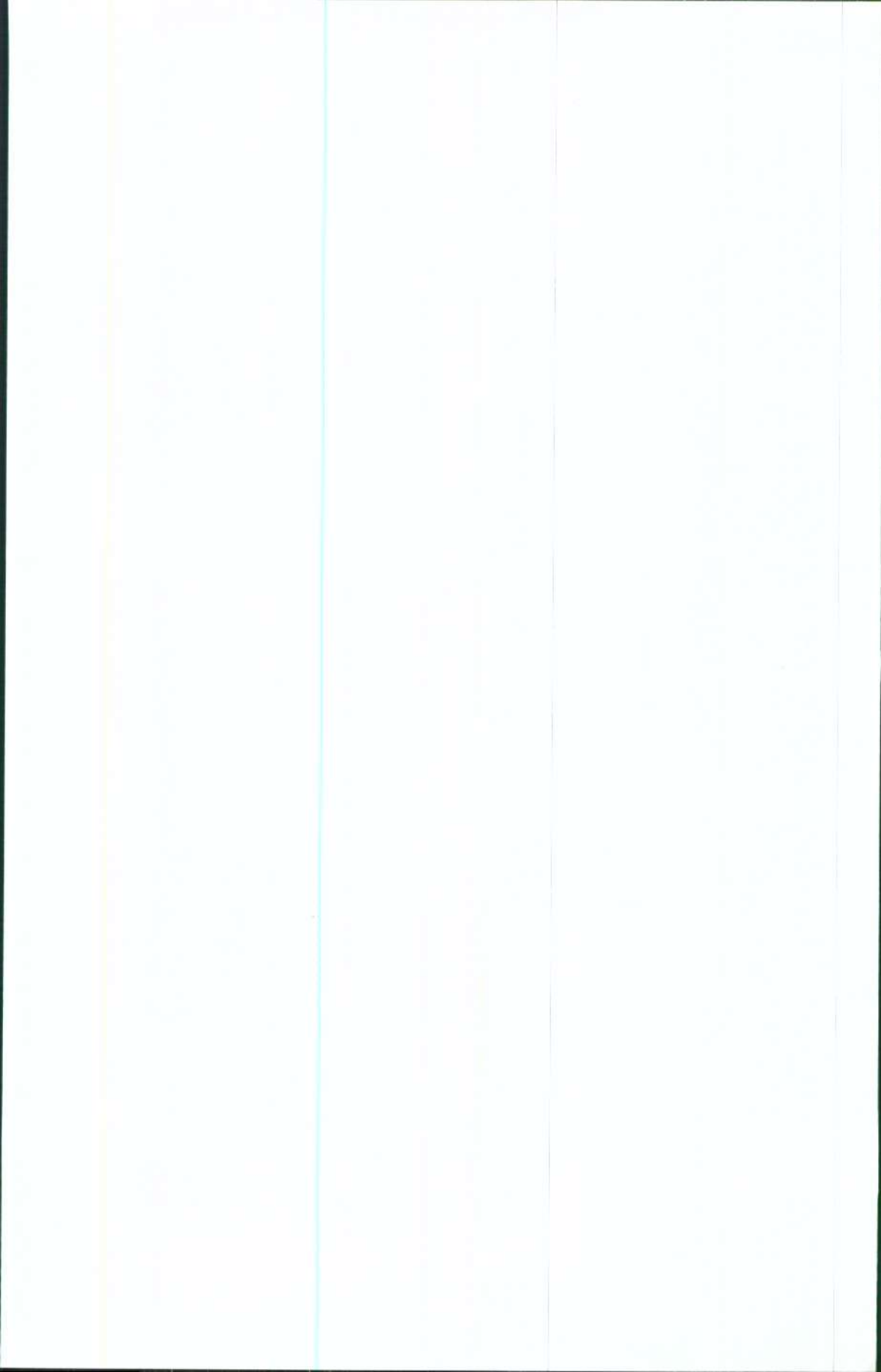
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*To my mother*



## FOREWORD

This research is the outcome of a very valuable co-operation among the Near East and North Africa Regional Agricultural Credit Association, NENARACA, the Food and Agriculture Organization of the U.N., FAO, and the Confédération Internationale du Crédit Agricole, CICA. NENARACA, with FAO, provided the idea, prepared the field and supervised the overall effort while CICA offered its prompt understanding of the project, provided generous financial backing and animated the forum at which the research was first presented. Fondazione Giordano Dell'Amore is now pleased to edit and publish the final result so that the exchange of knowledge between rural finance institutions of the NENA Region and the large reservoir of experience of CICA associates can benefit a broader audience in the developing world.

