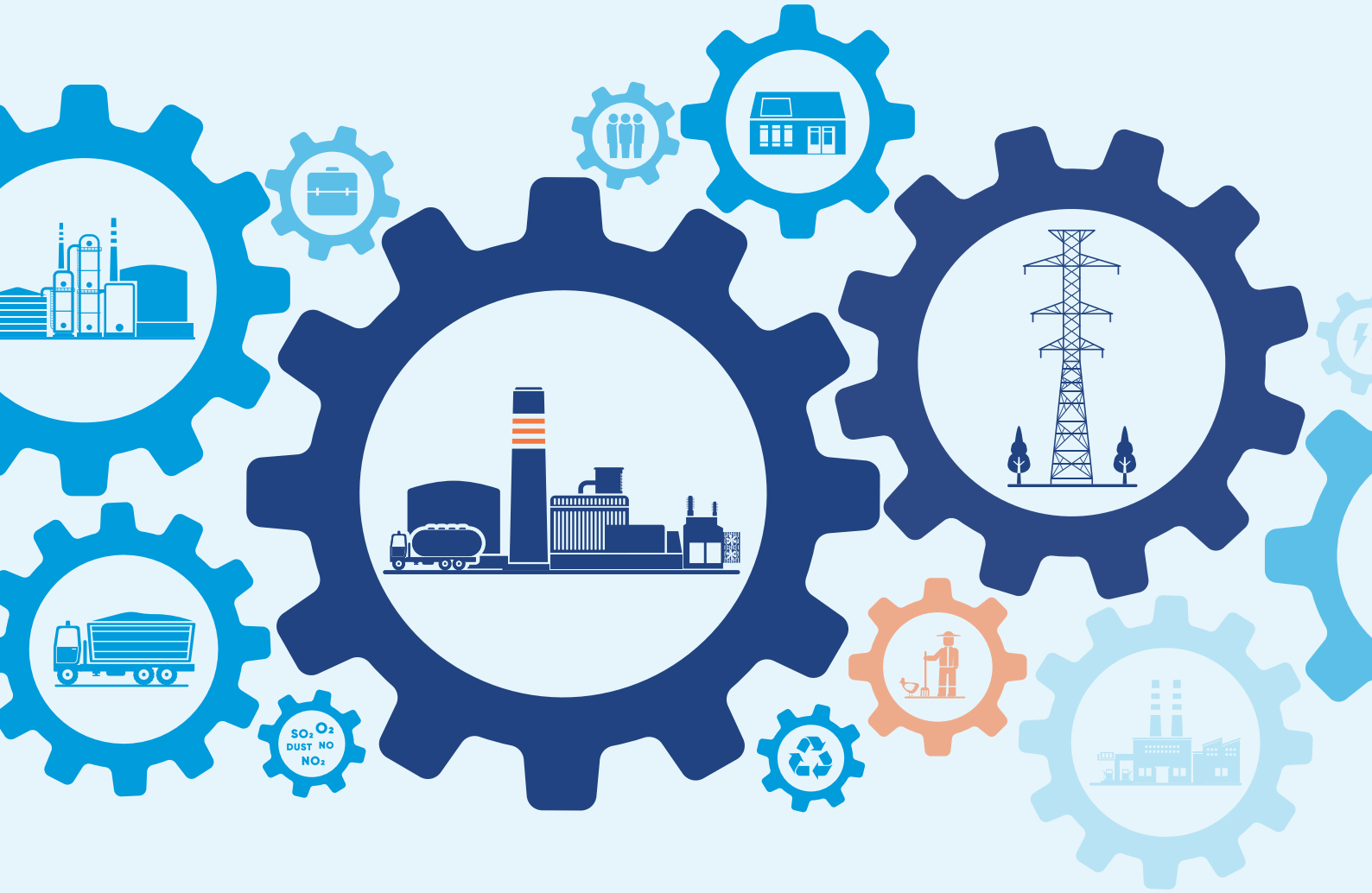
UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

SUSTAINABLE DEVELOPMENT GOALS



FRAMEWORK FOR STIMULATING PRIVATE SECTOR INVESTMENTS IN RENEWABLE ENERGY

Implementation manual for bioenergy guarantee funds

This publication is a guidebook developed for creating guarantee funds for promoting private sector investments for bioenergy and clean cooking projects. It is based on experiences gained from two projects implemented by UNIDO and funded by the GEF.

ACKNOWLEDGEMENTS: This implementation manual for bioenergy guarantee funds has been drafted by credit guarantee experts, Sanjay Saha and Aniruddha Bagchi of A2F Consultants and validated by the Local Working Group chaired by the Tanzania Investment Bank (TIB) and participants in the credit guarantee framework validation workshops. Special thanks to UNIDO financial expert, Alejandro Vera Casso for guidance and overall technical support in drafting and finalizing the document.

Peer Review: Tareq Emtairah, Director, Energy Department; Petra Schwager, Chief, Energy Technology and Industrial Applications Division

Coordination: Jossy Thomas, Project Manager, Kolade Esan, Project Coordinator, Grazia Aghaizu, Project Assistant

Edited by Thomas Crawley and Cristina Bonnet
Graphic design by Dominik Hruza

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Framework for stimulating private sector investments in renewable energy

Implementation manual for bioenergy guarantee funds

Contents

List of Abbreviations

A2F – access to finance

BEGF – Bioenergy Guarantee Fund

BRD – business requirements document

CG – credit guarantee

CGA – credit guarantee agency

CGME – credit guarantee management entity

CGS – credit guarantee scheme

DA – demand advice

DFI – development finance institution

ELI – eligible lending institution

MFIs – microfinance institutions

MLI – member lending institution

MSMEs – micro, small, and medium-sized enterprises

NBFCs – non-bank financial companies

SMEs – small and medium-sized enterprises

SPV – special purpose vehicle

TIB – TIB Development Bank, formerly named Tanzania Investment Bank

UAT – user acceptance testing

PREFACE

Renewable energy impact programs can only become sustainable when they are accompanied by a robust financial support strategy. For UNIDO's project "Global Impact Program for clean fuels and cooking technologies in high impact countries (GIP-CC)", a strategy was developed to increase access to finance, so that the private sector could make the investments needed to establish biofuel production and distribution for clean cooking.

Based on this initial framework, UNIDO plans to work with financial partners in establishing country-level credit guarantee facilities **to stimulate private sector investments in renewable energy**. To this end, a three-phase approach was adopted, with UNIDO providing technical assistance at every stage:

i. Evaluation and Feasibility Study
ii. Design Phase
iii. Implementation Phase

In the past, many finance access programs for bioenergy have remained dormant or come to an end without establishing a sustainable structure, developing institutional capacities, or achieving the desired critical mass. The failure of credit guarantee programs is usually due to faulty or inadequate product and process design, and lack of proper oversight. The design phase is therefore critical, and UNIDO would like to provide a compact guide to a fully designed mechanism that can make access to such finance programs sustainable.

Based on the completed feasibility study, the Design Phase for the bioenergy credit guarantee scheme in Tanzania was structured around producing a Design & Framework Manual, to be shared with the implementing development financial institution (in this case, TIB Development Bank), as a guide for putting in place a dedicated institutional structure, process architecture, and an IT platform to implement and maintain the credit guarantee program.

The Design & Framework Manual was completed in 2021, and this publication is an adapted version that aims to provide a toolkit for application in other countries and contexts.

Chapter 1

Background, institutional framework, and roadmap

1.1. Background to this publication – strategic need for credit guarantee funds

PROJECT BACKGROUND

With funding from the Global Environment Facility (GEF) and the European Union (EU), and in partnership with a number of national stakeholders, UNIDO has been implementing two projects in Tanzania to promote adoption of bioenergy solutions, in particular to establish sustainable clean cooking practices. As part of its technical assistance, UNIDO identified and worked together with a national development bank (TIB) to develop a credit guarantee scheme to facilitate lending to private investors in the biofuels sector, especially small and medium-sized enterprises (SMEs).

Both the UNIDO/GEF 5 and UNIDO/GEF 6 projects have components and objectives to support private sector investment in the biofuel sectors of the Tanzanian economy, especially investments in initiatives that are designed in line with circular economy and agroindustry waste-to-energy (WTE) principles, for the production and distribution of biogas and bioethanol to commercial and household markets. Within the projects, UNIDO is taking an integrated approach to assisting the government and private sector in developing policy reforms to enable:

— Biofuel development
— Industrial standards
— Market development measures (i.e. subsidies and investment grants)
— Production and technology transfer
— Access to investment finance

In these efforts UNIDO has worked together with the Office of the Vice President (VPO), Ministry of Energy (MoE), Ministry of Environment (MoEnv), and the Rural Energy Agency (REA).

To address the objective of promoting investment and finance to the biofuel sector, UNIDO identified, teamed up with, and assisted TIB Development Bank in Tanzania (TIB) to develop a private sector credit guarantee scheme to help investors – particularly SMEs – to access local lending products on market-favorable terms. In addition, TIB is UNIDO's current financial custodian partner for implementation of the ethanol distribution subsidy program in the UNIDO/GEF 6 Clean Cooking Program.

Evaluation phase and feasibility study

An evaluation phase from 2019 to 2020, carried out by UNIDO and TIB, resulted in an evaluation study and recommendations. These were followed by the feasibility study report, submitted in 2020, for the proposed Private Sector Guarantee Facility for Biofuel initiative in Tanzania.

The feasibility study report provides a viable framework and scenario for reviewing the substantial, institutional, and financial feasibility of the guarantee facility. Its primary purpose was to facilitate in-country dialog, within and amongst the local working group members and relevant government authorities. Subsequently, it formed the basis for consultation with selected potential beneficiaries, including donors and co-investors, as part of an initial fundraising strategy.

The report emphasized the important roles that institutions and a robust governance structure will play in bringing about a paradigm shift in the landscape for financing such investments.

Based on the concluded evaluation and pre-feasibility study phase, UNIDO and TIB began developing guidelines for procedures, and an operational manual, in order to move forward with implementation and to initiate sustainable fundraising efforts for the Bioenergy Guarantee Fund (BEGF). This publication presents that work so that it is available to agencies, governments, the financial sector, and donors for working in other countries, as a guide to establishing a credit guarantee scheme in similar contexts, and as a case study.

STRATEGIC RATIONALE FOR INTRODUCING CREDIT GUARANTEE FUNDS

In many countries, especially in the developing world, minimal access to formal finance – especially for SMEs – hinders the growth of a range of sectors of the economy. This is often due to a lack of collateral security on the part of companies that require credit, or a lack of credit history, or simply the lack of the expertise needed to produce sophisticated financial statements. These issues result in an information gap between the potential borrower and lender, as the latter attributes a high risk of default to the borrower and, in the absence of collateral, this results in a partial or negative response to the application for credit.

Credit guarantee schemes (CGSs) are commonly used as a response to this market failure. Under a CGS, part of the requested credit is protected by a guarantee that ensures repayment of a percentage of the amount borrowed. CGSs thereby reduce the lender's risk exposure, facilitating the provision of finance to viable businesses that are credit constrained.

CGSs promote the flow of finance to targeted sectors by acknowledging the limited ability of businesses to provide acceptable collateral, by circumventing interest rate controls, and by mitigating the risk apparent to the banks whose loans are to be guaranteed as a result of their credit analysis. Some countries have established credit guarantee agencies (CGAs) for this purpose, catering to micro, small and medium-sized enterprises (MSMEs).

Successful programs are able to help riskier entrepreneurs and businesses obtain financing, by reducing the risk in loans extended to them, limiting transaction costs, and guaranteeing (part) payment in case of default. In many countries, CGSs and CGAs have been effective in mobilizing large amounts of credit and easing access to finance for numerous enterprises.

In the absence of a dedicated institution tasked with taking such a program forward, initial efforts and pilot projects can fizzle out. Efforts to start such programs from within the government, in ministries or other parts of the bureaucracy, including structures or departments within established institutions, may not always work, unless a fully developed roadmap is in place. A lack of ownership and continuity, and limited or critical knowledge of the specific domain served by the program, can all lead the initiative to falter. Therefore, a dedicated entity needs to be formed and a roadmap developed, involving stakeholders and experts, to implement a successful program.

1.2. Overall program structure

In the context of Tanzania – and more widely in developing countries looking to develop biofuel industries – the "indirect model" was proposed as the suitable model for delivery of the credit guarantee scheme (CGS) for the biofuel supply chain. In an indirect model, the guarantor body deals with eligible lenders, and not directly with borrowers. For further details and discussion of the delivery model, see Chapter 2.2.

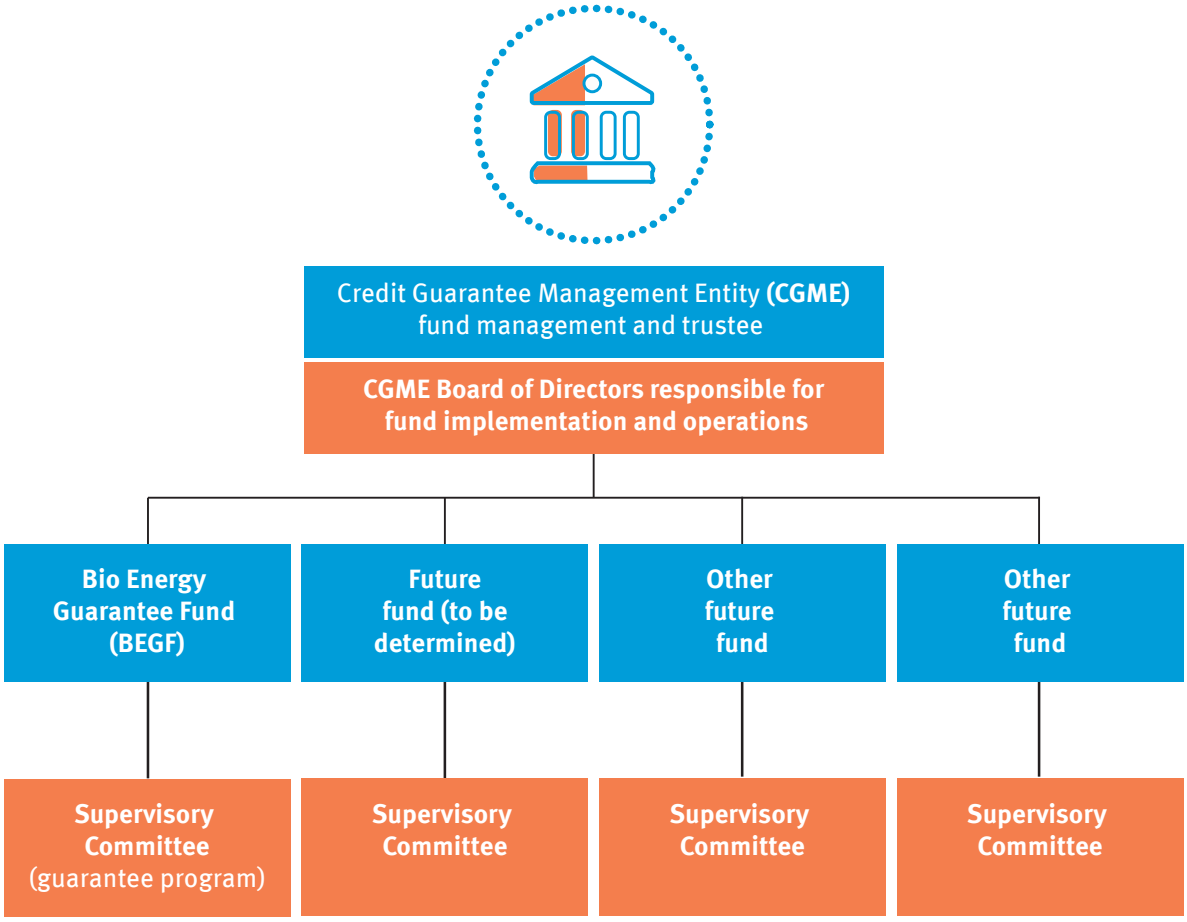
This section describes the organizational structure of the CGS program, with a separate, dedicated entity for the operation of CGSs and management of the guarantee fund.

PROGRAM STRUCTURE

A **two-tier architecture** is proposed with a dedicated **Credit Guarantee Management Entity for Bioenergy Investments (CGME),** as a distinct entity (subsidiary of the development bank, or other legal structure as may be determined), and a separate guarantee fund for bioenergy investments (a trust or similar legal form).

This structure means that operational aspects and policy aspects of guarantee programs remain separate. To begin with, only one guarantee fund is proposed in the case of Tanzania – the Bioenergy Guarantee Fund. However, the structure permits multiple schemes and funds to be implemented. The diagram below, illustrates the two-tier structure.

Proposed program structure, including potential expansion to include further credit guarantee schemes



B] EXAMPLES OF PROGRAM ARCHITECTURE IN OTHER CONTEXTS

B1] In India, a major example of a **two-tier credit guarantee structure** involves the **National Credit Guarantee Trustee Company Ltd. (NCGTC)**, which is a wholly owned Government of India trustee entity. The company was established in 2014 under the aegis of the Ministry of Finance. NCGTC is a board-managed private limited company, with multiple credit guarantee trusts under its management.

B2] An illustration of a **single-tier structure** is the **Credit Guarantee Trust for Micro & Small Enterprises (CGTMSE)** started jointly by the Government of India and the Small Industries Development Bank of India in 2000. CGTMSE manages multiple guarantee schemes within the same trust, and is overseen by a board of trustees.

1.3. Ownership structure

A] Credit Guarantee Management Entity (CGME)
The CGME is envisaged as a separate and distinct legal entity, preferably a subsidiary company of the partner development bank (or government agency) – in the case of Tanzania, this is TIB – in the form of a limited liability company. It will act as guarantee scheme manager and trustee, managing the operations of the Bioenergy Guarantee Fund (BEGF), and subsequently multiple credit guarantee trust funds, if required in the future. Limited liability status provides protection to shareholders as well as the ability to raise equity funds.

B] Funds under management
The guarantee scheme corpus fund is proposed as a separate legal entity, preferably as a trust. The exact nature of the trust needs to be examined and decided upon based on the legal environment and country-specific guidelines.

In the case of the biofuel sector credit guarantee scheme in Tanzania, the initial trust to be established is the **Bioenergy Guarantee Fund (BEGF),** a credit guarantee fund for bioenergy investments.

Trusts within the structure can be owned solely by a variety of institutions, or may be jointly owned by investors, donors, and the government.

Technically, the trusts are funded or settled by the owner or settlors (contributors to) the trust, and the share of fund settlement is agreed by the settlors on establishment of the trust.

1.4. Governance

While the trust will be responsible for the policy direction and oversight of the guarantee scheme, operational and administrative aspects will be delegated to the CGME.

Under the proposed structure, multiple funds (trusts) can be managed by the separate management entity. As illustrated in the diagram above in Chapter 1.2, the operations of the different credit guarantee fund trusts (firewalled from each other as separate special purpose vehicles, SPVs) are managed by the trustee company.

Management oversight of each trust is the responsibility of an individual **supervisory committee**, with appropriate representation from the government/owners of the guarantee program, and sector and other experts.

The design of each guarantee scheme and underlying program will be an iterative process, under the oversight of the respective supervisory committees. **The design of a credit guarantee scheme needs to allow for the process of institutional learning, and must include a system for monitoring and mid-course corrections.** The CGME Board of Directors[1] can contribute observations and suggestions to the design of credit guarantee schemes.

