



# FEASIBILITY STUDY FOR A REGIONAL COUNTER-GUARANTEE SCHEME IN THE MENA REGION

*Structuring the scheme*



May 2024



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1

# CONTEXT AND OBJECTIVES

## THE REGIONAL COUNTER-GUARANTEE IS AN ESSENTIAL MECHANISM TO SUPPORT THE ACTIVITIES OF NATIONAL CREDIT GUARANTEE SCHEMES (CGS) ...

### WHAT IS THE GOAL OF IMPLEMENTING A COUNTER-GUARANTEE SCHEME FOR NATIONAL CREDIT GUARANTEE SCHEMES?

- 1 **Risk sharing** and greater financial stability for national CGSs\* in case of default by their counterparts
- 2 **Enhancing intervention capability and improving their leverage effect**, leading to increase their economic impact
- 3 **Targeting priority sectors or larger-scale projects** that are **weakly or insufficiently covered** by the private sector
- 4 **Promoting sustainable development** as a shared challenge throughout the MENA region, in line with international objectives and national development plans

\* Credit guarantee schemes

## ... ACTING AS A CATALYST FOR INVESTMENT, STIMULATING ECONOMIC DEVELOPMENT IN THE MENA REGION

### WHAT IMPACT IS EXPECTED FROM THE REGIONAL COUNTER-GUARANTEE SCHEME?

1

**Stimulating local investment** in the MENA region to foster economic and social development

2

**Enhancing economic resilience** by diversifying financing sources and the economic sectors supported by national CGSs

3

**Promote job creation** by improving access to financial services for MSMEs

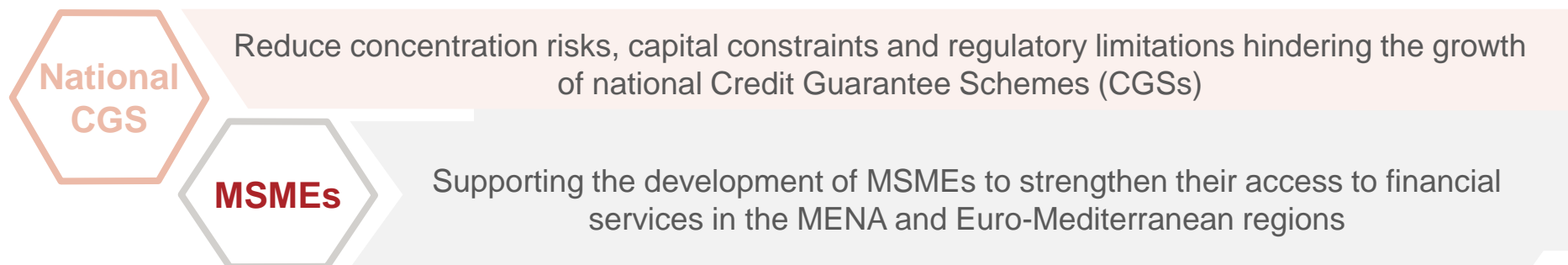
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**Attract international investments** by increasing the region's attractiveness to foreign funds and encouraging investments in key sectors

## EMGN CONDUCTED A PRE-FEASIBILITY STUDY FOR THE IMPLEMENTATION OF A REGIONAL COUNTER-GUARANTEE SCHEME TO SUPPORT THE NATIONAL CGSs IN MENA

### CONTEXT OF THE STUDY

- The Euro-Mediterranean Guarantee Network (EMGN) is exploring the opportunity / feasibility for implementing a counter-guarantee scheme in the MENA region with two main objectives:



### OBJECTIVE

- Identify the optimal configuration for this new scheme (mandate, business model, legal and institutional framework, intervention modus operandi, etc.)
- Define possible options and recommend the one that offers the best prospects for success, based on two criteria: addressable market size and ease of implementation
- Provide decision-making support to inform the choice of national CGSs

# A STRUCTURED METHODOLOGY IN 6 STEPS TO ASSESS THE FEASIBILITY OF A COUNTER-GUARANTEE SOLUTION FOR THE MENA REGION

## METHODOLOGY

**FINACTU reviewed the methodological approach outlined in the Terms of Reference in order to improve its effectiveness: it is important to design a clear and attractive scheme before approaching potential donors**

01

### Desk review and stakeholder consultation

Desk review including the pre-feasibility study, thematic discussions and experience sharing to understand the challenges in the MENA region

02

### Identification of the national CGSs' needs for counter-guarantees

Identify the conditions of success for such a scheme (utility and added value for national CGSs)

03

### Proposal by FINACTU of several possible options (subject of this deliverable)

Propose solutions and envision various possible models

04

### Selection of the solution and interest confirmation of national CGSs

Select the most suitable solution for the needs of national CGSs and confirm their interest in the new scheme

05

### Survey investor interest for the selected model

Prepare a pitch and engage with potential investors to confirm their interest and understand investment conditions

06

### Organization of a workshop with the presence of potential investors

Prepare and facilitate the workshop to gather contributions from stakeholders and develop an implementation roadmap

## DISCUSSIONS WERE HELD WITH SIX NATIONAL CGSs IN THE MENA REGION

## STAKEHOLDERS

Consultations were held with six national CGSs in the MENA region ...



- \* Given the current economic situation in Lebanon, KAFALAT has not granted any guarantees for the past 5 years. Consequently, the introduction of a counter-guarantee scheme is not an option

... the Hellenic Development Bank for experience sharing...



... and Arab Monetary Fund for advocacy and policy support, capitalizing on its close relationships with Central Banks and States in the region



## CONSULTATION OBJECTIVE

Understand the expectations of national CGSs, which would be the main applicants for a counter-guarantee scheme (form of the scheme, business model, sectors and segments to cover). Understand their strategic positioning, challenges, needs and constraints in order to propose a scheme that would be useful to increase financial inclusion and expand their scope of intervention

Share its expertise in supporting MSMEs development, particularly through credit guarantees, in order to identify new ideas, *best practices* and effective strategies to adopt

Gather its vision on the mandate of the counter-guarantee scheme to address market gaps, and identify its role in promoting the counter-guarantee scheme and the necessary regulatory reforms at the level of Central Banks and States (policy dialogue)



**2**

## **INSIGHTS GATHERED FROM INTERVIEWS WITH THE NATIONAL CGS**

## 2.2

# WHAT CONCLUSIONS CAN BE REACHED?

## **NATIONAL CGSs HAVE SOLID RESOURCES TO SUPPORT THEIR CURRENT OPERATIONS. HOWEVER, THEY REMAIN HIGHLY DEPENDENT ON THEIR RESPECTIVE STATES**



**National CGSs have solid resources, but they are dependent on government budgets:** their resources come mainly from public grants and subsidized contributions from international financial institutions ...



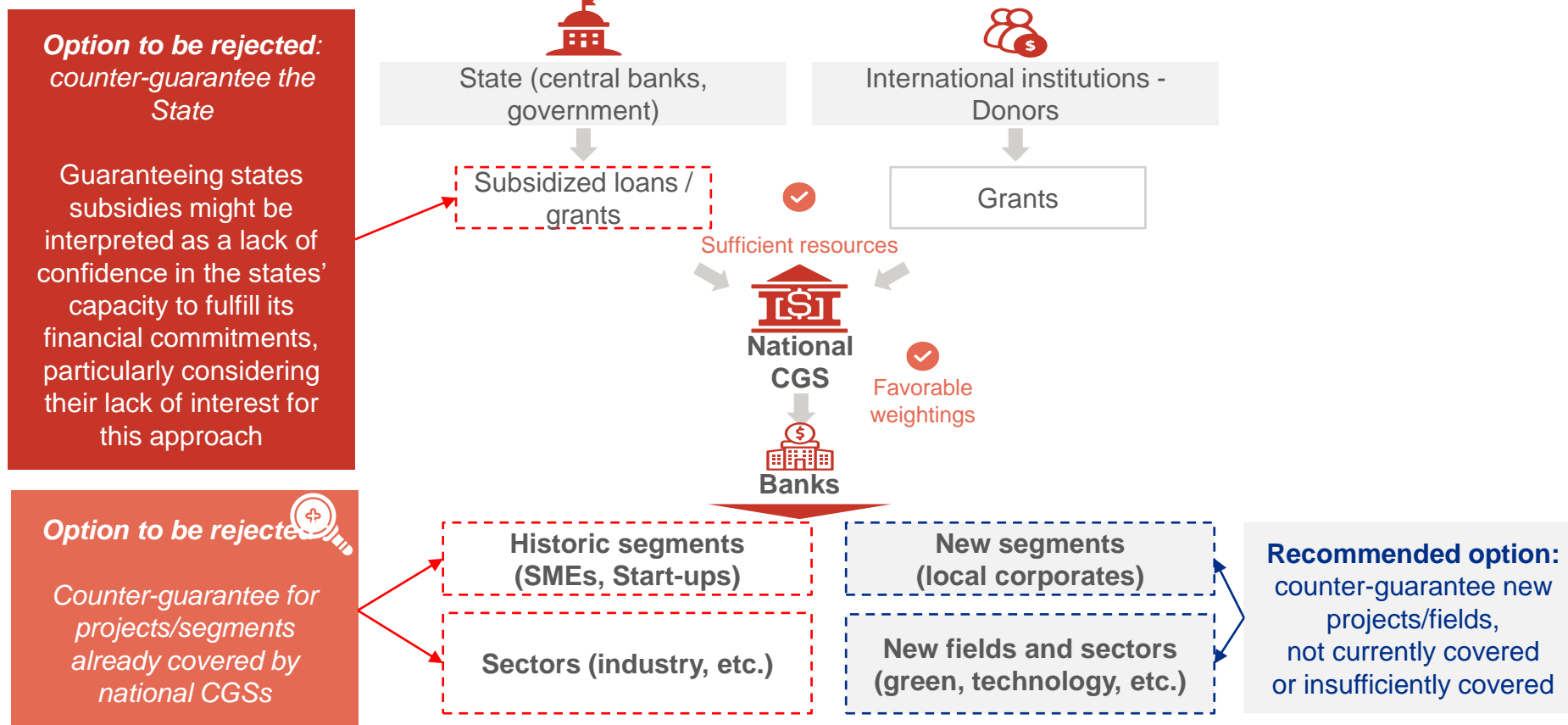
**However, they are strongly committed to achieving autonomy and sustainability, presenting themselves as modern and adaptable financial actors capable of responding to the changing needs of the economy while reducing their dependence on the vagaries of state budgets, as evidenced by:**

