MEDPRO

MEDITERRANEAN PROSPECTS

Thinking Ahead for the Mediterranean

EUROPEAN COMMISSION
European Research Area

SEVENTH FRAMEWORK PROGRAMME

Funded under Socio-economic Sciences & Humanities

WP 6 - Financial services and capital markets

Access by MSMEs to Finance in the Southern and Eastern Mediterranean: What role for credit guarantee schemes?

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MEDPRO Technical Report No. 35/April 2013

Abstract

Micro-, small- and medium-sized enterprises (MSMEs) in the Southern and Eastern Mediterranean suffer from credit constraints. Given their contribution to employment and growth, similarly as in other regions, policy-makers have developed credit guarantee schemes (CGSs) in order to facilitate small companies' access to debt capital. CGSs are risk-sharing mechanisms under which a guarantor ensures the lender against a share of the possible losses it incurs when extending a loan. Despite the maturity of some schemes, knowledge of the schemes' functioning, operating environment as well as performance in guaranteeing loans for MSMEs is scarce. Building on a previous study of CGSs in the region, this paper extends the available knowledge on the region's schemes, building on the results of an exclusive questionnaire to gain insights into these mechanisms. First, the paper reviews the conditions of MSMEs' access to finance in the Southern and Eastern Mediterranean; second, it presents the results of the questionnaire across a number of dimensions ranging from ownership to financial performance; and third, the paper presents some avenues for future policy research in this area.

This paper was produced in the context of the MEDPRO (Mediterranean Prospects) project, a three-year project funded under the Socio-economic Sciences & Humanities Programme of DG Research of the European Commission's Seventh Framework Research Programme. MEDPRO Technical Reports give an indication of work being conducted within MEDPRO thematic Work Packages (WPs) and aim at stimulating reactions from other experts and academics in the field.

ISBN 978-94-6138-306-8

Available for free downloading from the MEDPRO (www.medpro-foresight.eu) and CEPS (www.ceps.eu) websites

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1. Introduction

In the southern and eastern Mediterranean countries (SEMCs),[1] 33% of registered firms, irrespective of their size, rank access to finance as a major constraint, compared to 25% in Latin America, 24% in Eastern and Central Europe and 19% in East Asia and the Pacific. In the region, micro-, small- and medium-sized enterprises (MSMEs), which account for 90% of registered companies and employ a high share of the formal labour force, are particularly excluded from credit markets: only 20% of them have a credit line with financial institutions, compared to 30-40% in developing countries. In 2009 they represented only 13% of total bank lending in the region and only 10% of them financed their long-term expenses with a loan (Rocha et al., 2010). The constraints in access to finance are an impediment to MSME development, which rests on the combination of three pillars: enhanced capacities, an enabling environment and appropriate financing conditions (Ayadi & Fanelli, 2011).

The exclusion of MSMEs from credit markets in the region is chiefly due to three sets of factors. First, their inherent lack of transparency, suitable collateral and track record exacerbate information asymmetries, resulting in acute credit rationing (Stiglitz & Weiss, 1981). Second, compared to other countries, macroeconomic and regulatory conditions in the SEMCs are relatively poor. High interests on government paper – 7% on average for 2007-09[2] – and state involvement in the banking sector translate into lower levels of credit directed to the private sector. For example, while market shares of public banks range between 25% of total assets of the banking sector in Morocco, they are above 90% in Egypt, a country where public debt and loans to state-owned companies amount to one-third of banks' balance sheets (Ayadi et al., 2011).

Third, financial infrastructure in the region is deficient. The lack of effective credit information-sharing mechanisms between financial institutions, the weak enforcement of creditor rights and inappropriate collateral regimes exacerbate the difficulties small companies have in gaining access to finance (Maddedu, 2010; Ayadi et al., 2011; De La Campa, 2010). A good financial infrastructure is instrumental in supporting small companies' access to debt since it allows lenders to evaluate borrowers based on their riskiness while providing the former with some degree of certainty on a loan's recovery prospects in case of a default by the latter. Deficiencies in the region's financial infrastructure play a role in explaining banks' high collateral requirements – on average 150% of a loan's value compared to 130% in OECD countries – and their preference for immovable property to secure a loan. Very few MSMEs in the region are able to meet this set of conditions.

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[1] For the purposes of this study and the MEDPRO project, the 11 southern and eastern Mediterranean countries (SEMCs) are: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey. Due to data limitations, in some cases only a subset of these countries is covered in the analytical discussions.

[2] Interest rates calculated on 10-year bonds.

Against this backdrop, based on other countries' experience in addressing market failures in MSME lending, policy-makers in the Southern and Mediterranean region have created credit guarantee schemes (CGSs) (Honohan, 2008). CGS are risk-sharing mechanisms under which the guarantor ensures the repayment of a loan to the lender in the event of a default by the borrower, thus putting a cap on the lenders' possible losses. Alternatively, some countries have developed similar mechanisms for equity finance (Aernoudt et al., 2007).

There are two main arguments in favour of CGSs. First, guarantee schemes generate 'additionality', that is, they give access to the credit market to groups that would otherwise remain excluded. There are two channels through which additionality can take place: through lower interest rates and through lower collateral requirements. Second, the provision of finance to credit-rationed groups through guarantee mechanisms generates increased economic activity and creates positive spillovers whose social benefits outweigh CGS's potential costs. Generally, spillovers take one of two forms: employment generation and/or increased tax revenues.

SEMCs have developed CGSs as a means to extend borrowing to small companies, with notable differences across their design, governance, risk management practices, regulatory and supervisory frameworks as well as on their outreach. This is especially the case in the context of the post-Arab Spring and negative spillovers from the economic and financial crisis: downside risks are set to aggravate fiscal deficits, crowding out credit to the private sector and reducing credit worthiness amidst the likelihood of increased financial repression. Gaining insight into the region's CGSs is hence important as a first step towards assessing their relative performance, strengths, weaknesses and development potential with the ultimate view of enabling policy-makers to devise evidence-based policies for MSMEs in the region (OECD, 2011).

This paper seeks to provide an extensive overview of credit guarantees in the Southern and Eastern Mediterranean in order to identify areas for further research. The remainder of the paper is organised as follows: section 2 builds on the results of an exclusive questionnaire addressed to senior CGS executives in the region covering CGSs' characteristics and functioning across seven dimensions: ownership, objectives, mandate, design, risk management, supervision and financial performance. Section 3 concludes and introduces avenues for further research on the topic.

2. Towards qualitative insights into CGS in the SEMCs

As CGSs have been used by policy-makers across the world to overcome market failures associated with MSME lending, gaining insights into their different characteristics and functioning is important to identify their operating framework, as well as relative strengths and weaknesses in order to allow fine-tuning some of their characteristics with a view to enhancing their performance. Against the backdrop of the current financial and economic crisis in the EU and the SEMCs, the importance of such an exercise is underlined by the constraints affecting MSMEs' access to finance and the deteriorating macroeconomic conditions in the aftermath of the Arab Spring and sustained social unrest in the region.

Despite their widespread presence in a number of developed and developing countries alike, cross-country research on CGSs has been rather scarce mainly due to a lack of data preventing comparisons between different schemes. As a result, the bulk of research has focused on providing detailed case studies on selected schemes using mostly qualitative methodologies (Gudger, 1998; Green, 2003; De la Torre et al., 2007; Honohan, 2008; Cowling, 2010). When quantitative assessments have been made, these have mostly focused on analysing a scheme's additionality, using econometric methodologies (Boocock & Sharif, 2005; Riding et al., 2006; Oh et al., 2009; Lelarge et al., 2010). To our knowledge, the first cross-country study of CGS was conducted by Beck et al. (2008). The authors designed a questionnaire and administered it to 76 CGS in 46 countries in order to propose a typology of CGSs. Saadani et al. (2010) built on Beck et al. (2008) and focused on guarantee schemes in the Middle East and North Africa region using an updated version of the questionnaire in Beck et al. Both papers are

concerned with providing a typology of CGSs rather than assessing their performance and its determinants and rely on a combination of statistical and qualitative analysis.