1.5. Outline of roles and responsibilities of the separate legal entities

A] Role and responsibilities of the credit guarantee management entity (CGME, trustee company)

a. Coordinate with government/other agencies to design/set up credit guarantee and risk sharing programs and funds, and formulate underlying credit guarantee schemes.
b. Agree an arrangement with the guarantee fund trust to manage delivery of its programs/schemes, in return for payment of a management fee.
c. End-to-end management of the guarantee program(s).
d. Establish the infrastructure and put in place the requisite technology, systems and processes, logistics, skill sets, and specialized knowledge to manage the guarantee program(s) and scheme(s).
e. Support the guarantee fund/government/sponsors of the fund in marketing and appropriately positioning the credit guarantee scheme(s) amongst lenders and end users.
f. Prudently invest the guarantee corpus fund in order to earn a reasonable income for the fund trust.
g. Provide policy inputs for improvement of the credit guarantee program(s).
h. Prepare financial statements of the company and the trusts under its administrative management, and circulate them to stakeholders after approval by the CGME board of directors.
i. Develop and implement a consolidated, firewalled structure for different funds, and put in place a predefined "stop-loss" mechanism, based on actuarial analysis and data analytics. This would ensure macroprudential checks and balances for each firewalled fund under the structure.

B] Role and responsibilities of credit guarantee fund (special purpose vehicle, usually a trust)

a. Ownership of the credit guarantee program, ensuring clear program objectives and that appropriate credit guarantee scheme(s) are in place to foster better access for the targeted segments.
b. Build and safeguard capital from government, donors, or investors in the form of a corpus fund, with a mandate to ensure the availability of capital so that it can be leveraged to provide credit guarantees to lenders, facilitating additional flows of credit.
c. Have an arrangement with the CGME to provide efficient delivery of its program(s)/scheme(s) in return for payment of a management fee.
d. Monitor the program in coordination with the CGME, and make needs-based policy-related course corrections for efficient use of funds.

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1 See Chapter 5.2, 'CGME governance and management' for details.

1.6. Objectives and activities of the management entity (trustee company)

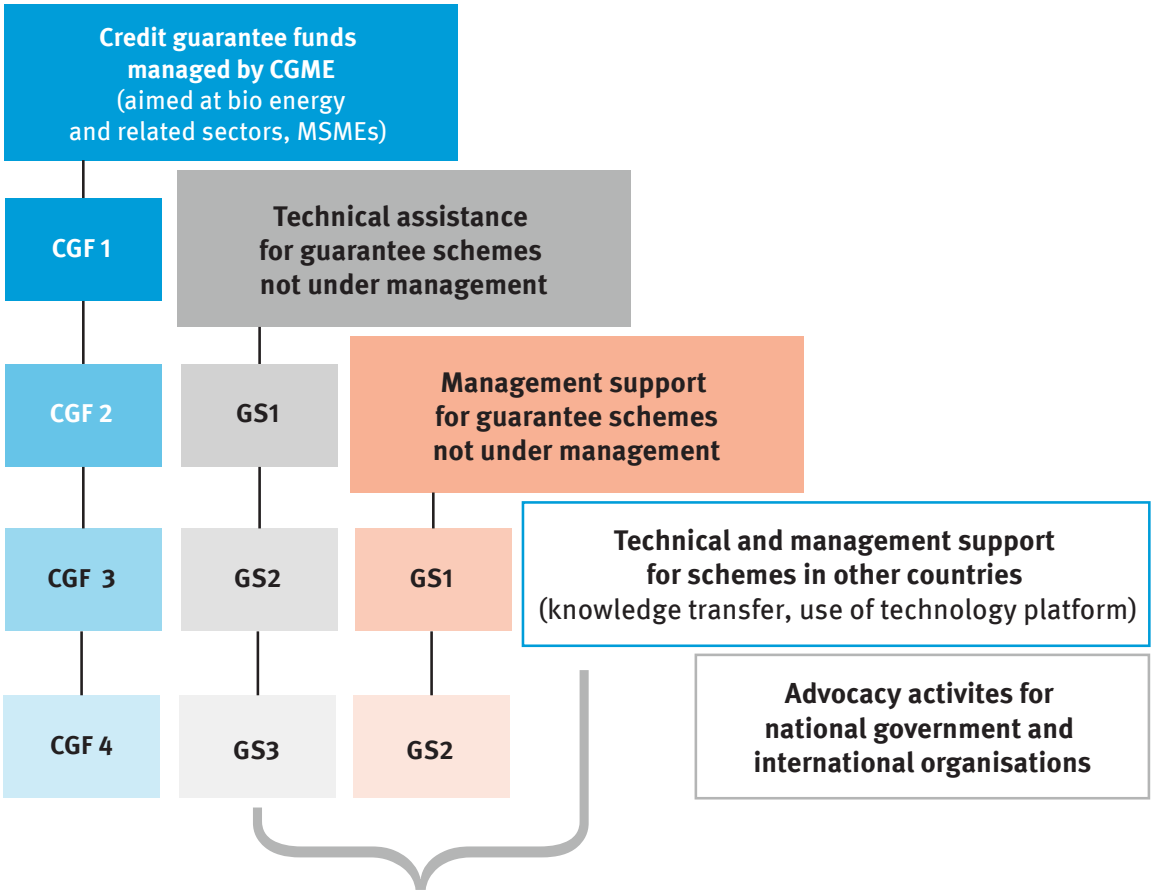
A] Objectives

The principal objective of the credit guarantee management entity (CGME) is to carry out trusteeship functions for the fund(s) in the structure, and to operate the established credit guarantee schemes and funds. To begin with, in the case of the UNIDO/GEF cooperation with TIB and the government of Tanzania, this means operational implementation and management of the Bioenergy Guarantee Fund (BEGF), targeted at MSMEs in agricultural and manufacturing sectors.

A range of services in the credit guarantee and risk sharing domain can be developed and provided by the trustee company, expanding its impact as a profitable and sustainable strategic initiative. The company can function as an extended arm of the government for policy advocacy, as well as managing further guarantee programs for other developmental and multilateral agencies in the country and abroad. See the diagram below for an illustration of potential lines of business for the CGME.

B] Potential business lines of the trustee company

Potential business lines and expansion of the credit guarantee management entity (fund trustee company)



Fee-based activities using CGME technology platform and management expertise

1.7. Credit Guarantee Management Entity (CGME): broad organizational structure

A] Background: business and operational model

The structure of any organization is a function of its business model, its business processes, and the process of product delivery.

Under the proposed business model, a credit guarantee management company has been conceived as a business-to-business (B2B) operation with indirect delivery (no direct link to borrowers, only to lenders).

Within this indirect model, a centralized process is recommended for transactions with eligible lending institutions that become members of the scheme. This means all information will flow from a central office/point of contact of the member lender, which internally coordinates guarantee applications with the lender's various branches or departments. Guarantee applications should largely flow from core banking IT platforms. Where such platforms are not available, alternate process delivery shall be appropriately worked out.

In the proposed Bioenergy Guarantee Fund (BEGF) program, a manual process as an alternate delivery process is proposed to begin with, for the following reasons:

— It will take time to develop the technology-driven structure and platform, and to carry out user acceptance testing (UAT).
— The technology platform will have a significant cost, determined by the design and nature of the platform sought by TIB Development Bank for the CGME.
— It is expected that initially there will be a limited quantity of guarantee applications to the BEGF, as these will primarily be for capital investments.

Based on these underlying process design assumptions, technology-driven architecture can be introduced at a later date with the scaling up of operations, or at the time of introduction of additional funds to be operated by the CGME. See Chapter 4 for a more detailed outline of the proposed process architecture and IT platform.

B] Outline of activities to be performed by CGME

The work to be done by the CGME may be broadly classified into two areas: credit guarantee scheme operations, and other activities that leverage the expertise at the CGME, including administrative processes.

I. Credit guarantee operations related to CGS trusts
   — Registration of member lending institutions (MLIs)
   — Close assistance of MLIs as part of the roll-out and operation of products under each trust.
   — Promotion of each product through reaching out to lenders and target beneficiaries
   — Operation of guarantee schemes for trusts, including issuing credit guarantees, guarantee fee management, claims management

Note that the entire life cycle of guarantee operations, up to and including claim settlement, will be handled by the CGME Operations Team. This involves correspondence and close coordination with MLIs.

If TIB (the national development bank that is the parent company of the CGME) opts for a technology-driven process design, close coordination with IT vendors will also involve user acceptance testing (UAT) and technical assistance for MLIs under supervision of middle/senior management.

II. Other CGME activities

- Schematic design of credit guarantee programs/policy inputs to management committee and policymakers
- Supporting government ministries/agencies in establishing legal structure, trust(s), etc.
- Accounts/audit/tax remittances for CGME and the trust(s) under management
- Investment of trust capital/treasury management
- Administration/facilities/HR management
- Secretarial activities; Board of Directors support, management of committee meetings
- Technology: IT Support, data analytics, business intelligence
- Product development and risk management

1.8. Outline of revenue and expenditure streams: trusts and trustee company

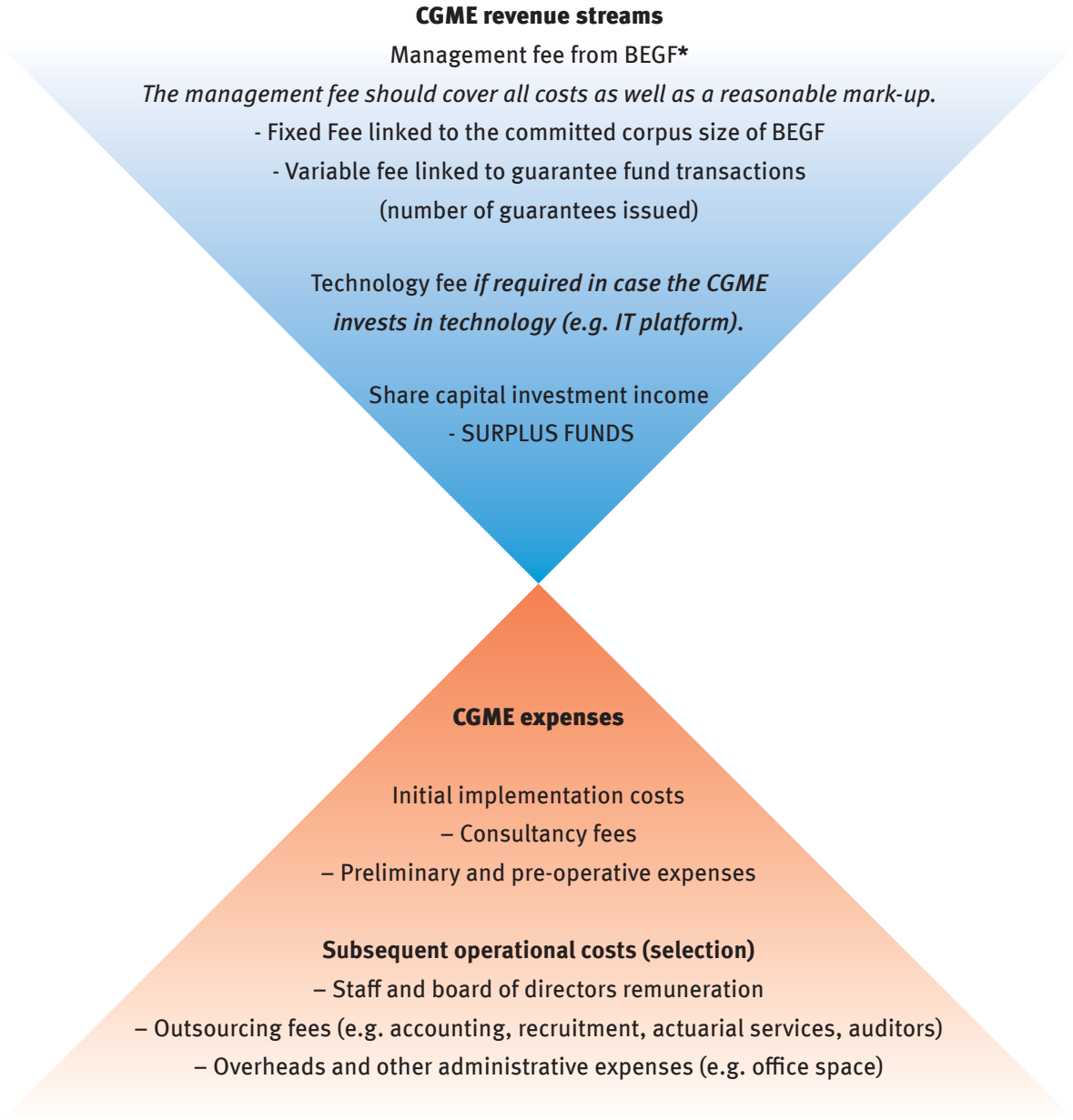
A] Revenue and expenditure models

The revenue and expenditure models of the management entity (CGME) and funds under its management are intricately linked.

A1] Revenue model: CGME

The capital invested by the owners of the CGME will be largely in the nature of public funding or donor capital. The CGME should be set up as a sustainable enterprise with a robust revenue stream and manageable expenses.

With growing experience, the CGME can look into various other fee-based activities in the areas of design, delivery, and management of risk-sharing and access-to-finance solutions in the MSME, rural, agriculture and allied agri-space segments.



*Additional revenue streams (advocacy, consultancy, management or operational support for other guarantee schemes) can be added later

Notes:

— Over time, the CGME can manage different funds with different objectives, and earn management fees from each fund. With multiple funds under its management, it can reap the benefits of economies of scale. Further, the CGME would become a repository for large quantities of data related to SMEs, banks, and other financial institutions, which can be leveraged for research as well as for credit bureau and policy advocacy services.

— Capitalization of the CGME depends on factors including the strategy of its founders (government, development bank), the number of funds it plans to manage in the coming years, the technology framework it wants to eventually deploy, etc. However, an initial, fully developed, realistic budget will be required for the immediate functions related to managing the BEGF.

— A separate needs analysis report (covering skill sets and personnel required), presented in Chapter 5, will enable TIB to make decisions on the initial HR budget and staff costs for the CGME in Tanzania.

A2] Revenue model – BEGF

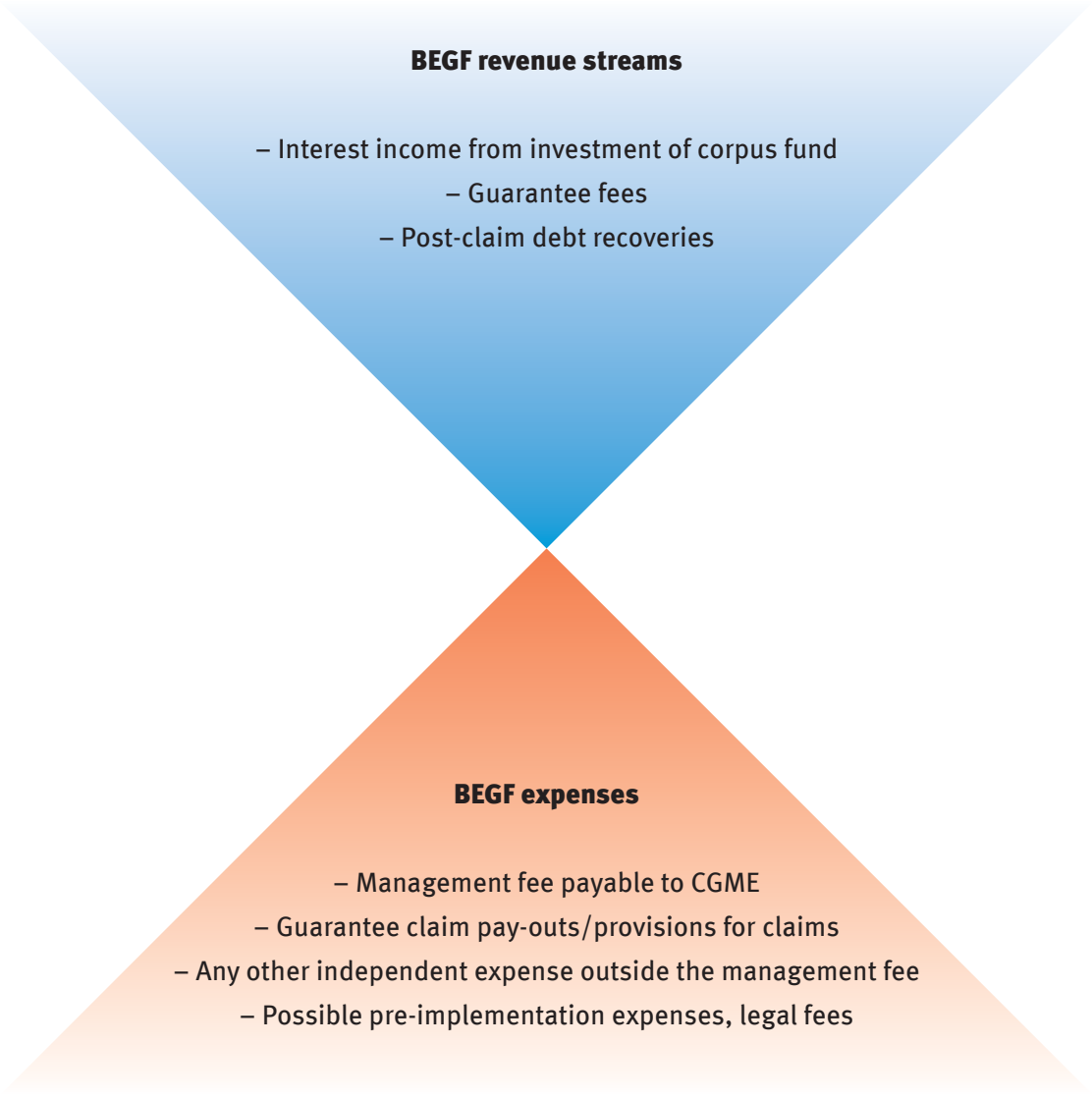
The BEGF is to be set up as a special purpose vehicle (SPV) with revenue streams and expenses. Contributions to the corpus fund will initially come from UNIDO and other multilateral agencies, as well as from the Government of Tanzania and/or other existing public managed funds, DFIs, and donors.

The fund will be established for capital to be leveraged in order to underwrite credit guarantees for SMEs in the bioenergy sector. The scheme can be understood as an indirect subsidy program, issuing guarantees to share credit risk with lenders. The SPV, taking the form of a trust, will be a kind of 'shell company', holding only the corpus fund (no employees, no tangible assets).

Income earned by the BEGF on investments made (from the corpus) will be a key source of revenue for the SPV in the initial years, and will act as a potential buffer for future guarantee claim pay-outs, as well as cross subsidizing the guarantee fee charged to lenders.

The BEGF should largely be in a position to meet all expected guarantee claim pay-outs from its guarantee and other fees, when appropriately priced and taken together with investment income.

Example of guarantee fund revenue and expenditure streams



A broad projection for BEGF operations over ten years, along with underlying assumptions, is provided in **Annex 1.1.**

1.9. Practical steps and formalities to be completed for establishment of institutional structure (Tanzania example)

A] FUND FORMATION AND SEED CAPITAL

- TIB will receive USD 1 million from UNIDO as seed capital, in the form of non-reimbursable grants, after establishment of a credit guarantee fund for biofuel investments (the "Bioenergy Guarantee Fund", or BEGF) to be hosted initially within TIB Development Bank.[2]
- For this purpose, to receive seed funding and put in place the initial institutional structures, TIB will establish a dedicated BEGF cell within TIB, with an initial team of three to four professional officers in line with the BEGF functional profiles received from UNIDO technical assistance (see Chapter 5).
- The fund capital will be subsequently transferred to a separate legal entity, the BEGF trust, and the BEGF cell will be spun out as a subsidiary of TIB to become the Credit Guarantee Management Entity (CGME), in accordance with the agreement between UNIDO and TIB.