- their green initiatives
- their intention to switch to IFRS 9
- their ongoing efforts to build capacity and engage in regional collaboration (e.g. with EMGN)

**The counter-guarantee scheme is designed to complement the State's efforts, while promoting the financial autonomy of national CGSs and reducing their reliance on state funding**

## THE PURPOSE OF A COUNTER-GUARANTEE SCHEME IS TO EXPAND THE SCOPE OF NATIONAL CGSs INTERVENTIONS BEYOND THEIR CURRENT OPERATIONS

THE ESTABLISHMENT OF A COUNTER-GUARANTEE MECHANISM IS NOT RELEVANT FOR (I) INTERVENING IN SEGMENTS ALREADY COVERED BY EXISTING INSTITUTIONS NOR FOR (II) COUNTER-GUARANTEERING STATES



3

## ***BUSINESS MODEL***

**3.1**

**WHICH MANDATE?**

## A SCHEME TO EXPAND THE SCOPE AND INTERVENTION LIMITS OF NATIONAL CGSs TO INCLUDE: i) HIGH-IMPACT PROJECTS; ii) UNDERREPRESENTED SECTORS

Based on discussions with national CGSs, FINACTU suggests establishing a « complementary » counter-guarantee scheme to address segments or sectors that are either not covered or insufficiently covered by national CGSs

### Option 1:

#### Counter-guarantee for priority sectors

The guarantee scheme retains a generalist approach but targets specific sectors:

- ✓ Energy
- ✓ Agriculture
- ✓ New technologies
- ✓ Export

A particular attention will be paid to supporting **ecologically sustainable initiatives or projects** (renewable energies, environmentally-friendly technologies, initiatives to reduce carbon emissions, transformation of agricultural chains towards ecological chains, etc.).

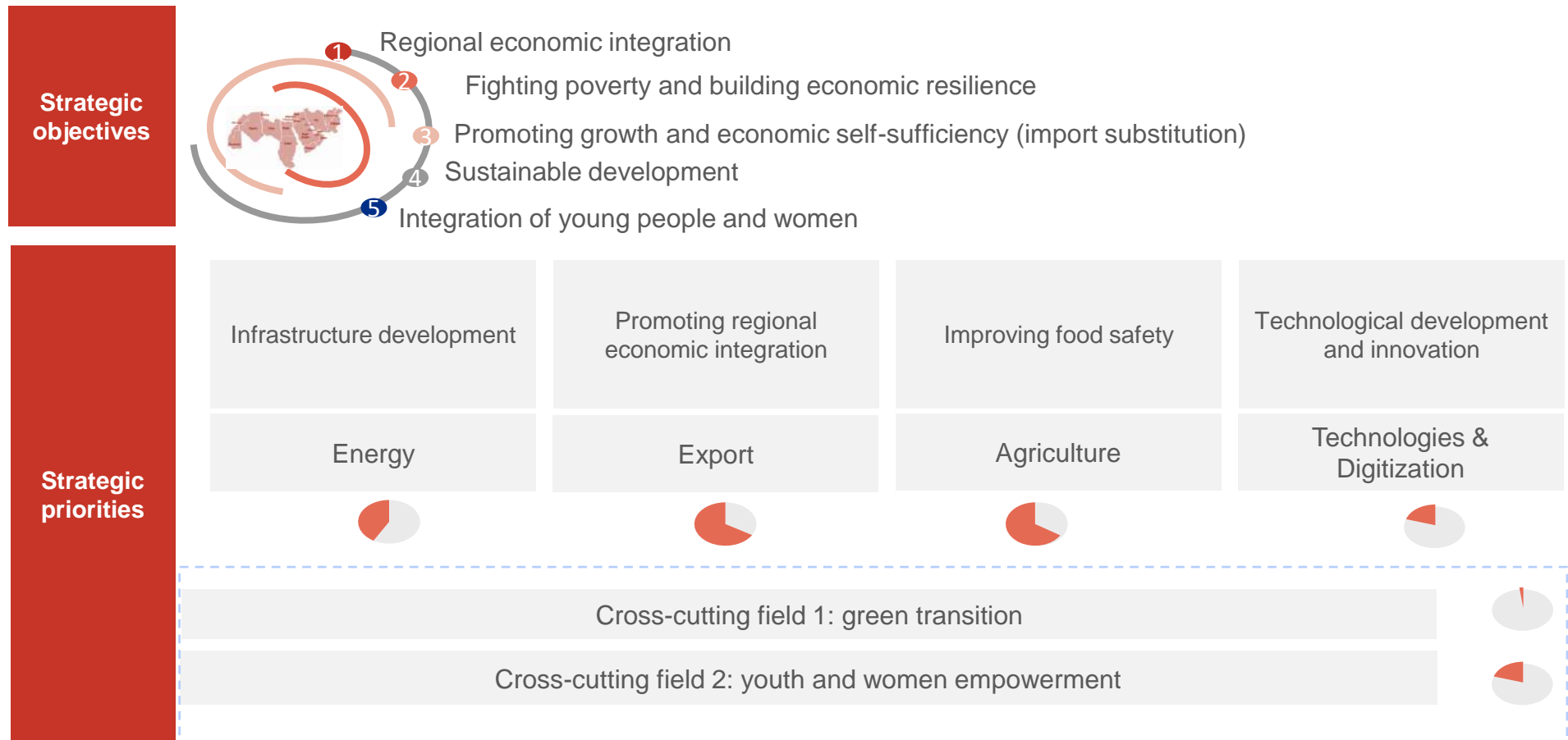
### Option 2:

#### Guarantee for *local corporates*

This scheme is designed to counter-guarantee projects where the average amount of the guarantee sought exceeds the national CGS's maximum exposure limit per counterparty

It fills the financing access gaps for mid-sized enterprises and fosters the emergence of national champions

# ① A FLEXIBLE SCHEME FOCUSING ON HIGH-IMPACT SECTORS: ENERGY, AGRICULTURE, TECHNOLOGY AND EXPORTS ...



Level of coverage: this was estimated on the basis of (i) the main sectors covered by national CGSs and (ii) state subsidy levels  
Sources: national strategies, ADB, World Bank and OECD.



# ① ... ALIGNING WITH THE INVESTMENT STRATEGY OF MOST INTERNATIONAL FUNDERS OPERATING IN THE REGION ...

LIST OF SECTORS AND AREAS INCLUDED IN THE INVESTMENT STRATEGIES OF THE MOST IMPORTANT FUNDERS OPERATING IN THE REGION :

Inter-national Funders	Sectors					Domains		
	Agrobusiness	Technology	Tourism	Energy	Infrastructure	Green economy	Small Business	Inclusion of women and the youth
EU	✓			✓	✓	✓	✓	✓
IFC	✓			✓	✓	✓	✓	✓
USAID	✓		✓	✓			✓	✓
AFD	✓	✓		✓	✓	✓	✓	✓
KFW		✓		✓		✓	✓	
EBRD			✓	✓	✓	✓	✓	✓
FMO	✓	✓		✓		✓		✓
EIB	✓	✓		✓	✓	✓	✓	

The sectors and fields that arouse the interest of the majority of investors are as follows: i) for sectors: agriculture, new technologies, and energy; ii) for cross-cutting areas: sustainable development and inclusion of women and youth