The present contribution builds on these two previous works to provide an updated insight into the functioning and operating framework of CGSs in Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia. The analysis relies on the proceeds of a qualitative questionnaire administered to senior executives in CGSs, complemented with a series of semi-structured interviews conducted between January and July 2012. Besides providing an update of CGSs in the region, our questionnaire expands previous works by delving into the governance, risk management, supervision and financial performance of CGSs by relying on Bank Regulation and Supervision Surveys (known as "BRSS") devised by Barth et al. (2006). The inclusion of these subjects is important for understanding the functioning and operating environment of CGSs and could play a role in explaining their outreach towards MSMEs. Comparisons are made with EU schemes. While this contribution does not intend to evaluate the schemes' performance, the findings of the questionnaire can be used in future research in this area. These are synthesised and presented in a series of tables discussed below.

The remainder of this section is structured as follows: we begin by introducing our findings in the areas of ownership and governance, objectives and mandate, outreach and performance, to then delve into relevant design issues. Finally we present our findings in the areas of risk management, supervision and financial performance.

2.1 Ownership and governance

The majority of CGSs in the SEMCs are a mix of publicly and privately owned entities, and it is not always easy to state definitively whether they are publicly or privately governed. For example, Egypt's Credit Guarantee Corporation is a private company created by a consortium of banks and local financial institutions, but the board of directors comprises government representatives who jointly decide together with international donors for funded programmes' guarantee allocation policies. Similarly, the Jordan Loan Guarantee Corporation (JLGC) is a private company funded among others by the Central Bank and the Social Security Corporation. Lebanon's Kafalat is also a private company whose majority shareholder is the National Institute for the Guarantee of Deposits, an organ partly owned by the government.

This heterogeneity in ownership structures is also reflected in differences regarding the appointment and responsibilities of the Boards of Directors (BoDs). Egyptian, Jordanian, Lebanese and Tunisian schemes all designate their directors after a vote by the shareholders General Assembly, whereas in Morocco, these are designated by law. Palestine is a particular case, since it is a donor-funded guarantee scheme in the process of being established in Luxembourg. It has a supervisory committee composed of representatives from international donor institutions. In terms of responsibilities, all BoDs are entrusted to oversee management, but Egyptian, Jordanian and Moroccan CGS BoDs can guide the allocation of guarantees although they cannot do so directly. In contrast, within the Lebanese scheme Kafalat, the BoD is not responsible for allocating guarantees, neither formally or informally.

As regards the external evaluation of CGSs, all of them must comply with external auditing requirements, but here again some differences arise in the BoD's prerogatives in this area. For example, the Tunisian scheme is audited by the Ministry of Finance, the Court of Auditors as well as by external auditors, leaving the BoD aside from the process. On the other hand, in Egyptian, Jordanian and Palestinian schemes, the BoDs are liable to participate in the selection process of auditors. In the Moroccan Caisse Centrale de Garantie (CCG), CGS representatives participate in a selection committee to determine external auditors.

While a formal analysis of the impact of these governance structures on MSMEs' access to finance is beyond the scope of this paper, it is possible that schemes owned and managed by public entities or their representatives could suffer from political interference resulting in a misallocation of resources that may undermine their original objective to enhance access to finance to MSMEs.

2.2 Objectives and mandates of guarantee schemes

The primary objective of CGSs is the extension of finance to credit-rationed groups, of which MSMEs are part. However, SEMCs' guarantee programmes have broader developmental objectives than exclusively addressing credit rationing to this category of borrowers. While all schemes in the region seek to expand credit to MSMEs, some of them have linked their programme's objectives to the expected outcomes of broader policies. For example, Jordanian and Moroccan guarantee programmes seek to support export capacities of national companies, support access to proprietorship for middle class households and facilitate access to tertiary education to prospective students by providing dedicated guarantee products. As a result, some schemes not only provide loan guarantees for MSME loans, but also for mortgage and various types of consumer credit.

Table 1. CGSs' objectives in SEMCs

Country	Name	Objectives
Egypt	Credit Guarantee Corporation (CGC)	- Support MSMEs access to finance
Jordan	Jordan Loan Guarantee Corporation (JLGC)	- Support Jordanian importers and exporters through guarantees - Support MSMEs access to finance - Support middle-income households in securing proprietorship
Lebanon	Kafalat	- Extend access to finance
Morocco	Caisse Centrale de Garantie (CCG)	- Support MSMEs access to finance - Support middle-income households in securing proprietorship - Support students in financing their studies
Palestine	Euro-Palestinian Credit Guarantee Fund (EPCGF)	- Support MSMEs access to finance
Tunisia	Société Tunisienne de Garantie (SOTUGAR)	- Support MSMEs access to finance

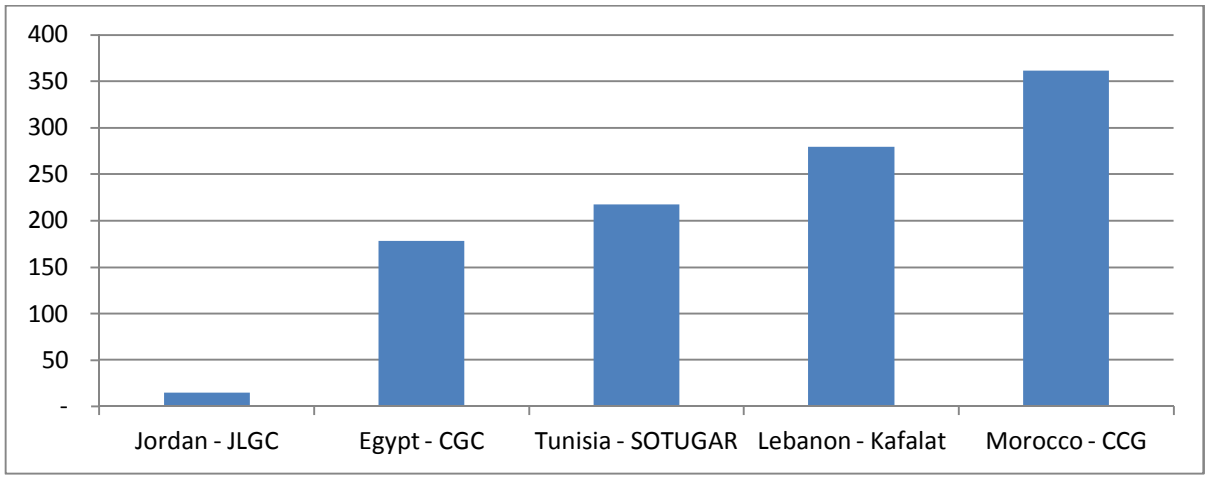
Source: Questionnaire results.

The adoption of broader objectives than the support to MSMEs' access to finance implies a broader definition of additionality in Southern Mediterranean CGSs, and hence requires dedicated analyses for each market segment. Broadly speaking, analysing the additionality of CGSs would require a pool of unguaranteed borrowers with the same characteristics as guaranteed ones to quantify the effect of guarantees.

2.3 Outreach

Ideally, the performance and outreach of CGSs should be assessed in two steps: first by estimating the extent to which target groups of the guarantee programmes are credit rationed, and second by calculating the extent to which the provision of guarantees has contributed to narrowing this gap. However, a lack of data and methodological caveats do not always allow the use of this methodology. The CGSs' different objectives partly translate into a modest importance of guarantees for MSME credit as well as important discrepancies between the region's different schemes. In 2011 the cumulative value of outstanding guarantees for Egypt, Jordan, Lebanon, Morocco and Tunisia accounted for €1 billion (Figure 1). These amounts contrast with a total outstanding guarantees of €8 billion for the French Oséo and €6.2 billion for the Spanish CESGAR.