A suggested timeline for CGME spin-out and the roll-out of the credit guarantee program is presented in **Annex 1.2.**

B] SEQUENCE OF TRUSTEE AND TRUST FORMATION

To formally establish the two-tier institutional structure, it is recommended that the credit guarantee management entity (CGME, the trustee company) be established first. Once the CGME is formed, it will need to have a dedicated bank account. Subsequently, the trust (guarantee fund) can be formed.

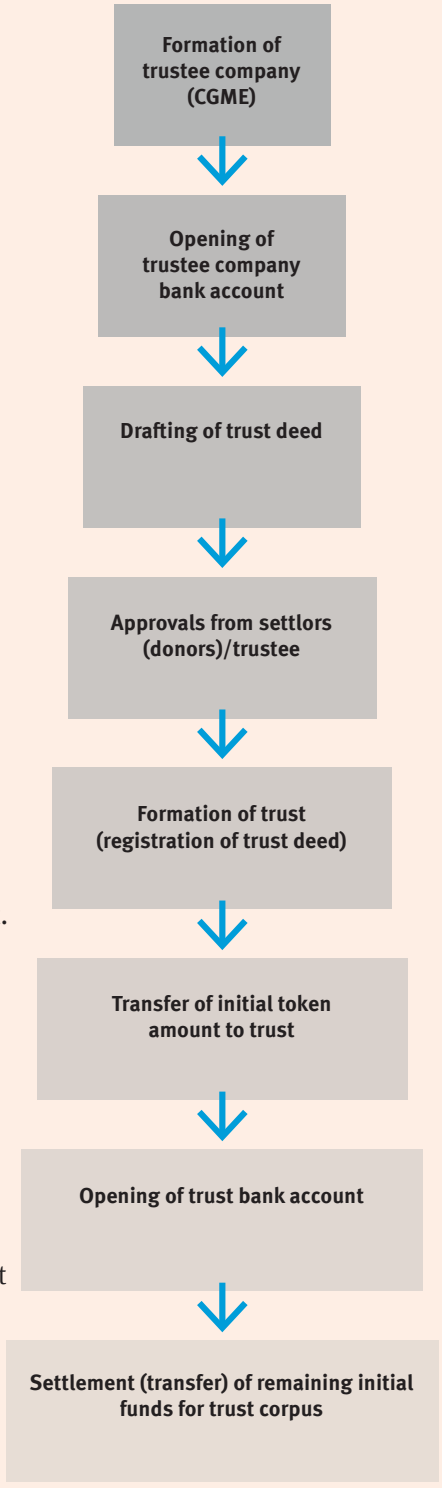
Formation of the trust involves two primary parties:

i. Settlor of the trust, i.e. investor/donor/government
ii. Trustee (CGME)

The relationship between these two parties is formalized by execution of a legal document, the Trust Deed.

Once the trust is formed and registered, the trust bank account will need to be opened for receipt of corpus fund contributions, income, etc.

Trustee and trust formation process steps



2. See Chapter 3 for a detailed overview of fund infusion.

C] FORMALITIES TO BE COMPLETED FOR CGME FORMATION (AS A LIMITED LIABILITY COMPANY)

I] Name of the CGME to be approved by appropriate authority

— Application to appropriate authority according to local legal framework, to ascertain availability of company name and receive approval/confirmation, if required.

II] Drafting and vetting of memorandum of association (object clause) and articles of association.

— Legal professionals (solicitors) will need to be engaged to arrange drafting of the memorandum of association, stating the object of the company to be formed, and the company's articles of association.

III] Identification of key management personnel, including CEO/MD and at least two initial company directors

— Initial directors are company directors who hold office from the date of incorporation of the company; a minimum of two initial directors is required to establish a limited liability company.

D] FORMALITIES TO BE COMPLETED/AGREED FOR SPV (TRUST) FORMATION

I] Name of the trust

The name of the trust needs to be decided on and approved by the settlor(s).

II] Objectives of the trust

The objectives and the purpose of the trust need to be clearly defined and agreed. The trust's primary purpose should be to guarantee loans and advances extended by banks/NBFCs/MFIs/other financial intermediaries, up to a certain limit, as determined by the settlor(s).

III] Applicable act of parliament and registered office/head office

The choice of location for the trust's registered office/head office of the trust should be based on administrative convenience. This may depend on the legislation that applies to the trust (trusts may be formed under different acts of parliament). In Tanzania, for example, the settlor(s) may choose to establish the registered office either in Dar es Salaam or Dodoma. This may depend on the legislation that applies to the trust (trusts may be formed under different acts of parliament). TIB should provide a legal view on this, keeping in view all of the administrative issues, and pros and cons.

E] FUNDS OF THE TRUST

The trust will hold an initial corpus fund of agreed value, contributed by the settlor(s). The settlor(s) may make further contributions to the corpus fund at a later time, as agreed or as they decide.

Any deficits in corpus contributions by settlor(s) must be made up by providing the necessary budgetary grant to the trust (in case such funds are from the government, provided as grants-in-aid).

The settlor(s) is solely responsible for providing the corpus fund to run the guarantee scheme and the trustee will have no liability whatsoever in this regard.

Other terms of foundation and legal terms with regard to the trust's assets and income will need to be professionally drafted and executed.

F] IMPLEMENTATION AND OPERATIONAL COSTS

The trustee will be responsible for the day-to-day operation and implementation of the credit guarantee scheme including registration of member lending institutions, guarantee approval, guarantee maintenance, fee collection, claim settlement, investment of funds, scheme propagation, IT platform, and all matters incidental to operation of the guarantee scheme.

Typically, a mutually agreed management fee will be charged by the trustee company to the trust, to cover the costs of running the guarantee scheme, plus a reasonable mark-up. The management fee cost and other trust costs will be met by the income of the trust, including guarantee fees and income from investing the corpus fund.

1.10. Anticipated risks in implementation and program management

Guarantee programs carry inherent risks. The most prominent of these is moral hazard risk, which can be addressed in product design. An indirect delivery model goes some way to mitigating this risk. See Chapter 2 for a more detailed explanation of moral hazard and other product design measures to limit this risk.

Various other risks at the broad program level have been identified, as well as at the implementation level, along with a detailed implementation strategy. It must be noted that active institutional participation is the key to the success of the program. A strong team that possesses the required skill sets and specialized knowledge needs to be put in place at the CGME and in management. This needs to be done in tandem with the development of appropriate processes and institutional structures.

A detailed risk matrix, accompanied by recommendations for mitigating risks, can be found in **Annex 1.3.**

Chapter 2

Product design for a bioenergy credit guarantee scheme

2.1. Design aspects of credit guarantee products

A] Key risks to be considered when developing the product design

There are two common risks that any credit guarantee program is faced with:

1. Moral hazard

Moral hazard arises when an individual takes more risks because they know they are protected due to another individual bearing the cost of those risks. Credit guarantee structures have an inherent moral hazard issue. Moral hazard risk can be present at the 'borrower-lender' end as well as at the 'lender-guarantor' end of the program. This risk can be mitigated through various parameters of the lending product and the guarantee product at the design stage. On the lending side, issues related to promoters' equity contribution, borrower segment, and loan size need to be carefully considered. The guarantee product needs to take into account the financial standing of the partner lenders, their appraisal methods, and their borrower selection criteria. Other details such as the extent of guarantee cover, the structure of the guarantee fee, and claim pay-out rules also play an important role.

1. Adverse selection

Adverse selection occurs when one party makes a decision based on limited or incorrect information, leading to an unbeneficial result.

B] Basic aspects of credit guarantee scheme design

	Product design aspects	Comments
1	**Selection of partner lenders**	– In indirect guarantee models, appropriate selection of lending partners is an important criterion. – Lending partners are selected based on parameters including capital adequacy ratio, lending norms in place, profitability, etc.
2	**Guarantee cover/ risk-sharing structure**	– The risk-sharing structure (between the lender and the guarantor, also known as the extent of guarantee cover) is an important feature in the design stage of any guarantee program. To address the risk of moral hazard, 100% guarantee cover is never recommended. – Typically, a significant share of credit risk remains with the lender, to ensure that due process is carried out by lenders when providing credit. – If a guarantee scheme covers a wide cross-section of loan sizes/types, and has reached a large volume, the extent of guarantee cover offered by the guarantor may be different for different portions of the portfolio.

Product design aspects	Comments
3 Diversification of assets under guarantee cover	– A broad-based portfolio with a large number of guarantees distributes guarantee payout risk, while a skewed portfolio made up only of larger loans can put pressure on profitability and on the corpus fund. – Typically, to reduce the exposure of schemes to default and to diversify the risk in underlying assets, good credit guarantee institutions have risk management procedures in place, reducing asymmetries in information with regard to the borrower's credit history. – The granularity of the guarantee portfolio needs to be ensured as the fund grows. – The objective should be to cover a wide number of applicants cutting across a range of sectors.
4 Credit product controls	– Typically, guarantee schemes prescribe controls on the credit products that will be guaranteed – Controls may cover borrower segments, ticket sizes, loan repayment periods, types of credit provided, or the rate of interest charged by the lender. Interest rate caps are used to ensure that interest rate benefits are passed on to borrowers under the program.
5 Guarantee fee structures	– The guarantee fee is a charge that covers credit risk. However, guarantee programs with social objectives often cross-subsidize the guarantee fee from income earned by the corpus fund. In this regard, fees need to be structured to ensure the program's sustainability and address moral hazard risk. – Many guarantee models have introduced risk-based guarantee fee structures. – The extent of guarantee cover can be mapped to the risk rating of the lender – Fee structures can incorporate incentives based on the behavior of lenders/borrowers over time.

Product design aspects	Comments
6 Claim settlement	– Claim settlement is a key feature of any guarantee product. Too many rules, procedural features or restrictions can make the scheme unattractive. However, an appropriate balance needs to be maintained so as to handle moral hazard issues. – "Lock-in period" is a feature that sets a minimum period between issue of the guarantee and the earliest time that a claim can be lodged, typically between 12 and 36 months, depending on the nature of credit covered. A reasonable lock-in period allows the fund to generate income before claims are paid out. – Claim settlement in instalments can disincentivize reckless lending, as well as allowing time for the fund to generate income. Normally claims are settled in one to two instalments. Settlement features can be linked to certain conditions. – Once the scheme achieves some maturity, features like claim payout caps can be introduced, if needed.
7 Post-claim recovery	– Post-claim recovery is an aspect that can be addressed at the design stage and is sometimes neglected. Since credit guarantees are risk-sharing products, recoveries made from borrowers who have defaulted need to be tracked and shared between the lender and the guarantor. – The guarantor should monitor lenders who have made claims through selective audits and other means of information sharing, so as to avoid leakages in recoveries due.

While multiple product features can be incorporated into a credit guarantee scheme, care needs to be taken to preserve a balance between effectiveness and complexity. Too many complex features can make a scheme unattractive to the market.

The initial design of a new scheme should be kept as simple as possible, without diluting overall risk mitigation features. Once the guarantee program matures and market feedback is received, needs-based modifications can be made. This is one reason why a robust review mechanism is essential as part of program management and governance.

2.2. Product delivery model

A] Guarantee delivery model

i) Indirect delivery

The effectiveness of a guarantee scheme depends largely upon ease of operations for lenders. The selected delivery model therefore plays a key role in a scheme's success.

Guarantee schemes around the world are predominantly indirect in nature. This means the guarantor deals with lenders and has no direct dealings with borrowers. Under the indirect model, the emphasis is on selecting appropriate lending partners. As such, the guarantor's credit risk is largely determined by the strength of the partner lenders and their underlying lending processes and prudential methods.

The model proposed in Tanzania was also an indirect credit guarantee model.

ii) Breakdown of indirect delivery model

Indirect delivery of the guarantee product is comprised of the following essential elements, with the lender interacting with the guarantor rather than the borrower:

- Guarantee application
- Guarantee fee(s)
- Claim lodgment, in cases where a claim is made
- Claim settlement, when a claim is upheld
- Disbursement of post-claim recovery funds, if applicable

There are two basic types of indirect model:

i. De-centralized delivery of credit guarantees – Each branch of a partner lender, or certain designated offices of a partner lender (at branch/zone/region level) are authorized to be part of the delivery mechanism. The guarantor deals with multiple points of sale of each lender.
ii. Centralized delivery of credit guarantees – The central office or a designated nodal office of the partner lender is authorized to be part of the delivery mechanism. All communication, data, and funds related to credit guarantees flow to and from the central office from/to the guarantor.

B] Notes and suggestions regarding delivery model

- Since almost all lending institutions today use technology-assisted core centralized banking systems, de-centralized delivery has been replaced by centralized delivery in most sovereign credit guarantee programs around the world.
- The key benefits of a centralized delivery system are:
  - All major credit institutions/banks are now familiar with this system, as it allows for seamless transactions which can be managed centrally
  - Saves time with regard to inter-branch/central office reconciliation
  - Centralized management of indirect taxation
  - Ease of integration in case of future bank mergers
- With a robust technology platform, centralized delivery is clearly the preferable model and we therefore suggested centralized indirect delivery of credit guarantees for the bioenergy-focused credit guarantee scheme in Tanzania, and for similar schemes in other countries.

2.3. Conclusions from evaluation and suggested schematic framework for bioenergy credit guarantee scheme

A] Suggested basic product design

As a result of the evaluation phase of the UNIDO project to support establishment of a private sector guarantee facility for bioenergy in Tanzania, to be implemented by TIB, the following principal aspects of product design were proposed.

Product feature	Proposed parameters
Eligible lending institutions (ELIs) (partner lenders)	Well-run credit institutes in Tanzania; partner institutions may be determined by the fund from time to time.
Eligible beneficiaries	Enterprises that operate or plan to operate within the bioenergy value chain.
Eligible credit facilities	Term loans, working capital facilities and other credit, as may be defined by the fund, extended by partner lenders to eligible beneficiaries.
Guarantee fee	Annual fee equivalent to 2% of the approved loan/credit facility (including a 0.5% counter-guarantee premium); this may be modified by the fund over time.
Maximum loan amount	USD 1 million (TZS 2300) in total by way of term loans and/or working capital facilities after entering into an agreement with the BEGF, or such amount as may be decided by the BEGF from time to time.
Risk sharing (extent of guarantee cover)	75% of the amount in default; this may be modified by the fund over time.
Lock-in-period (min. initial period before claim can be made under the guarantee)	24 months from issue of the guarantee

B] Noteworthy other evaluation conclusions

To support successful uptake of the scheme, a well-defined product propagation strategy needs to be put in place.

— Credit guarantee products are intimately linked to lending products. Commercial lenders (both banks and non-banks) sometimes design lending schemes in line with credit guarantee offerings, especially if it makes commercial sense.
— Along with carefully developed product design, ease of operation (particularly for lenders) plays an important role in a scheme's success.
— In the course of the evaluation, it became clear that the bioenergy sector, though nascent at that time, has the potential to grow rapidly in the coming years. It is strongly believed that the dedicated credit guarantee program will play a major role in kickstarting expansion of the lending space for the sector.

The complete terms and conditions of the draft Bioenergy Credit Guarantee Scheme in Tanzania can be found in **Annex 2.1.**

Chapter 3

Bioenergy Credit Guarantee Fund: fund structure and infusion

3.1 Background: purpose of credit guarantee schemes and fund type

Credit guarantee schemes (CGSs) work by guaranteeing to credit providers that all or part of a debt will be repaid, even if the borrower defaults. In essence, CGSs absorb an important share of borrower risk: by covering part of the default risk, the lender's risk is lowered. Schemes also compensate for factors such as insufficient collateral and weak creditor rights. In this way, CGSs are an important policy tool to encourage lending and facilitate investment where there may be obstacles to providing credit to underserved borrowers.

Schemes are usually supported by a credit guarantee fund, which provides a credible capital base that can, if necessary, be drawn on to pay out guarantee claims. Various models for credit guarantee fund models are in use, and four major types of guarantee funds can be identified by asking the following questions:

— How has the guarantee fund been capitalized?
— What is the ownership structure?
— How are guarantees delivered?[1]

Fund type 1: Public guarantee schemes or sovereign funds

— Public guarantee/sovereign guarantee schemes are established by public policy. They usually involve state subsidies, especially at the beginning.
— Typically, they are managed by a private organization or an administrative unit of the government. An advantage of this system is that in case of loan default, the guarantee is paid out directly from the government budget. This gives such a scheme higher credibility within the banking sector.
— Examples include Slovenia's Small Business Development Fund (SBDF), which was established in 1992 by the Government of Slovenia to promote the establishment and development of small businesses, and India's ongoing Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE, established 2000) and National Credit Guarantee Trustee Company (NCGTC, established 2014).

Fund type 2: Corporate funds

— Corporate guarantee schemes are generally funded and operated by the private sector, e.g. by banks or chambers of commerce.
— They have the advantage of being managed by experienced corporate leaders, and often benefit from the direct involvement of the banking sector.

1 Anke Green, UNIDO Working Paper, 2003

Fund type 3: International funds and schemes

— International schemes are bilateral or multilateral government or NGO initiatives, e.g. involving the International Labour Organization (ILO), UNIDO or the European Investment Fund (EIF). These schemes often combine a guarantee fund with technical assistance to firms.
— USAID's Loan Portfolio Guarantee scheme (LPG) is an example of an international scheme focused on supporting development of new sectors. It does not provide loan funding to any particular organization, but facilitates public-private partnerships. This is done through a series of international bilateral commercial guarantee agreements between USAID's Centre for Growth and privately-owned commercial banks. USAID's Development Credit Authority (DCA), established in 1999, stimulates lending through a number of credit guarantee schemes that target a range of different countries.[2]

Fund type 4: Mutual guarantee schemes

— Mutual guarantee schemes (MGSs) are also known as mutual guarantee associations, societies or funds. They are private and independent organizations formed and managed by borrowers with limited access to bank loans.
— Although they are largely funded by membership fees, etc., in many instances they operate with some form of government support. Mutual guarantee schemes benefit from the active involvement and experience of their members.
— The MGS aims to bridge the gap between banks and entrepreneurs. Each member contributes to a common fund that is used to make guarantees on loans procured by its members. An important characteristic of a mutual guarantee scheme is that it also relies on social capital, i.e., the fund creates social norms and positive peer pressure to encourage repayment amongst its members.
— Due to their structure, mutual guarantee funds have a competitive advantage over other types of guarantee funds. It can be argued that performance might be better in mutual guarantee schemes than in public guarantee schemes. Their key advantages are inherent expertise in, and knowledge of the business sectors covered by the fund, as well as knowledge of the region in which the scheme is based, and understanding of the market trends and production techniques of the enterprises whose loans are guaranteed by the fund. Mutual schemes are often in a better position to evaluate the feasibility and risk of a project. This knowledge advantage can decrease information-gathering costs and therefore reduce overall transaction costs.
— Mutual guarantee associations known as CONFIDIs were popular in the post-war period in Italy. The model flourished in particular in the Piedmont region during the 1970s. Large corporations like Fiat, an automobile manufacturer based in Turin, and related downstream enterprises took part in such guarantee associations, together with trade bodies and confederations. Modern day guarantee corporations include UNIONFIDI, headquartered in Turin.