The subject of the research has wide ranging implications for effective institution building in financial development. In the grand design of financial flows, financial intermediation can play a key role in increasing the equilibrium level of savings and the productivity of its investment. The attractiveness of the financial intermediation process, i.e. its long-term self-sustaining ability to increase its market share in financial markets and its incidence on real variables, depends on its value creation capacity and the pricing of this value.

While the process of value creation is well understood in

theory, its practice — through institution building and their current management — is not equally clear in its foundations. Of particular interest is the case of financial institutions that are the result of organizational engineering implying de-integration — through outsourcing of significant phases and activities in the value creation process. This phenomenon is one of the keys to interpreting the current transformation in advanced financial systems and produces sharp market re-positioning and focussed competition for the institutions involved. It is also present in developing financial systems where it is used as a way to overcome specific obstacles in building fully integrated financial institutions. However, in these situations it is not always clear what the implications are in terms of responsibility for and pricing of value creation. A typical case is that in which outreach is hampered by the high cost of building traditional distribution channels and distribution is out-sourced by, e.g., the post system, co-operatives, input distribution agents. Also credit guarantee funds are a case in point where some critical phases in the credit transformation process — customer identification, credit risk measurement, portfolio composition, pricing — can be outsourced.

Credit guarantee funds have been on the scene of financial intermediation — both in so called developed and developing countries — for a long time. Their role is advocated when perceived credit risk conditions represent an obstacle to the flow of financial resources towards some targeted borrowers. It is assumed that if part or all of that risk is taken care of by a third party — the credit guarantee fund — banks and other financial intermediaries will be willing to take into consideration granting credit to borrowers that would otherwise be charged higher/"unacceptable" interest rates or in any case be ignored since they would absorb too much of the lending institution's equity.

This way of proceeding can in the short-term be effective

in channelling resources towards desired beneficiaries of credit, however, its long-term capacity to enlarge the market depends on whether credit guarantee funds provide genuine value creation or whether they are simply the conduit for wealth transfer from one budget (e.g., government, donor, community of potential borrowers supporting the fund) to another (borrowers benefiting from the fund's guarantee, especially the defaulting ones).

The fact that a different entity — the credit guarantee fund — is willing to absorb part or all of the risk that the financial intermediary would price at a higher risk premium or even reject implies that the credit guarantee fund has developed a different perception of that risk and, in turn, this must be based on a different information and control set: e.g., higher proximity to the borrower, sectoral specialization, lower information gathering and processing costs, better audit of information, peer control enforcement. If this is not the case, the credit guarantee fund is simply providing equity that will soon be depleted by a mere wealth transfer process. Notice that when there is genuine value creation by the credit guarantee fund, for it to be self-sustaining, the pricing of its services should cover the information cost, the risk premium, the opportunity cost of absorbed equity and, when applicable, the distribution cost.

The research presented in this book has been conducted by professor Laura Viganò, who is executive advisor at Fondazione Giordano Dell'Amore. Her work provides an in depth analysis of several credit guarantee funds guiding the reader to understand their respective strengths and weaknesses and developing a model to identify and build sound activities and processes in credit risk transformation. She designed the research, co-ordinated the team that prepared the field case studies, edited their work and developed and wrote the final report. The joint efforts of the Author, her team of researchers, NENARACA, FAO and CICA have

brought about a significant contribution in the traditional field of action and research of the Fondazione Giordano Dell'Amore.