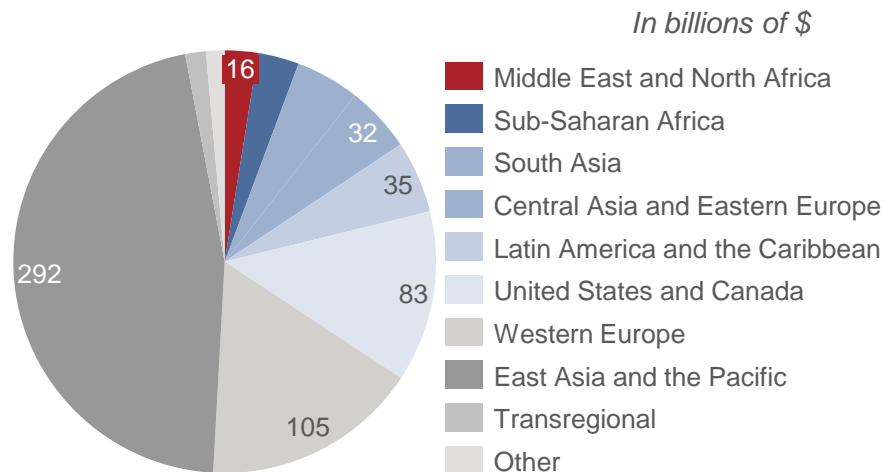
Selected sectors and fields

①

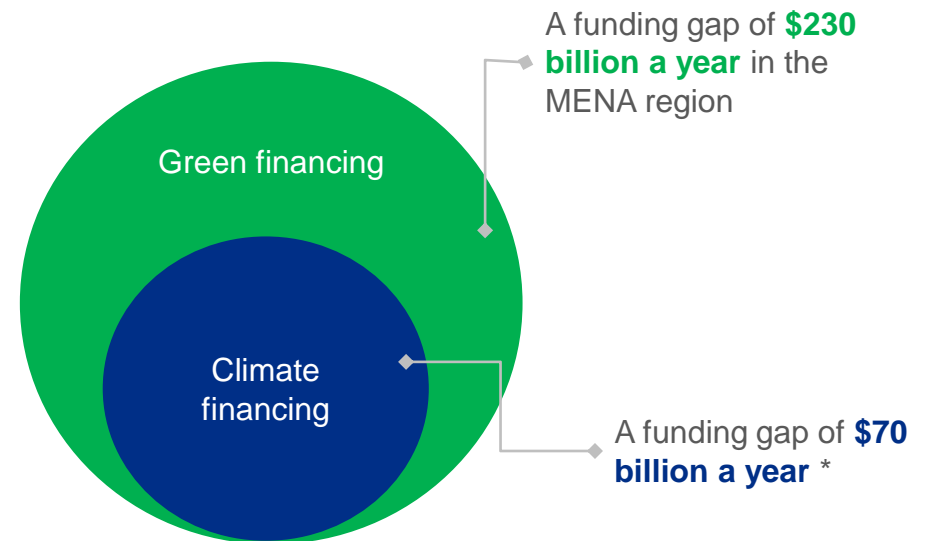
## .... WITH A DEDICATED GREEN LINE TO PROMOTE ECOLOGICAL INVESTMENTS

## Why focus on Green?

**GREEN FINANCING FLOWS IN MENA  
REMAIN MARGINAL COMPARED TO OTHER REGIONS  
IN THE WORLD ...**



**.... AND ARE INSIGNIFICANT COMPARED  
TO THE FINANCING GAP TO ACHIEVE  
SUSTAINABLE DEVELOPMENT GOALS**



# ① THE ABSENCE OF A GREEN TAXONOMY AND THE LACK OF EXPERTISE ARE THE TWO MAJOR CHALLENGES FOR DEVELOPING A 100% GREEN SCHEME IN THE REGION

## What are the main issues?

1

### Lack of expertise in the region to implement a green mandate

Relatively new field with a lack of experience and knowledge of the issues related to the environment and sustainable development (climate change, transition to renewable energies, water scarcity, food insecurity, clean mobility, etc.)

2

### No taxonomy green

Without a clear and commonly accepted classification, it is difficult to distinguish between truly sustainable projects and those that are not.

This risk of confusion opens the door to « greenwashing »

3

### Low potential demand from national CGSs

Possibly insufficient demand to justify the need for a 100% green mechanism. Currently, the green transition is in its early stages and not sufficiently developed in the various countries of the region, with a collectively limited awareness of the issues

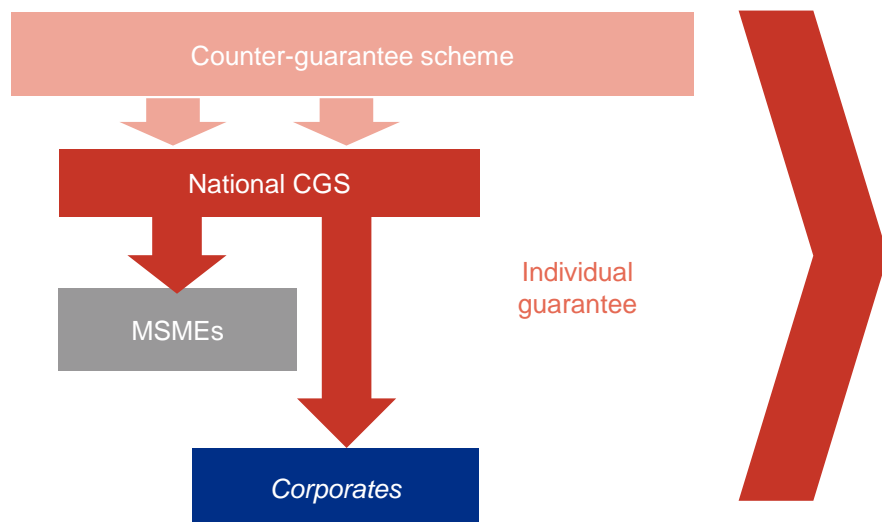
**However, these challenges could be overcome in the medium term**

- The first two issues could be addressed through Technical Assistance, which would enable project assessment, promote their implementation and even drive consumption
- The region is experiencing a strong momentum towards the green transition, with more advanced countries such as Morocco, leading the way with its Green Morocco Plan, aimed at combating climate change and preparing the decarbonization plan of the economy
- The counter-guarantee could serve as a catalyst to promote market compliance with sustainable development goals, accelerating the green transition and attracting more international funds through a « green quality label »

\* A marketing method that consists of communicating with the public using deceptive ecological arguments to improve one's image.

## ② THE COUNTER-GUARANTEE FOR LOCAL CORPORATES AIMS AT SUPPORTING HIGHLY JOB-INTENSIVE AND CAPITAL-INTENSIVE ACTIVITIES ...

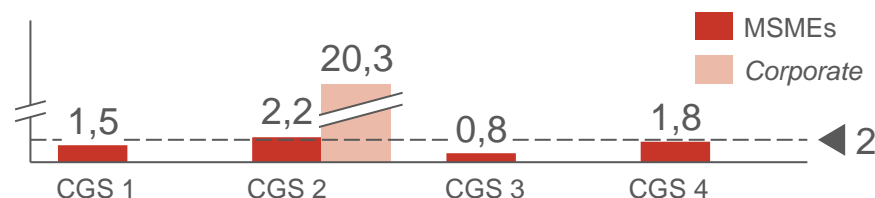
### PROPOSED SCHEME



### RATIONALE

- With the exception of CGC Egypt, which also targets corporates, national CGS interventions are mainly aimed at MSMEs and are capped at \$2 million per counterparty

*Intervention limits for the national CGSs in millions of \$*



- A commercial counter-guarantee could therefore be useful in raising the national CGS's unit intervention limit by targeting capital-intensive investments, that exceeds the current limits

Eligible companies	Eligible sectors	Intervention limit per counterparty	Guarantee coverage
Large private or mixed companies with their headquarters and main field of activity in the MENA region	All licit sectors	Up to \$10 million	Up to 80%.

## 3.2

# WHICH BUSINESS MODEL?

## TWO MODELS UNDER CONSIDERATION: A BLENDED FINANCE MODEL AND A PURELY « COMMERCIAL » MODEL



### Option 1: subsidized scheme

Which financing structure?

Blended finance: a mix of grants, donations and market resources

Which pricing structure?

Commercial pricing, but partially or fully covered in order to lower the cost for the national CGSs and the final beneficiaries

Which structure to carry the scheme?

The recommended form for setting up the scheme is a targeted product to be launched by an existing financial institution (and not in the form of a newly-created institution), to avoid the complexity and costs associated with the creation of such an institution, which would require the direct involvement of MENA states and strong institutional and political support.

A new regional institution would need several years to achieve an international *investment-grade* rating, an essential lever to establish the institution's credibility, improve its credit quality, and build investor confidence. We emphasize that the rating of a newly-created regional institution was considered essential during interviews with national CGSs.



