



# Issuance and monitoring of Government loan guarantees with insights from West Africa

Lerzan ULGENTURK  
CABRI Virtual Training Event, 9-10 March 2021

# Outline

- ▶ Government loan guarantees
- ▶ Pre-training questionnaire - objectives and scope
- ▶ Main processes involved in guarantee management frameworks
- ▶ Cross-country tables
- ▶ Strengths and challenges

# Government loan guarantees

- ▶ Contingent liabilities **based on contracts** through which the **government assumes the whole or part of the credit risk of a loan** extended to another party. In case the borrower fails to fulfil its obligations (default), the lender can turn to the government as guarantor and claim payment of interest and/or principal.
- ▶ One-off versus program loan guarantees.
- ▶ Not all debt service guarantees are loan guarantees, they can be issued for bonds as well.

# QUESTIONNAIRE - objective and scope

## ▶ Objective

- ▶ Encourage you to go through your own processes
- ▶ Learn from each other

## ▶ Scope

- ▶ One-off (single) government loan guarantees

## ▶ Questions

- ▶ 10 parts, 9 parts regarding processes, 1 part for general questions

# Main processes of guarantee management frameworks



# Guarantee management frameworks - main processes

## ► Application

- Which institution is responsible for receiving and evaluating the guarantee applications? Centralized structures are recommended for providing fiscal discipline. In most countries it is the Ministry of Finance/Treasury receiving the guarantee applications.
- Will the potential beneficiary apply directly to the Ministry of Finance or through a line ministry or other institution?
- How the inter-departmental coordination is assured? Which department should receive the application first before sending it over to the other related departments? Front Office within the Public Debt Management Department/Ministry of Finance?
- What should be the content of the application file?- creditor information, guarantee and loan terms, borrower's financial statements, project information, project cash flow estimates, collateral, etc.

# Cross-country tables - Application



BENIN	SOUTH AFRICA	LIBERIA	BURKINA FASO	IVORY COAST	MALI	MOROCCO
<p><b>Ministry of Finance</b></p> <p>Alongside the related line ministry</p> <p>Prescribed in legal framework</p>	<p><b>Ministry of Finance (National Treasury)</b></p> <p>through related ministry/ executive authority</p> <p>Prescribed in legal framework</p>	<p><b>Ministry of Finance and Development Planning</b></p> <p>Prescribed in legal framework</p>	<p><b>National Committee of Public Debt or</b></p> <p>Ministry of Economy Finance and Development</p> <p>Prescribed in legal framework</p>	<p><b>Ministry of Economy and Finance</b></p> <p>Prescribed in legal framework</p>	<p><b>Ministry of Economy and Finance</b></p> <p>Not clearly prescribed in legal framework</p>	<p><b>Ministry of Economy and Finance and the Reform of the Administration</b></p> <p>Prescribed in legal framework</p>

## Cross-country tables - Required information w/ application



Information required	Benin	South Africa	Liberia	Burkina Faso	Ivory Coast
Terms of the proposed guarantee and terms of the underlying loan	✓	✓		✓	✓
Project document/ feasibility report	✓	✓	✓	✓	✓
Recent financial and operating statements of the applicant entity	✓	✓		✓	✓
Economic and financial analysis of the project	✓	✓	✓	✓	✓
Cash flow forecasts of the entity	✓	✓	✓	✓	
Other documents	✓	✓		✓	

# Guarantee management frameworks - main processes

## ▶ Assessment against pre-set criteria

Are there written rules/conditions to be eligible for issuance of a guarantee?

- Checking application against limits - in case there is any
- Eligibility check of the status of the applicant - e.g. public/private institution, legal entity/individual
- Criteria/conditions for project type (e.g. priority project in the annual investment plan)
- Criteria/conditions for loan type (e.g. concessional loans only)
- Criteria/conditions for creditworthiness of the borrower - e.g. no existing arrears with the Ministry, bad credit rating in the market, etc.
- Collateral or counter-guarantee requirements
- Specific conditions for SOEs or sub-national entities
- Solvency requirements for banks, conditions regarding the past payment performances of the potential beneficiaries etc.