Figure 1. CGSs' outstanding guarantees for MSMEs in the SEMCs (2010, € million)



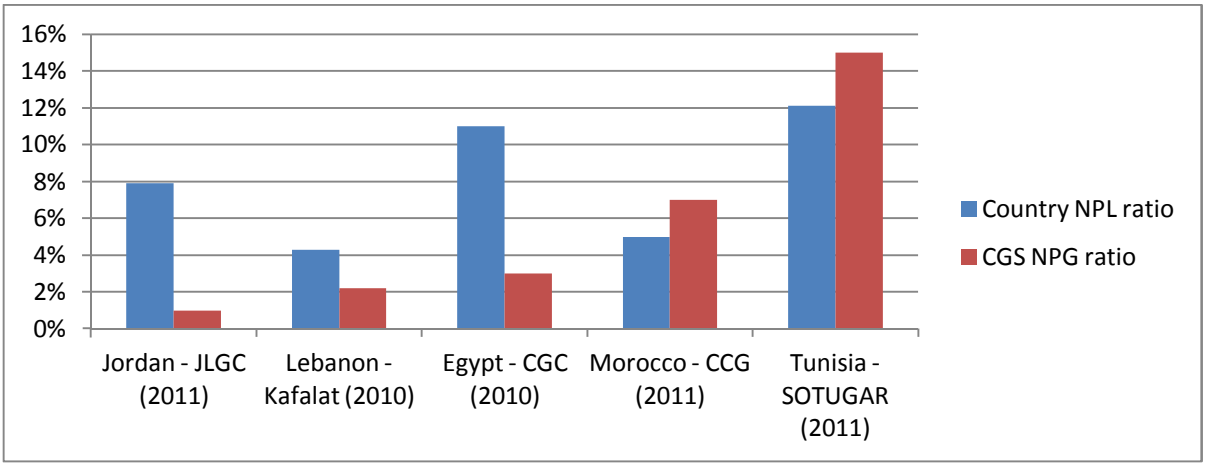
Sources: CGSs' annual reports and questionnaire results.

With a total of €362 million, Morocco's CCG emerges as the region's most important guarantor for MSMEs, followed by Lebanon's Kafalat (€279 million) and Tunisia's SOTUGAR (€210 million). Egypt's CGC and Jordan's JLGC are the smallest guarantors with a total of €175 million and €15 million outstanding, respectively. It should also be noted that in the Jordanian and Moroccan schemes, guarantees for personal loans (comprising mortgage loans) exceed by far guarantees for MSMEs, as in both schemes they account for a share close to 80% of the total outstanding guarantees.

The importance of guarantees for personal loans notwithstanding, differences in outreach to MSMEs across these schemes result from different approaches for guarantee extension: contrary to the other schemes, Egypt's CGC and Jordan's JLGC provided mostly guarantees for working capital; trade credit and export guarantees; which are typically associated with shorter maturities and less risk, which also explains the low level of NPGs (non-performing guarantees).

The different orientations of SEMCs' CGSs are also reflected in their ratio of non-performing guarantees to outstanding guarantees (Figure 2). Despite wide differences across countries, the Egyptian and Jordanian schemes emerge as the most risk-adverse with NPG ratios of 1 and 3% respectively, compared to country-wide figures of 8% and 11%. On the other hand, Morocco and Tunisia emerge as the most risk-prone guarantors with NPG ratios of 7% and 15% compared to country-level figures of 5% and 12% respectively.

Figure 2. Non-performing loans (NPLs) and non-performing guarantees (NPGs) in the SEMCs (% of outstanding loans and guarantees)



Sources: Questionnaire results and World Bank World Development Indicators.

On the one hand, the stance on risk taken by Morocco's CCG and Tunisia's SOTUGAR could be due to the fact that both schemes can benefit from government backing in case of losses. Such 'insurance' – whether implicit or explicit – can encourage the schemes to extend guarantees for riskier borrowers. On the other hand, these figures can also signal a limited capacity to manage risks. As regards other schemes, while the Egyptian CGC also benefits from government backing, its business model and preference towards shorter maturities is likely to keep NPG ratios low.

2.4 Design

The design of a guarantee scheme is a key issue: its operational features need to ensure that guarantees are both attractive and financially sustainable. Six features are generally analysed in a scheme's design: approach, eligibility criteria, coverage, collateral requirements, repayment rules and fees and sustainability.

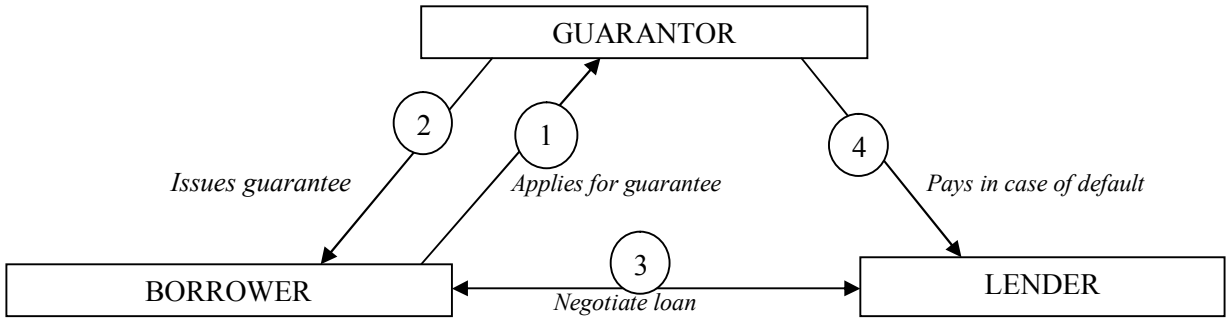
2.4.1 Approach

CGSs have the choice between three approaches to extend guarantees, each bearing positive and negative points. The first and most intuitive approach is the individual one under which the guarantor approves each loan application on a case-by-case basis. The candidate borrower applies and presents its project to the guarantor who screens the project.[3] Based on the outcome of the screening, it usually issues a letter of guarantee to the borrower who applies then for a loan in a partner bank. The guarantor does not enter into the loan negotiation process, which rests entirely between the lender and borrower. The second alternative to extend guarantees is the portfolio approach under which the guarantor negotiates with the lenders the criteria for loan approval as well as the total amount that will be guaranteed. Under this setting, the lender approves discretionarily the loans to borrowers fulfilling the criteria previously agreed and informs the guarantor on its decision (Beck et al., 2008). A third and intermediate arrangement (so-called 'hybrid') also exists, under which for certain types of loans a portfolio approach applies, while for others an individual approach applies (Figure 3).

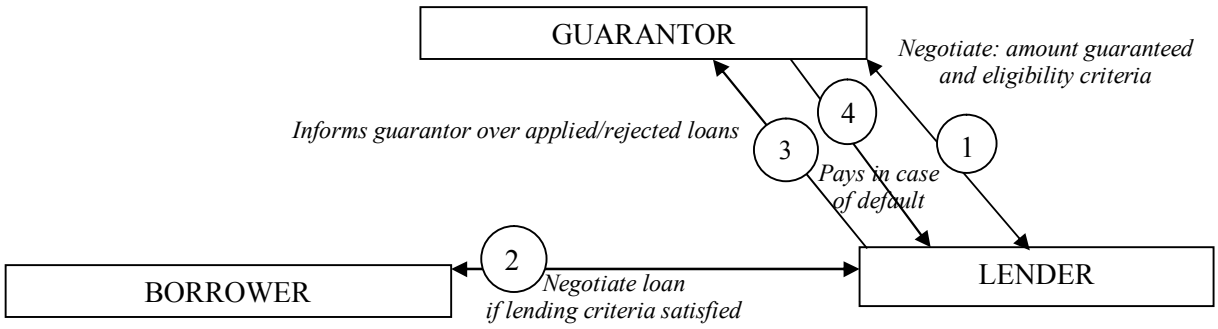
[3] Alternatively, the guarantor can refer to an external/independent body to perform the screening.

Figure 3. Individual and portfolio approaches to guarantee extension

3.1 Individual approach



3.2 Portfolio approach



Arguments in favour of an individual approach relate to the project-screening benefits by the guarantor: when assessing the viability of loan applications one by one, losses are likely to be smaller. In addition, the individual approach can contribute to develop credit information. As new borrowers apply to the guarantor, the latter's screening mandate can result in generating information that was previously unavailable. The information about new borrowers that is later shared between guarantor and lender can contribute to increase the depth of credit information, provided it is later again shared with established credit registries. As such, beyond additionality, CGSs can contribute to financial development through deepening credit information.

On the other hand, a portfolio approach can be seen as a much more effective means to extend credit rapidly to constrained groups since it keeps administrative costs low while providing lenders with certainty over the maximum losses incurred.[4] Such characteristics allow lenders to engage in risk management activities to keep losses within acceptable boundaries, but at the same time, it requires lenders to adopt a more risk-taking approach under which they have consider financial volatility of borrowers, instead of focusing exclusively on the security of not losing money (Ruiz Navajas, 2001). In addition, if lenders adopt a conservative approach, the size of the portfolio negotiated between lenders and guarantors is likely to be either too small, or subject to restrictive criteria, thus jeopardising the CGSs' objectives.

