

## Chapter 4

### COMPARATIVE ANALYSIS OF THE FOUR CASE STUDIES: THE PRESENCE OF GUARANTEE FUNDS

The following paragraphs present the guarantee funds existing in 1999-2000 in the four countries under consideration, some of which are specifically established for the agricultural sector while others have a wider scope. The presentation is organised in a comparative way as, for every fund, the following aspects are specifically analysed:

- historical background;
- legal status;
- sources of funds;
- mission statement;
- operational structure;
- guarantee nature;
- guarantee and liquidation process;
- guarantee portfolio;
- profitability;
- trends in operations;
- the guarantee systems and the agricultural sector.

As stated before, full comparison is possible for some of the mentioned aspects, as the different information sources afforded various degrees of insight in the working mechanisms of the funds. In particular for the Moroccan case, given the variety of funds, comparisons are possible for the main funds, while for minor interventions only basic data are available.

#### 4.1 THE EXISTING GUARANTEE SCHEMES

Some guarantee mechanisms are operating in all the four countries. In Egypt and Jordan, the agricultural sector is not these funds' primary target; in Morocco, one of the four funds analysed operates especially to protect banks against the consequences of natural disasters affecting agricultural production; this objective is also part of the institutional goals of the Tunisian fund which also offers a guarantee coverage to other sectors.

##### GUARANTEE SYSTEMS

###### EGYPT: CREDIT GUARANTEE COMPANY (CGC)

Over the past eight years, the Credit Guarantee Company (CGC) has emerged as the leading financial institution supporting small enterprises in Egypt. CGC's main mission and objective is to participate in the economic growth of Egypt through the solution of the acute problem of access to formal credit that SMEs are facing.

###### JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

JLGC has the objective of promoting small and medium-scale projects, the development of managerial, technical, and marketing skills of their employees and the provision of specialised programmes of guarantee to encourage financial institutions to extend the required financing to the establishment or expansion of these projects, thus enhancing investments, production, and job creation.

###### MOROCCO

A variety of guarantee schemes exists in Morocco. Some of them are specifically oriented to the agricultural sector. The main funds are:

- *Caisse Centrale de Garantie (CCG)*, the most important fund which covers 90 per cent of total guarantees granted by the system.

It is a public institution offering different types of interventions:

- guarantees for investment loans;
- guarantees on export operations;
- guarantee for modernisation of SMEs (FOGAM);
- a Fund for de-pollution of the industrial sector.

- *Dar Ad Damane*, an autonomous guarantee fund established by Moroccan banks.
- A guarantee fund jointly established by the Professional Group of Moroccan Banks (GPBM)
- *Fonds de Calamité Naturelle*: a Fund for the coverage of bank credits to the farmers hit by drought (in this field, there is a project to establish an insurance system for cereal growers in case of drought).

#### TUNISIA: THE "FONDS NATIONAL DE GARANTIE" (FNG)

In Tunisia, the "Fonds National de Garantie" (National Guarantee Fund) operates in favour of certain types of entrepreneurs, in different sectors of the economy, in order to favour their access to bank borrowing. The categories of beneficiaries are indicated in the regulating law; special emphasis is set on the agricultural sector, as the fund guarantees, among others, the farmers that are hit by drought.

To complete the picture, it should be pointed out that Mutual Guarantee Systems also exist, even in the agricultural sector, but they do not seem to play a major role.

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## 4.2. HISTORICAL BACKGROUND

The operation of guarantee funds in the four countries can be considered, on average, relatively recent. Even if, in some countries, the idea or even the creation of guarantee funds dates back to the past (for instance, in Morocco, CCG was established in 1949), in all cases the major effects of these funds were recorded from the late '80s, early '90s onwards.

The origin of these guarantee funds is often linked to some other credit scheme, e.g. public or donors' lines of credit offered to banks and a guarantee fund being established to encourage banks to get involved in the project. This is the case, for example, of Egypt's CGC, Jordan's JLGC and Morocco's *Dar Ad Damane*. In some other cases, the creation of the fund is not strictly related to a specific project but is still part of a public development policy (as in the case of CCG in Morocco or FNG in Tunisia).

## HISTORICAL BACKGROUND

## EGYPT: CREDIT GUARANTEE COMPANY (CGC)

In 1987, as part of the policy to liberalise the Egyptian economy, and also to encourage the private sector, the GOE in co-operation with USAID commissioned a study to analyse the feasibility of establishing a private sector credit guarantee scheme in Egypt. At that time, no country in the region had such a scheme and in many other countries guarantee funds were either public or government agencies. The outcome of the study was the "Private Enterprise Credit Project". This project was designed to assist small and medium enterprises in obtaining financing through credit and to help the large majority of workers receive the benefits of the economic reform, through privatisation.

As a functional partner of the Private Enterprise Credit Project, the Credit Guarantee Company for Small Scale Enterprises (CGC) was established in 1989 with the purpose of guaranteeing a percentage of the loans granted by banking institutions to small-scale enterprises (SSEs).

## JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

Loan guarantee activities in Jordan originated in the mid-eighties under the terms of a USAID/Ministry of Planning agreement to grant loans to small-scale businesses with a special emphasis on women. According to the agreement, USAID would provide a gradual grant starting at US\$2.5 million and reaching a maximum ceiling of US\$10 million over a period of four years. The Industrial Development Bank was designated as the executing agency.

By 1989, only a small percentage of this fund had been used and the rest of the grant was returned to USAID. The project had a re-start in October 1990 and, by the end of 1993, the performance of the project was again below expectations in terms of number and value of guaranteed loans. Consequently, in September 1993, the Council of Ministers decided to establish a public shareholding company with a capital of JD10 million to guarantee small and medium-size loans.

The year of actual establishment of the Jordanian Loan Guarantee Corporation (JLGC) is 1994.

## MOROCCO

CCG: it was created in 1949 as a public institution with the aim to grant a guarantee on loans to projects contributing to the economic and social development of Morocco. Its importance grew in 1970 and an enlarge-

ment of its mission was introduced in 1990. The legislation regulating the CCG was unified in 1996.

*Dar Ad Damane*: it was established by various Moroccan institutions in 1994, as a reaction to the monopoly position that CCG held at that time. The head office is in Casablanca. At the end of the '80s, the Moroccan Government was very much determined to foster the country's industrial network, with a view to also ease the unemployment problem. In 1987, public support for young entrepreneurs was introduced and an agreement was signed between the People's Bank (Banque Populaire) and the Government to finance their activities. The agreement was subsequently extended to CNCA. The scheme had a limited success because of two main reasons: 1) the prevalence, among applicants, of young graduates from the university that were starting new businesses with a low absorption of labour force 2) the reluctance of banks to engage in lending to young entrepreneurs with no guarantees. To soften this second problem *Dar Ad Damane* was established.

*GPBM*: the fund was established in the framework of a European Union programme for the reduction of unemployment in the Northern Provinces of the country.

*Fonds des Calamités Naturelles*: it started operations in 1994, after the heavy consequences of 1993 drought.

#### TUNISIA: THE "FONDS NATIONAL DE GARANTIE" (FNG)

The FNG, established in 1981, went through two main phases:

- from 1981 to 1993, it was administered by the Central Bank of Tunisia; during this period, the Central Bank accepted to cover some loans and withdrew a symbolic fee from the beneficiaries but, despite two implementing decrees passed in 1984 and 1988, the fund was never actually operational, owing to the absence of implementing procedures;
  - since 1993, the Fund has been managed by an insurance company and has been more effective; now it is going through a refining phase.
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### 4.3. LEGAL STATUS

The guarantee funds in the four countries differ as to their legal status. In fact, some of them have a private structure and a mixed proprietorship with public entities and private banks or other bodies among their shareholders (this is



the case of Egypt, Jordan and of the Moroccan Dar Ad Damane); some other guarantee mechanisms (in Morocco and Tunisia), on the contrary, are fully owned by the Government and are established in the form of public funds directly managed by a state body or as autonomous legal entities.

