

CIRCULAR No.8 /2004

28 April, 2004

CIRCULAR MEMORANDUM

FILE : FIN 17/1/1

FROM : Chief Executive Officer for Finance and National Planning

TO : As per distribution

SUBJECT : **REVISED GOVERNMENT GUARANTEE POLICY**

The purpose of this circular is to inform Ministries and Departments of the revised Government guarantee policy which was approved by Cabinet at its meeting on 5th April 2004.

The Ministry of Finance has carried out a comprehensive review of Government's guarantee policy. Arising out of the review, key aspects of the revised policy are outlined below for your information and further action:

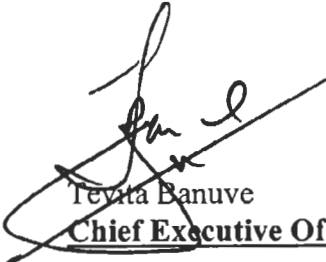
1. Guarantees will be considered only in very exceptional circumstances to Government entities, i.e fully – owned Government entities such as Government Commercial Companies and Commercial Statutory Authorities and companies where Government has majority shareholding rights;
2. Private sector companies and entities with minority Government shareholding rights will be excluded from being granted guarantees;
3. Entities issued with a guarantee will be required a maximum timeline of one (1) year in which the guaranteed amount is to be fully drawn down and any extension will be at the discretion of the Minister for Finance;
4. The Ministry of Finance should be consulted and kept informed of all borrowing proposals of entities that have current loans guaranteed by Government;
5. All guarantee proposals by Government entities will be assessed in accordance with the new 3- tier Financial Performance Based Approach

and the fulfilment of the requirements and procedures prescribed under the Guarantee Checklist;

6. A fee of up to 2 percent will be charged on all guarantees. The guarantee fee to be applied will be in accordance with Government's shareholding rights as well as the interest differentials that would have been paid without the guarantee. In addition, a guarantee fee percentage range has been agreed taking into account each entity's financial performance;
7. A guarantee fee will not apply to entities that receive a significant outlay from the Consolidated Fund for their day-to-day operations. However, this will be at the discretion of the Minister for Finance;
8. All draft loan documents should be submitted well in advance to the Ministry of Finance and the State Law Office;
9. In addition to the loan document, guaranteed entities will be required to sign a guarantee agreement with Government and will be subject to the following requirements: -
 - Guarantee fees amortization schedule where necessary;
 - Loan amortization schedules;
 - Projected annual cashflows;
 - Annual provision of actual guaranteed debt servicing; and
 - Annual financial performance and future prospects.
10. In the event of a loan repayment default and there is a subsequent call on the guarantee, the Government will ensure that it recovers the sum outstanding as well as issuing a debenture as security on the property of the guaranteed entity.

Ministries and departments are requested to take note of the revised guarantee policy and to advise entities under their respective Minister's assignment and responsibility accordingly.

Any clarification regarding the above subject should be directed to the Debt & Cashflow Management Unit of the Ministry of Finance.



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