MARIO MASINI

*Chairman of Giordano  
Dell'Amore Foundation*

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## LIST OF ACRONYMS

ACC	Agricultural Credit Corporation (Jordan)
BNA	Banque Nationale Agricole (Tunisia)
CCG	Caisse Centrale de Garantie (Morocco)
CGC	Credit Guarantee Company (Egypt)
CNCA	Caisse Nationale de Crédit Agricole (Morocco)
EDP	Enterprise Development Programme
ERP	Employment and Retraining Programme
FNG	Fonds National de Garantie (Tunisia)
GOE	Government of Egypt
GPBM	Groupement Professionnel des Banques du Maroc
HCPP	Health Care Providers Programme
HCRP	Health Cost Recovery Project
JLGC	Jordan Loan Guarantee Corporation
NBD	National Bank for Development (Egypt)
NGOs	Non-Governmental Organizations
PBDAC	Principal Bank for Development and Agricultural Credit (Egypt)
PGSs	Public Guarantee Schemes
SEB-SUs	Small and Emerging Business Service Units
SECP	Small Enterprise Credit Programme
SFD	Social Fund for Development (Egypt)
SMEs	Small and Medium Enterprises
SSEs	Small Scale Enterprises
USAID	United States Agency for International Development

## INTRODUCTION

NENARACA (Near East-North Africa Regional Agricultural Credit Association) and CICA (Confédération Internationale du Crédit Agricole) have agreed upon carrying out a study on the applicability, advantages and limits of guarantee funds with specific reference to agricultural credit in the Near East and Northern Africa Region. The text of the project proposal, approved for financing by CICA in May 1999, is described hereafter.

### A. BACKGROUND

NENARACA is keen to explore the viability of credit guarantee funds and their effectiveness in improving institutional sustainability and farmers' access to rural credit. Though the experience in the Region is very limited, certainly there are external experiences in developed countries which can be examined and compared with local experiences to draw some useful conclusions.

### B. OBJECTIVE OF THE STUDY

- To review the experience of credit guarantee funds available in the Region in terms of their objectives, legal and administrative set-up, partners, guaranteed loans in terms of size and kind, beneficiaries, premium, compensation, eligibility for compensation, government role (subsidisation), financial position (deficit/surplus), working procedures, rules, etc.
- To examine the applicability of the system to agricultural loans in view of the acquired experience, the set-up of the system and its impact (pros and cons) on the actors of rural financial markets, i.e. lenders and borrowers.

### C. INPUT/OUTPUT

Field missions to Jordan, Egypt, Tunisia, Morocco, to meet the management of relevant institutions and to collect data.

Write a paper to include the following:

- to describe the available systems compared with external experiences regarding the areas mentioned above under "objective of the study"
- to study the applicability of the system to agricultural loans taking into consideration the distinctive nature of these loans and their differences from commercial loans in terms of the high level of risk and nature of the ownership (mostly government owned institutions)
- to draw conclusions and make recommendations.

Presentation of the results to a special technical meeting to be attended by member banks of NENARACA.

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The field research was developed over the period July-October 1999 and implied the following phases:

- collection of background material on international guarantee funds' experiences;
- elaboration of guidelines for field research;
- realisation of field missions in the four countries of the NENA region;
- field report writing;
- preparation of the final report.

The field researches, which took place in September/October 1999, were conducted by the following consultants:

- Mr. Amr Hassanein, Ph. D., Professor at the American University in Cairo and Ms. Nagla Bahr, M.A., SMEs finance specialist, Finbi (Egypt), who visited Egypt and Jordan;
- Mr. Philippe Collet, Agricultural Engineer, retired from the Caisse Nationale de Crédit Agricole (France), who visited Tunisia and Morocco.

In my capacity as Project Co-ordinator, I prepared the study theoretical framework and provided the consultants with guidelines to assure maximum comparability of the information collected in the four countries. This goal was achieved for major issues, and the Consultants did their best

to cover all the aspects that they were required to investigate. This final report is now presenting the information collected by comparing the four case studies as far as the main issues are concerned and by trying to focus on the most interesting aspects of these experiences in respect of their applicability to other countries in the NENA Region.