### LEGAL STATUS

#### EGYPT: CREDIT GUARANTEE COMPANY (CGC)

CGC is a joint stock company, established in 1989. Its shareholders are nine banks and an insurance company.

#### JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

JLGC is a public shareholding company registered in the registry of the public shareholding companies in 1994.

#### MOROCCO

*CCG*: it is a public autonomous legal entity. The guarantee of CCG implies the guarantee of the Government (this fact, especially for export warranties, according to the different types of intervention, may be declared on a global or a case-by-case basis).

*Dar Ad Damane*: it is a mixed capital institution under the control of the Central Bank.

*GPBM*: it is part of a European Union development programme.

*Fonds des Calamités Naturelles*: it is a public fund.

#### TUNISIA: THE "FONDS NATIONAL DE GARANTIE" (FNG)

FNG belongs to the Government of Tunisia. An agreement between the Ministry of Finance and a re-insurance company, TUNIS-RE (whose capital is mainly public) delegates the management of the Fund to the latter.

### 4.4. SOURCES OF FUNDS

Funding sources of the guarantee systems vary according to the type of institution and the operations offered. For shareholding companies, shareholders, among which public and private entities, provide the capital; on the contrary, the

Government is fully sponsoring public funds. Besides these sources, the systems offering their services in the framework of development projects may receive some specific financing from external donors, as it is the case of Egypt's CGC or Morocco's CCG and GPBM.

### SOURCES OF FUNDS

#### EGYPT: CREDIT GUARANTEE COMPANY (CGC)

- The total equity of the Company is LE5 mln. The National Bank of Egypt owns 18.19 per cent of the Company, while all other investors own a percentage of 9.09 each (Banque du Caire, Bank of Alexandria, Industrial Development Bank of Egypt, Misr Iran Development Bank, Arab Investment Bank, Suez Canal Bank, Société Arabe Internationale des Banques, Crédit International d'Egypte, Al Charq Insurance Company).
- In 1990, CGC received a 50-year soft loan with 10 years' grace period of LE60 mln. from the Ministry of International Co-operation (MIC) of the GOE. The first instalment of LE20 mln. was received in February 1990. The second LE20 million was disbursed in March 1993, and the third one has been received just recently (SSEs project).
- In August 1993, an agreement was signed between USAID and CGC under the Health Cost Recovery Project (HCRP), to open a window to provide private loans to physicians, who needed new equipment or wanted to start a new private practice or up-grade their premises. The Guarantee Facility Fund (GFF) for this programme was initiated with a trust fund of US\$10 mln. In accordance with the outstanding performance and success of CGC in achieving the objectives of this project, USAID extended the HCRP programme, under the new name of HCPP (Health Care Providers Programme), for five more years effective October 1998. HCPP trust fund is deposited with the banks, where the proceeds cover the guarantee risk of the fund and part of the related operation cost of the company.
- Another agreement was signed in 1998 between CGC and an Italian project (Poverty Alleviation and Employment Generation in Giza Governorate) for a total amount of LE2.5 mln. The objective of the project is to create different NGOs that can work as financial service units for SMEs in Giza Governorate.
- In September 1999, CGC signed a new agreement with USAID on the "Micro Enterprise Guarantee Facility" for the purpose of establishing 45 small and emerging business service units (SEB-SUs) in all 26 Govern-

rates of Egypt that is expected to reach an operational break-even point by September 30, 2001. The total fund for this project is US\$85 mln. The project is managed by a special unit inside the company. The operation cost of the unit is entirely covered by the project in addition to an overhead paid to the company to cover the indirect administrative cost. CGC invests a large portion of these funds in deposits with member banks and manages the remaining funds by investing them prudently in targeted low-risk investments.

#### JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

The corporation capital is JD 10mln. The founders of the corporation are 23: the Central Bank of Jordan, 17 banks, two Insurance Companies, the Social Security Corporation, and others. The Central Bank has a JD4,775 mln. share; the Housing Bank, Cities and Villages Development Bank, Social Security Corporation own a share of JD525,000 each; the other participants are the Industrial Development Bank (JD450,000), the Arab Land Bank/Jordan (JD375,000), the Arab Bank (JD350,000), the Jordan Kuwait Bank (JD300,000), the Bank of Jordan (JD225,000), the Jordan National Bank (JD250,000), the Jordan Investment & Finance Bank, the Arab Banking Corporation/Jordan, the Philadelphia Investment Bank, the Jordan Gulf Bank, the Arab Life & Accident Insurance Co. (JD150,000 each); the Middle East Investment Bank and the Jordan Mortgage Refinance Company (JD125,000 each), the Cairo Amman Bank, the Arab Jordan Investment Bank, the Union Bank for Saving & Investment, the Export and Finance Bank, The National Ahilya Insurance Co., the Amman Chamber of Commerce (JD200,000). The Central Bank also holds a deposit in the Guarantee Fund.

#### MOROCCO

*CCG*: its funding derives either from public funds or other financing made available by donors for specific interventions.

*Dar Ad Damane*: Capital is made available by the founders (Government, Banks, Insurance Companies, Enterprises)

*GPBM*: funding is provided by the European Union.

*Fonds des Calamités Naturelles*: resources come from the State budget, are transferred to the Agricultural Development Fund which, in turn, transfers them to the Fonds des Calamités Naturelles, deposited at, and managed by CNCA. The amount assigned to the fund was originally DH150 mln.; the serious impact of droughts from 1994 to 1997 has shown that the amount was inadequate. The Fund is deposited at the CNCA.



**TUNISIA: THE "FONDS NATIONAL DE GARANTIE" (FNG)**

FNG was initially directly financed on the Government budget.

External resources consist of the fees paid by the beneficiaries and the participating banks and of the proceedings of their investment in the monetary and financial markets.

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**4.5. MISSION STATEMENT**

Guarantee Funds mission statements embrace various perspectives.

- On one side, they declare the Funds' general objectives, such as the promotion of SMEs, the creation of job opportunities or the reduction of imports.

- At a second level, specific mention is made of the promotion of access to bank services by special categories of borrowers, the most marginalised or priority sectors.

- At an operational level, the methods of intervention are mentioned: guarantee of loans, project evaluation, or warranty mechanisms; in certain cases, there is a specific indication of the target beneficiaries (e.g., the farmers hit by drought in the case of the Moroccan Fonds des Calamités Naturelles and of Tunisia's FNG).

**MISSION STATEMENT****EGYPT: CREDIT GUARANTEE COMPANY (CGC)**

The mission statement of the CGC is to assist in promoting the national economy of Egypt by the development and promotion of small and micro enterprises. In order to achieve its stated mission, CGC has adopted a style of operation suitable to the company's target group of SMEs, as the structure enjoys a decentralised system, also for decision-making powers. CGC Board members have submitted studies to the authorities to prompt policy reforms and laws to give the small business entrepreneurs better access to financial services and relief from certain constraining aspects of the social security system.

### JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

According to the corporation mission statement, the main objectives of the corporation are:

- issuing of guarantees necessary to fully or partly cover loans of different types and terms which banks and financial institutions grant for the establishment, expansion, and raising the productive and marketing capacity of economic projects with the aim of creating job opportunities and securing possibilities for earning or saving of foreign reserves.
- Issuing of guarantees to cover risks in any of the economic sectors.
- Undertaking re-guarantee operations and obtaining counter-securities to cover all or any of the risks associated with the loans guaranteed by the corporation.
- Provisioning of guarantees by acting as a guarantor on behalf of third parties.
- Conducting economic feasibility studies and project evaluations as well as necessary studies to perform its operations, review and amend its policies in line with the development of various economic sectors in Jordan.
- Developing, amending and implementing innovative and/or traditional means, tools, and forms as well as offering training on their utilisation, including the development of guarantee operations that are in line with Islamic Shariaa and that ensure the achievement of the Corporation's goals.