### Option 2: commercial scheme

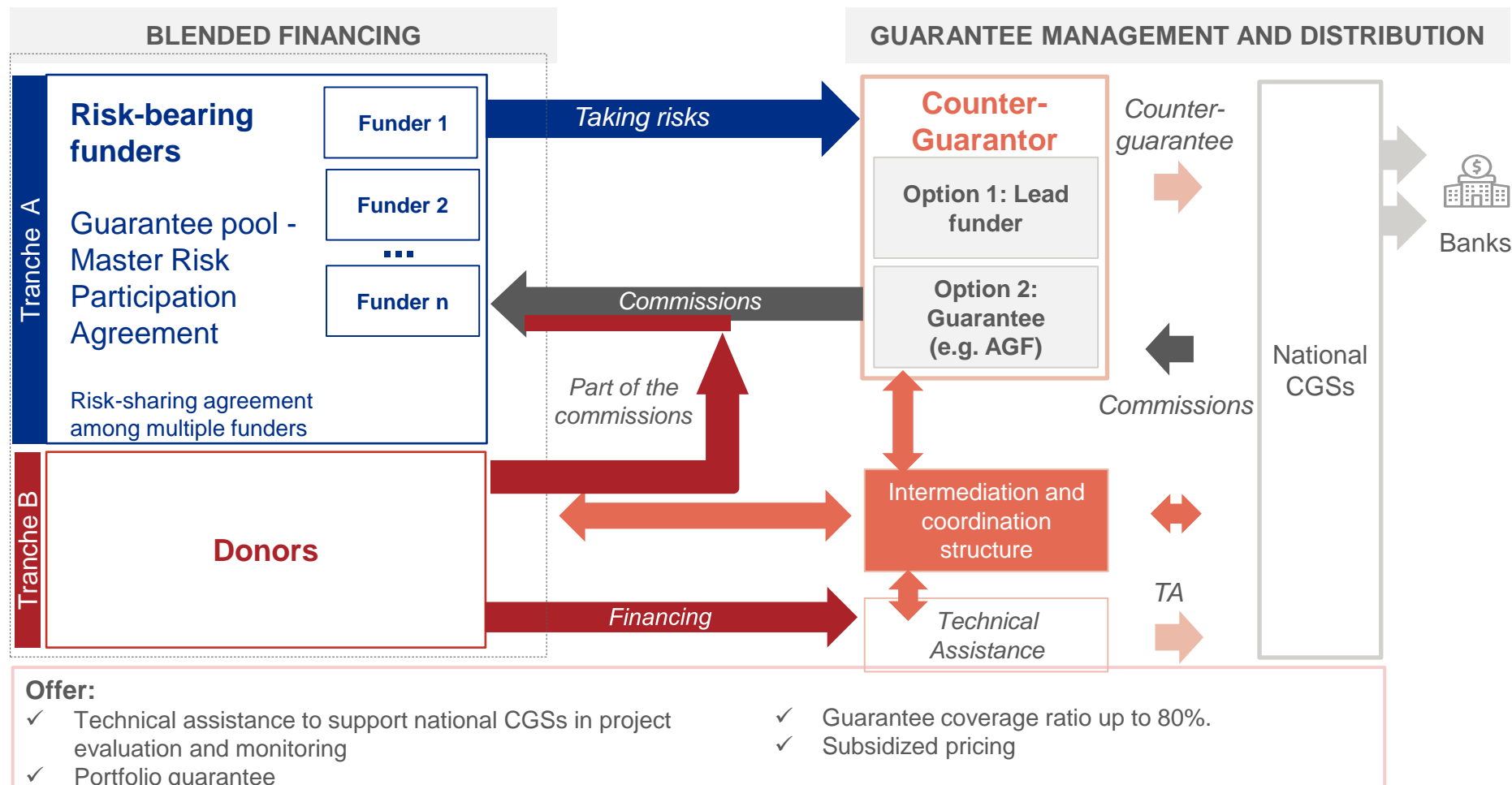
Funds raised from international funders

Commercial pricing to cover overheads and the net cost of risk and generate a net profit margin

## OPTION 1: LAUNCH A FLEXIBLE COUNTER-GUARANTEE BY PRIORITIZING GREEN PROJECTS THROUGH A BLENDED FINANCE APPROACH



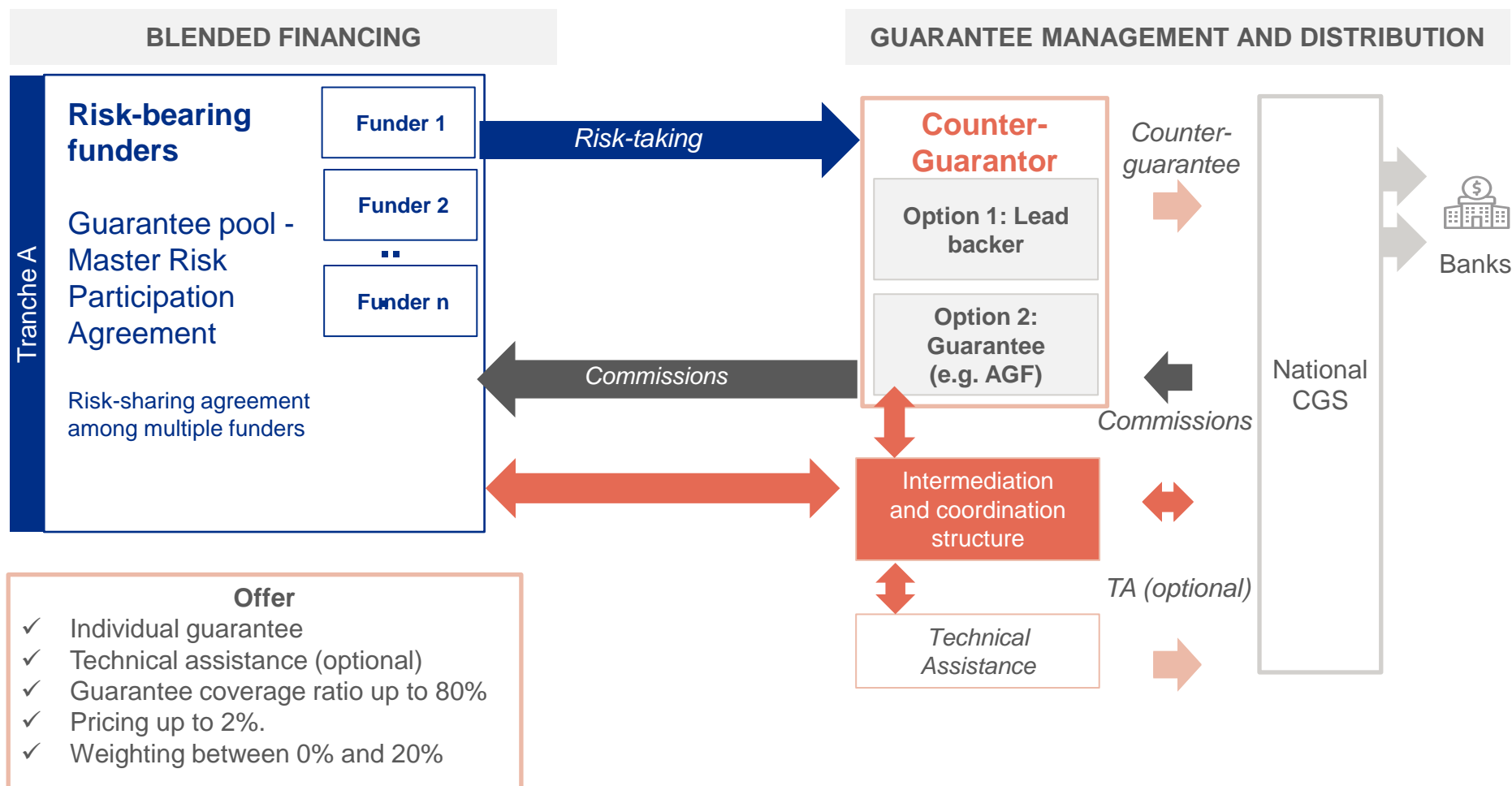
### Option 1: subsidized scheme



## OPTION 2: GUARANTEE PROJECTS WITH A HIGH ECONOMIC IMPACT OF WHOSE VALUE EXCEEDS THE INTERVENTION LIMITS OF THE NATIONAL CGSs



### Option 2: commercial scheme





## FINACTU RECOMMENDS THE CREATION OF AN INTERMEDIATION AND COORDINATION STRUCTURE TO ENSURE THE IMPLEMENTATION OF THE NEW SCHEME

### Objective of intermediation and coordination structure

Acting as a central interface between risk takers, funders, and national CGSs

It will serve as a coordinator, harmonizing the interests of stakeholders to ensure the success of high-impact projects

### Missions

- i. Identify and **centralize** national CGSs' needs
- ii. **Negotiate with funders or private counter-guarantors** to obtain guarantee conditions, providing mutual benefits for all parties (brokerage)
- iii. **Facilitate access to technical assistance**, specifically for green projects or those requiring particular technical expertise

- The intermediation and coordination structure, acting as a platform, will be a lightweight organization composed of 2 to 5 individuals
- It will be remunerated by i) a share of commissions, ii) management fees for Technical Assistance and iii) the search for subsidies
- It could take the form of a limited liability company owned by the national CGSs. In the long term, it could be transformed into a counter-guarantee institution (risk pooling)

4

# CONCLUSION

## BOTH OPTIONS WILL ENABLE NATIONAL CGSs TO ENHANCE THEIR SCOPE OF INTERVENTION AND FOSTER A GREATER IMPACT

### OPTION

#### 1 Counter-guarantees targeting priority sectors: energy, agriculture, technology and export support

With a focus on green, via a green guarantee line

#### **SUBSIDIZED SCHEME**

### BENEFITS

- Supporting MSMEs operating in high-impact sectors for the region

### CHALLENGES

- The main challenge for the success of this scheme is to convince a sufficient number of donors, financial and technical partners to become actively involved in project implementation

- Green line

- Accelerating countries' transition to green economy and finance while attracting international green funds

- The absence of a green taxonomy and the lack of expertise are the two major challenges for the development of a green counter-guarantee product in the region

2

#### Counter-guarantee for Local Corporate

#### **UNSUBSIDIZED SCHEME**

- Support high-impact, capital-intensive projects such as moderate-scale infrastructure, energy and real estate
- Supporting local businesses and strengthening state sovereignty

- National CGSs mainly target MSMEs
- The change of target will require time to adapt the intervention strategy and operations

## FINACTU RECOMMENDS LAUNCHING A COUNTER-GUARANTEE SCHEME TARGETING PRIORITY SECTORS BEFORE CONSIDERING A LONGER-TERM GREEN SOLUTION