CGSs in Egypt, Lebanon, and Morocco apply an individual approach under which they jointly screen with the banks the borrowers' projects and decide on the guarantee extension. In the case of Jordan, both the JLGC and the bank screen the borrower, whereas Tunisia's SOTUGAR fully delegates the

[4] In this case losses are equal to the size of the portfolio.

risk assessment process to partner financial institutions. Despite differences in project screening, the Jordanian and Tunisian schemes resort to a hybrid approach.

2.4.2 Eligibility

Eligibility refers to the criteria adopted by the guarantor or negotiated with the lender that the applicant must fulfil to apply for a guarantee. Broadly speaking, several CGSs in SEMCs guarantee loans not only to small companies but also to individuals and households under different programmes (such as mortgage and household equipment programmes). Eligibility criteria are an important factor determining CGSs' outreach and ultimately additionality: the broader the criteria for eligible loans, the broader the likelihood for greater additionality. As far as MSMEs are concerned, guarantee programmes should ensure they only target credit-rationed companies, while providing them with some degree of flexibility to avoid threshold effects.

There are also disparities in eligibility criteria applied to MSMEs partly stemming from the lack of a homogeneous employment threshold to classify companies, which result from the difficulty of defining an SME. Such definition should be adapted to country-specific contexts, while at the same time allowing for some flexibility to avoid threshold effects. In the SEMCs, Jordan adopts the upper bounds of the EU's MSME definition and provides guarantees to companies up to 250 employees; Egypt, Lebanon and Palestine use a more stringent definition, guaranteeing loans to companies with a maximum of 30, 40 and 20 employees respectively; and Morocco and Tunisia do not use employment thresholds, theoretically opening their schemes to companies of all sizes. As regards industry eligibility, in all countries, companies of all sectors can be eligible for a guaranteed loan, with the exception of non-business related services in Tunisia. Egypt applies lower fees for MSMEs in the healthcare sectors. Most CGSs in SEMCs are also eligible for guarantee loans both for investment purposes and working capital, the exception being Tunisia which excludes the latter category from guarantees. Exclusion of working capital from loans eligible for a guarantee can be problematic: since small companies are relatively more vulnerable to business cycles than larger ones, access to finance can alleviate cyclical downturns that could otherwise result in suspension of activity or staff layoffs (Table 2). This is especially the case since international evidence on CGS effects shows that companies that had access to guaranteed loans tend to have higher survival rates (Oh et al., 2011; OECD, 2011).[5]

Table 2. Eligibility criteria in Southern Mediterranean CGS

Country (CGS)	Startup	Firm size (max)	Loan size ceiling ($ million)	Loan maturity ceiling (years)	Eligible sectors
Egypt, CGC	Yes	50	0.35	7	All
Jordan, JCGC	Yes	250	0.6	8	All
Lebanon, Kafalat	Yes	40	0.4	7	Agriculture, High tech, tourism, High tech, Crafts
Morocco, CGC	Yes	No max.	1.5	12	All
Palestine, EPCGF	No	20	0.1	5	All
Tunisia, SOTUGAR	Yes	No max.	2.5	15	Manufacturing, business related services

Source: Saadani et al. (2010).

[5] The OECD reports the example of Japan, where guaranteed loans have been extended to distressed SMEs allowing them to operate without decreasing their size (OECD, 2008).

Morocco and Tunisia have adopted eligibility criteria that seem quite well-adapted to MSMEs. In these two countries, opening guarantees for companies of all sizes, for loans with long maturities and covering all purposes can be seen as positive in generating additionality. Yet, such broad criteria can ultimately generate threshold effects whereby smaller MSMEs could be excluded from guaranteed loans. Since the latter are subject to higher evaluation costs arising from greater information asymmetries, lenders have an incentive to provide credit to larger and more easily evaluated companies than MSMEs.

2.4.3 Coverage

Coverage refers to the share of the loan that is guaranteed by the CGS, and hence determines the extent to which lenders and guarantors share the risk inherent to a loan. Determining a coverage ratio illustrates the attractiveness-sustainability trade-off faced when designing a loan guarantee programme. The coverage ratio can be set by the guarantor, negotiated with lenders or determined by the market.[6] A high coverage ratio can be very attractive to lenders, since they would be protected from credit risk. At the same time, by being highly covered, they would not have an incentive to engage in proper monitoring activities, leading to excessive risk-taking and thus endangering the schemes' sustainability while deterring its potential additionality. On the other hand, if the guarantor bears only a small share of the risk, lenders might simply disregard the programme. Moreover, the determination of a CGS's coverage ratio must also take into account the potential informational advantage the lender/guarantor can have over the borrower. If the guarantor has an informational advantage over the borrower due to better skills, a high coverage ratio might not necessarily lead to increased moral hazard, since the guarantor would only cover credit-worthy borrowers. However, a study of CGSs invalidated these theoretical prescriptions and found that most guarantee programmes worldwide neither set coverage ratios in accordance with informational advantages nor with incentives of guarantors, since most schemes covered up to 80% of the value of a loan. The only risk mitigation mechanism found was a ceiling on the amount guaranteed for SME loans (Beck et al., 2008). In contrast, the coverage ratios of CGSs in the SEMCs are balanced with loan purposes and borrowers' size (Table 3).

Table 3. Coverage ratios in Southern Mediterranean CGS (2010, %)

Country, CGS	**Working capital coverage**	**Median coverage ratio (loan amount %)**	**Scalability**
Egypt, CGC	Yes	60	50% coverage for firms >10 employees 75% coverage for firms <10 employees
Jordan, JCGC	Yes	70	No
Lebanon, Kafalat	Yes	82.5	75% coverage for loans <0.2 USD million 85% coverage for loans >0.4 USD million 90% coverage for loans to innovative SMEs
Morocco, CGC	Yes	65	50% coverage for working capital loans 60% coverage for fixed assets loans 80% coverage for startup companies loans <

[6] In Chile, the *Fondo de Garantia para Pequenos Empresarios* (FOGAPE) applies a hybrid approach and resorts to auctions to determine the guarantee coverage ratios. FOGAPE conducts auctions several times a year in which banks are invited to bid on the amount of guarantees they want to receive as well as on the maximum coverage ratio. The guarantee fund selects the bids starting with the lowest coverage ratios until the total amount to be guaranteed has been allocated. Banks experiencing high default rates are excluded from future auctions, which provides them with an incentive to monitor their borrowers, while fostering competition between them (De la Torre et al., 2007). Coverage ratios determined by the auction process range between 70% and 80% and evidence exists on the funds' success in generating additionality (Llisteri et al., 2006, p. 99).

			$0.125 million
Palestine, EPCGF	Yes	60	No
Tunisia, SOTUGAR	No	67.5	60% coverage 75% coverage for companies in development zones and startups

Sources: Questionnaire results and Saadani et al. (2010).

Two groups of CGSs can be identified. On the one hand, lower and undifferentiated coverage ratios are applied by Jordan and Palestine whose schemes guarantee respectively 70% and 60% of a loan amount without distinguishing between working capital or physical investment credits. On the other hand, higher and scalable coverage ratios are used by Egypt, Lebanon, Morocco and Tunisia. For example, Kafalat,[7] CCG and SOTUGAR offer higher coverage ratios for start-up loans. Egypt offers higher guarantees for companies with more than 10 employees and Morocco applies differentiated coverage between physical investment and working capital loans. While these countries' practices in loan coverage can be seen as going against the prescription of linking the coverage ratio to the borrowers' riskiness, they should rather be analysed as incentives provided by guarantors to lenders in order to extend credit to smaller and younger companies. Indeed, the riskier the project is, the lower the coverage ratio to induce the borrower to act diligently and repay the loan, a mechanism intended to mitigate moral hazard.