### MOROCCO

CCG: after the enlargement of its activity in 1990, the Company now has the following objectives:

- On its own resources: offering a Guarantee Fund for two different types of operations: investment loans for creation, expansion or modernisation of enterprises, and warranty of exporters
- On third parties resources: managing guarantee funds financed by external entities (for instance: FOGAM, a fund for the modernisation of SMEs).

*Dar Ad Damane*: the main objective is to promote young entrepreneurship through the offer of guarantees to banks.

*GPBM*: the fund was created to promote SMEs' access to bank credit.

*Fonds des Calamités Naturelles*: it was expressly established to soften the impact of serious droughts on cereal growers.

**TUNISIA: THE "FONDS NATIONAL DE GARANTIE" (FNG)**

The Fund's main objectives are:

- To assure access to bank loans to special categories of borrowers (such as short-term loans to farmers and fishermen, medium-long term loans to farmers, fishermen and co-operative structures or to SMEs in the manufacturing sector, to cottage industry and micro-entrepreneurs, some export operations)
  - to intervene on bank loans to farmers against the risk of drought.
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**4.6. OPERATIONAL STRUCTURE**

Most of the Funds under consideration (CGC in Egypt, JLGC in Jordan, and CCG in Morocco) have a quite articulated structure as they are administered by a Board of Directors and have various departments and services assuring the achievement of institutional goals (guarantee departments or divisions, supervising units) and internal management (administration, finance and accounting) as well as services related to the specific goals of each Fund (e.g. the counselling services of Jordan's JLGC). A peculiar organisation characterises Tunisia's FNG, as management is delegated to an Insurance Company.

**OPERATIONAL STRUCTURE****EGYPT: CREDIT GUARANTEE COMPANY (CGC)**

The Board of Directors of CGC is composed of 13 members: 10 senior bankers representing 9 shareholder banks, a member from the insurance industry; a member from the Ministry of International Co-operation and an experienced member who is elected as Chairman and Managing Director.

The Board meets regularly and is responsible for approving credit guarantees in the range of LE500,000 to LE700,000, as well as for CGC's overall policy and management. Members have initially attended a two-week seminar in Washington D.C. to acquaint themselves with international applications of small business financing, and have later attended numerous special meetings and seminars held with other bankers and small entrepreneurs, to both help acquaint others with the purpose of CGC and learn the needs of

the SSEs. Since the inception of the company, the Board and senior management have retained a consulting team whose contribution has significantly helped promote the Company within the business community.

The Company is managed by the Executive Committee that includes the Chairman, the General Manager, the General Controller, and the Economic Advisor.

The total number of CGC staff is 158 of whom 57 (36.5 per cent) working in the guarantee department. It should be noted that the majority, almost 68 per cent of the total staff, has a banking background.

The organisational structure of CGC consists of eight departments, viz.

- Guarantee Department: it is the core department of the company. The Country is divided into 6 zones to cover the 26 Governorates. Every zone has a director and staff members who are responsible for establishing and implementing policies within the mandate of the company, receiving applications from banks, performing analysis and processing the guarantee document, approving Credit Guarantees in the range of LE10,000 to 15,000, signing, implementing and monitoring contracts with different entities. Moreover, they are responsible for establishing good relationships with bank branches and other involved organisations, developing and implementing marketing strategies in co-ordination with the marketing service.
- Investment Department: it is responsible for placement of CGC funds.
- Department of Economic Research and International Relations: it studies the local and international economy. This department is also responsible for business relationships between CGC and foreign entities.
- Management Information Systems (MIS) Department: it is responsible for information processing. CGIS is the programme for the SME and guarantee database used for credit and risk analysis.
- Financial and Accounting Department: it is responsible for the financial statement and the balance sheet of the Company and for its annual work plan and budget.
- Administration Department: it is responsible for logistics, premises, equipment and personnel.
- Legal Department: it handles the guarantees liquidated by the banks and claims. General legal matters are the responsibility of the Company's legal adviser.
- Medical Unit: it is responsible for managing the USAID/HCPP programme including technical evaluation, marketing and promotion.



**JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)**

The Corporation organisation consists of:

- The Board of Directors composed of eleven members. According to the Corporation's Memorandum of Association, three members are appointed by the Central Bank including the Chairman of the Board. The shareholders elect the rest of the members. Membership in the Board lasts four years.
- The Loan Guarantee Division is responsible for the guarantee process, i.e. studying and examining the guarantee applications, communicating and building good relationships with the banks, following up on repayment status, and examining requests of liquidity in case of default for the liquidation committee decision.
- The Liquidation Committee, headed by the chairman of the Corporation and with representatives of the banks meets upon call and decides on liquidations.
- The Research, Studies, and Internal Audit, conducts development studies at both local and international level to ensure that the corporation is aware of the latest mechanisms in the field and is applying the latest theories and forms of application. The department is also responsible for the relationship with international organisations. Moreover, the department is responsible for the follow-up, monitoring and evaluation of the other departments and divisions of the corporation.
- The Administrative and Financial Department is responsible for the financial statement, balance sheets, annual report and work plan of the company. In addition, this unit is responsible for logistics, premises, and personnel matters.
- The Counselling Services Division was established in 1997 for the purpose of reducing the burden on, and enhancing co-operation with participating banks in order to streamline procedures. It supports applicants with their applications.
- The Export Credit Guarantee Division was established in 1996 to extend financing to Jordanian exporters at good conditions. Both pre-shipment and post-shipment export credit guarantees are offered. The project is implemented in partnership with COFACE (a French company for external trade insurance) viewed by the JLGC as an essential factor for the success of this programme thanks to the transfer of the partner's technology and long experience to the Corporation.

**MOROCCO****CCG:**

- The CCG is administered by a Board composed as follows: 9 members

representing the Government, the Governor of the Central Bank, the Chairman of the Professional Association of Banks, the Chairman of the Federation of the Chambers of Commerce and Industry, the Chairman of the Chamber of Agriculture, the Chairman of the Chamber of Craftsmen, or their representatives <sup>1</sup>.

- The Guarantee Committee is composed of the General Manager of the CCG, a representative of the Ministry of Finance, a representative of the Ministry related to the sectors of intervention, a representative of the Central Bank.
- A Supervising Unit is in charge of controlling projects whose financing is guaranteed by CCG.

#### TUNISIA: THE "FONDS NATIONAL DE GARANTIE" (FNG)

The Fund is State-owned. The re-insurance company, TUNIS-RE, ensures management.

The Fund is governed by an Inter-ministerial Committee, which has decision-making power over any intervention. As a matter of fact, TUNIS-RE makes a secretariat available to the Committee to perform all the administrative work consisting in:

- receiving the application from the bank and verifying it formally;
- receiving the demand for intervention from the banks (it verifies that the loan is duly covered by collateral, that it is a default, that the documentation is complete);
- operating in accordance with the agreement between the Ministry of Finance and TUNIS-RE; commissions paid by beneficiaries are forwarded through the banks to the Central Bank, which, in turn, forwards them to TUNIS-RE. The latter uses these funds to implement due interventions according to the rules of the fund or invest them in the financial and monetary markets. TUNIS-RE must submit periodical reports to the Ministry of Finance as to the Fund liquidity position, activity and management as a whole.