The main aspects that are covered in the four case studies are the following:

- *the system*: the agricultural sector and the financial services for it;
- *the presence of guarantee funds* in the countries analysed;
- *for each (or most important) guarantee scheme*: general information, working principles and procedures, quantitative data and financial performance, contribution to the agricultural sector, reality and perspectives for intervention.

It was impossible for the Consultants to collect full information on all the various aspects indicated in the guidelines as:

- the institutions contacted in the four countries differ in several ways (legal status, history, organisation, size, etc.) and are able to offer information on their operations with different degrees of detail;
- the time spent in the field has been relatively short, i.e. enough to get the main information and data but insufficient to obtain minor details.

With these caveats in mind, however, it was possible to cover the most relevant aspects and to draw some interesting conclusions.

The report is organised as follows:

- the first chapter presents a theoretical introduction; it is a review of the main findings deriving from the international experiences concerning pros and cons of guarantee funds and best practices for their application, and represents the framework upon which the data collected have been analysed.
- The second chapter briefly presents some international

experiences from countries in different continents: Europe, America, Africa and Asia. These case studies, be they success stories or not, may be useful examples to compare the four cases in the NENA Region.

- The results of the field work are presented in chapters 3 and 4, according to the structure mentioned above, i.e., by describing the context of the agricultural sector and financial services for this sector in each country, the role of existing guarantee funds, their strengths and weaknesses, and their applicability to the agricultural sector.

- A final chapter presents the main conclusions and recommendations for applicability.

I wish to thank the Consultants, Amr Hassanein and Nagla Bahr, and Philippe Collet, for their fruitful co-operation in working in the field and providing complete reports enriched by interesting personal considerations on the data they have collected. I tried to make the best use of these information and observations by integrating them into this final report. In order to acknowledge the contribution of the Authors of the four background Country studies, I used a method of quotation that allows the reader to figure out the contribution of the different participants to this research.

I also want to thank Dr. Mohammad Rashrash Mustafa, Secretary General of NENARACA, for his support on the research implementation and Dr. Zohair Abdalla, Field Officer of FAO, Cairo, for his useful comments at the early stages of the work.

I am especially grateful to Prof. Roberto Ruozi, Secretary General of CICA, for his important suggestions on the design and organisation of the field research and for his comments on this report. Finally, I want to express my gratitude to CICA for making this attractive project possible.

LAURA VIGANÒ

## NOTE TO THIS EDITION

This research was presented, with the original title of “NENARACA-FAO study on the prospects of rural credit guarantee funds in the NENA Region” on the occasion of two meetings:

- the NENARACA-CICA meeting, Amman, January 31, 2000

- the XIII Round of NENARACA Meetings, Tunis, May 31, 2000

The version published in this book does not differ from the original text except for the following:

- the integration in the text of some observations emerged during the above mentioned seminars;

- the inclusion of a few additional data and information;

- a summary description of the banks providing loans to the agricultural sector in the four Countries analysed: only major findings are presented instead of the more detailed analysis prepared for the original report;

- some refining in the conclusive chapter.



## Chapter 1

# GUARANTEE FUNDS: THE RELEVANT THEORY

### 1.1. GOALS AND EXPECTED POSITIVE EFFECTS OF GUARANTEE FUNDS

Guarantee funds are established with the prevailing objective to help banks in the process of approaching market segments that they are not used to work with and that they consider too risky. This perception of high risk often derives from a lack of knowledge of these segments by the banks.

Among these market segments, SMEs in general, and the agricultural enterprises in particular, play an important role. In industrialised countries, as well as in developing economies, these kinds of enterprises find it often difficult to interact with banks. SMEs and rural enterprises, especially if newly established and, hence, without a credit history, represent a challenge for the bank, which usually bases its credit-granting decision on consolidated practices of financial and profitability analysis using the firm's accountancy data. When these data are not available, for instance, because the firm is too young or to some extent informal, the bank is not able to estimate the risk and the only apparent way to make the financial transaction possible is that the applicant supplies a collateral<sup>1</sup>. The supply of collateral, however, is not an easy

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<sup>1</sup> Indeed, there are some alternative ways to contribute to solve the problem rather than the requirement of a collateral; see, for instance, Viganò (1993).

task for SMEs and can even be harder for rural or agricultural enterprises.

