

**Ministry of Finance & Economic Planning**  
**Debt Management Office**  
**Loan Guarantee Process**

### Document Control

Version	Date	Author	Comments
1.0	October 2014	Debt Management Office	<ul style="list-style-type: none"><li>This document establishes a clear workflow that MINECOFIN needs to follow in order to assess, approve and monitor loan guarantees.</li></ul>

### Approval

Approved By (name / title / Org)	Signature	Date
Chief Economist		November, 18th 2014

### Workflow Summary

The government normally issues financial guarantees in order to financially promote projects in specific sectors that are deemed to be in the public interest. These include sectors like energy, transport, construction, agriculture, etc...

However, it is important to note that the guarantor (MINECOFIN on behalf of the Government) always takes a credit risk in issuing a financial guarantee as it commits to honour the payment obligations of the borrower (the Beneficiary) under the terms of the loan agreement in the event of its default.

It is in this regards, that MINECOFIN is responsible of assessing, approving and monitoring loan guarantees, and has establish a process which will include the following:

#### **Step 1 & 2: Submission of proposal of loan guarantee by the Public/Private entity**

The process is initiated when a public/private entity submits a request for provision of a loan guarantee to the Minister's office, which will hand over the file to the government portfolio unit.

The later will proceed to a checklist exercise and will ensure that all the required documents are submitted along with the request for a loan guarantee, before a credit risk assessment is undertaken.

#### **Step 3: Credit risk assessment by the government portfolio unit**

The government portfolio unit will perform a number of actions when assessing the granting of guarantees. This includes:

1. an appraisal of the financial plan for the investment project/ program to ensure that all the necessary requirements are met:
  - Analysis of cash inflows (net revenue) and outflows (operational expenses, depreciation, taxes, interest costs, and other payables)
  - Analysis of capacity to service debt obligations (principal, interest and fees/expenses)
  - Analysis of economic internal rate of return against GoR criteria
  - Sensitivity analysis for fluctuations in (1) exchange and interest rates, (2) revenue, and (3) production/operational costs.

2. An appraisal of investment capital which specifies (i) sources of investment capital (including owner capital, borrow capital); (ii) capacity to repay the obligations of the project
3. An appraisal of the audited financial reports for the last three years – in case a public or private enterprise is newly establish or has been in operation for less than three year, there shall be written commitment of the shareholder or representative of the shareholder ensuring capability to repay the principal of the loan.
4. Obtain a legal opinion from the Legal counsel unit, and arrange for a credit risk assessment from the Debt Office.

### **Step 5: Credit risk assessment by the Debt Management Office**

The debt management Office will also undertake a credit risk assessment while ensuring the following is met:

1. The guarantee does not breach any budget limits.
2. The guarantee has greater net benefits for the country than alternative uses of the government's money, including other kinds of subsidy.
3. The government's gross financial exposure and, where feasible, an estimate of the likely fiscal cost if the guarantee were to be called.

### **Step 6 to 10: Review credit assessment report by Debt office and Government portfolio, and Approval by Minister.**

After the request for loan guarantee has been assessed by all technical teams and reviewed by the debt committee and the executive management, it may be approved or rejected by the Minister.

### **What shall be done after the Guarantee is provided?**

If the request for loan guarantee is approved, the public/private entity shall on a regular basis report details of the guarantee provided. The report shall indicate:

1. The outstanding amount of the new guarantee issued during the period
2. The disbursed amount
3. The repayment profile

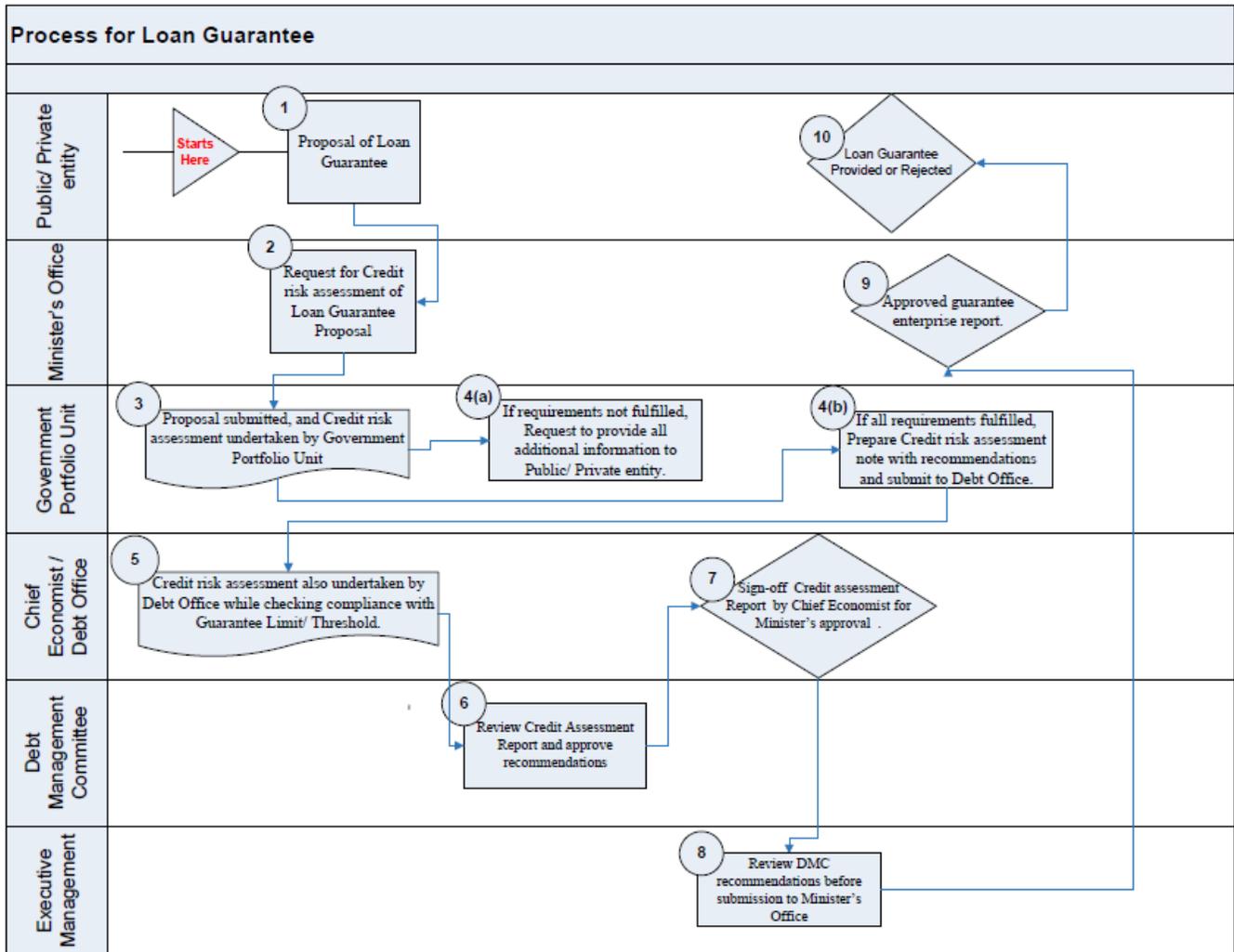
The debt office will therefore produce a report which includes:

1. The government's gross financial exposure and, where feasible, an estimate of the likely fiscal cost of called guarantees.

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2. Payments made, reimbursements, recoveries, financial claims established against beneficiaries, and any waivers of such claims.
3. Guarantee fees or other revenue received. Payments made by MINECOFN on the guarantee (if any), and the status of claims on beneficiaries, and update the forecast of new guarantees to be issued in the budget year and the estimate of the likely fiscal cost of called guarantees.

### Workflow Diagram



### Activity Definitions

This section is a description of each step to be followed when assessing, approving and monitoring loan guarantees. This includes an input, an action, and an output. It will also show who has the responsibility to

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undertake the action, Key indicators which show that the action was performed as per the best practices, and finally it will show if the action implies a report, or if any data is being produced as a result of the activity taking place.