## Cross-country tables - Conditions/criteria applied



	Benin	South Africa	Liberia	Burkina Faso	Ivory Coast	Mali	Morocco
Public entity only		✓	✓		✓	✓	✓
Legal entity only	✓	✓	✓	✓	✓	✓	✓
Only for projects in the investment plan	✓	✓	✓	✓	✓	✓	✓
The applicant must not have any unpaid debt/arrear to the Ministry		✓	✓	✓	✓	✓	✓
Counter-guarantee or collateral is required	✓			✓	✓		
Project passed the viability assessment of Line Ministry		✓					
Limit applied		✓		✓	✓	✓	

# Guarantee management frameworks - main processes

## ► Credit risk assessment

- How to assess the credit risk of the potential borrower? What methods and tools can be used?

Credit scoring similar to the methodology used by rating agencies, statistical models aiming at measuring default probability by using statistical techniques, scenario analysis (deterministic or random e.g. Monte Carlo simulation) and structural models such as option pricing theory are used to calculate default probability of an entity.

- Is there sufficient data available for credit risk analysis?
- Is there a committee to report this assessment or is it submitted directly to the decision-making authority?
- How to report the credit risk assessment to the decision maker - e.g. risk managers are not supposed to make conclusive and binding judgements.
- Is there necessary human resources/team to conduct the credit risk analysis in house?

# Cross-country tables - Credit risk assessment



	Benin	South Africa	Liberia	Burkina Faso	Ivory Coast	Mali	Morocco
Credit risk assessment with an analytical approach - Methodology applied		✓ Credit scoring					
Credit risk is assessed based on documents provided	✓		✓	✓	✓	✓	✓
Who conducts the credit risk assessment?	National Debt Commission	ALM - Credit Risk Department	Debt Management Unit	NCPD	Public Debt Directorate	The National Treasury and Public Accounting Department (DNTCP)	Ministry of Economy and Finance and the Reform of the Administration (MEFRA)

# Guarantee management frameworks - main processes

## ► Decision-making

- Who is the decision making authority?
- Is the decision subject to approval by another authority?
- Is there an institutional decision/recommendation required before the final decision?
- How much transparency needed in decision-making process? How the decision taken is announced to the public?
- How to ensure the accountability of the decision-making authority?

# Cross-country tables - decision-making structure



	<b>Benin</b>	<b>South Africa</b>	<b>Liberia</b>	<b>Burkina Faso</b>	<b>Ivory Coast</b>	<b>Mali</b>	<b>Morocco</b>
Decision-making authority	Council of Ministers	Minister of Finance	Debt Management Committee	Minister of Finance	Minister of Finance	Minister of Economy and Finance	Minister of Finance
Limit-setting authority	Parliament	Parliament	Parliament	Parliament	Parliament	Parliament	Parliament
Approval/ executive power					Council of Ministers		Head of Government
Technical decision	National Debt Commission	Fiscal Liabilities Committee		CNDP	Consultative Committee		Coordinating committee within MEFRA

# Guarantee management frameworks - main processes

## ▶ Contract design and negotiation

- ▶ Contract terms should be negotiated carefully by the help of public debt managers/risk managers. **Clear, standardized contract with safeguards for Government as a guarantor mitigate the risks taken.**
- ▶ In the contractual package (credit agreement, guarantee agreement and guarantee protocol)
  - collateral and counter-guarantee (if there are any)
  - guarantee fee and administrative costs to be charged from the borrower
  - rules and procedures to be followed when the guarantee is called
  - financial and information sharing obligations of the lender and the borrower towards the government as the guarantor
  - sanctions for non-compliance
  - case of default and the step-in conditions of the government as the guarantor
  - recovery (collection procedures of the government payouts), etc. should be clearly stipulated and defined.