The main conviction underlying the creation of guarantee funds is that banks go through a learning process in their relationships with new customers and that guarantee funds act as incentives to start this process. In fact, as stated above, the main obstacle that banks encounter in working with rural customers are related to:

- the difficulty in obtaining the information necessary to evaluate the borrower's creditworthiness because the potential customer is not able to provide the traditional financial data that banks usually rely upon to express their judgements;
- the cost originated by the research of this information that makes the loan less profitable to the bank, especially if the loan size is small.

In these two aspects, guarantee funds can help as:

- they offer complete or partial coverage of the potential loss the borrower may cause to the bank in case of default, thus lowering the overall risk borne by the bank;
- they can specialise in obtaining information from the target customers, by operating close to them (Gudger, 1998);
- they can provide a supplementary service as advisors to the potential customers and help them submit complete applications to banks.

In this way, guarantee funds favour the contact between the bank and new, interesting potential customers, who, thanks to the intervention of the fund, can demonstrate to be bankable, which would not be the case without the fund. In this sense, guarantee funds can be considered as "*knowledge facilitators*" and, consequently, when the bank and new segments of customers get to know each other, the guarantee funds' role could become less important.

The effects of the presence of guarantee funds could be related to (Meyer and Nagarajan, 1997):

- an increase in the supply of bank loans to the target sector (additionality);
- better conditions on the loans (for instance: cost reduction, longer term and larger loans, speedier loan processing);
- a reduction in collateral requirements. In this respect, the advantage of guarantee funds for banks, as compared to physical collateral, is that the guarantee they provide is easier to realise and does not undergo the risk of deterioration (Gudger, 1998).

Additionality, which is measured in terms of the increase in the number and amount of loans granted to the target market segments, is probably the most important indicator of success considered by observers. However, this indicator is not easy to compute, as it would require comparing the situation without and with the fund while it is difficult to make correct assumptions on what would have happened without the guarantee fund. Proxies of this measure can be found in the absolute number/amount of loans covered by a fund, and by comparing these numbers with statistics related to the system.

The results of these analyses are controversial as many Authors and observers find that, in worldwide experience, few guarantee funds show a definite advantage, in terms of additionality. This criticism is one of a larger set of remarks on the potential disadvantages and risks of guarantee funds that are now going to be briefly reviewed.

## 1.2. NEGATIVE EFFECTS AND COSTS OF GUARANTEE FUNDS

Experiences on guarantee funds, in their different institutional forms are numerous. The effects of these interventions, however, are not unanimously shared. The main criticisms pertain to the following points:

- one of the problems of access to credit by SMEs, as

well as rural firms, is the presence of high transaction costs which can be increased rather than reduced by the presence of guarantee funds (Vogel and Adams, 1997);

- the guarantee fund is a form of subsidy which distorts the market, even if the distortion is weaker than in the case of subsidised interest rates (Vogel and Adams, 1997);

- the presence of an external guarantee may lead banks to be less careful in their creditworthiness evaluation and in monitoring loans (moral hazard) <sup>2</sup>;

- even the beneficiary of a guaranteed loan may feel less pressure for repayment;

- while funds' managers should apply the same evaluating criteria as bankers, the latter may be more professional evaluators than the former;

- a duplication of functions between the funds' and the banks' managers can take place <sup>3</sup>.

Besides these risks, there is a problem of sustainability of the funds, which, in most cases, is seldom reached. Only some industrialised countries tend to be successful in this respect (Levitsky, 1997<sup>2</sup>; Gudger, 1998). This problem stems from the high level of administrative costs generated by the funds coupled with a generalized reluctance of customers to pay the full cost of the guarantee service. For this reason, guarantee funds are often subsidised.