Step 1 to 3	Proposal for loan Guarantee			
<b>Activity Description</b>	Submission of request for loan guarantee by the Public/Private enterprise to Minister's Office.			
<b>Inputs:</b>	List the inputs to this activity.			
	<b>Input Name</b>	<b>Description</b>	<b>Source</b>	<b>Format</b>
	Request for Loan Guarantee	Includes: <ul style="list-style-type: none"> <li>• Revenues</li> <li>• Expenses</li> <li>• Debt service profile ( with principal, interest and fees/expenses)</li> <li>• Economic internal rate of return against GoR criteria</li> <li>• Assumed exchange, interest rates, revenue, production/operational costs.</li> </ul>	Public/ Private Enterprise	
<b>Outputs:</b>	List the outputs of this activity.			
	<b>Output Name</b>	<b>Description</b>	<b>Destination</b>	<b>Format</b>
	Notification to prepare Credit risk Assessment if all requirements are fulfilled.		Government Portfolio Unit	
	if requirements not fulfilled, request to Public/private entity to submit all required documents		Public/ Private Entity	

## Workflow – [Loan Guarantee]

<b>Executed By</b>	Government Portfolio Unit			
<b>Reports</b>	List the reports produced by or required for this activity.			
	<b>Report Name</b>	<b>Report Description</b>	<b>Report Format</b>	<b>Report Frequency</b>
	Credit risk Assessment report	Includes assessment of the granting of Loan guarantee and recommendations.		Project by project

<b>Step 5</b>	<b>Credit risk assessment by the Debt Management Office</b>			
<b>Activity Description</b>	Assessment of loan guarantee by the debt office with regards to established strategy/benchmarks.			
<b>Inputs:</b>	List the inputs to this activity.			
	<b>Input Name</b>	<b>Description</b>	<b>Source</b>	<b>Format</b>
	Credit assessment report from Government Portfolio Unit	Includes the assessment and recommendations by the GPU	Government Portfolio Unit	
<b>Outputs:</b>	List the outputs of this activity.			
	<b>Output Name</b>	<b>Description</b>	<b>Destination</b>	
	Credit assessment report & recommendations executed by Debt Office	Report will: <ul style="list-style-type: none"> <li>Assess that the guarantee does not breach any budget limits.</li> <li>The guarantee has greater net benefits for the country.</li> <li>The government's gross financial exposure and, where feasible, an estimate of the likely fiscal cost if the guarantee were to be called.</li> </ul>	Debt Management Committee	

<b>Step 6 to 10</b>	<b>Minister's approval</b>			
<b>Activity Description</b>	Provide detailed financing terms of the project			
<b>Inputs:</b>	List the inputs to this activity.			
	<b>Input Name</b>	<b>Description</b>	<b>Source</b>	<b>Format</b>
	Credit assessment report and Loan guarantee recommendations	Includes assessment and recommendations from both Debt office and Government Portfolio Unit, but also DMC's approval.	Chief Economist office	
<b>Outputs:</b>	List the outputs of this activity.			
	<b>Output Name</b>	<b>Description</b>	<b>Destination</b>	<b>Format</b>
	Minister's Approval/ Denial	Approval of the Minister on the basis of Credit assessment report	Public/ Private Entity	
<b>After Guarantee is provided</b>	<b>Monitoring of loan guarantee</b>			
<b>Activity Description</b>	The guarantee provided shall be monitored until it is fully repaid.			
<b>Inputs:</b>	List the inputs to this activity			
	<b>Input Name</b>	<b>Description</b>	<b>Source</b>	
	Information on Guarantee	<ul style="list-style-type: none"> <li>The outstanding amount of the new guarantee issued during the period</li> <li>The disbursed amount</li> <li>The repayment profile</li> </ul>	Public/ Private Entity	

<b>Outputs:</b>	List the outputs of this activity.		
	<b>Output Name</b>	<b>Description</b>	<b>Destination</b>
	Guarantee Report	<ol style="list-style-type: none"> <li>1. The government's gross financial exposure and fiscal cost of called guarantees.</li> <li>2. Payments made by MINECOFN on the guarantee.</li> <li>3. Guarantee fees or other revenue received.</li> <li>4. Forecast of new guarantees to be issued in the budget year and the estimate of the likely fiscal cost of called guarantees.</li> </ol>	Executive Management
<b>Executed By</b>	Debt Management Office		
<b>Reports</b>	List the reports produced by or required for this activity.		
	<b>Report Name</b>	<b>Report Description</b>	<b>Report Frequency</b>
	Guarantee Report	Includes assessment, status and forecast of loan guarantee.	Annual