#### 4.7. GUARANTEE NATURE

The typology of guarantees offered by the different schemes is diversified. The main traits of these Funds are the following:

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<sup>1</sup> CCG, information material.

– Some Funds specify the *category of beneficiaries* (SMEs complying with certain dimensional parameters, as in the case of Morocco's CCG or GPBM, young entrepreneurs for the Moroccan Dar Ad Damane, farmers-cereal growers for the Fonds des Calamités Naturelles of Morocco or for one of the typology of intervention of Tunisia's FNG, physicians for the specific facility offered by Egypt's CGC). In some other cases, the Funds do not envisage special restrictions as to the type of borrower or the type of business, even if the field of intervention remains SMEs (as for some programmes of the Egyptian CGC and for the Jordanian JLGC).

– Also the *typology of loans* that can be covered is wide: from short-term to medium and long-term loans, to letters of guarantees or import and export letters of credit (the latter are offered, for instance, by the Egyptian CGC); from very small amounts to important loans.

– *Special conditions* are established in some cases, particularly in Morocco, such as borrowers' personal contributions (25 to 40 per cent at CCG; 10 per cent at Dar Ad Damane and GPBM); the intervention of other co-sponsors with the bank (like the Government in the case of Dar Ad Damane); the interest rates to be applied (as in the CCG case). There are no such conditions in the cases of Egypt, Jordan and Tunisia where, in this respect, the schemes are more flexible.

– The *coverage percentage* varies consistently across systems: 50 to 100 per cent, with a prevalence of 80 to 100 per cent coverage at Egypt's CGC; 50 to 75 per cent at Jordan's JLGC; 50 per cent (and, in one case, 60 per cent) at Morocco's CCG, 67 per cent at Dar Ad Damane and GPBM in Morocco; 50 to 90 per cent in Tunisia. According to international practices, higher ratios, while encouraging banks to intervene, might have higher adverse selection effects.

– *Fees and commissions*: all systems apply some fees to offer their services, which vary from 0.25 per cent to 2 per cent (JLGC also applies a fee of 0.5 per cent for its counsel-

ling services, while the Moroccan CCG asks for a refund for studying the applications for larger loans). The Tunisian FNG also requires that banks pay a quarterly fee.

– *Signed agreement* with banks: a specific provision in this respect is indicated in the cases of Egypt and Jordan. JLGC has agreed upon specific guarantee ceilings with each participating bank.

– *Special cases* can be considered: the Moroccan Fonds des Calamités Naturelles where, for cereal growers hit by a drought, conditions are fixed by the Ministry of Agriculture on a case-by-case basis; the special intervention of the Tunisian FNG, also for farmers, for whom the Fund covers the interest charges on re-scheduled loans; Jordan's JLGC, which offers, besides the credit guarantee, Counselling Services to customers to help them prepare their feasibility study.

#### GUARANTEE NATURE

##### EGYPT: CREDIT GUARANTEE COMPANY (CGC)

The operation of CGC is based on administering different funds. Every fund has its own guarantee requirements depending on its objectives and target groups. CGC guarantees a certain or full percentage of the total loan amount in accordance with the Fund's rules and conditions, and applies a commission. CGC achieves this objective through a signed agreement with most of the important banks in the country (33 commercial banks). The most important programmes run by the Company are the SSE (Small Scale Enterprise) and the HCPP (Health Care Providers Programme).

##### *Criteria*

In order to receive a CGC guarantee, a SME must be a legal entity. There is no restriction as to the form of the business. It may be a sole proprietorship or joint stock company, but documentation must be in order. The SME can be active in any type of economic activity such as the manufacturing industry, agriculture, tourism, transports, all types of contracting, different types of services and education.

For the Medical Programme, different criteria are applied: individual health care providers must comply with the Ministry of Health regulations to set up their practice.



*Loan amounts, duration, guarantee coverage, fees:*

The guarantee percentage and amount of commissions are decided in accordance with the objectives of each Fund and the nature of targeted activities. Commissions vary from 0.5 to 1 per cent. The following table presents the guarantee schemes:

Project	Loan amount (LE)	Duration	Guarantee percentage	CGC Commission
SSEs	10,000-1,400,000	6 months-5 years	Up to 50	1%
HCPP	5,000-1,400,000	6 months-5 years	80-100% (see below)	0.5%
Italian	5,000-25,000	6 months-5 years	100%	1%
Micro Enterprise	see below	2 years	100%	1%

Under the HCPP, initial coverage was 65 to 80 per cent (changed to 80 to 100 per cent as of 1998).

For the Micro Enterprise project, it is expected that qualifying lending units (NGO) require a guarantee of approximately LE3 mln. before reaching break-even. Start-up and operational costs for every NGO are financed in accordance with the approved business plan.

Loan guarantees that cover working capital are extended for one year only, and are re-issued under presentation of a new application. This also applies to the Medical Programme.

CGC also covers 50 percent of the uncovered portion of bank letters of guarantees (bid and performance bonds), as well as import and export letters of credit. For the Medical Programme, individual health care providers can apply only for term loans, which are used to finance the purchase of the premises and/or required medical equipment. Polyclinics and pharmacies can apply for both term loans and working capital.

**JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)**

The system of the JLGC is to allocate a certain amount of funds as a ceiling for each bank, against which the banks issue the requested guarantees. Based on the agreement between JLCG and the banks, this ceiling may be increased. On the initial allocated ceiling, JLGC charges the banks a guarantee fee.

In 1998 JLGC succeeded in signing agreements with 19 important commercial banks in the country with a total ceiling amount of JD24 mln. The following table shows the amounts of ceiling and guarantee fees collected by JLGC from 1994 to 1999.

Year	Ceiling (JD)	Guarantee Fee (JD)
1994	3,900,000	16,659
1995	4,500,000	55,778
1996	5,700,000	70,230
1997	11,200,000	118,500
1998	24,000,000	211,000
1999	24,600,000	274,425

### *Criteria*

JLGC has no restriction as to the field of activity or the form of the business that is conducted by the SME. JLGC guarantees cover all sectors of the economy.

### *Loan amounts, duration, guarantee coverage, fees*

JLGC covers loans that vary from less than JD40,000 to JD100,000, for durations that range from less than 12 months to 15 years.

JLGC guarantees part of the loan as follows:

- 75 per cent of the amount of loans up to JD40,000
- 50 per cent of the amount of loans between JD40,000 and JD100,000
- 75 per cent of all housing loans that are extended to low and middle-income applicants, provided that the loan amount does not exceed JD50,000

The guarantee fee charged to borrowers, through the participating bank, varies between 0.75 per cent (for housing) and 1.5 per cent (for all other loans). The Counselling Service Division asks for a fee of 0.5 per cent of the value of the requested loan, when it intervenes (the percentage has been 0.2 per cent until 1999).

JLGC also offers a coverage to exporters.

## MOROCCO

### CCG:

A reform of CCG took place in 1996 and concerned, among others, the principles of intervention.

The CCG now operates in partnership with local banks. The Company has signed 4 types of agreements with the main banks of Morocco.

#### Agreement n. 1: Guarantee for investment credit

- For SMEs (total balance sheet equal to or less than DH20 mln. and project amount equal to or less than DH10 mln.):
  - minimum self-financing 25 per cent (maximum bank financing 75 per cent)
  - maximum guarantee coverage: 50 per cent (CCG and the bank share the benefits of the collateral)
  - guarantee commission: 0.5 per cent of outstanding loan;

- For large firms:
  - minimum self-financing 40 per cent (maximum bank financing 60 per cent)
  - maximum guarantee coverage: 50 per cent (CCG and the bank share the benefits of the collateral)
  - guarantee commission: 0.6 per cent for loans in DH, 0.75 per cent for loans in foreign currency + a study fee from DH10,700 to 20,140 (respectively for loans in DH and in foreign currency).