2 www.usaid.gov

A 2008 World Bank study of 76 guarantee schemes across 46 developed and developing countries found that mutual guarantee funds tend to operate in high-income countries, while most middle and low-income countries have publicly operated funds. The study also found that public schemes are, on average, younger than mutual funds and are more likely to operate in emerging markets. It also suggested that mutual guarantee schemes tend to be more sustainable financially due to ownership by and involvement of their members.

B] Rationale for creation of a credit guarantee corpus fund through public/social contributions

To understand the need for a corpus fund under a credit guarantee scheme (CGS), it can help to consider a typical business model for an insurance scheme – another method of sharing risk – and to compare it to a CGS.

An insurance business requires much lower capital funding compared to a CGS. This is because in an insurance model, the underlying risk and associated transaction costs are covered by a risk premium, paid as a fee that is on commercial terms. In the case of a credit guarantee, the guarantee cost is usually subsidized through capital contributions– which are generally socially motivated – forming a corpus fund (which in turn earns substantial returns to offset the underlying credit risk premium, thereby cross subsidizing it to promote uptake and incentivize access to finance).

In most cases when governments promote such guarantee schemes, a large portion of the corpus fund is contributed by a government agency up-front, through a budgetary allocation. In other funds which are quasi-sovereign or involve a mix of public and private contributions, the nature of funding is still more "social" than commercial or economic.

By improving access to formal credit, CGSs help enterprises to acquire finance for investments which will increase economic productivity (and support development). The rationale behind providing public or socially motivated funding for such schemes is clear: they result in economic, social, and societal benefits (such as knowledge sharing, and research and development).

Credit guarantee schemes are time and resource intensive. In public-private models, some sort of external assistance, especially initially, is usually required to jump start a CGS. However, it is also possible for CGSs to stand on their own, without government or other external assistance. For example, there are models (particularly mutual guarantee models) where sufficient revenues can be raised through registration fees. However, care must be taken to ensure that the registration or membership fee is not too high to discourage borrowers from taking advantage of the CGS, and not too low to prevent the CGS from being able to cover its costs.

3.2. Typical funding and structural options for CG funds

A] Fund contribution instruments

Guarantee fund contributions are typically non-refundable grants; however, other funding models are also used. The following kinds of contributions are possible.

— Non-refundable grant-in-aid (from government, multilateral agencies, or other bodies)
— Long-term soft loans (carrying a nominal return, typically from social investors)
— Capital infusion (share capital)
— Membership fees (mostly seen in mutual credit guarantee structures)

Blended finance, combining development finance and philanthropic funding (see below for a detailed examination of blended finance and platforms that facilitate it).

B] Fund contributions – roles of government and private donors

The primary role of the public sector in facilitating credit guarantee schemes is to create the appropriate regulatory environment. Public funding, especially initially, may also be considered; notable schemes in Colombia and Chile have been kickstarted with public funding. However, it is important that state subsidies interfere as little as possible with the market mechanisms determining supply and demand, and therefore the price and quantity of credit.

In many cases, national or regional governments have provided guarantee schemes with subsidies to target guarantees at SMEs, or to help a guarantee fund expand operations. In other cases, governments have stepped in to provide initial capitalization. While government initial capitalization spreads risk between lenders, borrowers and the government, it can also often cloud the real operational costs.

Many studies have shown that the role of the government should be limited to setting up the appropriate legal environment and contributing technical assistance. Subsidies should only be given over a short-term period, and the ultimate aim of a guarantee scheme should be independence and self-sufficiency.[3] Moreover, according to the World Bank, governments should have a limited role in management and risk assessment of the scheme.

Donors also often play active roles in funding guarantee schemes, and bring credibility. Naturally, donors need to carefully examine guarantee schemes they are looking to fund. Donors should also clearly define the responsibility of each actor and determine payment conditions based on key milestones and outputs, to encourage adequate risk allocation.

Without the active involvement of the private sector, schemes are unlikely to succeed. Private sector funds are particularly important to ensure a fund's stability and sustainability. In fact, banks and other private institutions can have a direct stake in a fund's capitalization.

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3 European Commission, 1991

However, public funds often also have an essential role to play. A number of schemes in West African countries in the past, for example in Burkina Faso and Cote D'Ivoire, failed because public finds were not rapidly injected. As a result, the schemes faced delays in disbursing their guarantees and lenders were reluctant to apply to the guarantee schemes.[4]

C] Regulatory and institutional framework (OECD - Discussion Paper on Credit Guarantee Schemes, 2010)

Various guarantee funds, especially mutual guarantee funds (MGSs), have not had much success in developing countries. The reasons for this include a weak legal framework and a non-competitive banking sector (Levitsky, 1993). For instance, in Senegal the National Craft Association (UNCM) and the Dakar Chamber of Commerce have both attempted to create a MGS. But statutory minimum capital requirements prevented the funds from setting up shop – both funds aimed to operate on a smaller scale, and the minimum capital requirements were too high for them to achieve (or need). The legal environment did allow the MGSs to be established as non-profit organizations, but most banks preferred to deal with a profit-making entity (Balkenhol, 1990). In contrast, a competitive banking sector and growing domestic capital market contributed to the success of the Chilean guarantee scheme.

These examples make clear that governments need to establish the conditions that enable the creation of mutual guarantee schemes and the growth of state-funded credit guarantee schemes. This includes minimizing obstacles and promoting the use of guarantee schemes in the financial sector, and by businesses and the general public.

A 2005 study by the UK's Department of International Development identified a number of micro and macro factors that can contribute to the success of guarantee schemes, including:

— An open, competitive environment with independent banks and a framework that supports SME creation and growth.
— Regulation for credit guarantee schemes. Regulators can improve the environment for issuing guarantees in numerous ways, in particular by establishing special minimum capital requirements, appropriate solvency ratios, and transparency criteria. Such controls improve banking sector confidence in guarantee schemes, and help to prevent a crisis stemming from poorly issued guarantees. Controls can also contribute to higher liquidity among guarantee schemes, improving the ability of banks to recover the cost of their loans in instances of default.

Engaged external supervision has a positive effect on the guarantee system, since it reduces the risk of fund mismanagement. Guarantee scheme regulation contributes to schemes' credibility, and when a scheme is supported by public resources, regulators can ensure the protection of those resources. In countries where the private financial market is well developed, regulation can be achieved, in part, with private sector actors. However, when this is not the case public entities such as the central bank should take over the task of regulation.

4 Balkenhol, 1990

3.3. BEGF fund size and fundraising options

A] Size, infusion timeline and structure of the guarantee corpus fund

The estimated total corpus fund size will be USD 10 million, made up by USD 2 million contributed annually over a five-year period. UNIDO seed funding will be supplemented by government funding and blended finance. The corpus fund of USD 10 million is expected to catalyze total investment of USD 100 million.

— A robust fund size (even if not used immediately) plays a critical role in creating confidence among partner lenders. If built up quickly through contributions in the early stages of the program, additional funds can be accumulated through investment income. This can be used prudently to further cross-subsidize guarantee fees and to scale up activities later.
— The five-year timeline for fund infusion indicated in the model remains flexible; actual needs and fundraising will also depend on market conditions and the pace of scale-up.
— The proposed contribution structure for the BEGF is hybrid, comprising public, private (corporate), and international (donor) funds. UNIDO (through GEF) will kickstart the BEGF corpus with seed funding of USD 1 million in 2022.

B] Blended finance as an option for funding the BEGF

What is blended finance, and how does it work?

Blended finance involves mixing public and private funds through a common investment scheme or deal, with each party contributing their expertise in a complementary way. The concept was developed within the World Economic Forum's Redesigning Development Finance initiative, which defines it as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets."

Blended finance has been gaining popularity lately in the world of international development finance, and the OECD's Development Assistance Committee has developed blended finance principles to guide design and implementation, with the aim of attracting and directing development finance, including philanthropic resources, towards achieving the SDGs.

Building on the results of a survey carried out on behalf of the World Economic Forum, the OECD recently identified 180 blended finance funds and facilities with more than $60 billion in assets invested across 111 developing countries and impacting over 177 million lives, demonstrating the tremendous potential of blended finance to close the funding gap required to finance the ambitious Sustainable Development Goals (SDGs) agenda and deliver development outcomes.

Supporting mechanisms for blended finance

Supporting mechanisms are used by development funders to attract and support private sector investors to blended finance packages, by managing risks and reducing transaction costs. Generally, supporting mechanisms provide:

— Technical assistance and/or grants to supplement the capacity of investees and lower transaction costs
— Risk mitigation to fully or partially protect investors against risks

— Market incentives: guaranteed payments contingent on performance of future pricing and/or payment in exchange for up-front investment in new or distressed markets.

Platforms for blended finance

There are currently two major international platforms that are putting blended finance into practice:

— The Sustainable Development Investment Partnership (SDIP), and
— Convergence

The goal of these platforms is to bring together relevant public and private sector entities, connecting interests and resources with initiatives. Both platforms give funders access to a pipeline of individual blended finance project transactions, effectively scaling up the participation of public and private investors. Blended finance is showing promising initial interest and results, and the platforms will also help to assess the efficiency of the model over time.

The Sustainable Development Investment Partnership

— The Sustainable Development Investment Partnership (SDIP) brings together public and private entities from developed and developing countries that share an ambition to scale up sustainable infrastructure investments in developing countries.
— SDIP was established to help bridge the huge gap in funding for programs that need to be implemented to achieve the Sustainable Development Goals. As a result, a large share of its projects is located in Sub-Saharan Africa.
— SDIP was launched at the United Nations Conference on Financing for Development in Addis Ababa in July 2015, with 20 founding members. Membership has since expanded to 30. The World Economic Forum and the OECD provide institutional support.
— The partnership is open to governments, local and global private sector banks, institutional investors and other public and private funders, development finance institutions and bilateral and multilateral development banks, as well as other organizations committed to providing efforts and resources to support the partnership's various activities.
— Of the USD 30 billion in projects SDIP is facilitating worldwide, a project volume of more than USD 20 billion is located in Africa. Consequently, the partnership has a dedicated African Hub within which it is looking to build local capacity, and to ease the exchange of best practice across its network of institutions.
— SDIP's African Hub is a potential strategic partner for the BEGF in Tanzania and similar funds

The Convergence platform

— Convergence is a global network for blended finance. Its members are a global community of institutions and businesses dedicated to driving capital to where it is needed most. Members include the leading public investors, foundations, private investors, and deal sponsors in blended finance.
— Member institutions include private investors looking to diversify their portfolios, businesses seeking capital, and public agencies and philanthropic foundations looking to make their funds go further.
— Any institution can register as a member; however, as Convergence is a regulated entity, certain products and services are only available to accredited/sophisticated investors.
— Convergence offers its members data intelligence, and support with regard to deal flows and capacity building.

3.4. Key aspects of BEGF structure in Tanzania in respect of fundraising and legal framework

A] Key aspects of BEGF structure

- The Bioenergy Guarantee Fund is a special purpose vehicle (SPV), a legal entity established separately to the fund management entity.
- The SPV will house the credit guarantee scheme corpus fund, with contributions made by various donors and funding agencies, including government agencies.
- To ensure tax-efficient and seamless operations, the various legal options that are available in the local jurisdiction may need to be evaluated by key stakeholders.
- As multiple investors, donors, and agencies will contribute to the Fund, it is important to clarify two critical aspects of the program structure:
  - The choice of appropriate legal structure for housing the Fund. It may be appropriate to form the SPV as a trust, a partnership, a limited liability company, or a non-profit association, etc.
  - The choice of appropriate financial instruments for contributions to the Fund – e.g. grants, soft debt, convertible instruments, or equity capital

- Local (national) laws and regulations need to be considered when determining the legal form of the SPV, and have implications for the choice of financial instruments. Key aspects include:
  - Ownership structure of the entity and limited or unlimited liability
  - Minimum capital requirements
  - Direct and indirect taxation of SPV funds and income; stamp duties, etc.
  - Any restrictions applying to investment of donor funds from outside the country
  - Repatriation of funds outside the country/distribution of profits
- Foreign exchange regulations

B] Proposed action plan (within the overall timeline detailed in Annex 1.2)

- UNIDO and TIB will engage an experienced legal team (with knowledge of local laws) to look into the above aspects of regulations and structure
- The underlying legal documents and agreements for establishment of the appropriate legal structures will be prepared with the support of the legal team, keeping in view the future inflow of funds from within Tanzania and from foreign agencies
- Arrangement of internal institutional approvals of the underlying legal structures and of documents that will facilitate fund transfers through appropriate financial instruments
- Finalize the legal structure for the BEGF SPV and the management entity.
- As UNIDO/GEF will transfer seed funding, underlying aspects of fund transfer will need to be examined from the legal side. It may be necessary to finalize the financial instrument for transfer of UNIDO seed funding to TIB initially, and subsequently to the BEGF when it is formed.
- A brief examination of legal issues with regard to transfers from other potential international donors is also required.

Chapter 4

Credit guarantee scheme: process architecture and technology platform

4.1. Need for and purposes of process architecture framework

The proposed credit guarantee management entity (CGME) is envisaged as a specialized guarantee organization for dispensing multiple credit guarantee programs under a single architecture. Initially, on the case of Tanzania, one guarantee program is under active consideration (the bioenergy credit guarantee scheme). **To enable a seamless credit guarantee delivery mechanism, a robust technology platform needs to be put in place.**

It should be noted that implementation of a technology platform needs to be carried out over an extended period in an agile manner, and that a schedule needs to be drafted and confirmed for the different phases of implementation, ensuring that the necessary resources will be available for each phase.

Note that while this chapter, comprising a 'process architecture report' provides the basis for procuring a robust technology platform for delivering credit guarantees, it also clearly describes the steps and sub-steps involved in a generic delivery workflow. If the initial volume of guarantees **to be provided is expected to be small, delivery can at first be carried out manually, before implementation of a technology platform.** Once volumes under a scheme start picking up, and other programs are brought under the management of the CGME, the technology platform can then be put in place.

A process architecture report is expected to facilitate:

1. Internal consensus (among management/stakeholders) on process architecture design.
2. The credit guarantee management entity (CGME)/fund management to be able to take the next steps regarding:
   a. Resource planning (identification of CGME internal team, and of technology partner) for handling the necessary work (domain side co-ordination with technology team for platform implementation, testing and co-ordination with technology teams of partner lenders, carrying out user acceptance tests, etc.).
   b Working out and defining the necessary budget, scope, plan, and timelines for:
      I. Setting up the infrastructure for hosting of the technology platform
      II. Implementing the platform
      III. Necessary maintenance of the entire IT infrastructure (including disaster management)
3. Putting in place the basic building blocks for design of the technology platform.
4. Introducing the process architecture to the technology team.

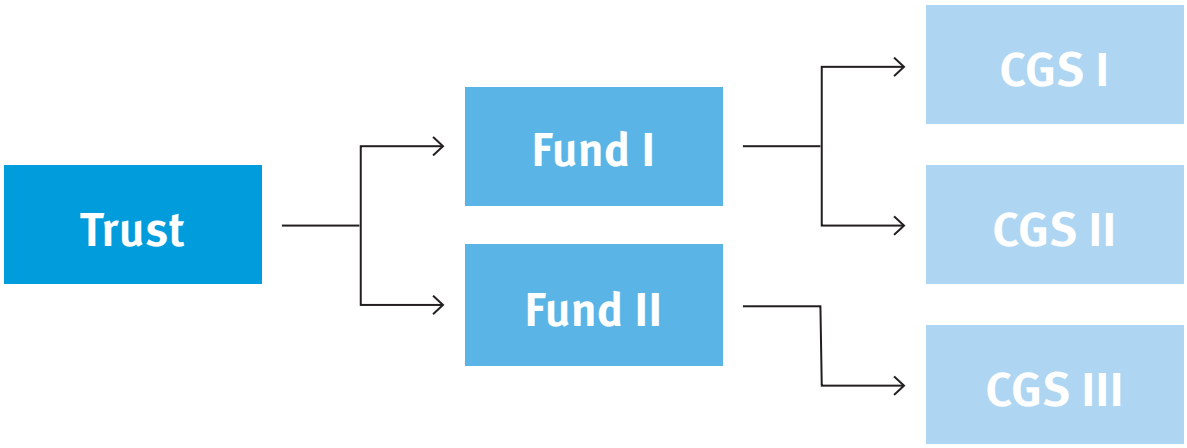
Once implementation of building the Technology platform is initiated, the CGME may identify two to three lenders (eligible lending institutions) for pilot testing.

4.2. Guarantee delivery model

A technology platform has to be based on a structured delivery model. See Chapter 2.2 for a discussion of the indirect, centralized delivery model to be deployed for delivery of the guarantee scheme.

4.3. Outline of centralized delivery processes

A] Scheme delivery structure to be served by process architecture/technology platform
Although to begin with processes may be established for implementation of a single guarantee program, multiple guarantee programs can be managed by the Credit Guarantee Management Entity. A special purpose vehicle (SPV) – e.g. a trust – will be created to house each program. Each SPV may serve one scheme or multiple schemes in a program. And each scheme would typically have a dedicated corpus fund. This means a trust may house a single fund for one or more schemes, or multiple funds serving a number of schemes. A potential structure is illustrated in the diagram below.



Example of a developed structure with multiple credit guarantee programs and schemes.

B] Processes and technology platform structure
The technology platform should be designed to provide access at the client (lender) end, for data entry/upload, and at the guarantor end, for processing.

Typically, at **scheme level** (i.e., for each scheme), **six different interdependent steps, with corresponding technology platform modules, make up the end-to-end guarantee process:**

1. Client (partner lending institution) registration (ELI Registration Module)
2. Application module for issuing guarantees (Guarantee Application Module, Credit Guarantee Fee Module)
3. Credit guarantee renewal (Guarantee Renewal Module)
4. Guarantee claim lodgment and management (Claim Module)
5. Claim settlement (Claim Settlement Module)
6. Post-claim recoveries (Post Claim Recovery Module)

1. LENDER REGISTRATION

The eligible lending institution (ELI) registration process involves offline as well as online activities. Each ELI – which will become a member lending institution (MLI) – needs to nominate a defined **single point of contact** (SPOC) who is their internal central link with the credit guarantee management entity (CGME).

ELI registration involves the following offline activities:

a) Registration request from the ELI (the request form should make clear the required documents to be enclosed)
b) Agreement/undertaking to be executed (signed) by ELI with CGME
c) Board resolution from ELI indicating intent for guarantee/authorizing persons, etc.
d) Admin./contact person details (name, job title, e-mail address, tel. no., etc.) in SPOC form
e) ELI bank account details
f) Checklist note (for internal approval of ELI registration)

Once internal approval is obtained, the new MLI can be registered on the technology platform using the **ELI Registration Module.**

2. ISSUING GUARANTEES

Credit guarantee application data flows from the MLI, entered in a pre-defined format (in a batch mode with unique identity structures) and uploaded on the technology platform for extraction and processing in the **Guarantee Application Module**.

A predefined rule engine determines the eligibility of the application batch, and calculates the guarantee fee based on predefined settings. A demand advice (DA) for guarantee fees is generated (automatically or manually) in the **Credit Guarantee Fee Module (CG Fee Module)**.

The MLI pays the guarantee fee to the designated account (as per the guarantee fee demand advice) and uploads the payment information for the batch onto the platform. On reconciliation, the credit guarantee is approved.

