**FAO study on credit guarantee schemes in agriculture**

**News - 30/04/2013**

**FAO publishes study on credit guarantee systems for agriculture and rural development**

The Food and Agriculture Organization (FAO of the United Nations recently published a study on credit guarantee systems for agriculture and rural development. According to the FAO, partial credit guarantees are a comparatively new instrument in agricultural development finance. Following the introduction of credit guarantee systems (CGS) in Japan in 1937, their use spread first throughout Europe and the Americas in the 1950s, and then to Africa, Asia and Oceania in the 1960s and 1970s. A recent count found 2 250 CGS in almost 100 countries. Newer forms of CGS cover not only individual end borrowers, but also parts of the entire loan portfolio, with exposures in areas of interest to policy-makers and development banking practitioners. For small and dispersed rural and microfinance institutions, the guarantee cover may be applied to the entire loan portfolio. Other new forms of guarantees include bond guarantees and portable guarantees, which are discussed in detail in this study. The FAO states that whether the guarantee covers the institution or the loan of the end borrower can make a big difference to the public policy appeal and acceptance of these schemes.

The most frequently raised argument against CGS in the past was that they could not sustain themselves out of guarantee fees and/or investment returns on the underlying capital. The FAO underlines that CGS are not alone in being vulnerable to failure without subsidy inflows and that even full service banks with individual microenterprise lending technology, and conventional microfinance non-governmental organizations – which are the two most frequently quoted new types of microfinance institution – do not claim to be subsidy-free. These institutions are subsidized for their establishment and initial capitalization. The subsidies are phased out as the institutions grow and secure access to commercial sources of funds.

The FAO holds that large challenges also emanate from the fact that most CGS worldwide are capitalized out of public funds and managed by staff with pay and employment histories that are typical of public sector employees. Here the FAO considers that political interference and the inability of CGS managers to minimize this interference have brought an end to many CGS, particularly those operating in developing economies. The general lack of transparency in the presentation of financial results of most CGS would be a further weakness that contributes to their fragility and potential misuse by forces other than those with commercial and development objectives. This study provides a review of agricultural CGS worldwide. The focus is on testing a few key study hypotheses and examining concrete case examples and empirical field realities. Four case examples from four continents are analysed in detail and referenced throughout the study: the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) in India, the Agricultural Credit Guarantee Scheme Fund (ACGSF) in Nigeria (the oldest CGS in sub-Saharan Africa), the Rural Development Foundation (RDF) in Estonia, and the large and well-established *Fideicomisos Instituidos en Relación con la Agricultura* (FIRA – Trust Funds for Rural Development) set of guarantee funds in Mexico.

Using these and 11 shorter case examples of CGS, which are presented in the form of comparable term sheets in the annexes, the study highlights and analyses the complex nature of many CGS and their sometimes positive, but often also inconclusive or negative, long-term track record. Study results indicate ingredients for good practice in setting up and managing individual or portfolio guarantees. They also identify potential areas of underperformance and eventual failure. The study argues that CGS are neither the panacea nor the preferred option for development finance that bankers tend to portray them as; however, neither are they doomed to fail, as their critics would suggest when referring to the disadvantages of the public funding and start-up subsidies that are usually involved in setting up CGS. Instead, their strengths and weaknesses have to be analysed case by case.

As the FAO Global Expert Roundtable on Agricultural Guarantee Funds has shown, there are positive precedents for operating with different types of guarantee. Success is facilitated by a generally healthy banking sector with generally low levels of impaired assets, transparent accounting accompanied by supervision and evaluations, and professional management that is independent and free from political interference. Future areas of research concern above all the need for a much stronger empirical and analytical base for discussion of CGS. CGS are under-researched and subject to less rigour and weaker standard practices for institutional assessment than commercial banks or microfinance institutions are.

***Source:*** FAO

***Link:***<http://www.fao.org/publications/en/>

  [Credit Guarantee Systems for Agriculture and Rural Development](http://www.aecm.be/servlet/Repository/?ID=1509)

  [Four case studies on credit guarantee funds for agriculture](http://www.aecm.be/servlet/Repository/?ID=1508)

   [Credit guarantee systems](http://www.aecm.be/servlet/Repository/?ID=1507)