Agreement n. 2: export warranties offered by CCG for 50 per cent and by the bank for 50 per cent. The commission amounts to 0.6 per cent of outstanding loan.

Agreement n. 3: Guarantee Fund for the FOGAM programme:

- FOGAM was created by the Government and partly financed by USAID. Management is assured by CCG.
- The limit of the intervention is five times the amount of the Fund (DH500 mln.).
- The Funds guarantees the loans granted for the modernisation of SMEs (total balance sheet equal to or less than DH40 mln. and project amount equal to or less than DH20 mln.) as follows:
  - minimum self-financing: 30 per cent (maximum bank financing 70 per cent)
  - maximum loan maturity: 12 years with 3 years' grace period
  - interest rates on the loans must be the lowest on the market
  - maximum guarantee coverage: 60 per cent
  - guarantee commission: 0.25 per cent of outstanding loan guaranteed (paid in a lump sum).

Agreement n. 4: Fund for de-pollution of industrial firms.

- It is financed by the German KFW for DM18 mln, directly allocated as a subsidy or bank refinancing on the loans that banks have granted on their own funds. DM1.5 mln. are allocated to the Ministry of Environment for public support measures (studies and technical assistance).
- In this case there is no guarantee fund but, rather, the mechanism is meant to reduce the risk of insolvency.

A limit for individual interventions at 12.5 per cent of own funds is fixed for all CCG interventions.

*Dar Ad Damane:*

The parameters for the "young entrepreneurs" programme related to the loans to be covered by the fund are the following:

- age of the promoter: 20 to 45 years
- source of financing: 10 per cent from the entrepreneur, 45 per cent from the bank, 45 per cent from the Government

- maximum amount of the loan: DH1 mln
- maturity: 7 to 10 years, with 2 years' grace period, on the bank's side; 12-15 years of which a grace period corresponding to the bank's loan maturity, on the Government's side.
- interest rate: negotiable with the bank; 5 per cent on the Government share (no interest for the first three years);
- guarantee of Dar Ad Damane: 2/3 of the bank loan amount.

A second agreement between Dar Ad Damane, the Ministry of Finance, the Ministry of Employment and the CNCA, based on the same scheme as the "young entrepreneurs" programme is specifically oriented to rural areas and to small agricultural projects. The target beneficiaries must:

- be 20 to 35 year old
- have a high school diploma plus two years' certified specialisation studies

CNCA applies a preferential interest rate of 7.90 per cent.

#### *GPBM*

- Eligible beneficiaries are the SMEs located in the Northern Provinces.
- Self-financing is 10 per cent (external intervention can reach 90 per cent).
- The intervention consists of a European Union 20-year financing (with 2 years' grace period) and of a 10-year bank loan (with max. 2 years' grace period).
- The intervention of the guarantee fund is on 2/3 of the bank loan while no guarantee is required by the E.U.
- On the loans granted by the CNCA the interest rate is 9 per cent while there is no interest on E.U. financing

#### *Fonds des Calamités Naturelles*

All cereal growers hit by drought can benefit of the Fund's coverage. The Ministry of Agriculture decides access to the Fund and conditions are established on an individual basis. The executing agency for the decisions of the Ministry is the CNCA.

#### TUNISIA: THE FONDS NATIONAL DE GARANTIE (FNG)

A decree of 1996, meant to review some operations of the Fund, establishes that the Fund:

- intervenes to refinance non-repaid loans;
- intervenes to refund the banks for the loans they granted and could not recover; this is a subsidiary guarantee as the banks must demonstrate that they have taken all measures to recover the loan;
- offers a contribution corresponding to the interest amount for agricul-



tural loans that are re-scheduled following a drought, recognised by a decree;

- covers part of the expenses involved in loan recovery.

#### *Criteria*

The criteria to be eligible to the Fund coverage are established in the above-mentioned decree of 1996.

#### *Loan amounts, duration, guarantee coverage and fees*

- Loan refinancing is granted according to specific conditions established at administrative level.
- Bank refunds for insolvency vary from 50 to 90 per cent according to the type of loan and sector of activity. With specific reference to the agricultural sector, coverage is as follows:
  - for short-term loans, if the borrower is a small and medium-size farmer belonging to an Agricultural Mutual Guarantee System, the Fund covers 70 per cent, the Mutual System covers 25 per cent and the bank only takes a risk for 5 per cent (the intervention of the Fund can be exceptionally increased);
  - if the borrower does not belong to a Mutual System, the Fund covers 90 per cent and the bank takes a risk for 10 per cent.
- These proportions apply to short-term loans to small and medium-size farmers, or fishermen, and to medium and long-term loans to the same categories, to small and medium-sized projects in the same sectors and for the co-operative or mutual firms.
- The payment of all interests on a rescheduling of loan maturity for a maximum period of 5 years is meant for borrowers whose activity is hit by a drought recognised by decree. It includes all loans declared to the Fund, and specifically short-term production loans and the instalments of medium-long term loans when they fall due immediately after the drought if the investment financed is related to a production damaged by the drought.
- The coverage of the expenses involved in recovery is meant to pass from the current 10 per cent to 50 to 75 per cent for priority regions.

The commission charged to the beneficiary was 1 per cent, recently raised to 2 per cent of the loan amount (the fee is reduced if the borrower belongs to a Mutual Guarantee System); banks, too, must pay a percentage of 0.3125 per cent on quarterly overdrafts to the Fund.

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#### 4.8. GUARANTEE AND LIQUIDATION PROCESS

The procedures for starting the guarantee process and, eventually, covering the defaults are clearly established by most Funds:

- *Applications* are usually submitted to the bank or to the guarantee company (or its delegates, e.g. the insurance company in Tunisia). When the borrower goes to the bank, the latter forwards the application to the Fund. The case of the Moroccan Fonds des Calamités Naturelles is quite peculiar in this respect, as the intervention is demanded to the Fund by CNCA only in the case of drought.

- While *the decision on the guarantee* is taken by the guarantee structure, the lending decision is the participating bank's responsibility in most cases; the Funds' loan analysis might be decentralised when they have local branches; while reducing the risk of default, double analysis by the Company/Fund and by the bank may considerably increase costs.

- The decision to intervene may actually depend on the *evaluation* performed by the guarantee body but, in some cases, it appears to be almost automatic where basic formal conditions are fulfilled (this is the case of FNG in Tunisia or of the Fonds des Calamités Naturelles in Morocco, where CNCA is executing Government decisions).

- In some cases, *special committees or external consultants* are hired to speed-up the analysis that may otherwise take long (10 to 30 days according to the size of the loan for the Moroccan CCG).

- Also *in case of default* the intervention of the Fund may be subsidiary and take place after verification of the actions taken by the bank (as in the case of Egypt or Jordan) or upon demand (as in the case of the CCG in Morocco).

## GUARANTEE AND LIQUIDATION PROCESS

## EGYPT: CREDIT GUARANTEE COMPANY (CGC)

SMEs requesting loans can either approach banks or CGC (recently, NGOs). In all cases borrowers must fill an application form that includes different information about their credit status as required by the bank. It is the bank's responsibility to check the status of the borrower. In accordance with the bank's credit officer, if the borrower has a good project, is creditworthy, and fulfils most of the bank's requirements, but cannot provide adequate collateral, the bank normally refers the case to CGC and shares the applicant's evaluation report with the Guarantee department. Upon CGC's approval, the guarantee process takes place. CGC works in collaboration with the bank to follow the borrower's repayments. In case of default, the liquidation process takes place after CGC has made sure that the bank has fulfilled all investigation requirements. In accordance with the CGC policy of decentralisation that aims at smoothing operations, different levels of authority in approving guarantees and liquidation in case of default have been set, viz.