- FINACTU proposes to set up a flexible counter-guarantee scheme targeting priority sectors, with an emphasis on green and climate-smart projects. This scheme should encourage the promotion of green initiatives by offering :
  - Attractive pricing
  - Technical assistance for national CGSs to help them identify and evaluate green projects
- The proposed approach will promote a long-term transition to a fully green guarantee in order to attract the international financial flows that are increasingly directed towards green projects, once the necessary prerequisites are met:
  - Political commitment by governments to make ecology a strategic priority, elaboration of a sustainable development strategy and creating the conditions needed to encourage investments in green projects
  - Developing a green taxonomy in the MENA region
  - Reaching sufficient maturity among public and private players, including national CGSs, to support green projects
  - Production and collection of data on climate risks and vulnerabilities at national level in the MENA region
  - Emergence of sufficient demand for green project financing

**Counter-guarantee targeting priority sectors:**  
energy, agriculture, technology and export support

**100% green counter-guarantee**

In the short term

Long-term

**6**

# **APPENDICES**

## 2.1

# OVERVIEW OF THE STATUS OF NATIONAL CGS IN THE MENA ZONE

## MORE THAN 70% OF MENA'S NATIONAL CGSs HAVE SOLID RESOURCES AND OFFER HIGHLY ADVANTAGEOUS PRUDENTIAL WEIGHTING LEVELS

### THE NATIONAL CGSs MODELS IN THE MENA ZONE ARE CHARACTERIZED BY :

① Two types of structures	<ul style="list-style-type: none"> <li>Third-party fund management company: SOTUGAR</li> <li>Financial institutions with own funds: JLGC, TAMWILCOM, CGCI, CGC, KAFALAT</li> </ul>
② A heavily subsidized, government-dependent business	<ul style="list-style-type: none"> <li>State subsidies: TAMWILCOM</li> <li>Subsidies/funding from the State and donors: JLGC, CGCI, SOTUGAR</li> </ul>
③ With sufficient financial resources	<ul style="list-style-type: none"> <li>With the exception of KAFALAT in Lebanon, which has not carried out any guarantee operations for 5 years, 4 out of 5 national CGSs have no financial constraints. Only JLGC indicated that its resources were not sufficient to cover its needs</li> </ul>
④ Favorable prudential weighting	<ul style="list-style-type: none"> <li>20% : JLGC</li> <li>0% : TAMWILCOM, CGCI, CGC, SOTUGAR</li> </ul> <p><b>The establishment of a regional counter-guarantee institution would have very limited relevance for improving the prudential weighting of national CGSs</b></p>
⑤ Mandates focused on SMEs	<ul style="list-style-type: none"> <li>SMEs: JLGC, TAMWILCOM, CGCI, SOTUGAR</li> <li>SMEs and Corporates : CGC</li> </ul> <p><b>Guarantees provided by national CGSs do not exceed \$2 million</b></p>
⑥ Targeting strategic sectors	<ul style="list-style-type: none"> <li>The sectors most represented in national CGSs portfolios include industry, construction, trade and agriculture</li> </ul>

## THE LEVELS OF COMMISSIONS ARE VERY LOW COMPARED TO THE EXPENSES INCURRED FOR THEIR ACTIVITY

### ⑥ Several pricing structures

- Pricing to cover operating expenses related to the activity: CGC
- « Subsidized » pricing: TAMWILCOM, SOTUGAR, JLGC
- « Margin-based commercial » pricing: KAFALAT

### ⑦ Symbolic pricing, largely subsidized

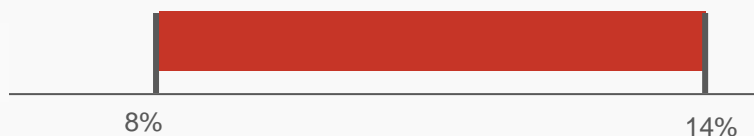
#### THE COMMISSIONS CHARGED BY NATIONAL CGSs ARE VERY COMPETITIVE AND DO NOT REFLECT THE MARKET REALITY OF THE UNDERLYING ASSETS ...

*Range of annual commissions charged by national CGSs*



#### ... AND PORTFOLIO LOSS RATIOS

*Loss ratio of portfolios of national CGSs*



IN THIS CONTEXT, THE CURRENT PRICING OF NATIONAL CGSS' LEAVES THEM WITH LITTLE ROOM TO CONSIDER PAYING COUNTER-GUARANTEE FEES, RISKING TO INFLATE THE COST OF THE GUARANTEE THAT WOULD ULTIMATELY BE BORNE BY THE END CUSTOMER (CGSs VIEWS), WHEREAS THE GUARANTEE IS NOT DESIGNED TO INCREASE BANKS' MARGINS

To be useful, the counter-guarantee scheme must fulfil two objectives:

- (i) Taking into account the needs of national CGSs
- (ii) Take into account their social vocation, which takes priority over the profitability objective



**5**

# **SURVEY**

## A SURVEY PREPARED TO COLLECT YOUR FEEDBACK ON THE MOST SUITABLE SCHEME FOR YOUR NEEDS (1/2)

**Your feedback will be valuable in selecting the option that meets your expectations and formally confirming your intention to participate in such a mechanism**

- **Question 1:** Which option do you prefer?

Options	Counter-guarantee for priority sectors	guarantee for <i>Local Corporates</i>
Please select the option(s) you consider relevant / appropriate to meet your needs		

- **Question 2:** Comments (please justify your choice)
- **Question 3:** What is your estimate of the counter-guarantee amount you will need over the next 5 years? Could you please indicate the amounts per year for the next 5 years?
- **Question 4:** If you prefer option 1 (counter-guarantee for priority sectors), do you agree with FINACTU's priority sectors: energy, agriculture, technology and export support? The cross-cutting areas we propose to support are green projects and projects to promote youth and women. Do you agree with our recommendation? If not, what are your alternative proposals?

## A SURVEY PREPARED TO COLLECT YOUR FEEDBACK ON THE MOST SUITABLE SCHEME FOR YOUR NEEDS (2/2)

**Your feedback will be valuable in selecting the option that meets your expectations and formally confirming your intention to participate in such a mechanism**

- **Question 5:** Do the proposed business models seem appropriate to you? Which business model suits you?

Options	Model 1: subsidized scheme	Model 2: commercial scheme
Which option do you recommend?		

- **Question 6:** Comments (please justify your choice)
- **Question 7:** What are your thoughts on the intermediary and coordination structure required to successfully launch the counter-guarantee solution?
- **Question 8:** Are you interested in participating in such a structure? Do you have any specific expectations?
- **Question 9:** Do you have any other feedback/recommendations you would like to share with us?






**Thank you!**

## 6.1

# APPENDIX 1: ZOOM ON BLENDED FINANCE

## HOW TO INVOLVE FUNDERS?

### BLENDING FINANCE OFFERS THE FLEXIBILITY TO INTERVENE THROUGH DIFFERENT TYPES OF CONTRIBUTION

Type of contribution	Examples	
Co-guarantee		Creation of the co-guarantee platform for Africa to increase financing for trade and investment projects
		Signature of a risk-sharing agreement covering a series of trade finance transactions for a joint amount of \$200 million
Grants		Signature of an agreement with the Tunisian government to grant a subsidy to SOTUGAR
Cash guarantee		Support for liquidity instruments issued by ATIDI under the Regional Liquidity Support Facility via cash guarantees granted by KFW
Shareholding		Injection of €25 million into African Guarantee Fund

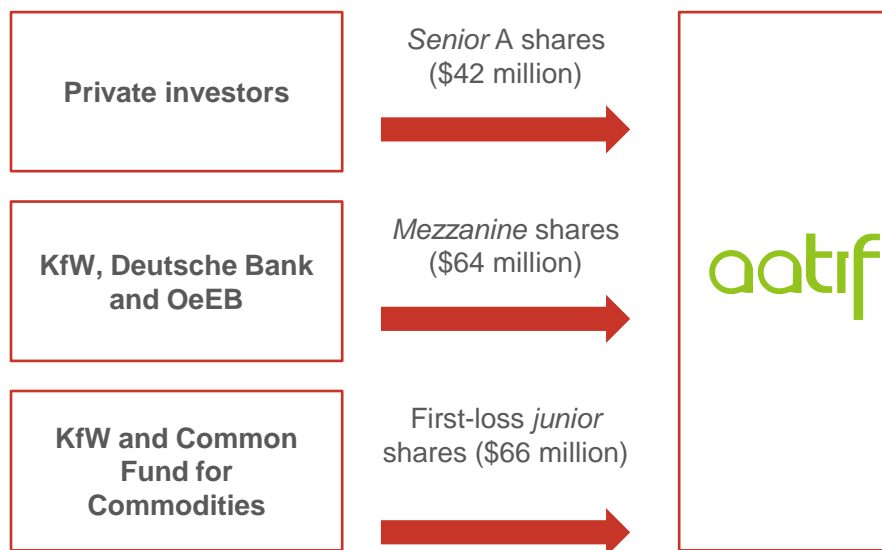
## HOW CAN FUNDERS GET INVOLVED?