In view of these observations, there are critics who state that guarantee funds do not solve the structural problems of developing countries' financial systems, and that only a financial reform can increase access to financial services by larger population segments. Moreover, some Authors state that, especially in developing countries, the real problem is more related to a

---

<sup>2</sup> However, Levitsky (1997<sup>1</sup>), stresses that moral hazard is limited by the will of banks to actively operate in new markets.

<sup>3</sup> Some of these introductory aspects are also reported in Rabellotti and Viganò (1999).

shortage of loanable funds in commercial banks than to the banks' risk aversion. Available funds are fully absorbed by the most developed sectors of the economy and the lack of competition by foreign banks does not push the system to turn to new market segments, such as rural customers (Gudger, 1998). Given the lack of impact of these funds, detractors suggest that, instead of the increase in the loan cost due to the guarantee, an increase in the interest rate would have similar effects, as the bank would be more encouraged to intervene by the higher revenue, with no need for an external intervention.

Despite the numerous studies on this subject, the debate is still open, as there is no unanimous consensus on the advantages and risks of these funds. Even if some of these criticisms are basically acceptable, there are also acceptable counter-arguments to the points mentioned earlier, some of which will be presented in the report, with reference to specific cases.

Two Authors (Doran and Levitsky, 1997) that have gathered a quite comprehensive experience on guarantee funds worldwide, come to the conclusion that a role for guarantee funds exists and that guarantee funds can be effective only if some basic conditions are met, among which:

- basic objectives must be agreed upon between the involved bank, the potential beneficiaries and the regulating authorities;
- the fund must be set up as an independent unit <sup>4</sup>;
- the fund must be endowed with adequate human resources for its management;
- the guarantee fund must be seen by banks as part of their commercial strategy <sup>5</sup> rather than as a "political relation exercise";

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<sup>4</sup> The risk of political interference on public guarantee funds is mentioned for the National Guarantee Fund of Colombia in Marulanda de Garcia (1997).

<sup>5</sup> In this case, the moral hazard tends to reduce as the bank is interested in operating successfully so as to develop its market.

– the fund's reputation must be assured since the beginning: it is therefore important that the programme is realistic, not too narrow and not too ambitious.

These can be considered as basic conditions, necessary but insufficient to favour the success of a guarantee fund, as they do not enter into the questions of the managing principles, operating conditions and sustainability issues. In this respect, the international experience has developed some best practices indications.

### 1.3. BEST PRACTICES FOR GUARANTEE FUNDS

The international debate on guarantee funds is rich and the comparison between advantages and risks of these measures has led to the development of best practices which, even if not universally shared, can serve as a useful framework for an analysis of existing guarantee systems and for future applications.

Doran and Levitsky (1997) presented a quite comprehensive set of best practices concerning the most relevant aspects of the establishment of a guarantee system, such as the definition of targets and eligibility criteria, the way banks should intervene, access conditions and cover limits, expected effects, sustainability and the role of donors. They are summarised in the following table, with some integrations <sup>6</sup>:

#### TARGETS

Apparently, institutional guarantee funds are working better for enterprises of less than 300 employees and with fixed assets between US\$ 10,000 and 200,000; better performances are found if among beneficiaries, start-ups and young firms are a minority.

#### LIMITS OF INTERVENTION

– A maximum limit to the coverage of each single borrower must be established; an average indication is 5 per cent of the value of the

<sup>6</sup> An earlier version of this table is included in Rabellotti and Viganò (1999).

fund. Some indications on the quantitative limits of each guaranteed loan are also offered: between US\$10,000 and 250,000; also proportions between short and medium/long-term loans are available. However, these indications should be considered as very general and variable according to the context.

The fund coverage should represent 60 to 80 per cent of the loan. If the bank has all the decisional power on loan granting, the coverage reduces accordingly. Coverage higher than 80 per cent would increase the probability of moral hazard phenomena. Coverage of 50 per cent is considered to be less attractive as it generates uncertainty on the assumption of responsibility.

The percentage must also be applied in a flexible way to different customers in order to consider the different characteristics of any individual customer <sup>7</sup>.

