



Enhancement of the Business Environment in the Southern Mediterranean

Credit Guarantee Funds

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Rationale: why guarantee funds?



- Risk, risk perception and Access to Finance
- Risk Mitigation
- Credit risk related information: a public good – no incentive for market agents to produce and share
- Result: market limitation, exclusion of SMEs and other segments of real economy
- Third party engagement to overcome information asymmetry
- The Multiplier Effect



Critical areas



- Adverse Selection and side effects: excessive risk taking by clients, and outsourcing of marginal clients by banks
- Outreach (limitation): in terms of cooperating banks and SME clients
- Information advantage of CGF (knowledge of wide range of clients)
- Shift of high risk transactions to CGF (anti selection)
- Transaction costs involved (Streamline)
- Additionality – the main issue of a Credit-Loan Guarantee
- Survival - Financial sustainability and subsidy dependence



Factors of success



- Fund managers have real information advantage over bank staff (due to flow of information from other lenders)
- Balance of incentives to share risk
- Transparency and speed in claim settlements (Credibility)
- Gear up leverage slowly over time
- Financial equilibrium: fees to cover operating costs; income on investment to cover default losses
- Involvement of many banks



Types of Loans/Credit Guarantee Funds/Organisations



- ❖ Government owned and managed. BpiFrance – French - The Small Business Administration - USA
- ❖ Cooperatives organization-takaful (sector, regional or trade related), exists in Europe
- ❖ Jointly owned organization, government and banks, the Jordan Loan Guarantee Corp – Kafalat Lebanon
- ❖ Private owned organization (closer to insurance organization)



Guarantee funds and other risk sharing mechanisms in Jordan



- Jordan Loan Guarantee Corporation-JLGC
- USAID – Jordan Loan Guarantee Facility-JLGF
- USAID-Development Credit Authority - DCA
- AFD – French
- Darkum (Real Estate Loan Guarantee/Jordan), Private



Safety Nets





Thank you for your attention

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