*CGC Guarantee levels of authority*

Board of Directors	LE500,000	to LE700,000
Executive Committee	LE250,000	to LE500,000
Chairman and Managing Director	LE150,000	to LE250,000
General Manager and Zone Directors	LE 10,000	to LE150,000

In case of default and after 3 non-payment incidents, the liquidation process takes place, once the Company is informed.

The Company investigates the bank's actions and procedures regarding the case. Upon clearing the bank's status and ensuring that all legal and formal steps were taken, the company approves the liquidation of the guarantee. If non-repayment of the loan is due to reasons beyond the borrower's control, the Company may negotiate a rescheduling of the loan with the bank.

## JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

JLGC has a signed agreement with the banks, where every bank has an annual ceiling based on its request, from which it covers the needed guarantees. Borrowers can approach the banks or JLGC - Guarantee Department, where they have to fill an application form that includes different information about the borrower and his/her credit status and attach a feasibility study of the project. Both JLGC and the involved bank examine the application form and the feasibility study to ensure

that the project is viable both economically and financially. Based on the results of the evaluation, the guarantee is granted after final approval by the General Director of the Company, who is the sole decision-making authority. In case of default and after 180 days from the first day of non-payment, the involved bank informs JLGC - Guarantee Department. The Guarantee Department investigates the case and makes sure that the bank has fulfilled all follow-up and monitoring requirements in accordance with the agreement. Based on a quick review of the bank's request, the liquidation check is issued by JLGC, but cannot be used until the whole process of follow-up is completed and the liquidation committee has made its decision.

Through its Counselling Unit, JLGC can assist the borrowers in writing their feasibility study against a fee of 0.5 percent of the value of the requested loan. The Counselling Services Division receives applications for financing, either directly from clients or through commercial banks. It then conducts field inquiries and prepares feasibility studies and cash flow analyses for these projects. When the Corporation is satisfied with the project feasibility, its eligibility, and the client's seriousness, the client is referred to one of the participating banks to obtain the required financing against a JLGC guarantee. The bank, however, must apply its own procedures for the project credit assessment.

#### MOROCCO

##### CCG:

The application must be submitted in 4 copies either directly by the applicant or through a bank.

Timing of evaluation is fixed according to the type of guarantee: 10 days for a SME loans, 15 days for export warranties, 30 days for a big investment project.

Decisions are made by the Guarantee Committee of CCG. Each member of the Committee receives the applications as soon as they are submitted to CCG. The Committee meets weekly and decisions are made unanimously and notified immediately:

- to the bank together with the conditions upon which CCG intervenes, if the application was submitted by the bank;
- to the applicant, if the application was submitted directly by the borrower who can use this information to negotiate with the bank. The application has in any case to be re-submitted to CCG through the intervening bank.

The following further steps must be taken:

- submission of the loan contract
- constitution of collateral



- subrogation of the bank's rights to the CCG
- payment of guarantee commissions.

A special unit of CCG follows up the loan to confirm proper implementation of the declared project.

In case of repayment delays, the procedure is as follows:

- For loans in DH, CCG pays 50 per cent of the amount due to the bank for the first and second maturities; at the third unpaid instalment, the bank declares the delay and may ask CCG to cover 50 per cent of the remaining due capital. CCG pays if all the conditions are fulfilled.
- On export warranties, CCG intervenes upon first demand.

#### *Dar Ad Damane*

For the new programme for young entrepreneurs in the agricultural sector, the applications are evaluated and the implementation followed by consultants whose cost is born by the Government.

#### *Fonds des Calamités Naturelles*

The Direction of Planning and Economic Affairs of the Ministry of Agriculture defines the methods of intervention and the programmes, and controls the budget. The list of potential interventions proposed by CNCA must be authorised by this Direction. Then, CNCA executes the operations and withdraws the funds upon joint authorisation by the Ministry of Agriculture and the Ministry of Finance.

#### TUNISIA: THE FONDS NATIONAL DE GARANTIE (FNG)

As stated earlier, the Secretariat of TUNIS-RE performs all the operations for refunding.

After verifying the administrative completeness and consistency of all documents, decision is taken by the Inter-ministerial Committee but is almost automatic, once the formalities are accomplished. However, the verification of formalities may take long.

All types of bank can present their applications to the Fund. Decisions on loan granting are entirely delegated to the banks.

Procedures are quicker for the interventions in case of droughts as the execution is entrusted to special committees without passing through the legal service.

## 4.9. GUARANTEE PORTFOLIO

It is quite difficult to estimate the *additionality* produced

by the Guarantee Funds under exam because, as stated earlier, it would be necessary at least to compare the current situation with the situation at the time the Fund was not in operation. In some cases, the number of beneficiaries reached by the programmes is quite impressive; in Morocco, the Fonds des Calamités Naturelles has reached a good number of farmers but, in evaluating this figure, one should keep in mind the nature of the intervention, i.e. *ex-post* coverage for natural disasters. In the case of Tunisia, it is indicated that the absolute value of the number of beneficiaries, despite its importance, accounts for a minor percentage of the country's total rural producers. It is worth noting the progression of ceilings in JLCG and the relative success of JLCG advisory service. In terms of leverage, which represents the ability of the Fund to provide loans for an amount exceeding the amount of its initial capital, the available data in the cases of Egypt and Jordan show that this figure is not yet satisfactory, as compared to international best practices, even if it is improving <sup>2</sup>.

The distribution of guaranteed loans by sector, in the cases under consideration, shows the following picture:

- The manufacturing, construction and service sectors prevail in most Funds.

- The agricultural sector has a small share in their portfolio; it accounts for 5 per cent of the Egyptian CGC portfolio, 1 per cent in Jordan, the percentage is not specified for the Moroccan CCG but it is known that the prevailing agricultural loans covered are to the agro-industry rather than to small producers. Only the Tunisian FNG shows a high 72 per cent share, and, of course, the agricultural sector accounts for 100 per cent of the Moroccan Fonds des Calamités Naturelles portfolio; in both these cases the data are influenced by the nature of the intervention, which, also for Tunisia, consists in the coverage of loans to farmers hit by droughts.

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<sup>2</sup> See chapter 1.

– In the case of Egypt, agricultural loans show a low default ratio, which is not the case with Jordan.

### GUARANTEE PORTFOLIO

#### EGYPT: CREDIT GUARANTEE COMPANY (CGC)

During the period 1991-1999, CGC succeeded in issuing guarantees for a total amount of LE 0.7 bln. that covered LE1.4 bln. total loans, and enabled 13,600 borrowers, inclusive of SSEs and HCPP programmes, to have access to credit. The average guarantee was LE54,000 (average loan value approx. LE 110,000).

Total issued guarantees by sector are as follows: manufacturing industry 63 per cent, construction 15 per cent, services 7 per cent, agriculture 5 per cent, transports 4 per cent, business services 3 per cent, tourism 3 per cent, mining 1 per cent.

The company could leverage the main funds of SSE and HCPP programmes by 1.5 times, reaching 2.3 times in 1998, as shown in the following table:

#### *CGC leverage (1996-1998) for SSE & HCPP Programmes (LE mln.)*

Year	Net Outstanding balance	Net source of funds	Leverage
	(1)	(2)	(1/2)
1998	211	93	2.3
1997	136	93	1.5
1996	142	93	1.5

(The net outstanding balance includes outstanding balance — rejected loans — cancelled loans).