#### CONDITIONS FOR THE INTERVENTION

The conditions to activate the intervention of the fund should be precisely clarified between the bank and the guarantee organisation.

#### SUSTAINABILITY

In order to favour the achievement of economic and financial sustainability, it is advisable to apply an opening fee of 1 to 2 per cent of the value of the loan; furthermore, an annual premium of 0.5 to 4 per cent on the guaranteed amount outstanding should be required (on average it amounts to 2 per cent and usually accounts for 20 to 30 per cent of the real interest rate).

#### CLAIM RATES

A claim rate of 2 to 3 per cent is advised. If the ratio is 0, the fund is probably too conservative; if it is more than 5 per cent a remedial action must be taken <sup>8</sup>.

#### LEVERAGE

The objective to expand the volume of credit granted should prevail over the sustainability target in the short run. After three years of activity, a fund should have a leverage of 2 or 3 to 1 and reach a ratio of 5 to 1 after five years and of 7-8 to 1 after 10 years. Guarantee funds should be regulated without penalising the potential expansion in *leverage*.

<sup>7</sup> Masini (1985).

<sup>8</sup> Levitsky (1997<sup>1</sup>).

**PARTICIPANT BANKS**

The participation of a high number of competitive banks should be encouraged, even if an excessive fragmentation makes it more difficult to monitor the scheme.

**ADDITIONALITY**

The intervention of the scheme must produce an absolute increase in the number and amount of loans granted by the financial system as compared to when the guarantee funds is not present. It is advisable to test this additionality on a sample basis every two years. A minimum additionality of 60 per cent, and preferably of 80 to 90 per cent, should be recorded.

**DONORS' ASSISTANCE**

The intervention of international donors is advisable only if the perspectives of additionality are higher than 60 per cent. International contributions, however, should not crowd-out domestic resources from banks, producers' associations, etc., which should aim at owning the majority of the fund's shares in the medium run.

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*Source:* adapted from Doran and Levitsky (1997).

As it appears from the table above, some of the issues considered, such as the targets, limits of interventions, or sustainability conditions are the result of the analysis of basic experiences with these funds which suggest that some borrowers' categories, or a given percentage of coverage might make the difference between a good and a bad project.

Among all these conditions, however, the most important for success still remains additionality in the sense that the two Authors agree with numerous other Authors on the idea that the existence of guarantee funds is justified if they alter the lender's decisional process in favour of the target group (for instance, Vogel and Adams, 1997) <sup>9</sup>.

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<sup>9</sup> In a study by OECD (1998) it is stated that guarantee programmes in industrialised countries have not always been effective from the point of view of additionality as they have favoured those enterprises already familiar with the banking system, which benefited of softer loan conditions; these firms created a

With respect to profitability, some observers argue that, if guarantee funds are designed for the most risky sectors of the economy, a high rate of default is implicit, and a certain subsidisation is always taking place. This fact, for instance, is confirmed by a survey conducted in the United Kingdom where bankers have stated that lending upon guarantee schemes was marginally unprofitable to them. However, the same source indicates that the whole intervention was considered successful and had generated a surplus to the Treasury if its overall economic impact was taken into consideration<sup>10</sup>. This pattern of analysis is interesting but the effects of these subsidies must be evaluated also for the eventual distortions they introduce and their potential negative effects also on the participating intermediaries.

The overall judgement on the effectiveness and usefulness of guarantee systems also depends on the type of mechanism that is put into operation. A tentative typology is described hereafter.

#### 1.4. TYPOLOGY OF GUARANTEE FUNDS

There are several forms of guarantee systems that have been implemented worldwide and for different sectors of the economy.

In the Microenterprise Development Review (Dec. 1998) guarantee funds are classified as follows:

- *individual models/retail*, where the fund approves the coverage of any single loan granted by participating banks;
- *portfolio models*, where the fund does not intervene on individual decisions but guarantees a portfolio of loans of the

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certain crowding out of other potential customers. On the relative ineffectiveness of guarantee funds, see also Gudger (1998).