2.4.4 Collateral and down payments

Even in the case where lenders issue guaranteed loans, they demand collateral from the borrower, since collateral requirements mitigate moral hazard. By providing collateral, the borrower signals to the lender its willingness to act diligently and repay the loan. However, in the presence of a guarantee, collateral requirements can hinder the scheme's outreach. As credit rationing partly results from a lack of collateral, demanding collateral for a guaranteed loan can result in restricting the pool of eligible borrowers thus only partially addressing exclusion from credit markets. At the same time, the absence of collateral requirements could result in high moral hazard, thus endangering the scheme's sustainability. An intermediate solution is to cap collateral requirements for guaranteed loans.

In addition to collateral requirements, lenders also usually demand a down payment from the borrower. By decreasing loan terms, down payment requirements decrease the weight of the borrower's financial commitments to the lender, and thus ultimately raise repayment prospects.

Guarantors in the SEMCs are no exception since they allow lenders to have recourse to both mechanisms when issuing a guaranteed loan. Collateral requirements are not only widespread in the region, but they are not capped by guarantors. Lebanon's Kafalat and Morocco's CCG emerge as the only exceptions, with respective caps of 50 and 100% of the loan's value. Under the current setting, this means that when borrowers default on their repayment obligations, the lenders' expected loss given default is equal to the amount guaranteed by the CGS plus the borrowers' collateral value. Also, collateral requirements in the region for guaranteed loans can be particularly counterproductive in addressing credit rationing due to deficiencies in credit information systems. As information on borrowers is scarce, only borrowers registered in credit information systems could be eligible for a guarantee. As regards downpayment obligations, most lenders in the region require the borrower to provide between 10 and 30% of the loan's value.

2.4.5 Repayment rules

When a guaranteed borrower defaults, the guarantor is liable to the lender for covering the losses incurred up to the extent agreed. While the coverage ratio allows mitigating moral hazard before the

[7] Moreover, Lebanon's Kafalat has developed a special programme for innovative SMEs, called Kafalat Innovative.

loan is extended, it does not provide protection for the guarantor from moral hazard arising after the borrower defaults. To prevent opportunistic behaviour from the lender, loan repayment rules need to be designed to encourage the lender to exhaust all available means to collect the loan before the guarantor pays him. Here, the design of a CGS faces a trade-off between credibility – the schemes reputation in fulfilling its mandate by covering losses – and sustainability. A scheme that puts too heavy a burden on the lender to collect the loan before its repayment might not be credible and hence unappealing to lenders. On the other hand, a programme that systematically covers losses when they arise might prove unsustainable.

In order to build its credibility, a scheme must first and foremost handle claims quickly and in a predictable and transparent manner by specifying when the loan is considered as defaulting (Green, 2003). Second, the scheme must devise payment rules that give banks incentives to ensure to the extent possible the loan collection. Third, when designing repayment rules, the scheme must take into account the institutional environment it operates in. In countries where the legal system is inefficient and the enforcement of contracts is weak, the guarantor must take a more proactive role in repayment. In operational terms, four repayment rules can be devised:[8] once the borrower's default is recognised; after the lender initiates legal action against the borrower; once default is recognised and the remainder once judicial processes are terminated; and once judicial procedures against the borrower are terminated.

In the Southern and Eastern Mediterranean region, besides Tunisia and Morocco whose CGSs provide for a 50% payment once default is recognised and the remainder after the exhaustion of judicial procedures, the countries are quite heterogeneous. Jordan pays the lender once it has initiated legal action; Lebanon's Kafalat pays the lender at once after the borrower defaults on three consecutive terms and is responsible for loan recollection; and Palestine provides for a single payment six months after the default date.

2.4.6 Fees and sustainability

The provision of a guarantee for a loan is a financial service, and even if most guarantee schemes worldwide are not for-profit organisations, they all impose a fee either on the borrower or on the lender. Fees are important for a CGS for two reasons: they can cover the administrative and loan processing costs of the scheme and can mitigate moral hazard. By paying a fee to the guarantor, the lender will be discouraged from extending credit to safer borrowers who do not need a guarantee. Alternatively, the fees charged on the borrower by either the lender or the guarantor will provide him/her with an incentive to act diligently and repay the loan – provided however that the fee is sufficiently high and indexed on his/her risk. Here again, similarly as with the determination of the coverage ratio, the setting of fees faces a trade-off between the scheme's sustainability and attractiveness. Too high fees may discourage both borrowers and lenders from using guarantees; and conversely, too low fees appeal to lenders and borrowers at the expense of higher risk-taking and the scheme's sustainability. They are usually charged as a percentage of the loan amount. Fees charged by CGSs in the SEMCs are broadly in line with international standards: Tunisia charges 0.6% p.a, Morocco 1%, Egypt 2%, Lebanon 2.5% and Palestine 2.6%.[9] As coverage ratios, fees are not linked with the borrowers' riskiness. In this sense, low fees intend to be an incentive for borrowers to apply for guarantees.

2.5 Risk management

CGS can reduce both ex-ante and ex-post risk through risk management practices. Ex-ante risk can be mitigated through the use of credit scoring models and the conduct of due diligence to assess borrowers' creditworthiness. Ex-post, CGS may have recourse to several methods such as loan

[8] Obviously, the guarantor pays the losses to the lender.

[9] The figures refer to standardised fees calculated by Saadani et al. (2010) in their review of CGSs in the Middle East and North Africa. Standardised fees allow for cross-country comparisons.

portfolio securitisation, loan sales, counter guarantees and more general forms of reinsurance which, inter alia, provide counter-guarantees.

Guarantee schemes in the SEMCs use similar risk management techniques. With the exception of Tunisia, all other GGSs screen applicants in addition to the lenders' credit assessments. The use of credit-scoring models is widespread in the region, and over the last decade, international donors have been actively involved in providing technical assistance to guarantee schemes in the region for the development of sound credit-scoring models. Egypt's CGC was engaged with the International Financial Corporation (IFC) and the Italian Development Fund to enhance its risk management capabilities.[10] France's Oséo partnered with Lebanon's Kafalat and is engaged with Tunisia's SOTUGAR in enhancing its risk management capabilities.

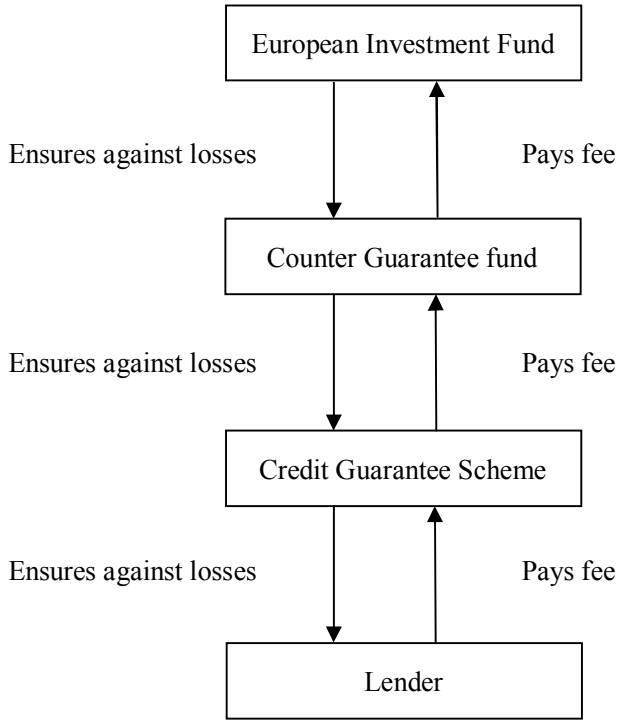
Guarantee schemes in the region do not use other risk management techniques than credit-scoring models. Jordan's JLGC is an exception, since it uses reinsurances for its export and domestic trade credit guarantees. The Lebanese and Moroccan schemes have tried to use securitisation and counter-guarantees. In 2008, Kafalat considered securitising part of its guarantee portfolio, but eventually the scheme abandoned the process, judging it "too cumbersome". The same year, under the EU programme "Réussir le Statut Avancé", Morocco's CCG benefitted from a counter guarantee fund, managed by the EU Delegation. While the CCG recognised the counter-guarantee fund's usefulness in allowing for the extension of more guarantees, the scheme deplored its management and operational characteristics: its application criteria were judged to be not risk-oriented and to suffer from long administrative delays.