3. GUARANTEE RENEWAL

The process is repeated for annual renewal of credit guarantees. The renewal application is submitted by the MLI using the **Guarantee Renewal Module** and the fee for the year ahead is demanded and reconciled using the **CG Fee Module.**

4. AND 5. GUARANTEE CLAIMS

Guarantee claims following default and claim settlements are also managed on the platform, through the **Claim Module** and **Claim Settlement Module**, respectively.

6 POST-CLAIM RECOVERIES

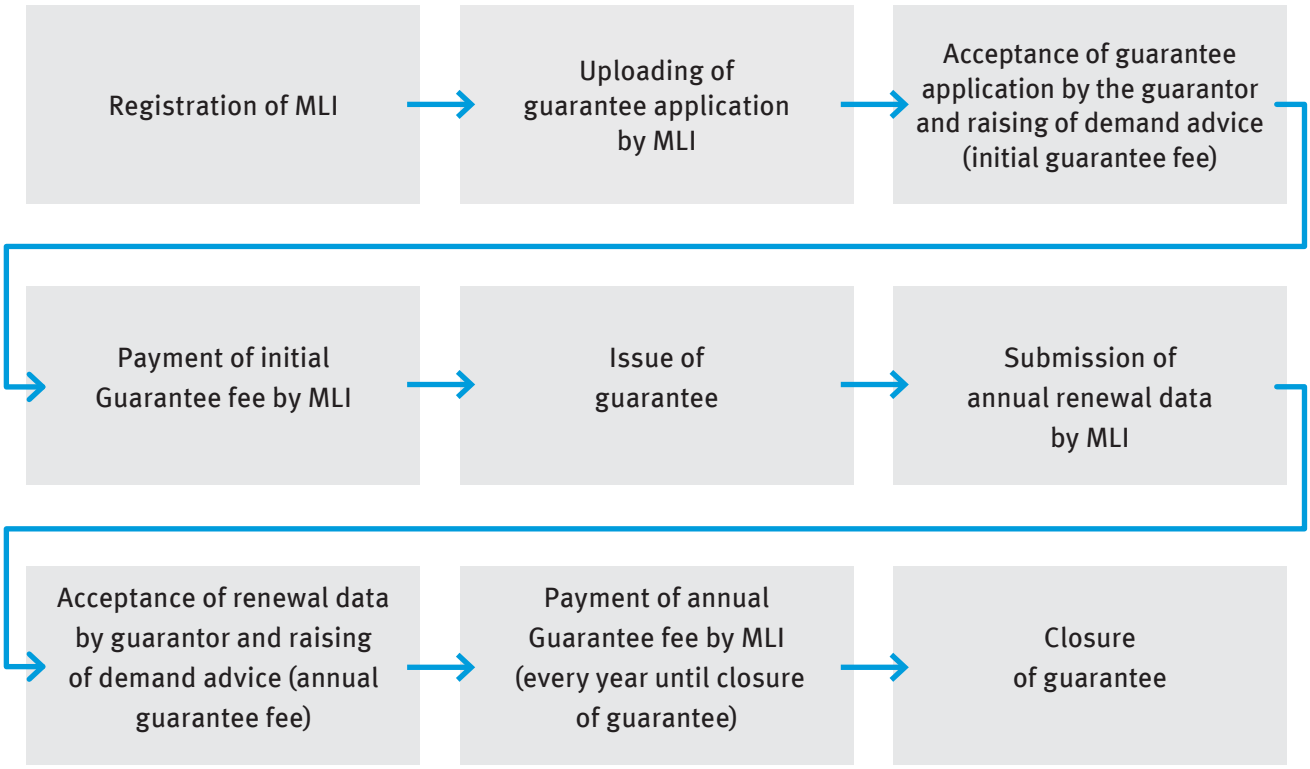
Distribution (sharing) of post-claim recoveries from borrowers is carried out through the **Post Claim Recoveries Module.**

C] Process flow charts

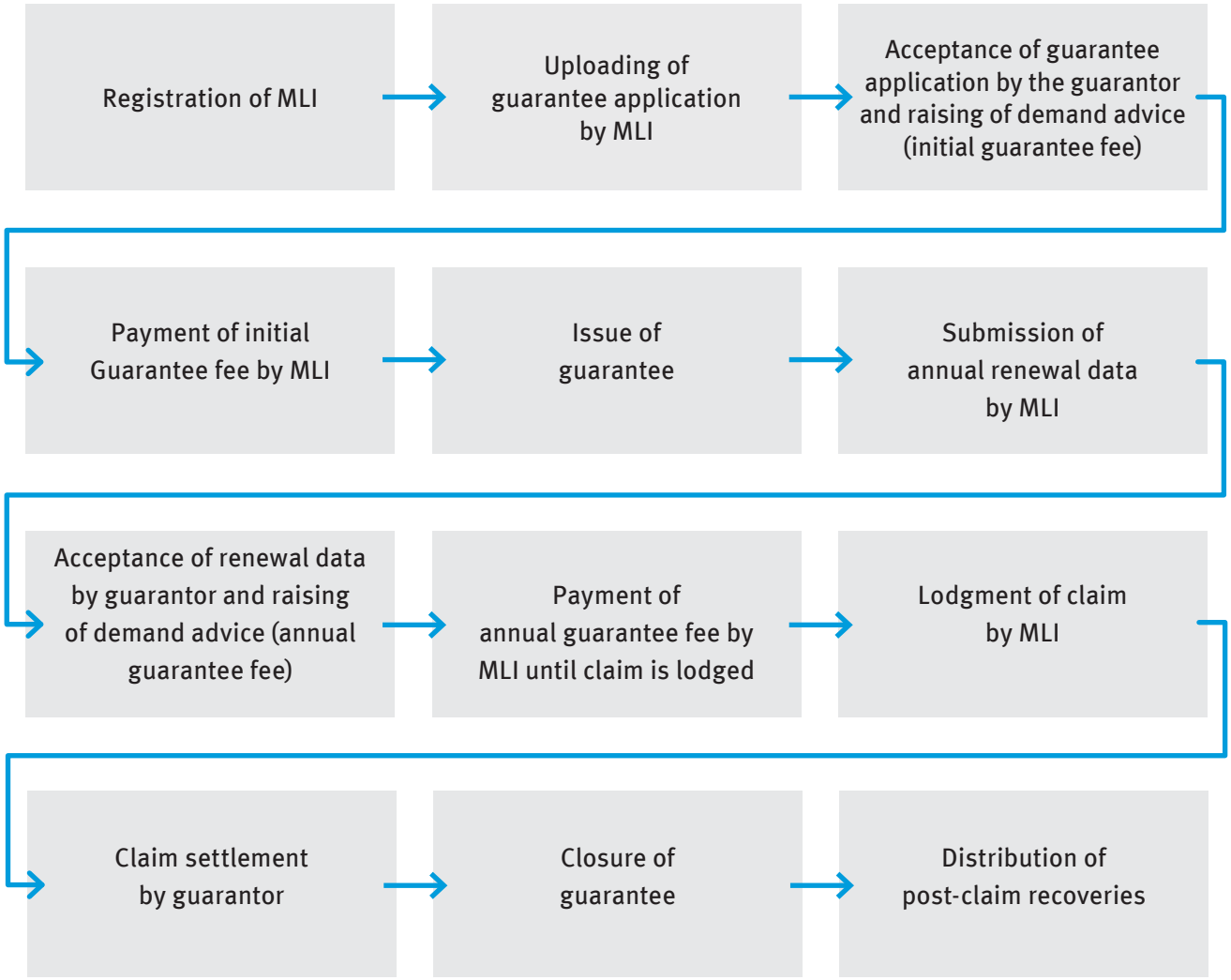
Under the centralized indirect guarantee delivery model, the following flow charts show the broad processes involved in credit guarantee operations in the two scenarios that generally occur:

— Scenario I – Complete process chain when no claim is made under the issued guarantee
— Scenario II – Complete process chain including claim made by partner lender

Scenario I – No claim made under of guarantee



Scenario II – With claim under guarantee



4.4. Platform modules and business requirement documents (BRDs)

Well-defined business requirements need to be drafted as the basis for implementation of the IT platform. The business requirement documents (BRDs) should be developed for each process stage by the Credit Guarantee Management Entity (CGME) team.
BRDs are expected to describe the segmented solutions for the project (i.e., what a new or updated product should do), including the user's (CGME) needs and expectations, the purpose behind the solutions, and any limitations the solutions have that could impact successful deployment.
The BRDs have to be approved by the delegated authority before they are handed over to the technology team for implementation.
As outlined above, the technology platform for credit guarantee operations should be made up of a set of interlinked modules that can be accessed for each credit guarantee scheme (CGS).
A detailed list of modules for the platform (core operational modules and supplementary modules) along with guidelines for BRD content and the required interface screens/sub-modules can be found below.

Module name	Purpose, BRD content, screens/sub-modules
1. User Maintenance Module 	**Purpose** Creation and maintenance of platform users. Pre-requisite for starting operations on the technology platform. Users (at both the guarantor and the lender end) have to be created and assigned a role (e.g. Administrator, Controller, Lender, etc.) which grants them a particular set of rights to different functions when using the platform. **Contents of BRD** 1. What basic user data needs to be captured in the system (name, job title, organization, contact details, etc.)? 2. Defined rights and roles 3. Password maintenance process 4. How to communicate password generation to users **Screens/sub-modules** 1. User details 2. User-Institution link 3. Roles maintenance 4. User-Role link 5. Password generation

Notes: To make a CG scheme operational, a delegation of powers (DoP) for CG operations needs to be developed. This defines the roles and responsibilities of different staff members/functions at the CGME, and forms the basis for user maintenance on the IT Platform. At the lender end, administrators can be created in the system by the guarantor, with rights to create other users as per an approved DoP for lender organizations.

Module name	Purpose, BRD content, screens/sub-modules
2. SPV Module 	**Purpose** The SPV Module is required to capture the details of all funds and schemes under the SPV (trust). It should enable ring fencing of different SPVs, allowing the maintenance separate accounts for each SPV. **Contents of BRD** 1. What data regarding each SPV need to be captured in the system (e.g. name, trust deed details, funds/schemes under the trust, bank account details, contact person(s), etc.)? **Screens/sub-modules** 1. SVP creation 2. SPV-fund-scheme link 3. Receipts under SPV
3. Lender Registration Module 	**Purpose** This module is used to register eligible lending institutions (ELIs) for coverage under a CG scheme. Lender registration on the platform must be scheme-specific, since ELIs will be registered as per eligibility for each scheme. **Contents of BRD** 1. Lender registration process 2. Linking lender to scheme 3. Capturing details of agreement with lender, documents submitted, lender nodal office, single point of contact (SPOC), settlement bank account, etc. **Screens/sub-modules** 1. Lender details 2. Lender-scheme link

Module name	Purpose, BRD content, screens/sub-modules
4. Guarantee Application Module 	**Purpose** This module facilitates submission of online applications for credit guarantees by the lender, and issue of guarantees by the SPV. **Contents of BRD** 1. Format of guarantee application (type of file, batch file/file per transaction, fields – mandatory and non-mandatory, checks for mandatory fields) 2. Format of management certificate 3. Process for acceptance of guarantee application: rules, communication of acceptance to lender, etc. 4. Process for rejection of guarantee application: rules, communication of rejection to lender (incl. reasons for rejection, entire batch to be rejected or not) 5. CG fee generation 6. Process to be followed if partial CG fee is received 7. Rules for defining status of guarantee: application submitted, application accepted, guarantee issued, etc., and unique identity of each guarantee (CGPAN) **Screens/sub-modules** 1. Guarantee application upload 2. CG Fee Module (generation of CG fee demand advice based on CG application data, payment of CG fee incl. tax if applicable, reconciliation of fee received)

Module name	Purpose, BRD content, screens/sub-modules
5. Guarantee Renewal Module 	**Purpose** This module is used for uploading CG renewal applications, since each guarantee needs to be renewed annually. Typically, the annual guarantee fee is based on the outstanding credit amount, so renewal data needs to be captured each year. Information on the status of the borrower account (e.g. standard/NPA) should also be obtained to support the process of recognizing actuarial provisions for expected claims. **Contents of BRD** 1. Format of guarantee renewal application (type of file, batch file/file per transaction, fields – mandatory and non-mandatory, checks for mandatory fields) 2. Management certificate 3. What if the renewal application is not received within the stipulated time frame? What if credit is partly disbursed at the time of renewal of guarantee? Rules to be defined (e.g. fee to be calculated based on the same amount as the previous guarantee fee; fee to be paid on approved amount of credit the account is not fully disbursed, etc.) 4. What if a renewal fee is not paid on time? Permitted period for CG fee payment to be made. Demand advice (DA) must state a final date for payment after which DA won't be available in system and fee reconciliation will no longer be possible. If final payment date is not met, penalty to be paid by lender to prevent the issued guarantee from lapsing. 5. Process to be followed if partial CG fee is received. 6. Rules for charging penal interest. Basis for penal interest (e.g. pre-defined flat rate with a provision to change the rate for future cases; for earlier sanctions the rate may or may not be changed; rate could be linked to interest rate charged by the lender to the borrower). If penal interest is to be charged over the entire period of delayed payment, then generation of penal interest is complicated as it can only be calculated in full after the CG fee has been paid. One option is that the lender generates a single DA for the actual payment date (one DA for both CG and penal interest) and then makes payment. 7. Provision for full/partial waiver of penal interest and regeneration of DA. 8. Marking of NPAs as part of renewal application file. Additionally, provide function for lender to mark NPA on platform. 9. Defined time frame/rules for marking the guarantee as lapsed or suspended, blocked, or cancelled.

Module name	Purpose, BRD content, screens/sub-modules
	Screens/sub-modules 1. Guarantee renewal upload 2. CG Fee Module:* i. Generation of DA based on renewal file received from lender ii. Advice mails to lenders for payment iii. Payment mechanism: payment gateway/reconciliation based on receipts from lender; uploading of information by lender and confirmation of receipt by guarantor. System for marking paid DAs, and system for follow-up with lenders in case of unpaid DA *CG Fee Module for guarantee applications and guarantee renewals may be the same or different sub-modules under the Guarantee Application Module and Guarantee Renewal Module.
6. Guarantee Claims and Claim Settlement Module 	Purpose This module facilitates lodgment of a guarantee claim by a lender. Lenders are permitted to lodge a claim under any issued, active guarantee, subject to the conditions specified by the scheme. Offline and online information may be required to lodge a claim; offline documentation can be uploaded in the supplementary Document Management Module. **Contents of BRD** 1. Claim File format (incl. management certificate) to capture data required when for lodging a claim) 2. A module/sub-module for attaching mandatory documents for lodgment of a guarantee claim. 3. Acceptance/rejection of Claim File I. 4. Communication of decision of guarantor to MLI. 5. Settlement of Phase I claim 6. File format (with management certificate) for Phase II claim by MLI. 7. A module/sub-module for attaching the list of mandatory documents for phase II claim 8. Acceptance/rejection of Claim File II. 9. Communication of decision of Guarantor to MLI 10. Settlement of final claim **Screens/sub-modules** 1. Claim lodgment 2. Claim settlement

Module name	Purpose, BRD content, screens/sub-modules
7. Post Claim Recoveries Module 	**Purpose** After the guarantor releases an amount to a lender as settlement of a guarantee claim, any recovery of debt on the account by the lender must be passed on (fully or in loss-sharing ratio) by the lender to the guarantor. The Post Claim Recoveries Module facilitates this transferal of post-claim recoveries, as well as refund to the lender of their share of any recoveries made by the guarantor. **Contents of BRD** 1. Detailed process rules for passing on post-claim recoveries by lender: payment by lender of entire recovered amount or proportionate amount according to the loss-sharing ratio; maximum period permitted for passing on such recoveries, penal interest in case of delay, etc.) 2. Detailed process rules for passing on post-claim recoveries by guarantor. **Screens/sub-modules** 1. Post claim recovery - reporting 2. Post claim recovery - payment 3. Post claim recovery - refund
8. CG View and Update Module 	**Purpose** The platform should provide easy access to users (both at the guarantor and lender end) to view the status of any guarantee and its underlying credit facility. Further, the same module could be used for manual marking of NPA status of the underlying credit facilities by lenders, and manual termination of a guarantee by a lender or guarantor. **Contents of BRD** 1. What details regarding current status and history of each guarantee and its underlying credit facility should be available in the View and Update Module (e.g. linked scheme, date of issue, date(s) of renewal(s), guarantee fee paid, status of credit facility, status of guarantee)? 2. What kind of updates should be permitted through this module? (e.g. NPA marking/change in status of underlying facility, termination of credit facility by lender, forced termination of guarantee by guarantor, etc.)? **Screens/Sub-modules** 1. View credit guarantee 2. Update credit guarantee

SUPPLEMENTARY MODULES

Name	Purpose
Document Management Module 	Adequate provision needs to be made for proper digital storage and management of important documents such as trust deeds, agreements with lenders, documents submitted by ELIs at the time of guarantee application and/or lodgment of a claim, etc. FAQs/checklists/e-booklets for each scheme should also be made available on the platform.
MIS/BIMIS 	An MIS (management information system) and BIMIS module and dashboard will be needed to provide required data and reports in acceptable formats to senior management, government, auditors, actuaries, etc., in respect of e.g. credit guarantee scheme status and performance, expected claims, etc.
Help Desk Module 	CG operations will involve a lot of correspondence between lenders and CGME officials on various issues. The Help Desk Module facilitates timely and proper resolution of all such issues. The module should provide adequate control and monitoring of all correspondence (exchange of e-mails) by allowing/ensuring that: 1. All enquiries from lenders arrive at one place (the Help Desk) 2. Allocation of enquiries to officers/staff by a delegated authority 3. E-mail exchange available at the Help Desk 4. Status of enquiry/exchange – closed/pending etc. available at the Help Desk
Accounting software integration 	Since CG operations involve receipt or payment of monies by the SPV, all such transactions must be duly recorded in the accounting system and accordingly, there needs to be an interface between the technology platform and such accounting software

Please note: A glossary of terms used in this chapter can be found in **Annex 4.1.**

Chapter 5

Human Resources needs analysis: credit guarantee management entity (CGME)

This chapter comprises a HR needs analysis report for the Credit Guarantee Management Entity (CGME)to be formed as a subsidiary of TIB in Tanzania, to manage the Bioenergy Guarantee Fund and operate the biofuel credit guarantee program. It is intended to serve as a working example for the organizational needs of a CGME for similar programs in other contexts and countries.

5.1. Organizational context –CGME

The objective of the credit guarantee management entity (CGME) is to act as trustee of, and operate, various specific credit guarantee funds. These are to be set up by the Government of Tanzania and the financial institution partner, TIB, with the aim of stimulating credit flows to biofuel/clean fuel and other sectors, through innovative credit guarantee solutions, appropriately targeted to the right segments and geographies.

Establishing the CGME provides opportunities to leverage multiple benefits at the institutional level: taking a lead role in directing credit flow, encouraging responsible access to financing through appropriate solutions, and creating institutional capacity while systematically building data and knowledge.

A clear definition of the roles and responsibilities of the CGME and the various credit guarantee funds established by different ministries is required (see Chapter 1.5 for an outline). The CGME and the guarantee funds also need to maintain separate accounts for each entity/fund.

In the short to medium term, the CGME will operate just one fund, the BEGF. The fund itself will have a policy committee with representation of various stakeholders, responsible for formulating and approving the overall policy framework for the credit guarantee scheme, as well as key policies for scheme operation, and for monitoring the overall performance. See Figure 1, Chapter 1.2 for an illustration of this overall program structure.