<sup>10</sup> NERA (1990) and Pidea (1992) as quoted by Boocock and Shariff (1996).

participating banks, with specific characteristics, up to a certain percentage of their value;

– *wholesale/intermediation models*, mainly utilised for micro-finance intermediaries; the fund guarantees the loans that a bank grants to a micro-finance intermediary.

According to this classification, the first type is of course the most expensive to manage, and may imply efforts duplication between the fund and the bank (Gudger, 1997). A portfolio approach, on the contrary, is based on mutual trust between the fund and the bank. The third type is more articulated as it entails the intervention of the fund on the three-tier structure: the bank — the micro finance intermediary — the borrower, where the fund has no direct relationship with the final borrower; this is a very peculiar situation, more related to refinancing problems for micro-intermediaries.

The typology presented above, however, is not exhaustive, as it only deals with guarantee mechanisms established in the form of a third party intervening in the relationship between borrower and lender.

Other types of guarantee mechanisms may be the following:

– *the constitution, in a bank, of a deposit account* (or similar contractual arrangements) covering (entirely or partly) certain types of loans that the bank makes. The bank is then held responsible for the loan-granting decisions and for the fund management. This solution is quite simple and relatively cheap;

– *mutual agreements* among producers, which is often the case with small rural producers in Developing Economies, even though, in this case, the agreement is usually informal.

A further distinction should be made between *public and private institutions* offering guarantee funds. In many countries, the guaranteeing mechanism is provided by some public entity, established for the purpose or already existing for other purposes, such as the Central Bank. In many of these cases, a sort of combination of retail and portfolio models exists since the fund very often guarantees individual loans

but loan decisions are made by the participating bank. On the other side, there are big private guarantee companies, such as in the U.S., that have long since been working with large numbers of private borrowers in specific sectors and contractual agreements, such as mortgage loan guarantees or bond guarantees (Gudger, 1998).

Finally, the guarantee mechanisms may work *domestically* or *internationally*. International guarantee systems, specifically focusing on small and micro producers in developing countries are implemented, for instance, by the Swiss Rafad Foundation or the US ACCION International, the latter operating in Central and Latin America.

#### 1.5. HISTORICAL ORIGIN AND CURRENT DIFFUSION

The above-mentioned study by Doran and Levitsky (1997) mainly aimed at having a picture of guarantee systems worldwide. Even if the Authors declare that the data are sometimes incomplete, the following picture emerges: 85 countries declared to have guarantee funds (23 OECD countries, 15 Latin American, 11 Asian, 7 Eastern and Central European, 6 African countries). It should be noted that individual cases of mutual or co-operative guarantee funds might not have been reported. From the 67 complete answers it emerges what follows:

- 70 per cent of cases are represented by government organisations, 24 per cent are private and 5 per cent are mutual or co-operative;

- 70 per cent of cases operate on a funded basis (30 per cent of cases have their costs met through the public budget)

- 70 per cent of cases cover both fix and working capital (Doran e Levitsky, 1997).

The oldest guarantee funds are found in industrialised economies (Japan, 1937; USA, 1953; Germany, 1954; Canada, 1961; Italy, 1961). In Central and Eastern Europe the institu-

tions are recent (from 1992 to 1994). Some of the funds in the developing countries have quite a long experience (e.g., Egypt, Honduras, and Trinidad and Tobago) (Levisky, 1997<sup>1</sup>).

Not all the experiences, both in industrialised countries and in developing economies are success stories. In many cases, for instance, sustainability is not achieved. In order to keep the product more attractive to customers, in fact, pricing is often lower than it would be necessary to cover the guarantee costs. However, potential customers might be willing to pay a premium in order to get access to loans. This is an issue that must be verified case by case. In other instances, additionality does not seem to be very high. Some other strengths and weaknesses have emerged from various case studies.

The purpose of this study is to review the existing experiences in four countries in the NENA Region, taking into consideration the main issues outlined by the evaluation of other experiences, and to deal with the applicability of guarantee funds, with a specific focus on the agricultural sector. Before discussing this analysis, a brief review of some experiences in other parts of the world is presented.