#### *Default ratio*

Out of the guarantee amount of LE 0.7 bln., only LE653,684 had defaulted from inception to June 99, which means a default ratio of less than 1 per cent of outstanding letters of guarantees. The highest default ratio of 1.07 per cent was in the manufacturing industry, followed by the service and business service sectors that averaged 0.7 per cent and the agricultural and contracting sectors with 0.3 per cent.

#### JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

Excluding the export facilities, in the period 1994-1998, the total loans covered by JLGC reached JD28 mln. of which JLGC guaranteed JD14 mln. This amount facilitated credits to almost 1500 applicants, with an average loan value of about JD19,000. The total number of applications

received was 2596, for a total amount of loans of JD 49.6 mln. and a guaranteed requested amount of JD 25 mln.; accepted loans were 2126 for almost 19 mln., according to the 1999 annual report ([www.jlgc.com](http://www.jlgc.com)). The loans guaranteed by JLGC in the service sector ranked first (72 per cent), the manufacturing industry was second (19 per cent), followed by the trade sector (8 per cent) and the agricultural sector with only 1 per cent. As far as the advisory service offered by the JLGC is concerned in particular, according to 1998 annual report, the counselling unit received 546 clients and referred 127 applications for loans, totalling JD2 million, to the banks. According to 1999 data, the unit received 630 applications. The company could leverage its main funds by almost 0.8 times in 1998 and 1.9 in 1999.

#### *Default ratio*

Until the end of 1998, out of the amount covered, only 39 loans had defaulted for a total amount of JD536,869 which represents a default ratio of 3.2 per cent, the agricultural sector showing a default rate of 10 per cent. According to the data of 1999, the default rate increased to 4.2 per cent (JD 703,910, net of recoveries), due mainly to the rise in the claims on transportation and services sectors.

#### MOROCCO: VARIOUS FUNDS

CCG: it accounts for 90 per cent of the guarantee systems in Morocco. From 1973 to 1990 it granted guarantees on DH16,000 mln. to all sectors of the economy, including agriculture, particularly for the agro-food sector and less on the production side. At the end of the '80s, the need to extend its interventions emerged, so that its mission was widened in 1990 and the legislation about it was reformulated in 1996.

#### *Fonds des Calamités Naturelles:*

As far as small producers, customers of Local Units of the CNCA are concerned:

- in 1994, 324,000 cereal growers benefited of a DH1,000 loan reduction on short-term loans; the total amount of the intervention was DH300 mln.
- In 1995, 276,000 cereal growers benefited of a DH1,500 loan reduction on short-term loans; the total amount of the intervention was DH288 mln.

For larger size producers, customers of the Regional Offices, there was a rescheduling of their loan maturity.

- In 1999 CNCA intervened for the consolidation of the loans granted to farmers hit by 1997 drought; 96,000 farmers were interested in this



provision, for a total amount of DH 4,300 mln. consolidated loans with a total budget cost of DH 950 mln. (which will imply refinancing the fund).

- CNCA is also intervening on farmers of non-irrigated areas to reduce their loans and re-integrate them in the bank credit market. The total cost of this measure is estimated at DH650 mln.

#### TUNISIA: THE FONDS NATIONAL DE GARANTIE (FNG)

Since the intervention of TUNIS-RE in 1993, the Fund has covered a total amount of DT 610 mln. (1999). The different sectors of the economy are involved as follows: agriculture (72 per cent), manufacturing industry (11 per cent), handicrafts and other micro (7 per cent), services (mainly taxi drivers, 9 per cent).

Two other separate portfolios dating to before 1994 are still open at the Fund: a portfolio of BNA agricultural loans, originally amounting to DT1,000 mln., and a Central Bank portfolio of other sector loans, originally amounting to DT400 mln. In both cases, data on refunds are not available. Every year few demands for refund come on these two portfolios.

It should be considered that 30,000 producers were covered by FNG in 1999. They are the most important, as they assure 70 per cent of cereal production, but they account for less than 10 per cent of total farmers in Tunisia (376,000). Moreover, the total amount of loans covered by the Fund since its creation (DT610 mln.) corresponds to 64 per cent of 1998 BNA outstanding portfolio.

#### 4.10. PROFITABILITY

The question of self-sustainability of guarantee funds is widely discussed. From international experience, it emerges that these funds are economically self-sufficient in few cases, even in industrialised countries<sup>3</sup>. It is difficult to express a definite judgement on the cases analysed in this report, as precise data on the Funds' financial and economic performance are not available for all of them. From available information it emerges that:

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<sup>3</sup> See chapters 1 and 2.

– the case of Egypt shows a quite satisfactory situation where, despite the large number of staff, at least all management costs are covered by the revenues, even considering the declared high cost of funds which would derive from the presence of market-priced sources;

– also in Jordan JLGC shows to be increasingly able to cover management expenses; it should be noted that the presence of Central Bank's funding is an implicit subsidy to the Company;

– the case of Tunisia is difficult to evaluate, as the data represent the financial flows rather than the profit and loss account; however, it emerges that the fees required from borrowers and banks account for an important proportion of sources of funds and largely cover the management fees paid by the Fund;

– no information is available on the funds operating in Morocco; in the case of the Fonds des Calamités Naturelles, the question of profitability is relatively less significant, given the nature of the Fund and the strong subsidy component that it implies.

### PROFITABILITY AND FINANCIAL STATUS

#### EGYPT: CREDIT GUARANTEE COMPANY (CGC)

As indicated in the annual reports of 1996, 1997, and 1998, CGC was able to cover the expense of guarantees and its operation cost with minimal profit over the latest 3 years. It should be also noted that the amount of provisions that reached approximately LE2 mln. in 1998 reflects a careful risk-control policy. The fact that CGC receives minimal governmental support reflects in the cost of funds that reached almost LE 2 mln. in 1998 and presents a burden on Company's operation.

#### *The Financial status of the company (1996- 1998) (LE mln.)*

Year	Admin. expenses	Other expenses	Total expenses	Guarantee revenues	Other revenues	Total revenues
1998	5.5	6	11.5	4.7	6.8	11.5
1997	5.6	3.4	13.5	4.4	10	14.4
1996	4.3	3.3	10.2	3.9	8.3	12.2

Other expenses include financing expenses and depreciation.

Guarantee revenues include deposit interests, income on current investments and previous provisions.

The operations sponsored by external entities are usually structured so as to cover their own expenses.

#### JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

Based on the annual reports (1994-1998), with its rapidly growing ratio, JLGC was able in 1998 to cover almost 74 per cent of its relevant administrative expenses with the revenue of guarantees, in comparison with year 1994 when the ratio was only 14.3 per cent. According to 1998 annual report, JLGC succeeded in covering its expenses and produced a net profit in the period 1994-1999 (JD 421,000 in 1998 and JD 685,300 in 1999). It should be noted that the cost of funds at JLGC is very low due to the support of the Central Bank that takes the form of shares. The company was very careful in its operation, the volume of its guarantees hardly exceeding its capital in year 1998, which explains the limited amount of provisions the company allocated in year 1998.

#### *The Financial status of the company (1994-1998) (JD)*

Year	Admin. Expenses on loan guarantee	Guarantee Revenue on loan guarantee	Ratio of Admin. Expenses covered by Guarantee revenues per cent
1998	287,000	211,000	73.4
1997	217,000	119,000	44.4
1996	174,000	70,000	24.4
1995	214,000	56,000	26.1
1994	117,000	17,000	14.3

Guarantee revenue includes guarantee fees paid by the banks.

Including the total expenses deriving from loan guarantee and export guarantees, the ratio is still increasing and amounts to 53% in 1999.

MOROCCO: data are not available.