**BLENDED FINANCE OFFERS THE FLEXIBILITY TO INTERVENE THROUGH DIFFERENT TYPES OF CONTRIBUTION**



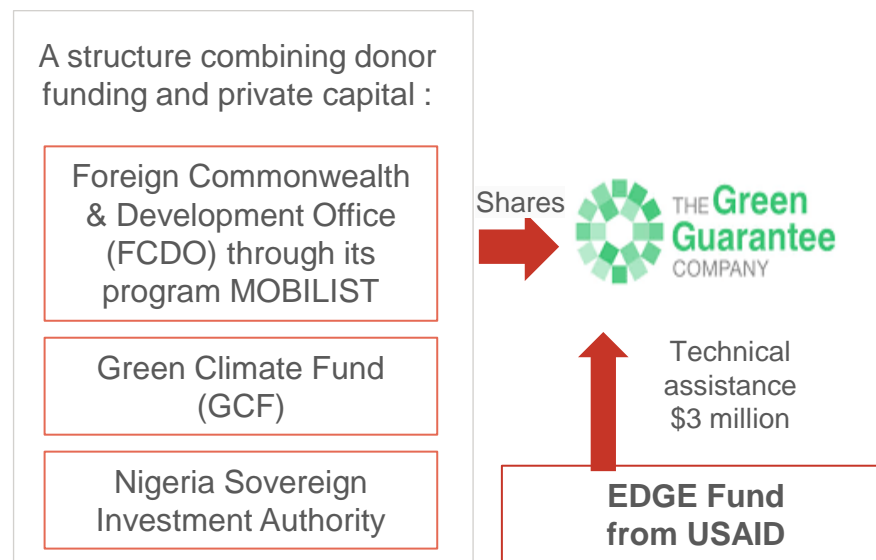
### Example 1

The capital structure of the *Fonds d'Investissement pour l'Agriculture et le Commerce en Afrique (AATIF)* consists of multiple tranches:



### Example 2

The Green Guarantee Company (GGC) is an independent regional institution that issues guarantees for green bonds:



**6.2**

## **APPENDIX 2: FOCUS ON GREEN FINANCE GUARANTEE**

## GREEN FINANCE IS BROADER THAN CLIMATE FINANCE AND INCLUDES ENVIRONMENT-RELATED INVESTMENTS

### WHAT IS THE DIFFERENCE BETWEEN SUSTAINABLE FINANCE, GREEN FINANCE AND CLIMATE FINANCE?

#### Sustainable finance

Refers to financial practices that take into account **environmental, social and governance factors** as well as economic aspects

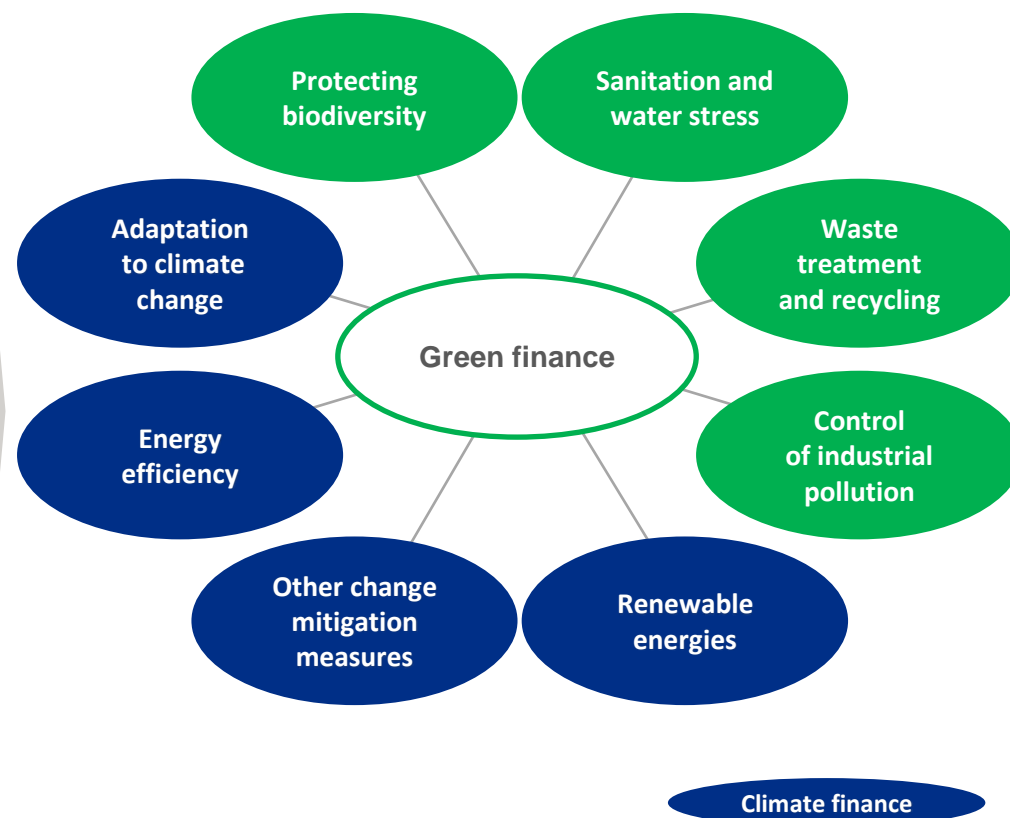
#### Green finance

Green finance is finance aimed at achieving economic growth while **reducing pollution and greenhouse gas emissions, minimizing waste and improving efficiency in the use of natural resources** (OECD)

#### Climate finance

It is a subset of green finance and refers primarily to public finance that promotes multilateral efforts to combat **climate change through** the United Nations Framework Convention on Climate Change (UNFCCC)

### WHAT ARE THE AREAS COVERED BY GREEN FINANCE?





## THE GREEN GUARANTEE COULD FOCUS ON PRIORITY ACTION AREAS TO ACHIEVE A SUCCESSFUL ECOLOGICAL TRANSITION

### What would be the priority areas for a Green guarantee product?

The MENA region is one of the world's most vulnerable regions in terms of climate change (sharp rise in temperatures, more frequent droughts and floods, risk of multiplying natural disasters, and rising sea levels)

To meet these challenges, the green transition aims at using green technologies and nature-based solutions to decarbonize the economy and preserve the planet

For a just and sustainable transition, the green economy could focus on 4 priority areas, according to the World Bank's climate roadmap for the MENA region for the 2021-2025 period

#### Food systems, water, security and resilient natural capital

Shifting to a climate-smart approach to agriculture and natural resource management in MENA is instrumental to achieve food security and preserve nature, while ensuring peace and stability.

#### Energy transition and low-carbon mobility

Decarbonizing the energy and transport sectors via increased energy efficiency, renewable energy and clean mobility solutions will avoid significant environmental, health, economic, and trade-related risks.

#### Climate-smart cities and resilient coastal economies

Cities and coastal areas are at the frontlines of climate impacts, while being the engines of economic growth. Climate-smart spatial planning and key investments can achieve carbon neutrality and make cities and coastal areas resilient, and inclusive.







#### Sustainable finance for climate action

Climate change poses significant financial risks in MENA, compounding elevated levels of macro, banking sector, and debt risk. A green and resilient financial sector can play a key role in mobilizing climate finance and managing risk.

## A COUNTER-GUARANTEE SCHEME CAN TARGET COMMON GREEN INVESTMENT OPPORTUNITIES IN MENA COUNTRIES, SUCH AS AGRICULTURE, WATER, AND ENERGY

### What opportunities are there?

#### INVESTMENT OPPORTUNITIES

						
Transforming agricultural chains into ecological chains	✓	✓	✓	✓	✓	✓
Sustainable and intelligent management of water resources	✓	✓	✓	✓	✓	✓
Development of renewable energies	✓			✓	✓	✓
Reducing carbon emissions	✓			✓		
Decarbonizing industry, the circular carbon economy and boosting ecological competitiveness	✓	✓				✓
Urban planning adapted to climate change	✓	✓		✓	✓	✓
Development of programs related to the sustainable maritime economy	✓	✓		✓	✓	✓
Integrated coastal zone management	✓			✓		✓
Climate-friendly public financial management, climate-proofing budgets and expenditure	✓					✓
Unlocking financing for green investments	✓			✓	✓	✓

**Without being restrictive, the green counter-guarantee scheme could focus on common priorities across the region, such as agricultural transformation, sustainable water resource management and the development of renewable energies**

**6.3**

## **APPENDIX 3: INSPIRING EXAMPLES OF GUARANTEE SCHEMES**

## AGF, AN AFRICAN GUARANTEE FUND, POSITIONS ITSELF AS A KEY PLAYER IN GREEN FINANCING IN AFRICA



### Green guarantee

Financing unlocked\*: **\$205 million\***

**AGF offers guarantee and technical assistance to banks**

#### Example: UBA and AGF partnership

- UBA finances women-led SMEs and green finance with a \$100 million commitment
- AGF provides \$50 million portfolio guarantee and technical assistance

**AGF guarantees large-scale green projects in the region through international co-guarantee schemes**

#### Example: partnership with GuarantCo

African Guarantee Fund and GuarantCo have granted GreenYellow a €71 million, nine-year credit guarantee to help a consortium of local banks finance the installation of a 5 MW battery storage system and increase the capacity of the 20 MW Ambatolampy solar power plant in Madagascar. Société Générale acted as a lead funder. GuarantCo and AGF provided guarantees of €5 million and €2 million respectively

**AGF has diversified its distribution channel by targeting a crowdfunding platform**

#### Example: partnership with bettervest

AGF provides a partial guarantee to bettervest\*\*, sharing the risk of default resulting from facilities granted to African SMEs' green projects