This negative experience notwithstanding, Morocco's and other countries' schemes express strong interest in counter-guarantees, which would eventually allow them to extend more guarantees by providing lenders with more incentives through higher coverage ratios and guarantee ceilings. For Southern and Eastern Mediterranean guarantee schemes in general, counter guarantees on a share of their guaranteed portfolio would more resources make available for guarantees.

In the EU, the use of counter-guarantees is widespread. In the case of Spain, CESGAR uses two mechanisms. On the one hand, the government created the "Compania Espanola de Reafinanzamiento" (CERSA), a fund guaranteeing a share of the losses incurred by each guarantee extended by CESGAR. Similarly to guarantee mechanisms for small companies, CERSA applies eligibility criteria for SME guarantees based on employment thresholds and loan purposes, uses variable coverage ratios and applies fees. CERSA's counter-guarantees are extended on an individual basis and can cover up to 75% of the losses incurred by a loan guarantee. On the other hand, CERSA also uses counter-guarantees from the European Investment Fund (EIF). The EIF does not entirely cover guarantee schemes' losses and applies a tranche system for each counter-guarantee. Counter-guarantees are provided to low-rated or unrated financial institutions provided they have an outstanding portfolio of medium- to long-term SME loans and they pay a guarantee as well as a commitment fee (see Figure 4).

[10] In 2012, Egypt's CGC sought to upgrade its scoring model.

Figure 4. Functioning of EU counter-guarantees system



While the Southern and Eastern Mediterranean could benefit from more advanced risk-management techniques, the provision of counter-guarantee products would need to overcome the underdevelopment of capital markets while being tailored to country-specific characteristics as regards the supervision of respective schemes.

2.6 Supervision

Partly as a consequence of different ownership and governance characteristics, there is no single supervisory framework of guarantee schemes in the Southern and Eastern Mediterranean. Broadly speaking three types of supervisory frameworks co-exist:

First, Egyptian and Tunisian schemes are supervised by government ministries and government-related institutions. Despite Egypt's CGC private nature and joint stock company status, the scheme is jointly supervised by the Ministry of International Cooperation, the Central Auditing Organisation (CAO), the General Authority for Investment (GAFI) and international donors providing resources to the programmes managed by CGC. Tunisia's SOTUGAR is only supervised by the Ministry of Finance. In the case of Egypt, the CGC cooperates with supervisory authorities in determining coverage ratios and exposure limits at the company and sector level. As regards Tunisia, the Ministry of Finance is responsible for investigating whether funds have been allocated correctly, but it is unclear whether the Ministry controls SOTUGAR's portfolio. The only features of the scheme that are supervised by the Ministry relate to the eligibility criteria and coverage ratios. Neither the two CGS is subject to regulatory capital requirements.

Second, as a result of their financial company status, the Lebanese and Moroccan schemes are supervised by Central Banks. The Lebanese and Moroccan central banks' supervisory prerogatives are very similar. In both cases the supervisor has no say on the guarantee coverage ratios, which are internally determined; the main difference between the two schemes relate to the requirement in Lebanon to comply with a uniform regulatory capital ratio (12%). The Moroccan CCG is not subject to any such requirement: instead the Government requires the scheme to comply with different provision requirements across its guarantee products (between 5 and 10%).

Third, Jordan's JLGC is supervised by the Jordan Securities and Exchange Commission as well as by the company's Control Department. The scheme is not subject to regulatory capital ratios, and coverage ratios and exposure limits are internally decided. JLGC has only to comply with requirements of the local Companies' Law in Jordan.

It is also worth noting that the schemes whose guarantees are eligible as a Basel II risk mitigation instrument (i.e. Lebanon, Morocco and Palestine) have the broadest outreach in MSME guarantees. It could be that partner banks are more eager to issue loans to guaranteed borrowers since they can deduct a share of the guarantee from their provisions. Since not all countries in our sample had implemented Basel II at the time of our research, it is possible that alignment on these standards exerts a positive impact on the allocation of guarantees. Also, since not all CGSs are supervised by the central bank, guarantees are not always subject to the central bank regulation of their countries.

2.7 Financial performance

To gain insights into the financial performance of CGSs in the SEMCs, five basic indicators have been calculated for 2010. These indicators are not intended to provide a rigorous assessment of the schemes' performance but rather to provide some evidence on their characteristics in terms of outreach and specialisation in order to eventually gain insights into their different business models.

Table 4. Financial performance indicators of Southern and Eastern Mediterranean CGSs (2010)

	Egypt - CGC	Jordan – JLGC	Lebanon – Kafalat	Morocco - CCG	Tunisia - SOTUGAR
Return on equity (%)	29	5	24	-13	7
Return on assets (%)	7	3	18	-10	3
Cost to income including provisions (%)	353	563	38	354	81
Cost to income excluding provisions (%)	259	168	24	47	34
Loan loss absorption capacity (%)*	4	33	16	22	101
Leverage**	35	4	7	5	1

* Total equity + provisions/outstanding guarantees.

** Outstanding guarantees/equity.

Source: Annual reports of the CGSs.

An outlook of the different schemes' financial performance across these basic indicators allows us to profile the different schemes. In the case of Egypt, the high leverage ratio could reflect a very active guarantee policy. Also, its current eligibility criteria, its relative specialisation in guarantees for short-term maturities could also explain the high level of operational costs as reflected in its cost-income ratio (excluding provisions). The same feature seems to apply to Jordan, albeit with important differences. The scheme is not excessively leveraged, but also shows high levels of operational costs, an indirect consequence of the importance of export and trade credit activities. Contrary to Egypt's CGC, the scheme has a high loss absorption capacity[11] (33%), mostly due to the high level of provisions on guarantees for SME loans.

Lebanon's Kafalat emerges as the most profitable scheme of the countries under study, as witnessed by a return on equity ratio of 24. Kafalat's exclusive focus on small companies coupled with attractive coverage ratios and guarantee ceilings allow the scheme to cover its operational costs as well as its provisions, without consuming equity. While a guarantee scheme's financial sustainability is key for

[11] Total equity + provisions/outstanding guarantees.

ensuring its survival, too high profitability might also come at the expense of more risk-taking, hence only partially addressing credit-rationing in the market.

Turning to Morocco's CCG, return on equity and return on assets amount to -13 and -10 respectively; negative values are due to the importance of provisions, which were twice the scheme's operating income and were driven by its mortgage-guarantee activities. Similarly, the scheme's reasonable leverage is influenced by the amounts guaranteed for mortgage loans rather than for SMEs' activities. Operational costs are also high: they represent almost one-half of the income, which suggests that the guarantee-screening process could be improved, without touching the guarantee pricing in order to safeguard the schemes attractiveness for small companies.

Tunisia's SOTUGAR presents quite a different picture compared to other guarantee schemes, mainly due to the rules governing its activities. The scheme manages several funds provided by the government. The oldest fund, "Fonds National de Garantie" was set up in 1983 and has since then benefitted from periodic contributions in the form of capital. Over the course of the years, six other funds were created, the most important being the "Fonds de Garantie de PME" in 2003. By law, the guarantee funds can only extend guarantees up to their endowment, which explains why both leverage and loan loss absorption ratios are equal to 1. SOTUGAR also appears, together with Lebanon's Kalafat, to be the most cost-efficient fund, despite the fact that it applies the lowest fees among the schemes studied here, possible as a result of delegating the borrowers' screening process to its partner banks.

3. Avenues for future research

Based on a selective analysis of the guarantee landscape in the Southern and Eastern Mediterranean, it appears that the guarantee schemes in operation are not homogeneous. Some schemes have a broader product range than others, some seem to specialise in particular products or market segments and their legal structures vary greatly. Evidence on their outreach notwithstanding, current data do not allow us to assess whether they meaningfully contribute to alleviating MSMEs' access to finance, and which factors are conducive to a better outreach.

Since MSMEs represent the vast majority of registered companies in the region and regularly cite access to finance as a major constraint hindering their development potential, CGS represent useful mechanisms to offset this market failure. Gaining knowledge into their operations beyond the results of this simple questionnaire over a sustained period of time is hence essential for evidence-based policy-making and eventually for the design of targeted measures seeking to enhance their capacities.