#### TUNISIA: THE FONDS NATIONAL DE GARANTIE (FNG)

The data on the financial situation are as follows (DT/1000):

	1998	Jan-Aug. 1999	From origin to Aug. 1999
<i>Sources of funds</i>	13676	7265	123966
Fees paid by the banks	6942	4518	96557
Fees paid by the beneficiaries	1201	862	6911
Revenues from investments	5533	1885	20498
<i>Uses of funds</i>	13676	7265	123966
Defaults covered	41	79	153
Interests for droughts	4957	0	12137
Other interventions	0	0	20794
Management fees to TUNIS-RE	111	0	402
Investments on the market	8567	7185	90480

Even if a proper profit and loss account is not available, it emerges from the data that the Fund is now cumulating more funds than is needed for both the management of the Fund itself (a very minor part) and disbursements, considering the function of the Fund. However, the potential interventions in case of droughts may completely reverse the situation.

#### 4.11. TRENDS IN OPERATIONS

The following table lists some current evolutions and prospects in the operations of the Funds under consideration which mainly concern:

- an emphasis on working with NGOs, and an interesting case of mutual guarantee funds, in the case of Egypt;
- new coverage on export operations in the case of Jordan;
- an extension of the operations conducted on behalf of foreign donors for Morocco's CCG;
- the recent introduction of coverage for drought victims in Tunisia which resulted in a prevalence of this kind of beneficiaries in the Fund's portfolio; this is a symptom of the importance of the atmospheric risk in Tunisia, as it is in Morocco.



## TRENDS IN OPERATIONS

## EGYPT

*Credit Guarantee Company (CGC)*

Understanding the importance of outreach, CGC has developed a strategy to ally itself with several powerful NGOs for them to assist the company in achieving its different goals and objectives. NGOs have been selected with comprehensive selection criteria to enhance CGC organisation, marketing capabilities and performance. The partnership with the NGOs has contributed greatly to the sharp increase in loan guarantees in 1998, as well as to spread the awareness of the HCPP programme opportunities.

As a result of CGC's good understanding of the SMEs market and its outstanding performance in this regard, a Micro agreement has been signed between CGC and USAID. According to the agreement, CGC should establish and build the institutional capacity of 45 NGOs in the country's 26 Governorates. The NGOs will then serve as lending and supporting units to a number of SMEs in accordance with the project strategy and implementation plan.

*Social Fund for Development – Guarantee scheme*

It has been recently introduced. The scheme assists members in writing loan applications and developing feasibility studies. Members of the scheme must buy shares against their desired loans; every share equals LE 5,000. If they don't have the required amount, the cost of the share will be added to the total amount of the loan. As envisaged in the scheme, other requirements must be fulfilled to qualify a member for loan-guarantee. In case of default, the scheme pays the bank's entitlement. It is too early to assess the impact of this scheme on the progress of the programme due to its recent introduction.

Another incepting project is about business incubators.

## JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

In its attempt to have a responsive approach to the country's requirements, JLGC designed the Export Credit Guarantee Coverage to facilitate thorough and comprehensive coverage to Jordanian producers' exports against both political and commercial risks.

The Counselling Unit referred to above for SMEs is also part of CGC innovative trends.

**MOROCCO**

CCG: Besides the 4 agreements mentioned earlier, two more agreements are under implementation:

- a guarantee fund sponsored by French Co-operation (Agence Française de Développement) together with the FOGAM. The amount is FF100mln.; the French Agency has delegated loan analysis and recovering procedures to CCG.
- Together with *Dar Ad Damane*, a European Fund of Euro 30 mln. to support SMEs' modernisation is offered by the European Investment Bank as a guarantee fund.

**TUNISIA: THE FONDS NATIONAL DE GARANTIE (FNG)**

The Fund has been restructured (1996) and the farmers suffering from the economic and financial consequences of a drought are now among the main beneficiaries of the fund. This is particularly important if one considers that in 1981 an insurance fund for atmospheric disasters in farming was created but never implemented. Therefore, FNG reform represents an important innovation.

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#### 4.12. THE GUARANTEE SYSTEMS AND THE AGRICULTURAL SECTOR

The quantitative data reported in paragraph 4.9 emphasised the relative involvement of the Funds in the agricultural sector. Some further observations are possible if one considers some specific issues that were brought into focus while conducting the different case studies:

- in the Egyptian case, the widespread problem of dealing with *small and micro farmers* was raised, as the CGC estimates that it is not profitable for banks to deal with very small loans; banks would only be encouraged by high coverage ratios. On the other side, while considering the possibility of administering these loans, the Company finds this solution too expensive;

- the need for *high coverage ratios* was also brought up by Jordanian bankers;

– however, in the other two countries, Tunisia and Morocco, it emerges that severe *weather problems* are hitting the farmers, increasing their risk to such level that even an increase in the coverage ratio would not probably change the attitude of the banks. Therefore, insurance mechanisms are now under study;

– this last point raises the question of the *real nature of a guarantee fund* and its potential effectiveness in situations where high production risks enormously increase the variability of borrowers' potential profitability.

#### THE GUARANTEE SYSTEMS AND THE AGRICULTURAL SECTOR

##### EGYPT: CREDIT GUARANTEE COMPANY (CGC)

The agricultural sector loans accounted for only 5.7 per cent of CGC total activities, as of June 1999. In examining the possibility of increasing this volume, different points should be considered:

- based on CGC records, the average size of the loans guaranteed by CGC is LE54,000. Getting involved in agricultural credits, especially in the category of very small loans not exceeding LE5,000 is questionable due to banks' reluctance to deal with very small loans. Having a high guarantee percentage (80 per cent or up) may enable and encourage banks to develop lines of credit that could be used for disbursing these small loans;
- the Company's participation in administering these loans could be another factor that may encourage banks to get involved in this business, but it should be noted that this would add to the Company's operational cost which is hardly breaking even with the guarantee cost.

It should be remembered that, in this case, the default ratio on agricultural loans is very low.

##### JORDAN: THE LOAN GUARANTEE CORPORATION (JLGC)

The agricultural sector accounted for only 1 per cent of total JLGC guarantees in 1998. Despite the relatively high default ratio in this sector for JLGC, the Corporation is willing to encourage more activities in the agricultural sector if a fund is allocated for this purpose and covers both the needed amounts of guarantees and the risk reserve.

On the other hand, the commercial banks that perceive agriculture as a

high-risk sector, view the guarantee mechanism as a tool that may encourage them to get involved in providing credit to this sector. They also emphasise the importance of a high guarantee percentage that should not be less than 80 per cent.

#### MOROCCO

*All funds:* despite the variety of Funds operating in Morocco, the proportion of loans going to the agricultural sector is quite limited, with the exception of the credits to farmers hit by drought. However, even in this case, the intervention is depending on the Government budget.

The drought problem appears to be the most important among natural disasters impending over the agricultural sector in Morocco, and Guarantee Funds may not be enough to solve it. The Ministry of Agriculture, the Ministry of Finance, an Agricultural Mutual Insurance (MAMDA) and CNCA studied a system of insurance for cereal production. In 1999, a pilot area of 100,000 hectares was covered by 40 per cent and the serious atmospheric problems of recent years are already challenging the system financial equilibrium. However, the Government and other interested actors (the MAMDA and the CNCA) are strongly determined to improve the structure of this kind of intervention and different projects are now under discussion.

#### TUNISIA: THE FONDS NATIONAL DE GARANTIE (FNG)

The Fund has a large share of its portfolio allocated to the agricultural sector. The inclusion of the operations related to droughts was determined by the serious problems of recent years in this respect. It followed the political and economic decision to support the farmers' ability to repay, rather than to create guarantee mechanisms for the latter. In this respect the mechanism is quite effective, with relatively simple procedures. However, as mentioned before, it only reaches a minor proportion of Tunisian agricultural producers.

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