# Guarantee management frameworks - main processes

## ► Registration

- Is there a systematic approach to record keeping about the guarantees provided? Is there a guarantee registry? Excel-based data keeping, standard systems by international organizations such as CS-DRMS or DMFAS or tailor-made information systems can be used.
- Keeping data enables
  - Periodic statistical reporting
  - Developing analytical approaches to measuring risks
  - Managing claims from guarantees
  - Monitoring the payment performance of the borrowers... among others.

# Cross-country tables - Registration



	<b>Benin</b>	<b>South Africa</b>	<b>Liberia</b>	<b>Burkina Faso</b>	<b>Ivory Coast</b>	<b>Mali</b>	<b>Morocco</b>
<b>Institution/ department responsible for registry</b>	La Caisse Autonome d'Amortisement	National Treasury / ALM Division	Debt Management Unit - Ministry of Finance and Development Planning	Public Debt Directorate of the Ministry (MINEFID)	Ministry of Economy and Finance		Debt management department
<b>System used for registry</b>	CS-DRMS	Excel-based	Excel-based Guaranteed domestic debt - CS-DRMS	DMFAS (starting from this year)	DMFAS	DNTCP and General Directorate of Public Debt	Debt Management System (Wall Street Suit)

# Guarantee management frameworks - main processes

## ► Monitoring

- Monitoring the financial health / creditworthiness of the borrower
  - Monitoring guarantee cash flows / revenues, claims and exposures
  - Monitoring the portfolio risks
- Monitoring disbursements and cash flows under the guarantees is relatively easy if mechanisms are established by rules and procedures, yet monitoring the financial health and creditworthiness of borrowers throughout the life of the guarantee is more challenging. Monitoring institutions operating in different sectors may require sectoral expertise which may not be readily available in debt management departments

# Cross-country tables - Monitoring



	Benin	South Africa	Liberia	Burkina Faso	Morocco
<b>Monitoring the financial health of the borrower</b>	Periodic review of the borrower's situation	Annual credit risk assessments  SOE sectoral oversight by related units	Semi annual review	Through annual reporting by the borrower	Ministry's SOE directorate monitors the financial health of the SOEs
<b>Monitoring guarantee cash flows/ exposure</b>	Periodic review of the borrower's situation	Borrower entity's periodic reporting	Semi annual follow-ups	A focal point with borrower carries periodical evaluations with the Public Debt Directorate	Reporting by the borrowers and the creditors
<b>Monitoring portfolio risks</b>	Through reporting and monitoring clauses in the guarantee contracts.	Annual credit risk assessments			Interest rate risk is monitored by Debt Department Operational risks are managed directly by the borrower. Credit risk is managed through the financial controls performed by the entities in charge of control (DEPP).

# Guarantee management frameworks - main processes

## ► Receivables management

- Is there a legal framework enabling the government to monitor and collect its receivables arising from the guarantees ? - any unpaid fees, penalty interest, expenses, receivables from the payments made for calls on guarantees, collaterals, etc.
- Is there a department/team managing and monitoring the receivables stock and cash flows?
- Forecasting recovery in case of default is an important part of guarantee management, thus managing claims from guarantees in a systematic way is important for this function.