To do so, first and foremost, creating a knowledge base of the region's schemes is essential. Further expanding the current version of this questionnaire and creating a platform for regular exchange of information and follow-up of research would be a positive step. Such a platform should not be restricted to CGSs in the SEMCs, but rather should be expanded to other regions' and countries' schemes to identify core factors and practices conducive to a maximum outreach. Such a knowledge base could take the form of a formal network structured around the exchange of information, best practices and research activities.

Second, with the exception of a recent initiative by the Moroccan scheme, CGSs in the region do not engage in systematically evaluating their guarantee programmes and guaranteed borrowers. This could hinder their development and outreach potential, since the lack of formal and systematic evaluations of guaranteed borrowers can rule out adaptations and learning effects. It is therefore also important to foster the evaluation of programmes by the region's CGSs.

Third, synergies with other MSME policies should be explored. While the current version of this questionnaire failed to address this issue to focus on CGSs' operating environment, future research on CGGs in the SEMCs should assess the viability of associating CGSs with other MSME policies as well as the prospective outcomes of such linkages.

3.1 Concluding remarks

To address market failures restricting MSMEs' access to finance, governments have resorted to the creation of CGSs. In the Southern and Eastern Mediterranean, policy-makers have developed such mechanisms in some countries as early as the 1950s. Building on the outcome of previous cross-country studies on guarantee schemes, this paper has extended previous research work to gain additional qualitative insight on CGSs in the SEMCs. The research has showed a high level of heterogeneity in the region's schemes, different patterns of ownership, governance, design, specialisation and supervision as well as varying indicators of financial performance. In the current context of sustained unrest in the region, conditions for MSMEs' access to finance are likely to worsen and CGSs can contribute to alleviate the effects of growing credit-rationing in the region. In this regard, it is important to foster policy research in this area with a view to identifying the current strengths and weaknesses of the region's schemes and proposing avenues for further improvement. In this regard, the creation of a platform for information and best-practice identification and exchange, together with the introduction of systematic evaluations of guaranteed borrowers and guarantee programmes and the identification of possible synergies with other MSME policies would be valuable.

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Annex 1. CEPS CGS Questionnaire

Part A - General information

A1- Type of credit guarantee scheme (CGS):

☐	Public
☐	Private
☐	Mutual
☐	Other (please detail briefly):

A2- CGS approach:

☐	Individual - guarantees extended on a loan by loan basis
☐	Portfolio - guarantees extended to a portfolio of loans issued by financial institutions
☐	Hybrid - combination of the above
☐	Other (please detail briefly):

A3- Does the CGS guarantee:

Loan principal	Yes ☐	No☐
Interest payments	Yes ☐	No☐
Equity investments	Yes ☐	No☐
Other (please describe briefly):		

A3.1- If the CGS does not provide equity guarantees, does it envisage introducing them?

☐	Yes. Year envisaged for introduction:
☐	No

A4- What is the scheme's definition of micro, small, medium and large companies, based on employment and turnover thresholds?

	Employment threshold	Turnover threshold
Micro company		
Small company		
Medium sized company		
Large company		

A4.1- Does the scheme definition overlap with national definitions of micro small medium sized companies (MSMEs)?

☐	Yes
☐	No

A5- Loan guarantee applications accepted: please provide figures for:

	Number of guarantees	Total amount guaranteed	Value of corresponding loans
Micro company			
Small company			
Medium sized company			
Large company			

A5.1- For which year are you reporting? In all of what follows, please ensure that the reported figures are for this year only.

☐	2009
☐	2010
☐	2011

A5.2- Considering MSMEs, what is the distribution of loan guarantees for working capital and investment loans? Are smaller companies more likely to benefit from guarantees for working capital or investment loans?

Please describe briefly:

A5.3- What type of companies are most likely to benefit from equity guarantees (if applicable)?

Please describe briefly:

A6- Among the sectors below, please check the top three sectors in terms of outstanding guarantees:

☐	Agriculture & fishing
☐	Mining and quarrying
☐	Manufacturing
☐	Electricity, gas and water supply
☐	Construction
☐	Wholesale and retail trade;
☐	Repair of motor vehicles, motorcycles and personal and household goods
☐	Hotels and restaurants
☐	Transport, storage and communications
☐	Financial institutions and intermediation
☐	Real estate, renting and business activities
☐	Other services

A7- Please describe briefly the main reasons behind rejection of loan and equity guarantee applications (if applicable) for micro, small and medium sized companies:

Please describe briefly:

A8- Does the CGS engage alone or in cooperation with external bodies in training, technical assistance or other support activities targeting small companies?

☐	Yes
☐	No

A8.1- If yes, please describe briefly the CGS' partners (if applicable) and the actions undertaken:

Please describe briefly:

Part B – Governance

B1- What is the CGS' legal regime (i.e.: Public Limited Company, PLC; Limited Liability Company, LLC; etc.)?

Please specify:

B1.1- Please specify the CGS' year of establishment, legal basis and any further amendments:

Year of establishment	
Legal basis (reference to legal texts)	
Further amendments to legal basis, if applicable (reference)	

B2- Starting with the biggest shareholder, please specify the CGS' shareholding structure and shareholders' actual ownership rates (if applicable):

Shareholder	Actual ownership rate

B3- Starting with the Chairman what are the names and positions outside the CGS of the members of the Board of Directors?

Members	Positions (inside & outside the CGS, if applicable)

B3.1- How is the Board of Directors appointed?

Please describe briefly:

B3.2- Are there any explicit or implicit arrangements that allow certain shareholders to appoint directors?

Please specify:

B3.3- What are the directors' statutory terms of office?

Please specify:

B3.4- What are the responsibilities of the Board of Directors? Please describe briefly:

Please describe briefly:

B3.5- Does the Board of Directors have the power (formally or informally) to guide the allocation of guarantees?

☐	Yes
☐	No

B3.5i- If yes, can the Board allocate decisions directly?

☐	Yes
☐	No

B3.6- Can the Board set the general principles on risk-taking and review the risk-management practices?

Please describe briefly:

B4- Does the Board of Directors have a role in selecting the chief executive officer (CEO) and other senior management positions?

☐	Yes
☐	If no, please provide details:

B4.2- What is the CEO's statutory term of office?

Please specify:

B4.2- What are the responsibilities of the CEO?

Please describe briefly:

B4.3- Is the CEO required to comply with performance criteria?

☐	Yes
☐	No

B4.4- If yes, please describe briefly these criteria:

Please describe briefly:

B5- Please describe briefly how the current mix of skills/experience of the directors and CEO serves the CGS' interests:

Please describe briefly:

B6- Does the CGS have an official internal audit function?

☐	Yes
☐	No

B6.1- If yes, how often is an internal audit required to be conducted?

Please specify:

B6.2- If yes, do the internal auditors have full access to records, property and personnel relevant to their audit?

☐	Yes
☐	No

B7- Are external audits compulsory for the CGS?

☐	Yes
☐	No

B7.1- Has the CGS been subject to an external audit over the last five years?

☐	Yes. Please specify year of last audit:
☐	No

B7.2- Who selects the external auditors?

Please specify:

B8- Does the CGS publish periodic reports?

☐	Yes
☐	No

B8.1- If yes, at what frequency?

☐	Quarterly
☐	Yearly
☐	Other. Please specify:

B8.2- If no, does the CGS envisage conducting and publishing periodic reports on its activities?

☐	Yes. Please specify date envisaged for first report:
☐	No

B9- Are directors legally liable when providing false information to the supervisor or any other agency involved in the supervision of the CGS?

☐	Yes
☐	No

B9.1- Can supervisors take legal action against CGS directors in case of mismanagement?

☐	Yes
☐	No

B10- Is the CGS rated by an external agency?

☐	Yes
☐	No

Part C – Supervision

C1- What bodies/agencies supervise the CGS?

Please specify:

C2- What is the minimum regulatory capital ratio applicable to the CGS (i.e: tier 1 capital ratio)?

Please specify:

C2.1- What is the actual regulatory capital ratio in the CGS?

Please specify:

C2.2- Is the actual regulatory capital ratio in line with Basel II requirements?

☐	Yes
☐	No

C3- Please describe briefly whether exposure limits are applicable for guarantees (i.e. exposures to certain sectors, firms of certain size, etc.) :

Please describe briefly:

C3.1- How are the exposure limits determined? In particular, are they legally-required by the supervisor or internally decided?