\*Until 2022

\*\* A participatory financing platform based in Frankfurt, Germany

Sources: annual reports



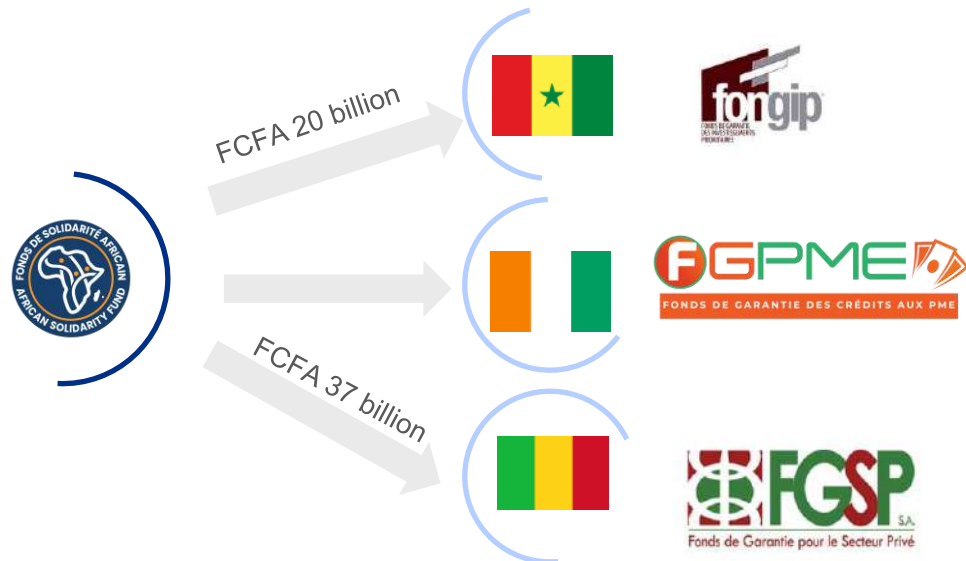
EMCN  
EUROPEAN MICROFINANCE CENTRE NETWORK

# FSA OFFERS NATIONAL CGSs A GUARANTEE LINE TO INCREASE THEIR INTERVENTION LIMIT PER COUNTERPARTY (1/2)



## GUARANTEE LINE OFFERED BY FSA TO NATIONAL CGSs

### FSA GRANTS PORTFOLIO GUARANTEE LINES TO NATIONAL CGSS ...



→ Cumulative warranties to end 2022

### ... MAINLY FOR FOUR USE CASES

Case 1

Increase the national CGS intervention limit

Case 2

Increase the percentage of cover from 50% to 80%

Case 3

Targeting high-risk or « capital intensive » sectors

Case 4

Positioning in risky segments (women and young people, startups)

## FSA OFFERS NATIONAL CGSs A GUARANTEE LINE TO INCREASE THEIR INTERVENTION LIMIT PER COUNTERPARTY (2/2)

### Scheme description

- Guarantee line through an authorization or delegation given by the counter-guarantor to national CGSs
- End-loss guarantee with a maximum guarantee coverage of 80% of the loan principal
- Risk-sharing with the counter-guarantor in providing guarantees or loans
- Registration of guarantees on the line as they are issued
- Required real securities/collaterals

### Objectives

- Enable national CGSs to strengthen their intervention capacities by guaranteeing projects funding, where the amount to be covered exceeds their intervention limits and/or is excluded from their scope of intervention due to the classification (large company, SME, VSE) of the company promoting the project

### Eligible companies and receivables

- Eligible companies: Large companies, SMEs, VSEs and startups, including risk-sharing with the project promoter (equity contribution of at least 20% of the total project cost)
- Loans of at least 6 months with a specific purpose, either for operational or investment needs
- All sectors that are generally accepted

### Pricing

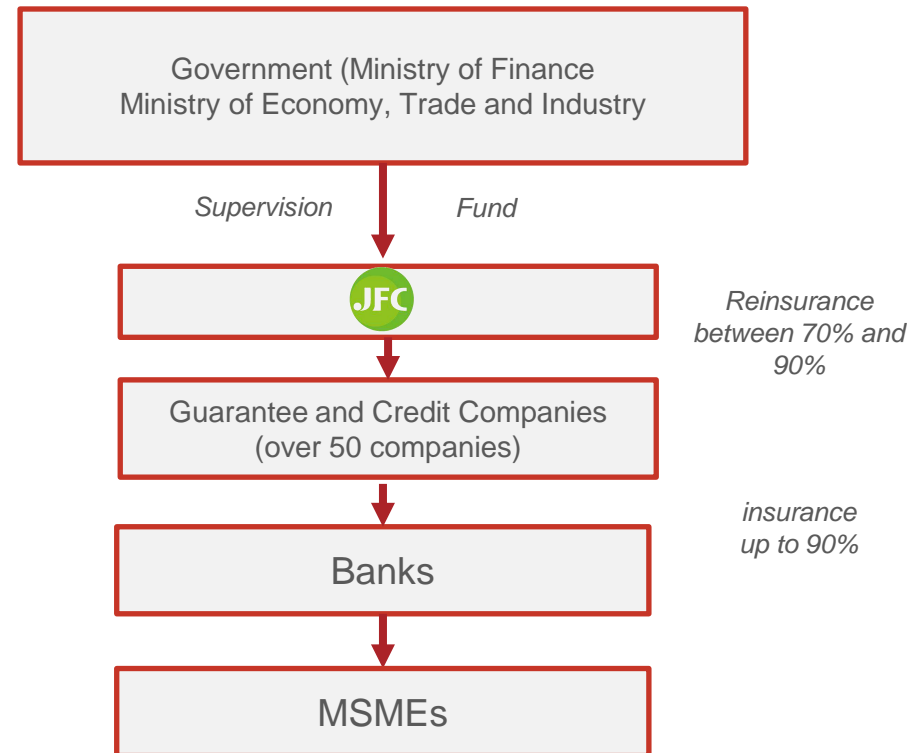
- Set-up fees: ranging from 0.5% to 1.5% flat of the amount of the guarantee line amount, due and payable upfront before the establishment of the line
- Guarantee commission: ranging from 0.5% to 2.5% of the outstanding guarantee on the line, payable quarterly

## JAPAN'S FINANCIAL SYSTEM RELIES ON REINSURANCE TO PROVIDE SOLID SUPPORT FOR SMALL AND MEDIUM-SIZED BUSINESSES



### Reinsurance product for MSMEs

- The Japanese credit guarantee system is based mainly on cooperation between Guarantee and Credit Companies and national reinsurance institutions
- An essential component of this system is credit insurance, in which the Japan Finance Corporation (JFC), funded by public funds, acts as reinsurer for the credit guarantees provided by the Guarantee and Credit Companies
- This reinsurance guarantees repayment of loans granted to SMEs and micro-enterprises by Guarantee and Credit Companies. In the event of default, JFC generally reimburses between 70% and 90% of the initial amount to the GCC as compensation



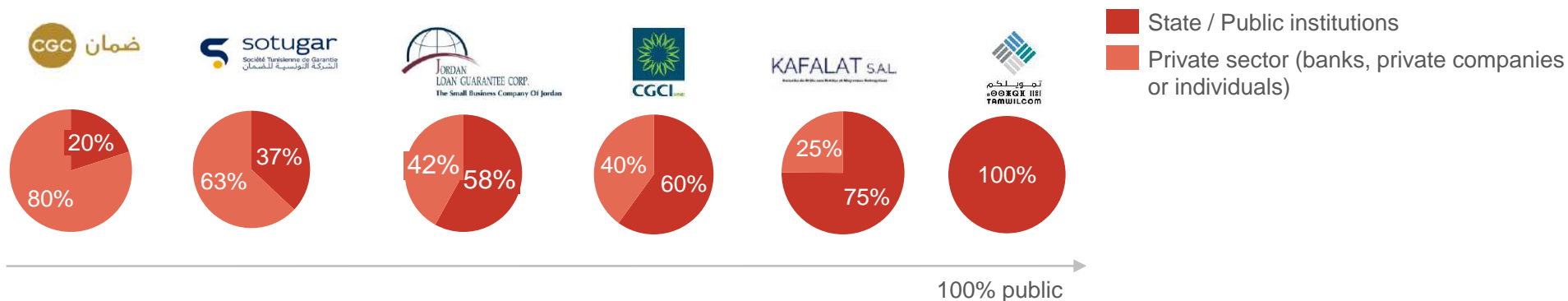
## 6.4

# APPENDIX 4: OVERVIEW OF NATIONAL CGSs IN THE MENA REGION

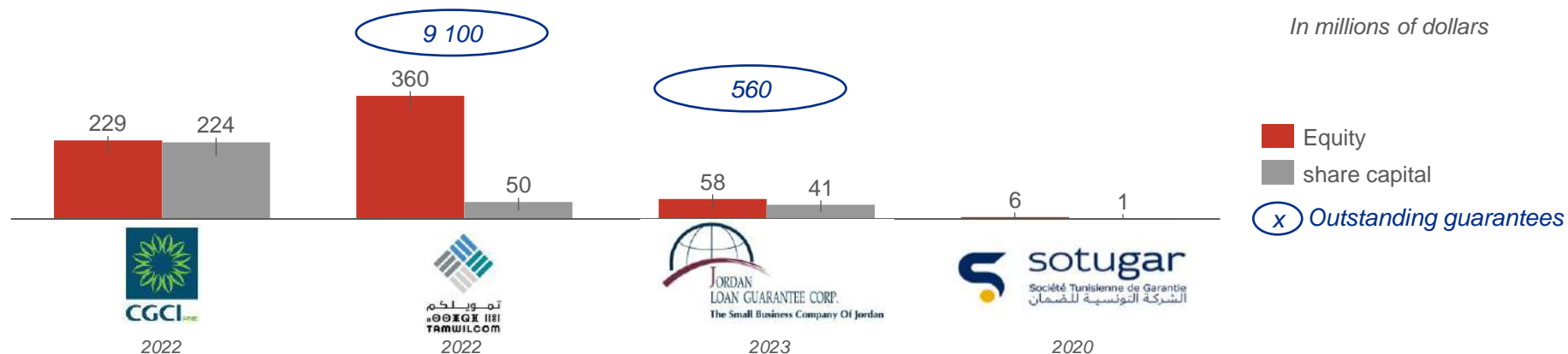


## OVERVIEW OF NATIONAL CGSS IN THE MENA REGION: SHAREHOLDING STRUCTURE, EQUITY LEVEL AND OUTSTANDING GUARANTEES

### MENA guarantee funds have a diversified shareholder structure



### The national CGSSs have solid resources, with the exception of JLGC, which is hampered by limited equity thus limiting its activity