# Cross-country tables - Receivables management



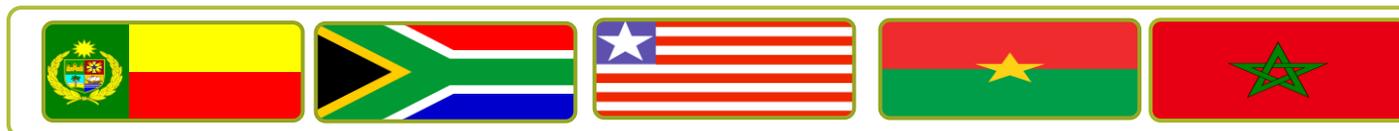
	Benin	South Africa	Liberia	Burkina Faso	Ivory Coast	Morocco
<b>Legal framework for monitoring and collecting receivables?</b>		Captured in guarantee framework agreements		Public debt legal framework and clauses in guarantee contracts		There exists a legislation for receivables management
<b>Institution/ department responsible</b>	Project Monitoring Department of the Autonomous Amortization Fund	For guarantee fees ALM monitors collections		MINEFID/ Public Debt Directorate (PDD)	Public Debt Directorate	The public accountant is in charge of debt collection, issuing of revenue orders against defaulting beneficiaries.
<b>Is data on past payment performance of borrowers available?</b>	Limited number of guarantees issued	Data on recapitalization of SOEs for debt-servicing available		Yes, with the PDD		Yes, through accounting framework.

# Guarantee management frameworks - main processes

## ► Reporting and disclosure

- Quantitative and qualitative information to be disclosed
- Measure used for disclosure - expected loss? Expected cash flows? Nominal outstanding stock values (face values) ?
- Form of disclosure - debt management reporting, budgetary documentation, etc.
- Disclosure serves for increased impartiality in decision making, helps reduce the risk perceptions from outside the government, namely of the market players and rating agencies, by reducing "the uncertainty" about them. However, too much transparency for individual guarantees may cause moral hazard on the side of beneficiaries - which can be avoided by publishing expected loss/unexpected loss information at the portfolio level.

# Cross-country tables - Reporting and disclosure



	Benin	South Africa	Liberia	Burkina Faso	Morocco
<b>Information disclosed on guarantees</b>	The nominal amounts issued and outstanding amounts are published regularly as part of the monitoring of public companies.	Nominal guarantee values, disbursements by the SOEs, general information on portfolio		A report is envisaged this year. Debt Statistical Bulletin, scheduled for release on March 31, 2021, will include guarantees in the debt data.	MEFRA regularly publishes data on guaranteed debt - external and domestic
<b>Form of disclosure</b>	The annual Debt Management Report and the quarterly Debt Statistical Bulletin.	Budgetary reporting - Annual		Public debt reports, budget reports	Public debt reports, statistical bulletins