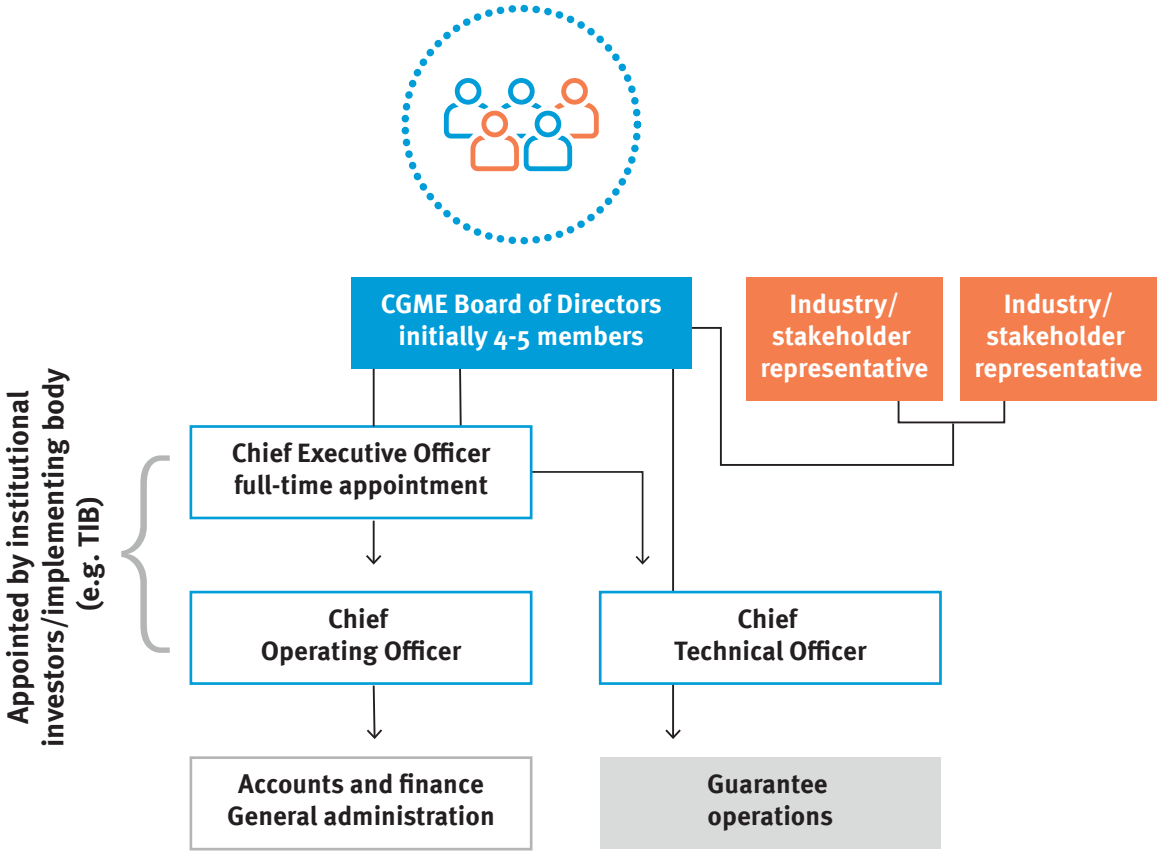
5.2. CGME governance and management

One of the key requirements for successful implementation of a credit guarantee program is a robust governance structure for the management entity, including representatives of the principal stakeholders. The CGME Board of Directors will fulfil this role, working together to ensure that funds are managed efficiently and in line with the purpose and interests of the partners involved.

A senior officer or director at TIB may be the Chairman of the CGME. The chief executive (CEO) will likely be a full-time appointment. Stakeholder representatives may come from e.g. the banking, energy or agriculture sectors, and could also bring risk management expertise.

The Board of Directors will initially consist of four to five members, with the potential to expand according to the evolving needs of the organization. The diagram below illustrates the planned management structure.

Sample senior management structure for credit guarantee management entity (CGME)



5.3. Proposed HR roadmap, activity mapping, and needs analysis

A dedicated core team of personnel needs to be established in good time before the commencement of CGME operations. This is necessary to ensure continuity and resilience within the organization, and to address issues related to operational risk.

The core CGME management team, including the CEO, will be made up of assigned or part-assigned TIB management staff. In addition, TIB will also need to build up a small team of staff, which will become the staff of the CGME subsidiary when it is established as a separate company at a subsequent stage of development.

The following HR structure is recommended, comprising three groups:

1. Management staff assigned from TIB
2. On-payroll CGME staff to be recruited from the market
3. Off-payroll staff engaged through an HR Agency on renewable contracts

Some functions may be outsourced to professional agencies, especially during the initial operational phase, when operations are still based within a dedicated cell at TIB. Outsourced functions could include recruitment and HR management, accounting, internal audit, secretarial services, and actuarial services (see also Chapter 5.4). Some of these will continue to support the CGME team until internal bandwidth is developed and processes are put in place.

With the aim of categorizing staff requirements, and to enable drafting of a short to medium-term plan for management of the CGME, a broad mapping of staff levels has been drawn up, as follows:

— Seven staff levels are proposed, from Level 0 to Level 6, with the Chief Executive Officer (CEO) at Level 6. The CEO will be a senior manager seconded from TIB (15-20 years of experience).
— Within Level 0, three sub-levels have been drawn up (01, 02, and 03), covering basic support staff.
— TIB officials have been mapped for levels 3 to 6:
  — L3: 1-3 years' experience at TIB
  — L4: 3-7 years' experience at TIB
  — L5 7-10 years' experience at TIB
— On-payroll CGME staff will form the basis of the organization and provide the required support and continuity. These roles, assigned to levels 1 to 3, will be filled by graduates and specialized professionals – e.g. accountants, engineers, experienced economists and statisticians. This includes a mandatory Company Secretary (CS), mapped at Level 1.
— Functions assigned to Level 0 and Level 1 will be fulfilled by off-payroll contract staff.

As described above in the outline of activities to be performed by the CGME (see Chapter 1.7[B]), the CGME's operations can be divided into two main areas:

1. Credit guarantee scheme operations, on behalf of CG fund trust(s)
2. Other activities including various support services (strategic and operational), and administrative tasks

The table below presents an outline of staff requirements to fulfill the functions needed within the scope of this structure, mapped according to the staff levels defined above. This staffing proposal has been estimated on the basis of experience at similar organizations (trustee companies).

Activities / Levels	L01	L02	L03	L1	L2	L3	L4	L5	L6	Total number of roles
1. CGS operations	–			1		1	–			2
two staff per trust (two staff for operations of one SPV)	— The entire life-cycle of guarantee operations up to claim settlement will be handled by this team. — It is proposed that operations for each SPV can be handled independently by one junior manager at Level 3 (graduate with commerce/ technical background), and one technical member of staff at Level 1/2 (2-3 years' experience in finance/ technology). — These roles involve correspondence and close coordination with ELIs/ MLIs and IT vendors — With regard to IT platform introduction, these staff would be involved in user acceptance testing (UAT) and close technical support for ELIs, under the supervision of middle/senior management. — The timing of recruitment and appointments can be needs-based.									

Activities / Levels	L01	L02	L03	L1	L2	L3	L4	L5	L6	Total number of roles
	1	-	-	1	1	1	1	1	1	7
2. Other support services/administration	— This team comprises senior and middle management (including the CEO and TIB team), and staff for handling the trusteeship activities. — Although appointment of key management personnel (COO/CFO/CTO) is not required, the duties being fulfilled by delegated TIB officials at senior level are equivalent. CTO functions can be handled by a Level 4 employee from TIB. — Staff assisting the management team need to broadly support the following: — Policy/product design/analytics — Treasury/accounts/finance/taxation — General administration/secretarial activities/HR — Technology									

Note: See Chapter 1.7 for an outline of the activities carried out by CGME operations.

Based on the above proposal, the entire, fully operational CGME team would need to comprise 16 staff, assuming one credit guarantee fund (SPV) is being served.

This means that internal and external recruitment processes need to be initiated by TIB in advance of establishing the SPV. Recruitment of contract (non-payroll) staff can be carried out closer to the commencement of operations, and outsourced to an agency. An external HR/recruitment agency may also assist in recruiting on-payroll staff.

However, with regard to recruitment for short to medium-term needs, additional functions may be outsourced, reducing the number of staff required. Outsourcing to expert agencies offers a number of benefits. This are covered below in Chapter 5.4.

5.4. Staffing of CGME – short to medium-term plan including outsourced functions

A] NEED TO ENGAGE PROFESSIONAL SUPPORT

The CGME is intended to be a technology-driven company with a lean staff structure. The management and operations team has to be developed and trained in the field of credit risk and credit guarantees. In order to support smooth operation, especially with regard to accounting and compliance matters, it is recommended that professional external consultants are engaged, at least for the first year of operations (internal audit, tax consultants, accountants).

It is important that systems and processes are put in place with professional support. Continued outsourcing to external consultants may be reviewed after 12 months, based on needs and available internal resources. Support from professional firm in the early stages of establishing the institution ensures continuity and can also optimize costs.

B] ADDITIONAL BENEFITS OF ENGAGING EXTERNAL CONSULTANCY FIRMS TO COMPLEMENT ORGANIZATIONAL RESOURCES

Outsourcing certain functions means the CGME entering into contracts with third-party consultants. Many organizations outsource finance and accounting tasks, for instance, with the objective of focusing the organization's structure and internal resources on its core business functions, and improving decision-making.

When a new organization outsources functions or tasks to external service providers, it expects a number of benefits to result:

— **Cost savings:** Outsourcing accounting and bookkeeping services enables access to skilled professionals at lower cost without compromising on quality. Companies save on salaries and employment taxes, software, training, infrastructure, and other overhead costs.
— **Up-to-date expertise and robust processes:** Legal and accounting frameworks change continuously due to frequent amendments to applicable regulations and procedures. Many companies do not have the resources to keep current with the latest developments. Professional consultants offer continuously updated knowledge, as well as tried and tested processes, so they are able to provide high-quality services that are in line with the current framework.
— **Training and churn:** For functions that are outsourced, an organization does not need to spend resources on training, mentoring, and retention of team members. This supports continuity as well as saving costs and freeing up time for senior management to concentrate on core activities.
— **Focus on core activities & less time spent by all levels of management on routine tasks:** When outsourcing finance and accounting services, for example, managers do not need to supervise these functions, and the organization can focus more greatly on core activities that will grow the business. Other staff are also able to focus on the areas where they can contribute the most, without distraction due to tasks that they are not specialized in.

— **Faster turnaround time:** With the help of outsourced accounting services, processes are completed more quickly and efficiently, by experts that are familiar with the tasks involved and have a full knowledge of their discipline.

C] SHORT TO MEDIUM-TERM NEEDS PROJECTION FOR CGME: STAFF AND OUT-SOURCED FUNCTIONS

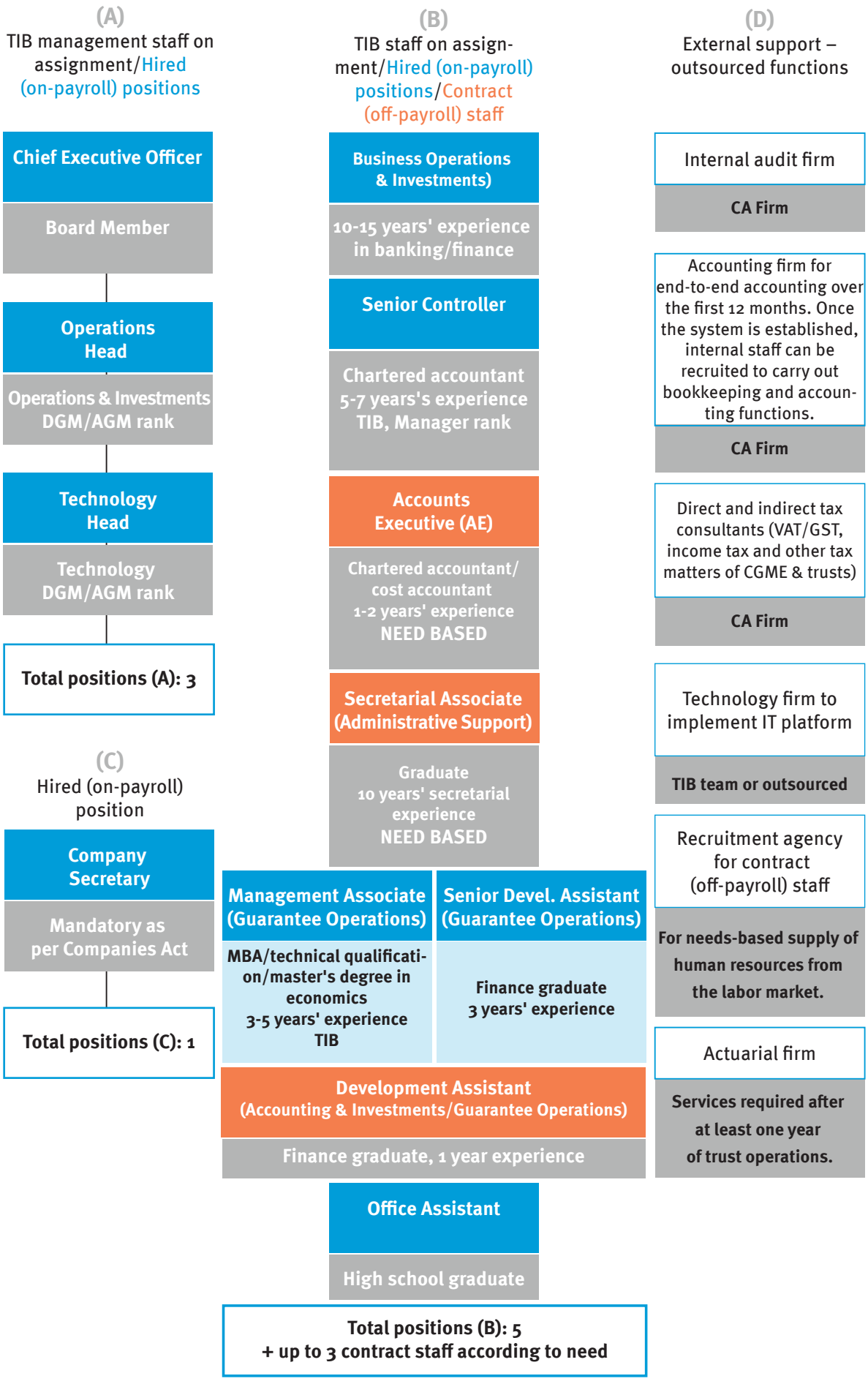
While staffing is a critical need, it is important to strike a balance between experience and the timeline for getting a team up and running. As the organization will be handling public and private funds, it is nevertheless vital that related operational risks are addressed through proper staffing.

It is also important to be aware of the lead times involved when recruiting, and when onboarding external consultants, including applicable organizational guidelines for recruitment and tendering procedures.

A short to medium-term staffing estimate has been made which comprises nine core staff aided by various professional external consultants, and is depicted below (see Figure X).

The proposed structure refers to the three staffing groups identified above (see Chapter 5.3) and is based on initial requirements for management of one credit guarantee scheme. As and when other schemes/funds come under the management of the CGME, the team may need to be expanded. Economies of scale will accrue when multiple schemes are operated, meaning that human resources will not need to expand as greatly for each additional fund being operated.

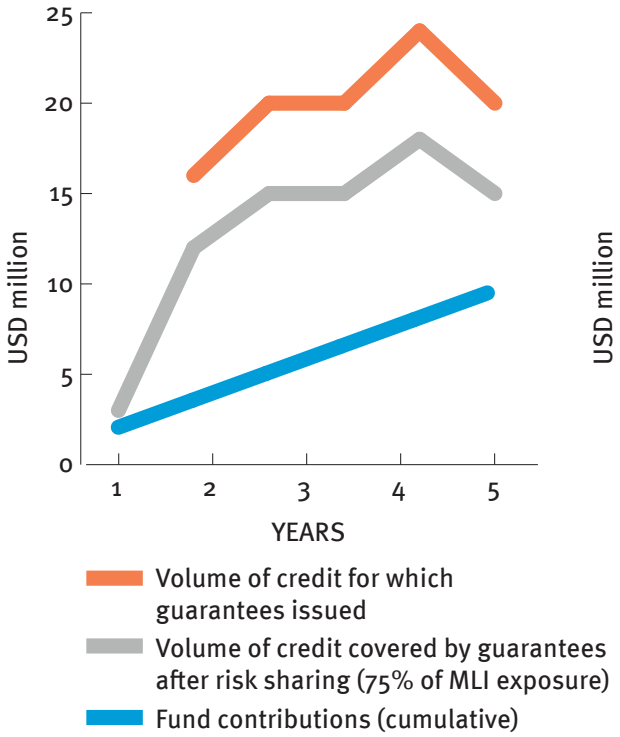
Short to medium-term staff structure for CGME operating one SPV, incorporating outsourced functions.

