Innovative Financing

Collaboration with the private & public sector

Innovative Financing aims at mobilizing private capital resources, both market-based and philanthropic, for development through new forms of financial solutions. Financing solutions may involve the use of development loans and guarantee arrangements.

DEVELOPMENT LOANS

The enormous need for investments in low- and mid-income countries cannot be solved by grants alone. Development loans provide opportunities to expand and leverage available resources for economic development by linking grant aid with market finance.

Sida provides a grant to complement a loan facility. The grant is typically 35–80 percent of total funding, while the market financed loan is 65-20 percent. Market financed loans are structured and issued by banks or multinational financial institutions (MFIs). Sida closely cooperates with several key partners; AsDB[1], EBRD[2], GPOBA[3] (WB[4]), IFC[5] and USAID[6]. Teaming up with partners are efficient ways to share risk, pipelines and best practices.

ENVIRONMENTAL LOANS

The Swedish government has formulated a special strategy on environmental loans and guarantees, which allows both the use of development loans and guarantees. An earmarked 2013 budget of approx. SEK 250 million is designated to environmental loans. These loans are primarily aimed at improving energy efficiency and renewable energy; management of water, sewage and waste, and transportation.

GUARANTEE ARRANGEMENT

Sida Guarantees are flexible financial instruments, promoting economic growth to help reduce poverty. Sida guarantees allows for mobilization of capital, including partner countries' domestic capital. In this way, many countries will be able to reduce their aid dependency and instead be able to domestically finance economically viable investments.

A guarantee functions like an insurance for a financial institution wanting to lend to investors and companies.

Sida can help lenders deal with these risks by insuring eligible projects against losses relating to the different market risks. If there are such problems and the borrower is not able to repay its loan to the bank, Sida covers parts of the loss. Sida closely cooperates with several key partners such as ADB[7] and USAID[8]. Teaming up with partners are efficient ways to share risk, pipelines and best practices.

Guarantees are designed to encourage banks to expand their lending to new sectors and regions or to offer better loan terms. Guarantees can be used in any sector including energy, education, democratic governance, infrastructure, health, and business development. A typical credit guarantee is a guarantee on a portfolio of loans that the partner financial institution (bank) makes within an identified sector. The structure enables the lender to extend credit to borrowers that are currently underserved by financial institutions.

SIDA GUARANTEES ARE BASED ON A SET OF SIMPLE KEY PRINCIPLES AND CONDITIONS:

Additionality: When Sida looks into possibilities of issuing a guarantee Sida needs to be additional, i.e. Sida should be active in a situation where no other actor has the possibility to issue a guarantee.

Risk-sharing: Sida always shares the risk with the other parties involved and never takes on the entire risk for the financing.

Risk reflecting premium: For issuing a guarantee Sida charges a risk reflecting premium (deposited in a financial account with the Swedish National Debt Office). If losses occur in the facility and the guarantee will be called upon, Sida's share of the losses will be carried by the guarantee reserves.

Non-distortionary: When assessing a project Sida needs to ensure that there is insignificant risk for market disturbance or distortion of the competition within the financial sector or the sector in question.

CONTACT

Sida is interested in collaboration with partners from the private and public sector who see the win-win potential in long-term sustainable development.

For more information on Sida's Innovative Financing Programme, please contact a Swedish embassy through www.swedenabroad.com, or the Loans and Guarantees Unit at L&G@sida.se

1 Asian Development Bank
2 European Bank for Development and Reconstruction
3 Global Partnership on Output-Based Aid
4 World Bank
5 Asian Development Bank
6 U.S Agency for International Development
7 Asian Development Bank
8 U.S Agency for International Development

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