Sources: Funds' financial statements and annual reports

**6.5**

## **APPENDIX 5: INSIGHTS GATHERED FROM INTERVIEWS WITH THE NATIONAL CGS**



## A COUNTER-GUARANTEE SCHEME IS NOT RELEVANT FOR INTERVENING IN SEGMENTS/SECTORS ALREADY COVERED BY NATIONAL CGSS

IT'S NOT WORTHWHILE TO ESTABLISH A COUNTER-GUARANTEE SCHEME FOR INTERVENING IN SEGMENTS ALREADY COVERED BY EXISTING INSTITUTIONS

For what reasons should the option of a counter-guarantee scheme targeting segments/sectors currently served by national CGSs be rejected?

National CGSs have **excellent prudential weighting**

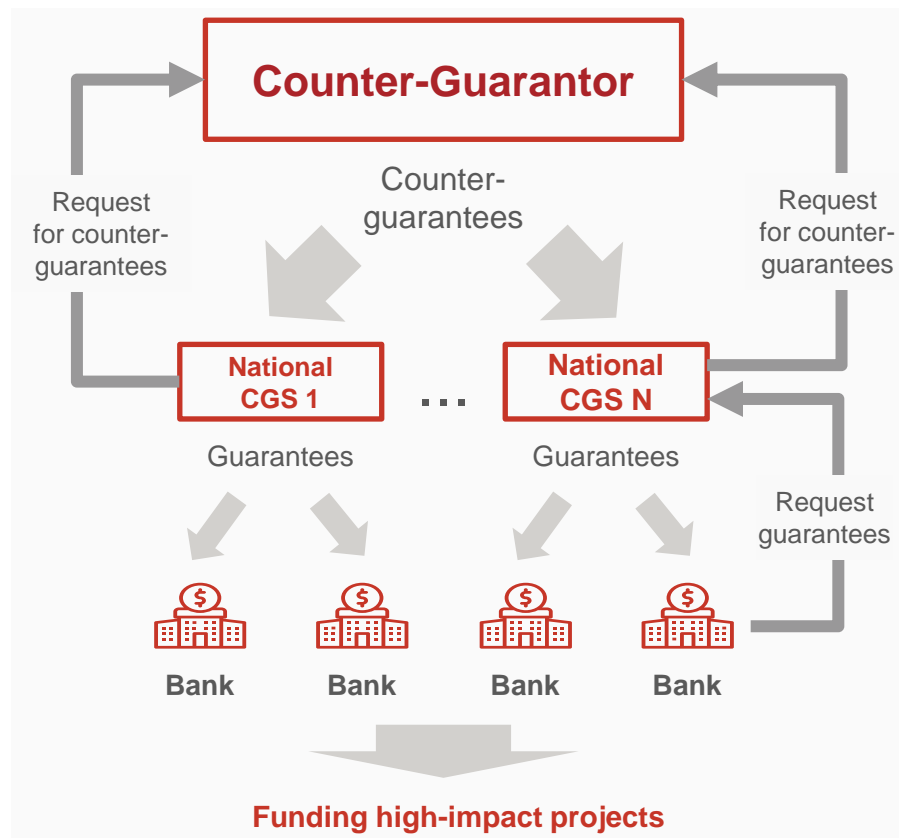
National CGSs **have no capital constraints** to finance their current activities

As predominantly public institutions, national CGSs have a **social development mandate**, not a commercial one

**Current pricing is extremely competitive**, leaving no room for the use of a purely commercial counter-guarantee

## NATIONAL CGSs ARE A CRUCIAL LINK IN THE DISTRIBUTION OF A COUNTER-GUARANTEE SCHEME, CAPITALIZING ON THEIR STRENGTHS

### NATIONAL CGSS CAN BE DISTRIBUTION CHANNELS FOR NEW GUARANTEES...



### ...BY CAPITALIZING ON THEIR STRENGTHS

1

National CGSs have **excellent prudential weighting**

2

Thanks to their social mission, national CGSs are essential, if not unique, vehicles for **supporting the economy**

3

National CGSs have in-depth expertise in developing and **supporting MSMEs**

4

They also have **sectoral expertise** and a **strong understanding of local needs**

## THE COUNTER-GUARANTEE SCHEME WILL AIM AT ENHANCING THE INTERVENTION CAPACITIES OF NATIONAL CGSs



**WE RECOMMEND IMPLEMENTING A COUNTER-GUARANTEE FOCUSED ON NEW SEGMENTS OR SECTORS TO EXPAND THE INTERVENTION SCOPE OF NATIONAL CGSS**

	Value propositions	Prerequisites
1	Targeting segments not currently covered by national CGSs	Mobilize additional sources of financing and promote blended finance solutions
2	Cover larger risks by meeting the needs of large SMEs or large local corporates	Commercial approach aimed at targeting larger companies and covering new needs, including an appropriate pricing policy

## THE IDEA OF CREATING A NEW REGIONAL INSTITUTION SHOULD BE ABANDONED IN FAVOR OF A MORE PRAGMATIC SOLUTION

Should a new regional institution be created or a « pass through » solution launched by an existing institution?





### Solution to be abandoned: new regional institution - **with risk pooling**

- ✗ Lack of common political will
- ✗ Heterogeneous interests and diverging political and economic visions
- ✗ A complex approval process
- ✗ The viability of such an institution would require the involvement of national governments in its shareholding
- ✗ Lack of economic rationale for states to create a regional institution to counter-guarantee CGSs, which they own and largely subsidize
- ✗ No benefits for national CGSs in terms of capital savings and increased intervention capacity

### Recommended solution: a « pass through » solution - **without risk pooling**

- ✓ Simpler, more pragmatic option to implement, requiring less investment
- ✓ Bringing additionality to states by bridging common market gaps in the MENA region
- ✓ Although political support from governments and national central banks would be useful, there's no need for a common political will among governments
- ✓ A solution that does not serve specific national interests
- ✓ It could foster fruitful collaboration between technical, strategic and financial partners and bring together public and private interests

## ② ... NOTABLY IN THE INFRASTRUCTURE, ENERGY, HEALTH AND HOUSING SECTORS

SECTOR	NEEDS	EXAMPLES OF GUARANTEE FUND OPERATIONS
Infrastructures	<ul style="list-style-type: none"> <li>The MENA region will need more than <b>\$100 billion a year</b> to maintain its current infrastructures and build new ones</li> </ul>	 <b>\$38.4 million</b> to finance the modernization, operation and maintenance of 14 toll plazas across Cameroon
Health	<ul style="list-style-type: none"> <li>Many countries in the region suffer from a lack of clinics, hospitals and other healthcare facilities: <ul style="list-style-type: none"> <li>➤ <i>In Morocco: a funding need for more than \$1 billion a year</i></li> <li>➤ <i>In Egypt, spending should exceed \$17.2 billion between 2020 and 2028</i></li> </ul> </li> </ul>	 <b>\$7.5 million</b> to finance the construction and operation of two clinics in Mauritius   <b>\$3 million</b> to finance the construction and operation of a private hospital in Rwanda
Real estate and construction	<ul style="list-style-type: none"> <li>A combined shortage of over <b>3.5 million</b> affordable <b>housing units</b> in key MENA* countries</li> </ul>	 <b>\$8.2 million</b> guarantee provided to Mixta Nigeria (real estate company in Nigeria) to secure longer-term financing for the development of its affordable housing initiative
Energy	<ul style="list-style-type: none"> <li>Climate investment potential in the renewable energy sector in Egypt, Jordan and Morocco reaches <b>up to \$265 billion</b></li> </ul>	 <b>\$3.8 million</b> guarantee from AGF and a <b>\$9 million</b> guarantee from GuarantCo to refinance the 20 MW Ambatolampy solar power plant

Sources: interviews with national CGS, World Bank, Fitch solutions, JLL, IFC 2021

\*Egypt, Iraq, Morocco, Saudi Arabia, Bahrain, United Arab Emirates and Oman

One of the leading real estate development companies in Nigeria



EMCN

guarantee amount

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