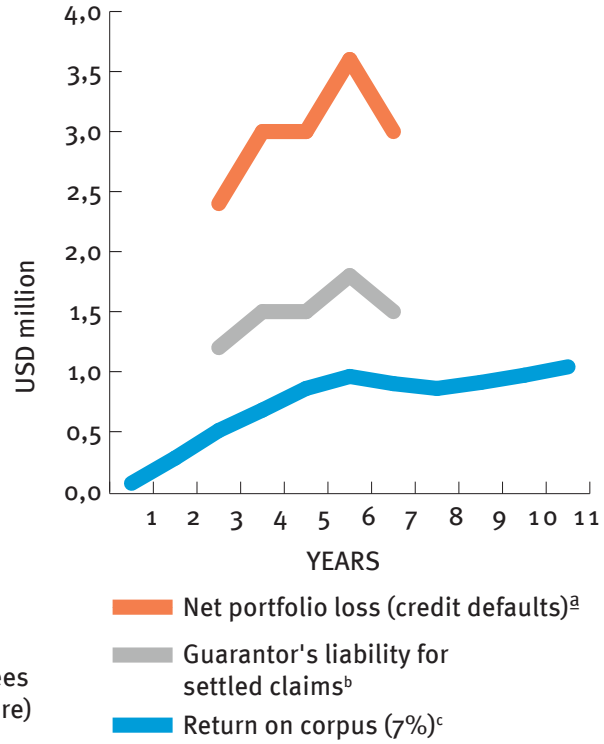


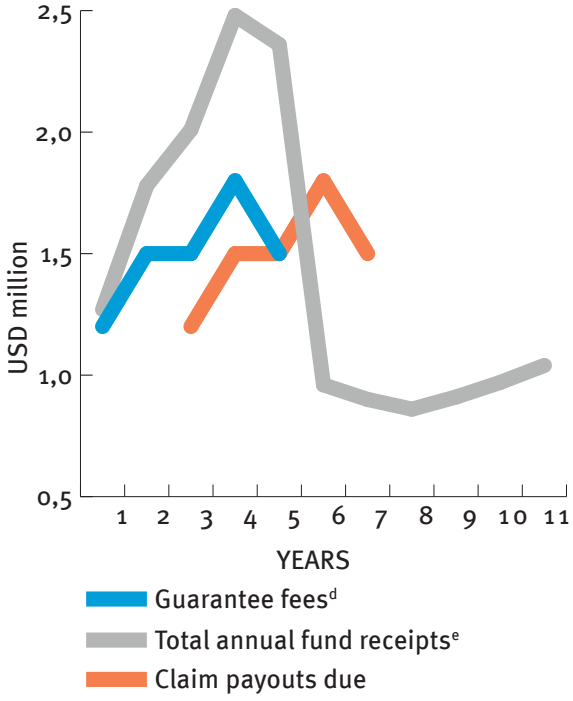
Annexes by chapter

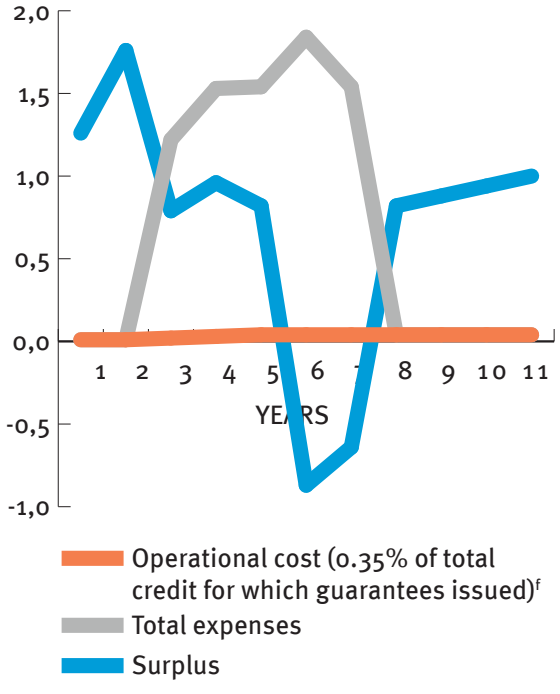
ANNEX 1.1

BEGF Trust: revenue and expenditure projection







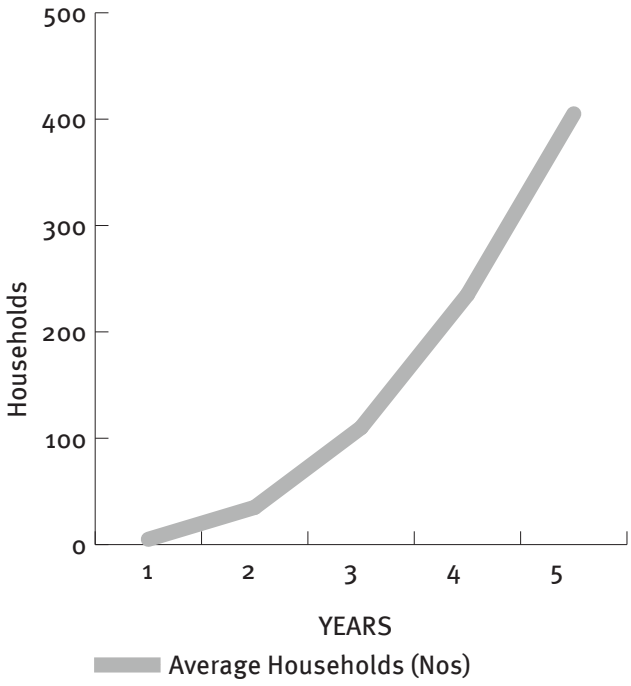


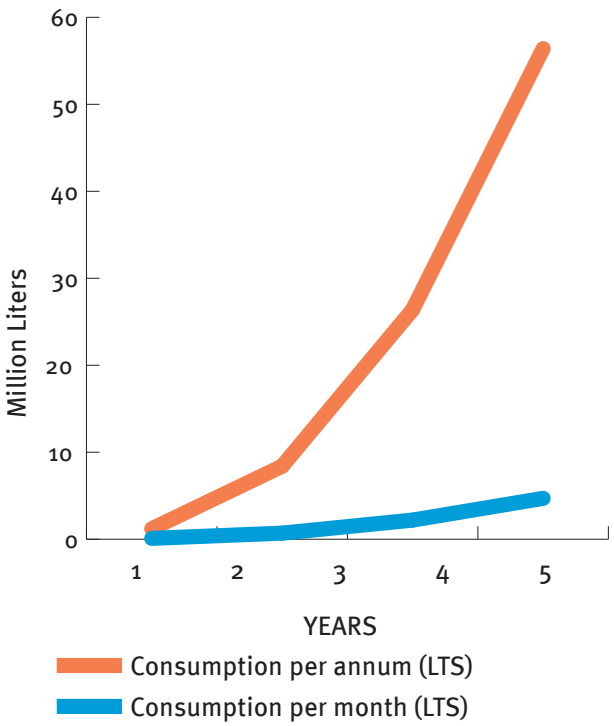
Notes:

a. Net portfolio loss: Statistics from the Bank of Tanzania indicate that since 2014, asset quality problems have increased substantially, with significant variation across banks. Some banks have witnessed loan defaults well above 10%. Given this context, and considering the fact that biofuels are a new industrial segment which increases risk for lenders, a 20% portfolio loss has been assumed on a conservative basis.
b. Guarantor's liability for settled claims: It is assumed that the Trust will only need to cover 50% of the net portfolio loss, as the remainder will be counter-guaranteed.
c. Return on corpus: An investment return on the corpus of 7% per annum has been assumed. It is expected that corpus funds will be invested in short to medium-term deposits in safe banks.
d. Guarantee fees: Revenue from guarantee fees of 10% of the guarantee portfolio has been assumed over the five-year projection term. Guarantee fees are a main source of income for the credit guarantee fund, and should cover the risk of a default claim. However, as the corpus fund has a quasi-subsidy structure, investment earnings from the corpus fund to some extent cross subsidize the guarantee fee.
e. Total annual fund receipts: Calculated as the sum of the corpus investment return and guarantee fee revenue.
f. Operational cost: Fund operations are managed by the credit guarantee management entity (CGME); the fund's operational cost has been assumed as 0.35% of the funds being managed, which is the management fee paid to the CGME. The charge is on the higher side, as the BEGF will initially be the only fund under management. Typically, this cost covers staff costs, other administrative costs, technology costs, and overheads, as well as a reasonable mark-up for the CGME. When multiple funds are under management (not considered under the present example), the proportional operational cost can be lower.
g. Cost of funds: Assuming a results-based finance model for corpus fund contributions, an average 3% per annum cost of funds has been estimated. Fund contributions may be raised from various sources, and while government contributions can take the form of a subsidy or grant-in-aid, some contributors may demand a nominal expected return. An average of 3% on the overall corpus is reasonable.

Assumptions for revenue and expenditure projection: Calculating the required size of the Bioenergy Guarantee Fund (BEGF) corpus

1. Projected ethanol consumption from roll-out of clean cooking for households
   The chart and table below illustrate projected ethanol consumption according to the roll-out schedule for the first five years of the program, based on the number of households taking up ethanol cooking stoves, and average consumption of 20l per household, per month.





	Year 1	Year 2	Year 3	Year 4	Year 5
Total no. of households using ethanol for clean cooking	Start – End	Start – End	Start – End	Start – End	Start – End
	0 – 10,000	10,000 – 60,000	60,000 – 160,000	160,000 – 310,000	310,000 – 500,000
Average no. of households	5,000	35,000	110,000	235,000	405,000
Monthly ethanol consumption (liters)	100,000	700,000	2,200,000	4,700,000	8,100,000
Annual ethanol consumption (liters)	1,200,000	8,400,000	26,400,000	56,400,000	97,200,000

2. Initial investment required to build and establish an ethanol micro-distillery
   The investment required to construct an ethanol micro-distillery with production capacity of 5,000 liters a day (1.5 million liters a year is approximately USD 1 million, as illustrated below.

Initial Investment Cost	Amount (USD)
Land cost	15,000
Civil works and buildings	45,000
Plant, equipment, commissioning	805,500
Office equipment and furniture	10,000
Vehicles	20,000
Pre-operative expenses	5,000
Working capital requirement	160,809
Total initial investment	**1,061,309**

(Source: UNIDO report on investment in micro-distillery)

3. Total investment in bioethanol production to meet new household demand for ethanol
   a. Total bioethanol consumption from year five of rollout (see point 1, above): 97 million liters (m l)
   b. Investment required to establish a micro-distillery with annual capacity of 1.5 m l: USD 1m
   c. No. of micro-distilleries required to meet demand: (a)/(b) = 97/1.5 = 65 new micro-distilleries.
   d. Required total investment in bioethanol production: USD 65m

4. Investment required in the bioethanol distribution chain is estimated at USD 50m

5. Investment required in other elements of the value chain, including production of stoves, storage and distribution facilities, etc. is estimated at USD 135m

6. Assuming a maximum debt-equity ratio (DER) of 3:1, a maximum loan of 70% of project cost, total credit required to finance the investments estimated above would be USD 95m (rounded up for assumption purposes to USD 100m).

7. Estimated size of required corpus fund for clean cooking guarantee program
    a. Maximum loan amount to any single borrower under the credit guarantee scheme = USD 1m.
    b. According to product design, guarantee cover (risk sharing) is limited to 75% of the loan amount in each case.
    c. Assuming total credit to be provided of USD 100m (see point 6) over five years, with risk sharing of 75% maximum guarantee coverage works out to USD 75 million.
    d. Assuming fund leverage ratio of 7.5, a corpus fund of USD 10m is sufficient.
    e. Staggered over the five-year program horizon, corpus contributions of USD 2m per annum will be mad over this period.

ANNEX 1.2

Project implementation timeline

This annex provides an example of a project timeline for developing a country-specific credit guarantee program structure for biofuel sector development, based on the Bioenergy Guarantee Fund (BEGF) set up with technical assistance from UNIDO.

PHASE	TIMELINE	ACTIVITY	REMARKS
I	2020	Phase 1 – Evaluation and Feasibility Study conducted and concluded	First local working group established BEGF clearances from Ministry of Finance and Planning
PHASE	TIMELINE	ACTIVITY Operational manual preparation	ACTIVITY UNIDO & TIB – Creation of SPV
II	2021 Jul - Sep	Preparation of manual: start of assignment. Phase 2 kick-off meeting for manual development Delivery of chapters 1 and 2 of Operational Manual	Draft Terms of Reference (TOR) for BEGF seed capital funds, for TIB review BEGF TOR Approval in TIB Board TIB/UNIDO soft launch on signing of Memorandum of Understanding (announcement)
	2021 Sep - Oct	Delivery of chapters 3 and 4 of Operational Manual Mid-term orientation workshops (2 single day sessions spread over a two-week period)	BEGF Team cell established at TIB BEGF Corpus Account opened BEGF Trust Board established BEGF financial institution partnerships established
	2021 Oct - Dec	Delivery of Chapter 5 of Operational Manual Finalization of Manual Orientation workshops for CGME officers (3 single day sessions spread over a four-week period)	Seed capital funds transferred to TIB Reception of seed capital funds into BEGF Corpus Account BEGF Financial Accounting and Reporting in place BEGF Team - internal job descriptions BEGF Team - Operational Procedures Template

PHASE III – IMPLEMENTATION PHASE: SPECIAL PURPOSE VEHICLE FRAMEWORK I

	UNIDO	TIB Bank	TIB Managed Funds
	Technical Assistance	Hosting and Management	Trust Fund & Scheme Management
2021 Nov-Dec	Operational handover to TIB: Operational Manual, procedures, and institutional arrangements Partner and donor funds mobilization assistance	BEGF Team cell management of BEGF SPV (pilot phase) Partner and donor funds mobilization efforts	Transferal of BEGF Corpus Account to special purpose vehicle: the BEGF Fund (SPV) BEGF SPV Board established (reconstituted for SPV) Transfer of all funds from BEGF Account (TIB) to BEGF SPV BEGF SPV Financial Accounting and Reporting in place
2022 Jan – Sep	**Operational Phase** Operational guidance/ "hand holding" for CGME in setting up processes and systems for the new company. Supervision/assistance to be provided for selected (initial) guarantee transactions Partner and donor funds mobilization assistance	**Operational Phase** BEGF TIB Team transferred to the Credit Guarantee Management Entity (CGME) Partner and donor funds mobilization efforts	Finalization of scheme by SPV through its delegated authority, based on Operational Manual inputs. BEGF SPV accounting and reporting Partner and donor funds accounting

NOTES:

— In Phase III, with assistance from international consultants UNIDO will provide guidance and support for implementation of the processes and systems proposed in the Operational Manual, and facilitate input for the roll-out of products and services under the guarantee scheme.

— In the implementation phase, UNIDO will continue to provide active support for an initial period of nine months to ensure smooth operationalization of the program and roll-out of the product.

ANNEX 1. 3

Anticipated risks and mitigation strategies

Risk description	Mitigation strategies
Typical risk factors in guarantee programs: management architecture; product & process design	
1 Program designed without creating an enabling institutional structure; without a long-term road map for managing the fund, leading to lack of ownership, continuity and limited or no critical specialized knowledge.	1. Credit guarantee schemes are a specialized segment, like banking or insurance. A dedicated institutional structure is required. 2. Creation of a core in-house team with a long-term vision in the early stages of the program, under a well-designed management architecture, is essential and a key element in success. 3. Specific expertise that requires a dedicated institution can be linked to knowledge of guarantee operations, accounts and finance management; actuarial provisioning; credit risk management; knowledge of credit products. 4. A robust client feedback system combined with effective data management and data analytics to provide critical policy insights, and as a basis for tweaks in product features over time. 5. A Lender Sensitization Policy can be put in place to stimulate acceptance, promoting the guarantee product to bankers/lenders on an ongoing basis.
2 Poor product design	1. Good product design is needed to address issues of moral hazard (dilution of lending prudence) and adverse selection, inherent in credit guarantees. This requires extensive stakeholder engagement and feedback, and application of lessons from global best practices. 2. Needs-based schematic modifications must be possible, to improve product acceptability and reach.

	Risk description	Mitigation strategies
3	Poorly conceived process design	1. In an indirect guarantee scheme, lenders are the primary clients. Detailed discussions with potential partner lenders can be carried out, to feed into the process architecture and IT platform design process. Discussions should gather feedback on the guarantee life cycle and the processes involved in guarantee delivery: application, fees management, claim management and settlement, and post-claim recoveries. Pilot runs with selected lenders are desirable. 2. The IT platform will need to be compatible with multiple technology platforms at the lender end. Choosing the right IT partner, and management of the implementation process by experienced in-house staff are critical.
4	Absent or weak corporate governance structure, leading to inherent conflict of interest with unattended moral hazard risk in product structures.	1. Management architecture should be designed to prevent management participation which could lead to conflicts of interest, to avoid attendant moral hazard issues. 2. Operational management and program management (policy) of guarantee schemes need to be separate, with the structure designed for smooth operational flexibility of the programs. 3. A structure that is too heavy structure should be avoided, without diluting responsible and prudent governance.
	Typical risks in program implementation	
1	Delays due to external factors and dependencies.	1. Application of lessons drawn from past experience in similar programs.
2	Delays due to internal factors and approval procedures for critical internal appointments, budgets, processes, selection of implementing partners, procurement, etc.	2. Consultative and review-based approach. 3. Early establishment of core team with a long-term perspective, to ensure continuity in the initial stages of implementation. 4. Extensive stakeholder engagement and client feedback activities, pre- and post-implementation. Pilot runs with selected clients are recommended.

ANNEX 2.1.

Draft guarantee scheme

The credit guarantee scheme (a sample draft)

A draft credit guarantee scheme was designed based on the needs analysis and on inputs from various stakeholders. The draft scheme was based on general best practice and may be adapted at local institutional level. The scheme will need to be reviewed and approved for implementation by the governing bodies and the relevant authorities.

Once the scheme is formally approved by the delegated authorities, it will need to be communicated through appropriate channels to lenders, end users, and other stakeholders.

DRAFT BIOENERGY CREDIT GUARANTEE SCHEME

1. **Objective**
   The primary objective of the Bioenergy Guarantee Fund (BEGF) is to provide credit guarantee cover to eligible lending institutions (ELIs) to enable them to provide unsecured credit to bioenergy supply chain entities (BESCEs) by minimizing their lending risks.

2. **BEGF corpus**
   A dedicated corpus fund of up to **USD 10 million** will be maintained and managed by TIB Development Bank through its subsidiary.

3. **Governance**
   A **two-tier architecture** is proposed, comprising a dedicated **Credit Guarantee Management Entity for Bioenergy Investments (CGME)**, and a **guarantee fund for bioenergy investments (BEGF)** taking the form of a trust or other such legal form as may be decided by TIB and other stakeholders.
   It is proposed that the BEGF will be housed in a trust as a special purpose vehicle (SPV). TIB, the Government of Tanzania and other investors would be the joint settlors of this Trust. The Trust will be managed by the **CGME**.

4. **Definitions**

   i. **"Amount in Default"** means the principal and interest outstanding on the account(s) of the borrower in respect of the credit facilities (term loan and/or working capital/composite credit facilities) for which a credit guarantee has been provided, as at the date of the account becoming Non-Performing Asset or the date of a guarantee claim being lodged, whichever amount is lower. This amount forms the amount of the claim against the guarantee cover, subject to the maximum amount covered by the guarantee. Penal interest, other charges, and any other costs debited from the borrower by the lender will not be included in the Amount in Default and are not covered by the guarantee.

ii. **"BECGS", "the Scheme"** means the credit guarantee scheme for bioenergy supply chain financing.

iii. **"Bioenergy Guarantee Fund", "the Fund", "BEGF"** means the credit guarantee fund created with TIB for the purpose of extending credit guarantees to ELIs to help cover their credit risk in providing credit without security to eligible bioenergy supply chain enterprises (BESCEs) under the Bioenergy Credit Guarantee Scheme (BECGS).

iv. **"Bioenergy Guarantee Fund Trust", "BEGFT", "the Trust"** means the Trust which will house the BEGF.

v. **"Bioenergy Supply Chain Entity", "BESCE"** means any company or legal business entity incorporated/registered under the laws of Tanzania and engaged in or proposing to engage in activities that form part of the bioenergy supply chain.

vi. **"Collateral Security"** means the security provided in addition to the Primary Security, in connection with the credit facility extended by an ELI to an Eligible Borrower.

vii. **"Credit Facility"** means any fund-based credit facility extended by an Eligible Lending Institution (ELI) to an Eligible Borrower without collateral security and without any third-party guarantee.

viii. **"Credit Guarantee Management Entity for Bioenergy Investments", "CGME"** means the company set up under Tanzanian company law to manage the Scheme and operate the Fund to be established by TIB and other national or international bodies. All matters pertaining to the operations of the Scheme will be undertaken by CGME on behalf of BEGFT.

ix. **"Eligible Borrower"** means a new or existing BESCE, meeting the Eligibility Criteria set out under the Scheme, and seeking a credit facility from Eligible Lending Institutions under the Scheme, without collateral security and without any third-party guarantee.

x. "**Eligible Lending Institution (ELI)"** means a commercial bank, non-bank financial company (NBFC), or any other institution as may be decided by the Trust. Eligibility criteria may be based on the track record of the bank, NBFC or other institution with regard to financing for small and medium-sized enterprises (SMEs); net worth; and/or credit rating for different categories of ELI as may be defined by the Trust from time to time.

xi. **"Guarantee Cover"** means the total amount of credit extended to a borrower that is covered by the guarantee, from issue of the guarantee, up to a maximum percentage of borrowings.

xii. **"Guarantee Fee"** means the annual guarantee fee payable by the ELI to the Trust at a specified rate under the Scheme.

xiii. **"Lock-in period"** means the period during which no claim can be made under the guarantee. A lock-in-period of 24 months has been stipulated from the date of commencement of Guarantee Cover, or the end of a period of moratorium of interest, or the end of a period of moratorium of principal, whichever is later.

xiv. **"Non-Performing Asset", "NPA"** means an asset classified as non-performing based on the instructions and guidelines issued by the Bank of Tanzania from time to time.

xv. "**Primary security"** in respect of a credit facility means the assets created out of the credit facility extended by the ELI to the Eligible Borrower.

xvi. **"Quarter"** and **"Quarterly Basis"** refer to the quarters of the financial year: July 01 to September 30, October 01 to December 31, January 01 to March 31 and April 01 to June 30.

xvii. **"Tenure of Guarantee Cover"** means the agreed tenure of the term loan/composite credit, i.e., the maximum period of Guarantee Cover from issue of the Guarantee, which shall extend for the agreed tenure of the term loan, and where working capital facilities or term loans alone are extended, or continuing working capital arrangements are granted along with the Term Loan, for a period of 7 years or block of 7 years and/or until the loan/working capital credit or composite credit facilities' termination date, whichever is earlier, or such period as may be specified by the Trust.

xviii. **"Year"** means the financial year, beginning July 1 and ending June 30.