Please specify:

C4- Does the supervisor or other agencies involved in the supervision of the CGS set limits on the maximum size of eligible loans or the maximum coverage ratio?

Max. size of eligible loan	Max. coverage ratio
☐ Yes	☐ Yes
☐ No	☐ No

C5- Do supervisors have the power to take corrective actions against the CGS, its Board of Directors and/or its CEO if capital ratios fall below a certain level?

☐	Yes
☐	No

C5.1- If yes, please describe briefly what corrective actions are applicable:

Please describe briefly:

C5.2- Has corrective action ever been taken?

☐	Yes
☐	No

C6- Are accounting practices in line with International Accounting Standards (IAS)?

☐	Yes
☐	No

C6.1- If no, does the CGS plan to align on IAS in the future?

☐	Yes. Please specify date envisaged for implementation:
☐	No

Part D – Financial situation

D1- Does the CGS benefit from a periodic contribution from the government?

☐	Yes
☐	No

D1.1- If yes, please specify amount of contribution and periodicity:

Amount of allocation	
Periodicity	

D1.2- If yes, is the CGS liable to make repayments on these amounts?

☐	Yes
☐	No

D2- Does the CGS benefit from periodic or occasional capital contributions from international institutions?

☐	Yes
☐	No

D2.1- If yes, please describe briefly the terms of these capital contribution(s):

Please describe briefly:

D3- Please provide figures for the following balance sheet and income statement items, identifying the year reported:

	Choose applicable year: ☐2009 ☐2010 ☐2011
ASSETS	
D3.1- Cash and central bank reserves	
D3.2- Financial assets held to maturity through guarantees	
D3.3- Other receivables due from financial institutions	
D3.3- Other receivables due from other customers	
D3.4Total assets	
LIABILITIES	
D3.5- Public guarantee fund	
D3.6- Due to financial institutions	
D3.7- Due to other customers	
D3.8- Provisions for contingencies on guarantees	
D3.9- Total liabilities excl. equity	
EQUITY	
D3.10- Capital (i.e. own funds)	
D3.11- Profits (i.e. retained earnings)	
D3.11- Equity reserves (i.e. legal and supplementary)	
D3.12- Total equity	
INCOME & EXPENSES	
D3.13- Commissions on issued guarantees	
D3.14- Other commissions	
D3.15- Total revenues	

D3.16- Personnel expenses	
D3.17- Total expenses	
D3.18- Net profits	

D4- What is the share of nonperforming loans over total guaranteed loans?

Please specify:

D5- Can the CGS benefit from government backing in case of losses?

☐	Yes
☐	No

D5.1- If yes, is this support implicit or explicit, i.e. formally based on a legal text?

☐	Implicit
☐	Explicit; please specify legal basis:

D6- Is the CGS subject to a different taxation regime than other financial institutions?

☐	Yes
☐	No

Part E – Risk management

E1- Does the CGS use counter guarantees?

☐	Yes
☐	No

E1.1- If yes, what is the scope of the counter guarantees? For example, are they applicable for a specific class of guarantees (i.e. size or sector of recipient); or are they applicable broadly for any guarantee issued?

Please specify details:

E1.2- If yes, please provide figures for

Amount counter-guaranteed in the latest year	
Counter-guarantee cost in the latest year	

E1.3- If no, are there plans to use counter guarantees in the next future?

☐	Yes. Please specify year envisaged for introduction:
☐	No

E1.4- Please describe briefly how the use of counter guarantees has enhanced or how it could enhance the CGS' performance:

Please describe briefly:

E2- Does the CGS use insurances against losses incurred by guarantees?

☐	Yes
☐	No

E2.1- If yes, does the CGS ensure itself against losses arising from:

☐	Any guaranteed loan
☐	A class of loans (please specify):
☐	Other risks (please specify):

E2.2- If yes, please provide figures for:

Amount ensured in latest year:	
Insurance expense in latest year:	

E3- Please describe details on the risk assessment method used by the CGS:

Please describe briefly:

E3.1- If the method is internal, please describe briefly its technical aspects:

Please describe briefly:

E3.2- Was this method developed in collaboration with:

☐	Credit institutions
☐	MSME support organisations (i.e. government agencies)
☐	International institutions (i.e. European Commission, World Bank, EIB, etc.)
☐	Other (please specify):

E3.3- If this method was developed in collaboration with MSME support organisations, please specify which organisation and provide legal basis (reference):

Please specify:

E4.4- If this method was developed in collaboration with international institutions, such as the European Commission, please specify which institution and provide details (reference):

Please specify details:

E4.5- Is the risk assessment method used by the CGS subject to any supervisory:

Approval	☐
Monitoring	☐
Neither of the above	☐

E5- Are provisions on loan guarantees tax deductible?

☐	Yes
☐	No

E6- Are guarantees eligible as a Basel II risk mitigation instrument?

☐	Yes
☐	No

Part F – Evaluation

F1-Irrespectively from the publication of annual reports, does the CGS conduct evaluations of its programmes?

☐	Yes
☐	No

F1.1- If yes, when was the last evaluation conducted?

Please specify:

F1.2- If yes, please describe briefly the criteria used to evaluate the CGS programmes:

Please describe briefly:

F1.3- If yes, please describe briefly how the CGS performed in these criteria:

Please describe briefly:

F1.4- If no, does the CGS plan to introduce evaluations?

☐	Yes
☐	No

F2- Please describe what actions may improve the access of MSMEs to finance in your country:

Please describe briefly:

About MEDPRO

MEDPRO – Mediterranean Prospects – is a consortium of 17 highly reputed institutions from throughout the Mediterranean funded under the EU's 7th Framework Programme and coordinated by the Centre for European Policy Studies based in Brussels. At its core, MEDPRO explores the key challenges facing the countries in the Southern Mediterranean region in the coming decades. Towards this end, MEDPRO will undertake a prospective analysis, building on scenarios for regional integration and cooperation with the EU up to 2030 and on various impact assessments. A multi-disciplinary approach is taken to the research, which is organised into seven fields of study: geopolitics and governance; demography, health and ageing; management of environment and natural resources; energy and climate change mitigation; economic integration, trade, investment and sectoral analyses; financial services and capital markets; human capital, social protection, inequality and migration. By carrying out this work, MEDPRO aims to deliver a sound scientific underpinning for future policy decisions at both domestic and EU levels.

Title	MEDPRO – Prospective Analysis for the Mediterranean Region
Description	MEDPRO explores the challenges facing the countries in the South Mediterranean region in the coming decades. The project will undertake a comprehensive foresight analysis to provide a sound scientific underpinning for future policy decisions at both domestic and EU levels.
Mediterranean countries covered	Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey
Coordinator	Dr. Rym Ayadi, Centre for European Policy Studies (CEPS), rym.ayadi@ceps.eu
Consortium	Centre for European Policy Studies, **CEPS**, Belgium; Center for Social and Economic Research, **CASE**, Poland; Cyprus Center for European and International Affairs, **CCEIA**, Cyprus; Fondazione Eni Enrico Mattei, **FEEM**, Italy; Forum Euro-Méditerranéen des Instituts de Sciences Economiques, **FEMISE**, France; Faculty of Economics and Political Sciences, **FEPS**, Egypt; Istituto Affari Internazionali, **IAI**, Italy; Institute of Communication and Computer Systems, **ICCS/NTUA**, Greece; Institut Europeu de la Mediterrania, **IEMed**, Spain; Institut Marocain des Relations Internationales, **IMRI**, Morocco; Istituto di Studi per l'Integrazione dei Sistemi, **ISIS**, Italy; Institut Tunisien de la Compétitivité et des Etudes Quantitatives, **ITCEQ**, Tunisia; Mediterranean Agronomic Institute of Bari, **MAIB**, Italy; Palestine Economic Policy Research Institute, **MAS**, Palestine; Netherlands Interdisciplinary Demographic Institute, **NIDI**, Netherlands; Universidad Politecnica de Madrid, **UPM**, Spain; Centre for European Economic Research, **ZEW**, Germany
Budget and Funding	Total budget: €3,088,573 EC-DG RESEARCH contribution: €2,647,330
Duration	1 April 2010 – 31March 2013 (36 months)
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