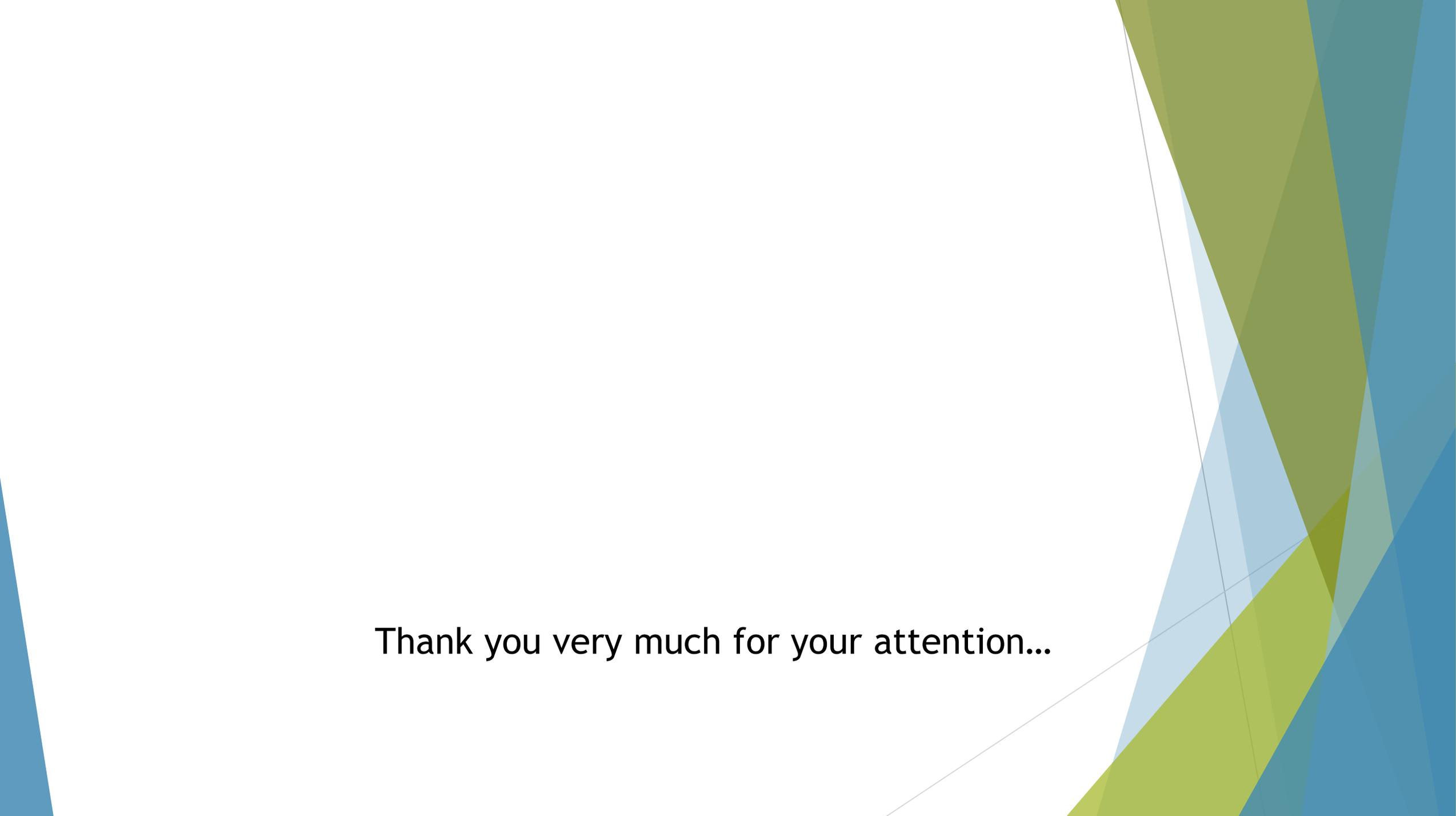
## Cross-country tables - Strong areas



Benin	South Africa	Liberia	Burkina Faso	Morocco
<p>The guarantee application framework with a detailed file justifying the project and good financial situation that guarantees the payment of the debt due dates.</p>	<p>Credit risk assessments</p> <p>The criteria for the consideration of applications</p> <p>Committee structure (Fiscal Liabilities Committee)</p> <p>Guarantee fee framework</p>	<p>Legal framework on centralized borrowing mechanism</p>	<p>The application process</p> <p>Evaluation against criteria</p> <p>Decision - making</p>	<p>Monitoring of publicly guaranteed debt is set at the same level as that of central government debt management. The objective is to have a reliable database for the continuous quantification of public external debt commitments.</p>

## Cross-country tables - Challenges

 Benin	 South Africa	 Liberia	 Burkina Faso	 Morocco	 Mali
<p>Strict and rigorous guarantee issuance framework which limits guarantee issuance to a minimum</p>	<p>No recovery mechanism (SOEs are not allowed to default, they are recapitalized when in distress (moral hazard))</p>	<p>Fee charging</p> <p>Receivables management</p> <p>Step-in conditions, rules and procedures to follow when guarantee is called</p> <p>Sanctions for non-compliance</p>	<p>Reporting and disclosure</p> <p>Receivables management</p> <p>Negotiation and design (preparation) of contracts</p> <p>Credit risk assessment.</p>	<p>Updating legal framework</p> <p>A ceiling will have to be defined and authorized by the parliament for the guarantees.</p> <p>Implement credit risk assessment and management tools.</p>	<p>Assessment against criteria</p> <p>Credit risk assessment</p> <p>Negotiation and design (preparation) of contracts</p> <p>Monitoring</p> <p>Receivables management</p> <p>Lack of regulation of the whole process.</p>



Thank you very much for your attention...