5. **Eligibility criteria for borrowers**

i. Borrowers must be BESCEs that are legal entities incorporated/registered under applicable legislation in Tanzania (Eligible Borrowers).

ii. An Eligible Borrower will be permitted to apply for a credit guarantee if they have not previously benefited from any other guarantee scheme in the country.

iii. Further, it should be ensured that the ELI has extended/sanctioned the term loan/working capital/composite credit facility without any Collateral Security.

6. **Credit facilities eligible under the Scheme**

i. Fund-based credit facilities already sanctioned/extended singly or jointly by one or more than one ELI to a single eligible borrower in the form of a term loan and/or working capital/composite credit facility, without any Collateral Security and/or third-party guarantees.

ii. The ELI may extend credit of up to USD 1 million in each case; however, the repayment period may not exceed seven years.

7. **Non-eligible credit facilities under the Bioenergy Guarantee Fund**

i. The following credit facilities are not eligible for Guarantee Cover under the Scheme:

ii. Any credit facility which has been extended by the ELI against collateral security and/or a third-party guarantee.

iii. Any credit facility in respect of which risks are additionally covered under any scheme operated/administered by the government, by any general insurer, or by any other person or association of persons carrying on the business of insurance, guarantee, or indemnity.

iv. Any credit facility which does not conform to, or is in any way inconsistent with, the provisions of any law currently in force, or of any directives or instructions issued by the government or the Bank of Tanzania currently in force.

v. Any credit facility granted to any borrower, which has availed of any other credit facility covered under this Scheme (within the permissible limits) or under the schemes mentioned in clause (i), (ii) and (iii) above at any point in time.

vi. Any credit facility that is overdue for repayment/ NPA taken over by the ELI from any other lender or any other default converted into a credit facility.

vii. Any credit facility which is overdue for repayment.

viii. Any credit facility which has been rescheduled or restructured on becoming overdue for repayment.

8. **Credit Guarantee Cover and its period**

i. The maximum credit guarantee cover under the Scheme will be limited to 75% of sanctioned credit facility with ceiling of USD 750,000/- which is 75% of the sanctioned credit facility with a maximum ceiling of USD 1 Mn. as specified above.

ii. ELI shall be eligible to seek Credit Guarantee Cover for credit facilities sanctioned in respect of a single borrower multiple times over a period of 7 years. Renewals of WC arrangements at same or lower level would not be considered/counted as new sanction. For term loans, subsequent credit facility for coverage under the GECGS could be considered after taking into consideration the outstanding term loan and/or sanctioned working capital arrangements, within the maximum ceiling of USD 1 Mn.

iii. In case of default, claims shall be settled up to 75 % (as applicable) of the amount in default subject to maximum cover as specified above.

iv. Other charges such as penal interest, commitment charge, service charge, or any other levies/ expenses, or any costs whatsoever debited to the account of the borrower by the ELI other than the contracted interest shall not qualify for Credit Guarantee Cover.

v. The Cover shall only be granted after the ELI enters into an Agreement with the Trust/ CGME (on behalf of Trust) and shall be granted or delivered in accordance with the Terms and Conditions decided upon by the Trust, from time to time.

9. Procedure to avail Guarantee Cover

i. The ELI shall be required to apply for Guarantee Cover to CGME company in the specified format for credit proposals sanctioned by them during any quarter prior to expiry of the following quarter viz., application with respect to credit facility sanctioned in April–June Quarter must be submitted by the ensuing quarter end i.e., September 30th to qualify for consideration under the Scheme.

10. Guarantee Fee

i. Annual Guarantee fee (AGF) shall be charged **@ 2.0 %** for credit facility up to and including **USD 1,000,000/-.**

ii. AGF shall be charged on the sanctioned amount of credit facility for the first year and on the outstanding amount for the remaining tenure of the guarantee. In case of term loans, guarantee fee (from second year onwards) shall be calculated on outstanding amount as on 30th June and for working capital limits, it shall be calculated on maximum (peak) working capital limit availed by the borrower/enterprise during the previous financial year.

iii. Annual Guarantee fee (first time fee) shall be paid to CGME by the PLI availing of the guarantee **within 30 days from the date of issue** of sanction letter or such date as is specified by CGME, failing which the Guarantee is liable to become void unless and until its continuance is specifically approved by CGME. The acceptance of guarantee fee would be subject to the ELI certifying that:

a) Any dues of the Borrower to the ELI have not become overdue and/or is not an overdue/NPA credit facility taken over by the ELI and/or /is not a Credit Facility which has been rescheduled or restructured on becoming overdue.

b) The business or activity of the borrower for which the Credit Facility was granted has not ceased.

c) The credit facility has not been utilized, wholly or partly, for adjustment of any debts deemed bad or doubtful of recovery.

iv. The Annual Guarantee fee (subsequent to first time fee) at specified rate (as specified above) on pro-rata basis for the second and last year of guarantee and in full for the intervening years would be paid by ELI to CGME by **the 31st July each year.**

v. Guarantee fee with respect to NPA accounts would continue to be paid till lodgment of claim for such accounts.

vi. The decision of passing on the incidence of Annual Guarantee Fee to the Borrower is left to the discretion of the lending institution.

vii. In the event of non-payment of Annual Guarantee fee (subsequent to first time fee) by the due date, the Guarantee under the Scheme shall cease to be available to the lending institution unless CGME agrees for continuance of Guarantee and the lending institution pays penal interest on the annual Guarantee Fee due at a rate of interest of 1% higher than the rate of interest at which the Credit Facility has been sanctioned by the lending institution to the Borrower or as specified by CGME, from time to time, for the period of delay. The Guarantee shall stand restored on receipt of such payment and shall be deemed to have been in continuance without break.

viii. Provided further that in the event of non-payment of Annual Guarantee Fee within the stipulated time or such extended time as may be requested for by the lending institution and allowed on such terms that may be agreed to by CGME, liability to guarantee such credit facility shall lapse in respect of the credit facility against which the annual Service Fee is due and not paid.

ix. Provided further that CGME may consider renewal of Guarantee Cover for such credit facility upon such terms and conditions as it may decide.

x. In the event of any error or discrepancy being found in the computation of the amount or in the calculation of the Guarantee Fee, or any shortfall in payment by the lending institution, if subsequently identified, such deficiency/ shortfall shall be paid by the lending institution to CGME. Any amount found to have been paid in excess by the lending institution to CGME shall be refunded by CGME. In the event of any representation made by the lending institution in this regard, CGME shall take a decision based on the available information with it and the clarifications received from the lending institution, and its decision shall be final and binding on the lending institution.

xi. The Guarantee Fee once paid by the lending institution to CGME is non-refundable, except where Guarantee Cover for which Guarantee Fee is paid has not been approved.

11. Responsibilities of Lending Institutions under the Scheme

ELI shall:

i. Appraise each loan proposal for selecting commercially viable projects and submit the Guarantee Application in form and manner desired by CGME.

ii. Carry out processing, legal work and documentation for sanction of the loan in accordance with the requirements of the ELI and the terms and conditions of the Scheme.

iii. Furnish such statements, information, documents, receipts, certificates etc. as CGME, may require in connection with any credit facility under this Scheme.

iv. Certify that /be deemed to have affirmed that the contents of such documents, receipts,

certificates and other written documents are true, provided that no claim shall be rejected, and no liability shall attach to the lending institution or any officer thereof for anything done in good faith.

v. Monitor the Borrower -account and maintain records of periodical monitoring and actions initiated on observations, if any.

vi. Ensure that the Guarantee Claim in respect of the credit facility to the Borrower is lodged, in the form and manner and within such time as may be specified by the Scheme. Further, there shall not be any delay on its part to notify CGME of the default in the Borrower's Account, as a result of which delay, the Trust, shall face higher Guarantee Claims.

vii. The payment of Guarantee Claim by CGME to the lending institution does not in any way absolve the lending institution of the responsibility of recovering the entire outstanding amount of credit from the Borrower. The lending institution shall exercise all necessary precaution and take recourse to all measures to recover from the Borrower the entire amount of credit that is owed to it by the Borrower, and to safeguard the interests of the Trust, as it would in the normal course of business if no guarantee had been furnished by the Trust.

viii. The lending institution shall be bound to comply with such directions as CGME may deem fit to issue from time to time, for facilitating recoveries of the guaranteed account, or safeguarding its interest as a guarantor.

ix. The lending institution shall, in particular, refrain from any act either before or subsequent to invocation of guarantee, which may adversely affect the interest of the Trust as the guarantor.

x. The lending institution shall be bound under the Scheme to intimate in advance to CGME, its intention to enter into any compromise or arrangement, which may have effect of discharge or waiver of primary security.

xi. Further, the lending institution shall secure for Trust or its appointed agency, through a stipulation in an Agreement with the Borrower or otherwise, the right to list the defaulted Borrowers' names and particulars on the Website of CGME or Integrated Portal.

12. Monitoring by CGME

i. The ELI shall undertake regular desk and /or field monitoring of the borrowers under the scheme.

ii. CGME shall be authorized to call for any reports of such monitoring, if it deems fit.

13. Invocation of Guarantee

The ELI may invoke the guarantee in respect of credit facility after the following conditions are satisfied:

i. Lock-in period of 24 months has lapsed.

ii. The claim is forwarded to CGME through ELIs' Controlling Office.

iii. The Guarantee in respect of the concerned Credit Facility is in force at the time of account turning NPA.

iv. The amount due and payable to the ELI in respect of the Credit Facility has not been paid by the Borrower and the loan account has been classified by ELI as NPA.

v. The ELI shall exercise all necessary precaution and take recourse to all measures to recover the entire amount of credit facility from the borrower before submitting the claim.

vi. Credit facility has been recalled and the recovery proceedings have been initiated under due process of law against the borrower.
vii. The responsibility of recovery of the dues, including takeover of assets, sale of assets etc. shall rest with the ELI.

14. Claim Settlement

i. The Trust reserves the right to reject any Claim where the Guidelines have not been strictly followed or if any misrepresentation or concealment of facts is found leading to undue favor to the concerned borrower.
ii. Each claim shall be settled in two phases. The Trust shall pay 75 per cent of the guaranteed amount on preferring of eligible claim by the ELI, subject to the claim being otherwise found in order and complete in all respects. The balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings by the ELI **(as defined by CGME)** or on receipt of a Certificate/Declaration from ELI to the effect that no further recoveries are expected in the case and that it is not worth pursuing further legal course in the case. Such declaration could be submitted by ELI only after three years from the date of settlement of first claim.
iii. The Trust shall pay claims found in order and complete in all respects, within 90 days.
iv. The ELI shall continue to make efforts to realize the balance amount due from the defaulting Borrower even after settlement of the Guarantee.
v. The Trust has the right to claim from the ELI any amount that is realized by the ELI from the defaulting Borrower even after settlement of the guarantee amount.
vi. Any amount realized by the ELI from the Borrower shall be shared in the ratio of 75%:25%, as applicable, between the Trust and the ELI. Such payment shall be made as and when any such amount is realized subject to the relaxation that any such payments may be made to the Trust within 90 days of receipt of the payment by the ELI. If any amount due to the Trust remains unpaid beyond a period of 90 days from the date on which it was first recovered, interest shall be payable to the Trust by the lending institution at the rate which is 1% above the rate of interest at which the Credit Facility was sanctioned by it for the period for which payment remains outstanding after the expiry of the said period of 90 days.
vii. Once the Claim is paid, the Trust shall be deemed to have been discharged from all its liabilities on account of the Guarantee in force in respect of the Credit Facility concerned.
viii. The ELI shall be liable to refund the Claim released by the Trust together with the penal interest at a rate which shall be 1% higher than the rate of interest at which the Credit Facility was sanctioned by it, for the period for which the Claim has been released, if recalled by the Trust for any reason whatsoever. Erroneous/duplicate payment of claim by the Trust shall not be construed as recall. However, any duplicate claim by the ELI and the settlement there against by the Trust shall be recalled and the Trust reserves the right to recall the entire payment released to the ELI against the Credit Facility under reference.

15. Subrogation of Rights and Recoveries on Account of Claims Paid

i. Details of efforts for recovery, realization and such other information as may be demanded by CGME from time to time shall be furnished to CGME by the ELI.

ii. On its own behalf and on behalf of the Trust, the ELI shall hold lien on assets created out of the Credit Facility extended by the ELI to the Borrower.

iii. The responsibility of the recovery of dues, including takeover of assets, sale of assets, etc., shall rest with the ELI.

iv. Payments made by a borrower towards any one or more of several distinct and separate debts owed to the ELI shall be deemed to have been appropriated by the ELI to the debt covered by the guarantee and in respect of which a claim has been preferred and paid, irrespective of the manner of appropriation indicated by such borrower or the manner in which such payments are actually appropriated by the ELI.

16. Residual Recovery/Appropriation of amount realized by the lending institution in respect of a credit facility after the guarantee has been invoked

i. Where subsequent to the Trust having released a sum to the ELI towards the amount in default in accordance with the provisions contained in this scheme, the lending institution recovers money subsequent to the recovery proceedings initiated by it, the same shall be deposited by the lending institution with the Trust, after adjusting towards the legal costs incurred by it for recovery of the amount. The Trust shall appropriate the same first towards the pending annual guarantee fee, penal interest, and other charges due to the Trust, if any, in respect of the credit facility towards which the amount has been recovered by the lending institution and the balance, if any, shall be appropriated in such a manner so that losses on account of deficit in recovery of the credit facility between the Trust and the lending institution are in the proportion of 75% and 25%, respectively.

17. Termination of Trust's Liability in Certain Cases

i. The Guarantee in respect of the Credit Facility extended by an ELI to a borrower under the Scheme shall be deemed to be terminated, if the liabilities of a borrower to the lending institution on account of any eligible Credit Facility guaranteed under this Scheme are transferred or assigned to any other borrower without the consent of CGME which shall be sought by the ELI or the Borrower in writing stating the reasons for the transfer/ assignment and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any, subject to which the credit facility can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, from the date of the said transfer or assignment.

ii. The liability of the Trust in respect of any credit facilities granted to a borrower by an ELI under the Scheme shall be limited to the liability of the Borrower to the ELI as on the date on which the Borrower becomes ineligible for being granted any credit facilities under the Scheme, by reason of cessation of its activity or its activity / its undertaking ceasing to come within the definition of a Borrower unit, subject, however, to the limits on the liability of the Trust fixed under this Scheme.

18. General

i. The terms and conditions of the Scheme shall be binding on the lending institutions.
ii. Any Guarantee given by the Trust shall be circumscribed by & governed by the provisions of the Scheme and terms and conditions laid down by the Trust as if the same had been written in the documents evidencing such Guarantee.
iii. An ELI that seeks and is granted Guarantee Cover for an eligible Credit Facility to a Borrower under the Scheme shall be deemed to have understood and accepted the T&C of the Scheme and other T&C of the Trust in this regard as being legally binding on itself.
iv. The ELI shall, as far as possible, ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme.
v. Notwithstanding any provision in any other document or contract entered into by the ELI, the provisions / conditions of the Scheme shall override all such other provisions as if this conditionally had been written in the relevant document/contract and shall in relation to the Trust be, bound by the conditions imposed under the Scheme.

19. Modifications and Exemptions

i. The Trust reserves the right to modify, cancel or replace the scheme in any manner whatsoever that it deems necessary, in consultation with the stakeholders, however so ensuring that the rights or obligations arising out of, or accruing under a guarantee issued under the scheme up to the date on which such modification, cancellation or replacement comes into effect, shall not be affected.
ii. Notwithstanding anything contained herein, the Trust shall have the right to alter the Terms and Conditions of the Scheme or otherwise in regard to an Account in respect of which Guarantee has not been invoked as on the date of such alteration.
iii. In the event of the Scheme being cancelled, no claim shall lie against the Trust in respect of facilities covered by the Scheme, unless the provisions contained in the Scheme are complied with by the lending institution prior to the date on which the cancellation comes into force.

20. Interpretation

The decision of the Trust shall be final in regard to the interpretation of any of the provisions of the Scheme or of any directions or instructions or clarifications given in connection therewith.

21. Supplementary and General Provisions

In respect of any matter not specifically provided for in this Scheme, the Trust may make such supplementary or additional provisions or issue such instructions or clarifications as may be necessary for the purpose of the Scheme.

22. Arbitration

Disputes, if any, arising out of the Agreement will be resolved by mutual consultation, failing through arbitration by a sole arbitrator chosen by the ELI in question and CGME in accordance with the provisions of the law prevalent in the country. The venue of arbitration shall be Dar es Salaam.

ANNEX 4.1

Glossary – process architecture and technology platform

Term	Description
BIMIS	business intelligence management information system As data points on the platform increase over time, the system should be able to carry out analytics and provide business intelligence data insights to CGME management and the policymakers to refine the underlying risk metrics of the credit guarantee program.
BRD	business requirement document This document summarizes the needs of the business with regard to a product or feature and collates and tracks the functional requirements of underlying business processes, providing a clear brief for software requirements and specifications.
CG	credit guarantee
CGDAN	credit guarantee demand advisory number A unique reference number generated for each DA issued for a loan record, which the MLI must pay to maintain CG cover.
CGME	credit guarantee management entity
CGPAN	credit guarantee permanent account number A unique reference number generated Credit Guarantee Number generated while issuing the Credit Guarantee.
DA	demand advice (invoice)
ELI/MLI	eligible lending institution/member lending institution (partner lenders)
IRAC	income recognition and asset classification Norms generally prescribed by the regulator for the purpose of classifying loan assets in the banking/non-banking sector.

Term	Description
Management Certificate	A certificate submitted by ELI along with the application for issue of a CG, for renewal of a CG, or for claim lodgment. The Management Certificate captures general certification by ELI that the Scheme guidelines are being adhered to. Also, it may capture certification regarding compliance of specific scheme parameters which are not being captured in the data/ application being submitted by ELI to the guarantor and thus are not tested by the rule engine of the platform.
NPA	non-performing asset A loan or credit facility that is in default.
SPOC	single point of contact at the ELI/MLI for all correspondence and guarantee transactions

Vienna International Centre
Wagramerstr. 5, P.O. Box 300,
A-1400 Vienna, Austria

+43 1 26026-0

www.unido.org

unido@unido.org

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION