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Sida Decentralised Evaluation

Leif Danielsson

Evaluation of the Guarantee Fund in Macedonia

Final Report

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September 2015

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The views and interpretations expressed in this report are the authors' and do not necessarily reflect those of the Swedish International Development Cooperation Agency, Sida.

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Abbreviations and Acronyms

EU	European Union
GF	The Guarantee Fund
NGO	Non-Governmental Organisation
Sida	Swedish International Development Cooperation Agency
SMEDSC	The Small and Medium Enterprise Development Support Centre
SMEs	Small and Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities, Threats
TA	Technical assistance
ToR	Terms of Reference
RM	The Republic of Macedonia
WB	World Bank

Preface

This evaluation was contracted by Sida through the Framework Agreement for Sida Reviews, Evaluations and Advisory Services on Results Frameworks and conducted by FCG SIPU International AB. The evaluation team consisted of the Team Leader Leif Danielsson with support from quality assurance expert Johanna Lindström.

The findings of the report are entirely the responsibility of the team and cannot be taken as expression of official Sida policies or viewpoints.

The evaluation was greatly assisted by the staff of the Guarantee Fund, the interpreter Boris Pavlov as well as stakeholders and other individuals interviewed. We would like to express our appreciation for their support.

Executive Summary

This report presents the findings and conclusions of the “Evaluation of the Guarantee Fund in Macedonia” conducted in May – June 2015.

The founder of the Guarantee Fund (GF) is the non-profit organisation “Small and Medium Enterprises Development Support Centre” (SMEDSC). SMEDSC established the GF with the technical and financial support of Sida in 2002. The Goal of the fund is to provide support for small and medium enterprises of overcoming the problems with collateral when applying for finances from the financial institutions. The tasks of the Fund are to aid in formation and development of small and medium enterprises, facilitation of the access to the sources for financing, and creating new jobs. Sida was involved in the creation of the GF with a principle objective to increase the number and the size of the SME in the country and then the private sector. The Guarantee Fund is an independent legal entity registered in Macedonia as a limited liability company (Guarantee Fund DOOEL), with SMEDSC as the sole owner¹, and is as such subject to the Business Law of Macedonia. The establishment of the Guarantee Fund (GF) was initially discussed with the Privatization Agency of Macedonia and the World Bank but when the Privatization Agency decides to pull out from the project SMEDSC and Sida decided to go ahead on their own. Sida had already performed a feasibility study which confirmed the need for such an institution. The Guarantee Fund was inaugurated in September 2002 and had at that time signed agreements with three Banks and Sida had provided a grant of 5.5 MSEK to SMEDSC to constitute the security fund and deposited in an account in the Tutunska Bank.

The first credit guarantee instrument introduced to the market was a loan guarantee where GF would guarantee up to 60% of the loan amount up to a maximum of 20 000 Euro. The interest and demand for this instrument was very high and during the first year 17 guarantees were issued and this instrument was in use until 2008.

Sida decided to fund a consultant in 2003 to provide technical assistance and monitoring of the project. This consultant stayed with the GF until 2005. During this time

¹ A DOOEL is a limited liability company with only one owner, a DOO has more than one owner.

another guarantee instrument was developed to be used by equipment suppliers as well as live stock suppliers. It was called a “Supplier Guarantee”. The purpose of this instrument was to provide a guarantee to the supplier for the sale of equipment in instalments. This guarantee was provided to the supplier guaranteeing the buyer will pay for all the instalments. Since the banks were not in this process, the guarantee could be given in just a few days as long as the client provided the necessary documents in time. Not many suppliers were able to fund deferred payments to their customers therefore there was an option to sell the guarantee to e.g. Tutunska Bank. This instrument was introduced 2006 and 18 clients used it the first year. The third instrument was released in 2006 and was just a small modification. Instead of providing the guarantee to the supplier this instrument provided a guarantee for a bank loan instead.

Sida provided additional funding for the Guarantee Fund in the form of a conditional loan of 1 000 000 Euro to be paid in three tranches. All in all Sida provided approximately 1.6 million Euro in addition to the 5.5 MSEK already provided as a grant. Business expanded and in 2005 and 2006 combined 75 guarantees were issued.

Throughout the years the staff of the GF had been looking for additional funding, not only from Sida but to introduce new partners. Despite great interest from other donors such as the World Bank no one was willing to commit themselves.

The conditional loans from Sida had a maturity date of November 2015 and when it was decided in 2008 that Sida was going to phase out of Macedonia it became clear that the loan was going to be return to Sida.

The issuing of guarantees started to slow down and if this was because of the economic situation or if this was due to the repayment of the loan is not clear, but most likely this was a combination of both. By 2011 the last guarantee was issued.

197 guarantees were issued during the period 2003 to 2011 providing guarantees to a value of 4 000 000 Euro. The first default guarantees started to appear in 2006 and a total of 43 default guarantees have been paid out to the creditors. The total amount paid out is 743 600 Euro of which most of it has been reclaimed. Currently 15 default cases need to be cleared and property taken as collateral to a value of 106 000 Euro needs to be sold.

The current balance of cash deposit in the fund account stands at 2 019 000 Euro which will enable the GF to make the payment to Sida. The administration and “premium” fees as well as the interest on the bank deposits have been used to finance the operations of the fund. This has created a surplus of approximately 270 000 Euro over the period 2002 -2014.

The development of the GF was very successful during the first four years and it managed to reach out to the market and satisfy a demand. It also managed to create

new products to replace the first guarantee instrument. The growth at that time looked very promising. The staff was increased to four employees in 2004 with another member from SMEDSC. When the first manager left the organisation in 2006 he was replaced with a person from the original staff and the GF has been run by a staff of three people since then.

The communication of the exit from the Guarantee Fund by Sida came in a bad moment when things were starting to be difficult for the GF. After a number of years with good growth rate and the introduction of a really successful instrument, loans were starting to default and the reality of losing the back-up funding changed the operation fundamentally for the GF.

There was a common understanding that the loan amount was going to be converted into a grant. This may have put the GF off guard and not been planning for sustainability. The absence of a clear exit strategy from the Guarantee fund already from the beginning may have created a false hope that the loan would continue for the foreseeable future. In 2008 Sida engaged consultants to recommend various exit option, including converting the loan to a grant. Due to certain legal restriction in the Swedish legislation this was later deemed not possible.

1 RATIONALE AND PURPOSE OF THE EVALUATION

1.1 INTRODUCTION

This report presents the major observations and findings during the evaluation of the Guarantee Fund in Macedonia.

Swedish development cooperation with Macedonia was initiated in 1999, following the Kosovo crisis and initially had a strong humanitarian focus. The first long-term strategy for development cooperation with Macedonia covered the period 2000-2002 and aimed at poverty reduction through the promotion of stable peace in the region, democracy and respect for human rights, and socially sustainable market economy capable to generate sustainable growth.

Support in this period focused on the strengthening of grass-root democracy. Agriculture provides employment and income for people living in rural areas (about 40 percent of the total population) and this served as the rationale for programmes to support agriculture. Private sector development was yet another field where Sida was active. Sida initiated cooperation with the Small and Medium Enterprise Development Support Centre (SMEDSC) in 2002 to support its build-up of a Guarantee Fund (GF) to support SME's with collateral problems in obtaining loans or credits for development.

The evaluation took place May-June 2015 and the evaluation mission to Macedonia took place June 7 – 12, 2015. This report summarizes the main observations, conclusions and lessons-learned.

The Terms of Reference (ToR) for the assignment is attached as Annex 1. The main purpose of the evaluation is to provide Sida with information to learn from the experiences of the Guarantee Fund activities and the way it was working.

1.2 SPECIFIC OBJECTIVES OF THE EVALUATION

The purpose of the evaluation is to learn from the experiences of the Guarantee Fund in view of the ambitions of Sida to use credit guarantees and loans for untied and flexible development financing. The report aims to describe the working of the fund and assess the relevance and effectiveness of the Guarantee Fund and sustainability of results.

1.3 EVALUATION OBJECT AND SCOPE

The evaluation object is the Guarantee Fund (GF) founded by the non-profit organization “Small and Medium Enterprises Development Support Centre” (SMEDSC). SMEDSC established the GF with the technical and financial support of Sida in 2002. The Guarantee Fund is registered as a company which is subject to the Business Law of Macedonia. The fund is registered under the full name Guarantee Fund DOOEL and is an independent legal entity registered in Skopje Court in December 2001 as a limited liability company with SMEDSC as the sole owner. The Guarantee Fund has obtained an approval from the National Bank and Ministry of Finance to work and perform operation in the field of issuing guarantees.

The Goal of the fund is to provide support for small and medium enterprises of overcoming the problems with collateral when applying for finances from the financial institutions. The tasks of the Fund are to aid in formation and development of small and medium enterprises, facilitation of the access to the sources for financing, and creating new jobs. Sida was involved in the creation of the GF with a principle objective to increase the number and the size of the SME in the country and then the private sector. The target groups of the fund’s services are potential founders of small and medium enterprises, existing private companies with a maximum of 50 employees, and agricultural producers. Unemployed people with the possibility to establish their own company and companies that will provide more employment possibilities will have priority for issuing a guarantee from the fund.

When the cooperation with Macedonia ended in 2012, the Guarantee Fund was one of few projects with a valid agreement in effect which is to expire in 2015 when the Sida assistance to the Fund will be closed and the conditional loans of approximately 15 MSEK² will be paid back to Sida. It is anticipated that the default cases have been or will be covered by collateral from clients and/or earned income.

1.4 EVALUATION QUESTIONS

The ToR identifies some evaluation questions and criteria to be applied within the framework of the evaluation objective:

- The evaluation shall include a short description of the way the GF has worked and its activities supported by some statistics.

² The repayment amount is fixed to be 1 632 899 Euro.

- An assessment of the relevance of the project, the effectiveness of the GF and the sustainability of results.
- The problems that have occurred and how they have been solved.
- The remaining work of GF until the conditional loans shall be paid to Sida in November 2015.
- The plans for activities after November 2015 and an estimate of remaining funds.
- Lessons learned from the Macedonian Guarantee Fund.

In addition some other issues that could be included in regards to the institutional development and governance, involvement and dialogue with different stakeholders, monitoring indicators and goals.

2 METHODOLOGY

The methodology is based on the interpretation of the ToR for the evaluation. The evaluation describes the context of the working of the Guarantee Fund and its activities, its institutional context and stakeholder involvement, the policy context, and objectives and strategies.

The intervention has mainly relied on available documentation, interviews with the staff of the GF, the founder and owner of the GF, beneficiaries, banks and other stakeholders. The evaluation has paid attention to identify validity and reliability of the information sources used as well as the limitations related to the information sources.

2.1 PHASES OF THE EVALUATION

The evaluation tool place in three phases; (1) an inception and desk review, (2) field visit and data collection, and (3) reporting.

2.1.1 Inception and Desk review

The main features of the evaluation was determined through a desk study of the project documents, progress reports, decision memos and agreements, periodic reports, previous evaluations and other information relevant to the Guarantee Fund.

The first phase of the assignment involved the following elements:

- An initial desk review of relevant documents and project descriptions. Preparation of methodological approach.
- A start-up meeting with Sida to ensure mutual understanding of the key outcomes of the evaluation and clarify outstanding questions.
- Several e-mail and telephone discussions with the GF.
- Identification of relevant stakeholders to visit during the field visit
- Preparation of an inception report, including QA input and methodology based on discussion with Sida.
- Planning and organizing the field trip, booking interviews and logistics arrangements.

- Compilation of primary data

2.1.2 Field visit and collection of information

The field visit took place between June 8th and June 12th.³ The first and the final day were spent in the office of the Guarantee fund discussing with the staff of the Guarantee fund. Discussions were also held at the Swedish Embassy, with the main banking partner Tutunska Banka, and Jugoimpex one of the main suppliers participating in the supplier program was visited. The Chairman⁴ of SMEDSC being the owner and founding organisation of the GF was also visited.

Three beneficiaries were visited and they were from different sectors. Jomi Food in Veles is a food processing company, family owned and is making traditional preserves, the Mebel Center in Skopje is a carpentry factory specializing in kitchen cupboards, and Zito Farm in Kumanovo is a sheep farmer.

Additional documentation was provided from the Guarantee Fund as well as from the Swedish Embassy in Skopje. Even if many documents were found not all reports from the early stages of the project were found. Some misunderstandings in the reports from the GF were also cleared.

2.1.3 Reporting

The report is based on the results of the field visit, interviews with stakeholders and beneficiaries, analysis of collected data and information as well as reviewed documents and project reports.

The report describes the context of the project, development objectives and strategies. The draft report is presented to Sida on July 1st and a workshop was held with Sida staff and one of the TA consultants on September 1, 2015.

2.2 LIMITATIONS

The Terms of Reference asks for the evaluation to be conducted to provide Sida the experiences gained of the GF during the implementation of the project and through a short description describe how the GF has worked and its activities. The evaluator interpret this as providing a description of the Guarantee Fund as an institution, its institutional set-up, governance, its output and outcome, description of its products, and the relevance and effectiveness of its operation. The evaluation will not attempt evaluate the design of any of the instruments or make any projection of the impact.

³ The program for the visit is shown in annex 4.

⁴ He was also the first manager of the Guarantee Fund.

The evaluation extends over a large span of years, 2001 – 2015, and the evaluation team have made efforts in trying to capture all relevant documents pertaining to this project. Unfortunately some relevant documentation has not been possible to find, on the other hand more than 50 quarterly reports and a large number of other documents have been reviewed.

3 FINDINGS

3.1 SHORT DESCRIPTION OF THE GUARANTEE FUND

3.1.1 Background

Guarantee Fund DOOEL is an independent legal entity registered in Skopje Court on 18.12.2001 as a limited liability company with the Small and Medium Enterprises Development Support Centre (SMEDSC) as the sole owner. The Fund (GF) was inaugurated and officially started its operations on September 30, 2002. A conference was held the same day at the Chamber of Commerce in Skopje where the GF was presented to 70 invited representatives from development institutions, banks, institutions within the SME sector and others.

The idea of a guarantee fund emerged when the founders were engaged in a World Bank (WB) financed project “Private Farmers Support Project” in the late 1990’s. This team started the consulting company “Agri Company VIZI in which the same activities as in the WB project were continued. The need for a fund was derived from the need for loans for financing of SME’s but where the financing institutions required collateral not available by the businesses. Development cooperation institutions were contacted among those was the Macedonian Agency for Privatization which had advertised the availability of financial support for a guarantee fund from an IDA credit from the World Bank. To receive the support from the agency it was required that a share for the fund was brought from own resources. Sida was approached to be their partner and receive approval from the agency for such an arrangement and Sida Skopje reacted favourable.⁵

SMEDSC was established in May 2001 as an “association of citizens” for this purpose and also for opening up for new opportunities in development cooperation. It was also the opinion of Sida that it would be preferable to have a NGO to be the holder of the fund than a private company. Sida provided funding for a consultant in 2001 to work as an advisor⁶ to SMEDSC to make a feasibility study of the business

⁵ Status of the preparation of the credit guarantee fund, Internal Memo, Sida Skopje, David Friberg/Biljana Dzarтова-Petrovska, 2002-03-20

⁶ Per Blundell Consulting

sector, to evaluate the need for a GF institution, the readiness of the banking sector, preparation of necessary documentation for the legal framework and agreements for cooperation with the banks. The study confirmed a guarantee fund would be feasible and a great advantage to the growth of the SME and recommended to Sida to support the fund. Additional funding was provided for the consultant to continue to advise and monitor the developments.

After a number of discussions with the Privatisation Agency and the World Bank the Privatisation Agency decided to exit from the project and it was decided to go ahead with the fund with Sida funds initially. An agreement was signed between SMEDSC and Sida end of June 2002 where Sida provided 5.5 MSEK to SMEDSC for funding of the Guarantee Fund. Sida's contribution was only to be used as capital to the Credit Guarantee Fund and Sida was not to be represented on the Board but should have a monitoring function. *The fund is to have double roles; (i) to support potential investors by providing collateral for economic business ideas and (ii) to minimize the risks for the banks, which are financing small businesses. The programme will contribute to increase bank activities in the process of credit approval for small companies.*⁷

The fund from Sida was deposited in the Tutunska Banka under a favourable interest bearing account and the interest was used to pay operational expenses for the GF. Throughout the more than two years during which the discussions and developments took place to establish the SMEDSC and later the GF, all expenses were paid from the Agriconsult VIZI and later through the SMEDSC for running expenses and staff. SMEDSC provided the initial equity to establish the GF in 2001 and also capitalised the fund as quasi equity with the Sida grant as a loan to the fund. It was estimated that the initial fund capital would provide interest of about 45 000 USD per year and will be sufficient to cover operational costs for the first years. The fund works as a revolving fund and the initial capital in the fund was expected to be sufficient to cover the guarantee obligations for the first 18 months.⁸

Monitoring and the Technical Assistance to the GF was contracted to a new consultant⁹ in 2003 to assist in finding new funding partners and advise the GF on the operation. This arrangement continued until 2005 and is discussed later in this report.

In 2003 Sida also provided upon request from the GF a grant of 283 500 SEK for furniture, office equipment and a project car.

⁷ Agreement between Sida and Small Medium Enterprise Development Support Centre on support of Credit Guarantee Fund during March 2002 – February 2004, Sida ÖST 159/02, 2002-06-14

⁸ Report concerning Loan Guarantee Fund in Macedonia, Per Blondell, 2002-06-13

⁹ Devfin Advisors AB

A conditional loan from Sida was requested and negotiated in December 2003 for 1 000 000 Euro without interest and a maturity date of November 30, 2010. The loan was paid in three tranches; 300 000 December 2003, 400 000 in July 2004, and 300 000 in March 2005. This agreement was later amended in May 2005 to change the maturity date to November 30, 2015. Two additional loans were extended to GF as an addendum to the previous loan agreement in 2006 for a total of 5 800 000 SEK also to be returned to Sida in a bullet payment in November 30, 2015. A total of 1 632 899 euro or approximately 14.8 MSEK has been provided by Sida in an interest free and amortization free loan in addition to the 5.5 MSEK grant in 2002.

The first instrument being used by the GF was a loan guarantee where the bank would require collateral for the first 40 % and the GF would guarantee the remaining 60 % up to a maximum of 20 000 Euro. This upper limit was later increased to a maximum of 60 000 euro. The model for this instrument was initially developed by the World Bank but was subsequently adapted for the use in the GF. In case of a default the bank is to first apply the collateral to the loan balance and thereafter claim the guarantee from the GF up to 60% of the default loan balance.¹⁰ A second instrument (the supplier guarantee) was developed in 2004 and a manual for suppliers using the guarantee fund's services was compiled. This instrument was made available for the supply of equipment, livestock, and raw materials and alike, and was developed together with the TA consultants provided by Sida. 30 % of the total cost should be paid upfront by the client and the rest to be paid in instalments with a GF issued guarantee to the supplier where the equipment was used as collateral for the GF. This instrument was launched in 2005 and became a success.

It was soon noted that the suppliers did not have a sufficient cash flow to extend credit to its customers and most of the time sold the credit to a bank. A third instrument called a supplier loan guarantee was introduced to the market in 2006 and the first guarantees were signed in 2007. This new instrument helped the buyer to get a loan from the bank with a GF issued guarantee for 70 % of the contract after paying 30 % to the supplier. This also became a very successful instrument since there was no risk for the Bank.

In 2005 Sida engaged a consultant to do an organisational assessment in preparation for the additional support in 2006.¹¹ The objective of the assessment was to assess the performance and institutional capacity of GF and to make recommendations to Sida

¹⁰ Guidelines for the Financial Institutions using services from the Guarantee Fund, Issued by the GF, undated.

¹¹ Bankakademie International, Institutional Assessment, Patrice Prenassi and Ana Nikolovska, 2005

on the future development needs and funding requirements of GF. The consultant concluded that the GF has an important role in the Macedonian credit market for small and medium enterprises and that if the GF should reach self sustainability it would need a guarantee fund of at least 5 million euro. The consultant also recommended several areas for institutional strengthening for improving productivity. The recommendations focused on actions with the objective of achieving rapid sustainability. This included:

- A new Sida loan under conditions more similar to the market. This included tenure of 15-20 years with a 10/15 years grace period, repayment in 5 equal annuities, interest rate close to EURIBOR, revision of the development plan as well as improvements in internal productivity.
- Increase of the guarantee fees
- Improve GF team productivity through a on-site (9 mo) and part-time (18 mo) technical assistance with the objectives to support an expansion phase through MIS development, enhancement of the activity pace, negotiations of the leverage ratio, clarify the issue of tax exemption on retained profits, creation of new forms of guarantees, a systematic customer feedback, enhancement of own capital, and assisting in developing new partnerships.

There was very little information available to the consultant in regards to how the recommendations by the consultants were processed and the reason why TA to the GF was not continued. The TA by the Devfin consultants was terminated towards the end of 2015. The GF itself does not recall any detailed discussions in regards to the outcome of the Institutional Assessment but does recall the assessment. This may be due to the change of manager in the GF at that time.

After the disbursement of the last loan in 2006 the issue of a clear exit strategy and possibly convert the loan into a grant became a priority of Sida and several consultants¹² were engaged to study different options. In 2007 the Devfin consultants investigated an option to transfer the cooperation to Swedfund and to inject further capital into the GF. This option did not materialize. The Swedish Government decided in 2008 to phase-out the development cooperation with Macedonia and a study of several exit options was done and presented in a report to Sida in October 2009.¹³ The study mainly recommended Sida to transform the loan into a grant agreement or alternatively sell the loan claim to a similar donor. After a request by the GF to convince Sida to convert the loan to a Grant, Sida concluded that according to a special regulation in Sweden (Kapitalförsörjningsförordningen) it was not possible to trans-

¹² Sven Öhlund/Ove Allerklev and John Hyltenstam

¹³ Assistance to Sida in Phasing out Support from the Financial Sector in Macedonia and Kosovo, Hyltenstam & Co, Johan Hyltenstam, October 2009.

form the loan into a grant and in 2011 it was decided to phase-out from the cooperation with SMEDSC and the Guarantee Fund by having the loan paid back by November 30, 2015. Due to a previous addendum to the conditional loan agreement to postpone the maturity of the loan until 2015, it was decided that the cooperation with GF was to continue despite the fact that all other development cooperation was discontinued.

3.1.2 Institutional set-up

SMEDSC

The "Small and Medium Enterprise Development Support Centre" is set-up as a non-governmental non-profit organisation and was established on May 11, 2001 according to the law for associations of citizens and foundations. According to the by-law, the association is independent in its work and is established in order to perform realization and protection of economic, scientific, education rights and interest according to the constitution of the Republic of Macedonia. The bodies of the association are; the assembly of the association, the President, an executive committee, and a supervisory board. Interviews revealed that the activities of the association are currently not very active.¹⁴

The Guarantee Fund

As described previously the Guarantee Fund was registered December 18, 2001 as a limited liability company with SMEDSC as the sole owner. Currently there is no linkage to other private or public stakeholders. Legislation for financial institutions is under the responsibility of the Ministry of Finance but since the Guarantee Fund is set up as a limited liability company it is not subject to the legislation that applies to financial institutions. For that reason the Ministry of Finance was approached during the set-up and GF received a written approval to work and perform operation in the field of issuing guarantees.

The Guarantee Fund became operational in 2002 and the staff of three people was transferred to the GF from SMEDSC. The three people were part of the founders of SMEDSC and were Mr. Aco Spacenoski an agronomist with a degree from the faculty of agriculture in agro economics and livestock breeding, Mr. Marjanco Stojevic an economist with a degree from the faculty of economy in economic policy and development, and Ms. Aneta Atanasovska an agronomist with a degree from the faculty of agriculture in production of vegetable seed and planting material. The composition of

¹⁴ Interviews with the Manager of the Fund and the previous manager.

the staff seems to have been well suited to the target groups as small farmers were believed to be a segment to have difficulties in obtaining credits and had difficulties in providing collateral acceptable to the banks. Immoveable property outside of Skopje was not highly valued by the banks. However, follow-up of the clients have shown that 26 % came from the primary agriculture sector and 45 % came from production/processing, the remaining 29 % represents the service sector. This deviation does not appear to have had a detrimental effect on the accomplishments.

The formal structure of the Fund was initially composed of the Manager of the Fund, the Operative department, and a Guarantee committee. Later on an advisory body was also created.

Being a small organisation there were no specific formal duties except for the Manager of the fund who is appointed and reports to the bodies of the owner SMEDSC. Mr. Aco Spacenoski was appointed the first manager when the GF was formed. The other two staff members formed the operative department. However during the interviews with the staff it was clearly stated that all staff members worked as a team and having worked together for some time complemented each other. Initially a great deal of the work load was dedicated for marketing and awareness raising with the banking sector, donor organisations and also on the country side to make the services known to prospective clients. Everybody participated in this work but certain areas of responsibilities were assigned among the staff.

The operative department has the main responsibility to work directly with the clients, review applications from potential clients, and perform field visits to prospective clients, clients applying for guarantees, and clients for which guarantees were issued. A very important task is the situation analysis of a client applying for a credit guarantee, reviewing the application documents, perform a SWOT analysis and prepare a recommendation for the Guarantee committee.

The Guarantee Committee consists of five members; the Manager of the Fund, one staff of the operative department, one representative of SMEDSC, one representative from the institution providing the credit and one independent consultant¹⁵. The committee reviews the analysis done on the materials provided by the applicant and the recommendation provided by the operative department. The decision to approve or decline an applicant is decided within the committee by voting where the manager has the decisive vote.

¹⁵ According to the GF the consultant is not a permanent member but is chosen according to the nature of applications to be discussed.

Later on an advisory body was also implemented to provide support to the Manager of the Fund. There is no standing members of the advisory body but are invited according to the needs to be discussed, typically the body consists of five members of which three shall not be employed in the GF. The members should have banking expertise, SME sector expertise, legal expertise, being a member from SMEDSC and the Managers of the Fund. The advisory body meets twice per year according to need of the manager. The last meeting was in 2010.

The number of employees is determined on the basis of the activities that the Fund is conducting and is directly linked with the operational income and interest earned on deposited capital, but also on the basis of the analysis of the number of clients. A fourth member of the staff was added in 2004 which included another member from SMEDSC with a degree in agriculture engineering. In 2006 the Manager of the Fund left to become the Minister of Agriculture in the Government and Mr. Marjanco Stojevic was appointed as manager. Since then the staffing of the fund have been three members. Legal services are contracted with an external lawyer and accounting is also contracted. The change in management of the fund does not appear to have fundamentally changed the operation and having the previous manager in the government may have provided access to a larger network.

The Ministry of Finance is currently working on changing the banking system laws and is preparing law for non-banking financial institutions. This law should and will be in accordance with the existing banking laws in the EU. When enacted, the Guarantee Fund will explore the legal options available for being established as a non-banking financial institution that is in accordance with the objectives and purposes for the Fund's operations. Currently the Fund is not quite sure of its status in regards to the new financial regulations in Macedonia.

There is a question whether the GF is allowed to continue to issue guarantees, but according to a new legislation the NGO should be able to do this. The GF believes it must apply for a license and become a financial institution. In order to solve this ambiguity an agreement has been made with Tutunska Bank to issue guarantees through the SMEDSC to be secured by the GF deposits. The guarantees in 2011 were issued through the NGO and as far as the consultant has been able to determine no other guarantees have been issued after 2011.

3.2 DEVELOPMENT OF GUARANTEES AND MARKET BASE

3.2.1 Loan guarantees

When the Guarantee Fund became operational in 2002 it started with one guarantee instrument - guarantees for loans, whereas the GF guaranteed up to 60% of the loan, and for the rest of the loan amount the client provided collateral to the bank. This instrument was modelled after a World Bank project for creation of a Guarantee Fund. Within this instrument the client was obliged to provide at least 40% of the

demanded collateral towards the bank, and then in the case of default the bank was obliged to sell the client's collateral first. When and if the proceed from the collateral is not sufficient to cover the entire loan amount the bank can request the guarantee to cover the rest but only to the percentage that the GF has guaranteed for. The GF in its turn secured its guarantee from the client's collateral with "low-quality" collateral owned by the client, e.g. land, property in rural areas, vehicles, equipment etc. A guarantee could be issued as a secured guarantee or an un-secured guarantee (where the GF would not require additional security collateral). The conditions under the loan guarantees are:

- Maximum amount of a loan guarantee is 60 000 Euro (increased from 20 000 euro in 2004);
- Maximum percentage of the loan guarantee is 60 % of the loan amount;
- Maximum repayment period: 5 years (including the grace period)

This instrument had some weak areas; the guarantee did not reach the clients that did not have the means to put up the collateral for the first 40 %, the procedure inside the bank could at times be lengthy despite the guarantee from the GF. In some cases applications were withdrawn from the GF after they had approved the application, nearly 50 % according to the Institutional assessment in 2005. The positive decision of the GF seemed to be a positive confirmation of the client, so the request for collateral was reduced by the bank. This created a business problem for the GF, but also affirmed its contribution in facilitating access to credits for SMEs.

3.2.2 Suppliers credit guarantees

A new instrument targeted towards suppliers was developed whereas the banks were circumvented, at least in the beginning. The supplier's guarantee where invented inside the GF and was elaborated in its details with the help of the TA experts from Devfin supported by Sida. The focus of this instrument was suppliers providing equipment, transport means, livestock suppliers, raw materials, and services.

The instrument required the client to pay at least 25 % of the supply to a known supplier and for the rest (75 %) GF issues a guarantee to the supplier that the client would pay up the rest of the supply in the given time-frame/deadline on a deferred payment plan. The equipment/product is being used as collateral by the GF. This eliminated the problem with quality collateral for the banks and by accepting newly supplied equipment provided the GF with quality collateral. The slow procedures and credit process within the bank was eliminated. Suppliers from several branches were selected which had the capacity to cooperate with the GF and were willing, if in the case of default client, to help in the process of selling the equipment that was left as a collateral for GF.

This demanded larger engagement of GF in both selecting suppliers and clients. The suppliers had two options; to keep the guarantee until the buyer paid in full according

to the contract, or to go the bank and sell the claim with the GF guarantee to the bank with a certain discount. An agreement was made with NLB Tutunska Banka to buy-out the claims from the suppliers that were secured with the guarantee with a discount. This was important for many of the suppliers as they did not have the cash-flow to sustain lengthy payment plans. The instrument was shown to be very attractive and was used very often. Using the suppliers as a marketing tool improved the business for the GF. The conditions under the supplier credit guarantees are:

- maximum amount of a guarantee issued by the Guarantee Fund is 60.000 Euro for supply of equipment and 30.000 Euro for supply of raw material
- the guarantee can cover up to 75% of the contract value
- the guarantee can be issued for supply of equipment with maximum repayment period of 5 years (including grace period) and for raw material in principle no longer than one year

3.2.3 Supplier loan guarantee

It became more of a rule than an exception that the suppliers traded their credit guarantee with the bank for exchange of money. In 2007 the supplier loan guarantee was introduced.

This instrument worked almost the same as the credit guarantee with the exception that the client pays 30 % of the value to the supplier, and for the rest a guarantee is issued to the bank for the loan to the client, without further bank analysis and speedily, and the funds from loan were transferred to the supplier. The supplied equipment was used as collateral. This instrument made it possible to foreshorten the procedure for the suppliers that were selling the claim, but also reduced the interest costs for the clients, since they obtained loans with favourable interest.

3.2.4 Other instruments

In its development plan 2006 – 2010 the GF planned to introduce additional guarantee instruments such as tender guarantees, guarantees for delayed payment of customs fees, performance bonds and advance payment bonds and export credit guarantees. None of these actually materialized due to the shift in focus of the GF after 2008.

3.2.5 Guarantee fees and premiums

For obtaining a guarantee from the GF the client will have to pay both an up-front administration fee and a premium on an annual level on the outstanding loan balance. The fees are differentiated between secured and un-secured loan guarantees and supplier guarantees. The following rates are in practise since 2006.

	Loan Guarantees		Supplier guarantees	
	Secured	Un-secured	Equipment	Raw materials
Administration fee	1,5%	1,0%	1,0%	1,0%
Premium (Interest) (annually)	2,0%	2,5%	3,0%	3,0%
Note:	Paid annually or Up-front)	Paid up-front	Paid annually	Paid up-front
Payment schedule Up-front payment	Secured loan guarantees	Un-secured loan guarantees		
up to 1 year	2,00%	5,00%		
1-2 years	2,96%	7,38%		
2-3 years	3,86%	9,68%		
3-4 years	4,72%	11,90%		
4-5 years	5,54%	13,86%		

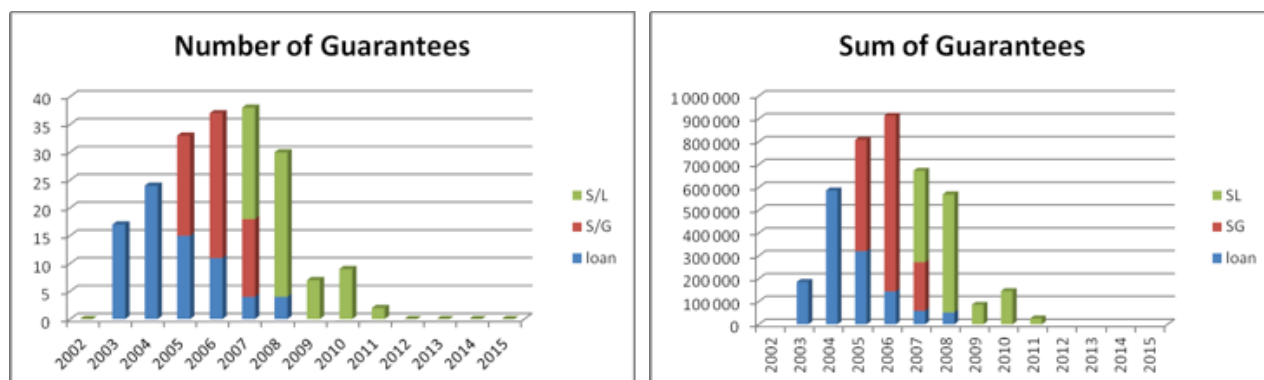
These fees are the primary source of income for the Guarantee fund in addition to the interest being earned on the funds deposited as security for the fund. Between 2002 and 2010 GF collected 45 400 Euro in administration fees and 131 500 Euro in “Premium” fees, a total of 176 900 Euro. GF stopped reporting separately on these fees from 2011. Internal financial documents indicates that for the period 2002 – 2014 the total income was 1.6 million Euro and the total expenses 1.3 million Euros, leaving a net profit after taxes of approximately 270 000.¹⁶

3.2.6 Development of the guarantees and clients

The Guarantee Fund has been providing guarantees to the SME market since 2003 and the last guarantees were issued in 2011. During this period 197 guarantees were issued for a total of 3 995 514 Euro and 3 3931 950 Euro has been released where the client either have made payments on the credits or there has been a default and the guarantee has been paid to the creditor.¹⁷ Consequently there is still 63 564 Euro to be collected in 8 outstanding guarantees in addition to 15 default cases being under processing. The following graphs shows the distribution over time and guarantee instruments.

¹⁶ This appears to be a cash-flow accounting and it is not quite clear how property claimed as collateral has been accounted for.

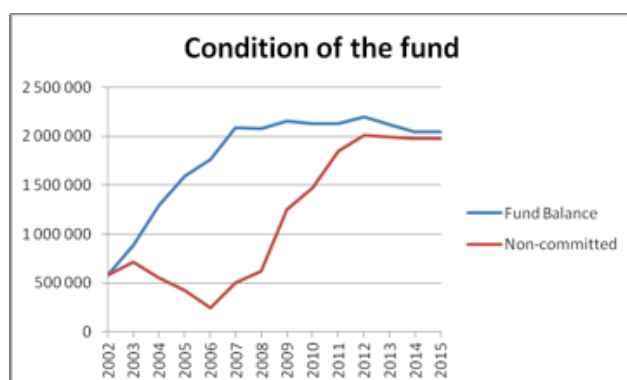
¹⁷ The amount “released” denotes the amount of guarantees which are no longer committed.



Of the 197 guarantees being issued 75 were loan guarantees, 58 were supplier guarantees, and 64 were supplier loan guarantees. It is obvious that the supplier guarantees were a very successful product being offered to the market and especially the latter one when it was introduced as it completely replaced the credit guarantee in 2008. The supplier guarantee combined attracted 122 client or 62 %. The loan guarantee remained as part of the business until 2008.

The sharp decline in the guarantees in 2009 and until 2011 when it is stopped is explained by the GF as being related to the decision of Sida to phase out of the project and repayment of the 1.6 million Euro loan in 2015. In fact it is claimed to affect the business in 2008 as well, however it is also explained by a decline in the general economic situation in Macedonia which started to deteriorate in 2008.

The priorities of the GF after 2008 was focussed on the outstanding guarantees as well as the defaults where collateral had been claimed and had to be sold and turned into cash. The development of the fund is clearly shown in the following graph.



In the above graph shows the total balance of the fund has been capitalized through Sida from 2002 until 2006 with almost 2.2 million Euro of which 1.6 million is a conditional loan to be repaid in November 2015. In 2006 the non-committed portion of the fund began to increase and in 2009 it exceeded 1 million Euro. It appears that it would have been ample time for the fund to continue its operation by issuing guarantees and focus on building equity in the fund to be used after the repayment of the loan to Sida and making use of the 1.3 gearing ratio provided by the bank. The con-

servative approach of the fund at this point did not contribute to its sustainability after 2015. In the period of 2009 to 2011 only 18 guarantees were issued.

Sida has provided in total almost 2.2 million Euro into the GF, 580 000 Euro as a grant and 1 633 000 Euro as a conditional loan¹⁸. Additionally Sida has provided approximately 1.8 million SEK (200 000 Euro) in other grants and technical assistance. In the quarterly report of December 2011 the fund reported on some aggregated statistics for the period 2002 – 2011.¹⁹ The analysis refers to the number of reached decisions from the Guarantee Committee for issuing guarantees i.e. for clients which application was reviewed and voted for on the Guarantee Committee. During that period the Guarantee Committee had reviewed guarantees for 262 applications (six of these were either cancelled or rejected) for the combined amount of 6.1 million Euro. Of these 75 % were actually issued as guarantees. The distribution by sector was 26 % primary agriculture, 45% production/processing, and 29 % services. The territorial coverage is shown in the following table:

Geographical coverage²⁰		
Region	Number	Percentage
West Macedonia	59	23
East Macedonia	66	25
Central Macedonia	22	8
Skopje	115	44
Total	262	100

Not surprisingly is almost half the market in or close to Skopje even though the staff put a lot of effort in marketing the guarantees all over Macedonia.

In 2002 the GF started with agreements with three banks, the Tutunska Banka, the Invest Banka and the Komercijalna Banka. Later on additional banks were included and five more banks were added to the partner list however of the eight banks six did actively participate. The Tutunska Bank is the major cooperating partner as is shown in the following table from December 2011. This is mainly due to the fact that when the GF introduced the last two instruments the activity was mainly discussed with the Tutunska Banka in Skopje.²¹

¹⁸ The disbursements are discussed previously in the report. The loan is made-up by 1 000 000 Euro in 2013 (disbursed in three tranches 2003-2005) and 5 800 000 SEK (633 000 Euro) in 2006.

¹⁹ Report for the activities implemented in the period October – December 2011, March 2012, The Guarantee Fund.

²⁰ Ibid

²¹ Briefing note from the GF

Bank's participation		
Bank	Number	Percentage
Tutunska Banka	113	43
Invest banka	16	6
Komercijalna Banka	15	6
Ohridska Banka	27	10
Saving House Moznosti	16	6
Stopanska Banka Bitola	2	1
Suppliers	73	28
Total	262	100

Of the suppliers that agreed to work with the GF 10 of these ended up using the supplier credit as shown below.²²

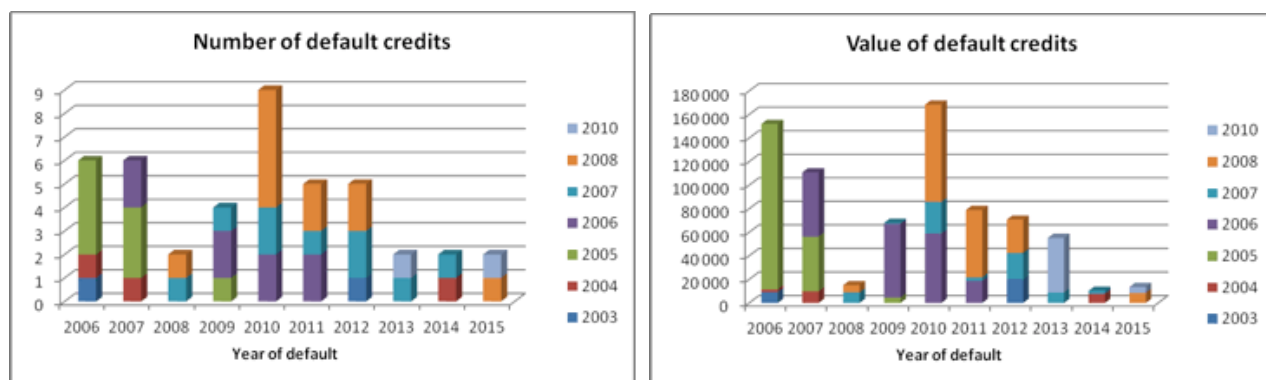
Supplier	Number	Percentage
Das prom	6	10
Diamak	1	2
Farmer	7	12
Geoplan	1	2
Gumno	-	-
Jugo impeks	29	50
Lucern	1	2
Mak medium	5	9
Mako	1	2
River soft	2	3
Serta Kompani	5	9
Zavar	-	-
Total	54	100

3.3 LOSSES AND ACHIEVEMENTS

The first defaults appeared in 2006 when guarantees had to be paid for six loans for a total of 152 013 Euro and after that a number of guarantees had to be paid every year. It is quite expected that this would happen since the target groups were people in a vulnerable position and the Guarantee Fund expressed in its development plans to have a strong approach to the development of the SME sector by providing support to SMEs that encounter problems regarding financing and development. The following outcome in regards to default cases took place after 2005²³:

²² Suppliers participating in the supplier loan guarantee is not available in the data supplied by GF since the guarantee is given to the participating bank.

²³ The colour coding in the graphs on the right refers to the year when the guarantee was issued



A total of 43 default guarantees has been paid out since 2006 with a total amount of 743 600 Euro. Approximately 22% of the issued guarantees during 2003 – 2010 went default, however of the guarantees issued during 2008 as many as 37 % (11 guarantees) went default and this may be an indication of the economic down-turn that took place at that time. 28 guarantees have been settled, either by providing payment plans or by using the collateral. 15 default guarantees for a total of approximately 260 000 euro remains to be settled for many reasons. This is a difficult work for the GF as it involves collection through enforcement agents, court cases and trying to set-up payment plans. Some of the clients are experiencing problems with collecting money from its debtors which in one case is the government.

The main problem for the GF is the slow progress and lack of efficiency of the state organs included in these processes such as the courts and the cadastre. Another problem is selling immovable property which has been taken as collateral where property laws and land registers has changed recently and also with the owners and inheritance. The GF estimates that the property value it currently has on its books are valued at 106 000 Euro. The overall losses are estimated by the GF to be 12 % which is on the level of banking average.

The GF results are nonetheless visible through the supported clients in their effort in building viable businesses and provide employment. The evaluation team visited together with the GF staff three clients and one supplier participating in the supplier guarantee scheme.²⁴ All of them spoke highly of the contribution of the GF to their businesses and the impact the credits had done. Visiting the work places it was possible to see firsthand how the supplier guarantee had enabled them to invest in their operations.

²⁴ Jomi Fud Veles, Dispositivo Skopje, Zito farm Kumanovo, and Jugo Impex Skopje.

The guarantee fund has issued 197 guarantees to a combined value of approximately 4 million Euro over eight years. The average guarantee is 20 000 Euro. Through visits to their clients and surveys the GF estimates that the guarantees have created or saved 1 511 jobs of which 539 are for women. This would lead to an investment of 4 400 Euro per job (assuming that a guarantee by the GF is 60 % of the loan). The evaluation team asked the GF if they have any follow-up with their clients that could give an indication to have many of the 154 non-default clients have managed to grow and survive after the intervention of the guarantee. Unfortunately, there were no such surveys or estimates.

Without Sida's support, GF will not have reached the results and performance that it has today. GF has a good reputation at the Ministry of Agriculture and Finance, as well as at the World Bank, Skopje Office.

3.4 SUMMARY OF EVALUATION QUESTIONS

3.4.1 Main problems that have occurred

Initially the main problem was to get the GF recognized by different financial institutions as a credible source for issuing credit guarantees. This was solved by entering into an agreement with Tutunska Bank where by depositing the security funds guarantees could be issued against the non-committed balance. In the beginning the guarantees were committed one-to-one against the balance. But after some negotiations and the help of the TA team sponsored by Sida the bank agreed to a multiplier of 1:1.3, i.e. that for a balance of 2 000 000 Euro the GF could issue guarantees for 2 600 000. The GF has never taken advantage of this in its internal planning documents. The TA team was of the opinion that it should be possible to have a multiplier of 2-3 times the balance and that this was necessary for the GF to reach sustainability and start building equity.

One of the major problems has been finding additional partners for the funding of the GF. Most experts agree that the fund need to have at least 5 million Euro for backing up its guarantees in order to become self-sufficient. With the help of the Swedish consultants in the TA team and the Embassy of Sweden all possible donors and other institutions were contacted and visited to present the fund and ask for funding. In many cases the reception was positive and the need for the fund was affirmed. But to no avail, the general consensus is that the GF was marketed too much as a Swedish backed Guarantee fund and most donors felt reluctant to participate in a Swedish fund. They would much rather have their own instruments.

As discussed previously a major challenge is to sell the real estate property and other immovable assets. Property which has not been moved is awaiting better times, the main problem in many cases is that the property is in the rural areas and there is not much demand.

In some cases livestock was taken as collateral under the supplier loan guarantee. It was proven that it was more difficult than anticipated to sell this. The taking of livestock as collateral was later restricted.

During 2009 and 2010 many of the clients to GF had difficulties in repaying loans and most were facing difficulties due to the economic crisis. One of the activities of the GF is to provide advisory services to its clients and helping them to find new markets and provide free consulting services.

During the economic crisis and a reluctant attitude of the banks for issuing loans, the need for guarantees was growing. However, the GF did not manage to respond to this as it was very careful in protecting the Sida monies to repay the loan as agreed.²⁵

In order to regulate activities of the institutions such as Guarantee Fund that so far performed its activities under the Law for Trade Companies in Republic of Macedonia a New Law for Financial companies was enacted. This Law is empowered since 01.01.2011 and regulates guarantees as financial instrument.

When the Parliament, in 2011, enacted the new law for financial companies the management of GF consulted experts in this matter and since the status of the GF was unclear GF decided to issue guarantees through SMEDSC and the necessary documentation was changed.²⁶ In the meantime the Guarantee Fund will continue with its activities and issue guarantees through its owner SMEDSC, which in accordance to the new legislation for Citizens Associations, can perform such activities. Due to the payment of the Sida loan, guarantees are issued with strict care.²⁷

3.4.2 The remaining work by the GF until repayment of the loan

Since 2011 the main priority of the GF has been to safeguard the capital in the fund to make sure that the conditional loan to Sida will be possible to be returned in November 2015. This has meant being very restrictive with issuing guarantees and in fact no guarantees have been issued since two guarantees in 2011.

As described above the GF was faced with an increasing number of default guarantees starting 2008 and this put a large burden on the workload of the staff. As soon as a client is missing its instalment the bank informs the GF. A staff member of the GF contacts the client to find out what the problem is and assess the probability of the client to resume its payments.

²⁵ Quarterly report to Sida, October – December 2010.

²⁶ Quarterly report to Sida, January – March 2011.

²⁷ Only two guarantees were issued in 2011.

However, in this period much of the GF daily activities are focused on solving defaults as the procedure in most cases is long and time consuming. After finishing the legal procedure or giving the case in the hand of the Enforcement Agents of the Republic of Macedonia the procedure to sell the property that was previously taken as collateral is difficult. This is made more difficult by the fact that since GF has a development agenda for SME, it took low value property (land, machines, equipment etc) as collateral. Currently there are 15 default guarantees that need to be resolved.

3.4.3 The plan for activities after the payment of the loan

Interviews with the President of SMEDSC and the Manager of the GF did not reveal any specific plans for planned activities after the loan has been paid. In both cases they spoke about finding new partners that could help replenish the fund. Some ideas were discussed in terms of IPA funding, reviving the idea of a Regional Balkan Guarantee Fund, and looking for funding through the EU Commissions special fund for Balkan cross-border activities.

Considering the action in 2011 of enacting SMEDSC to become a player in issuing guarantees it is most probable that when the loan is paid to Sida the activities in the GF will continue monitoring the remaining default guarantees and selling the property assets. But any activity in connection with issuing guarantees will be managed via the NGO since the paperwork has already been prepared and according to quarterly reports in 2011 the issuing of guarantees has already been moved into SMEDSC.

According to the GF the current balance in the accounts where the fund is kept is 2 019 447 Euro. After withdrawing the 1 632 899 Euro to be returned to Sida the remaining balance will be 386 548 Euro. Additional cost for currency conversion and bank charges for sending the funds will be applied to the balance but will most likely be relatively small, but an estimate will put the balance at about 350 000 Euro. In addition to the cash funds there are collateral to a value of approximately 106 000 Euro and claims on 15 guarantees to a value of approximately 220 000 Euro on the books. This would amount to a total of approximately 2 346 000 Euro or 713 000 after the return of the loans to Sida. These funds will most likely be moved from the GF to the SMEDSC since the guarantees are currently issued in the name of SMEDSC. The management of the GF as well as SMEDSC have claimed that the fund will be used for the purpose they were given.²⁸

²⁸ According to the law for forming "Citizens Associations", funds received must be used for the purpose they were given.

3.4.4 Relevance

The SME sector plays an important role in the business economy. Local SMEs employ more than three-quarters of the workforce and generate more than two-thirds of the overall value added. Expectations about the business climate, both for start-ups and for existing businesses, are less optimistic against the background of the on-going crisis, which is reflected in a significant drop in domestic demand, restricted access to capital and generally low liquidity. The number of active businesses has increased. As an indicator of the business climate, about 61 % of businesses started in 2008 were still active in 2011. Of those started in 2009, 70 % were still there in 2011. Of those started in 2010, 66 % survived by 2011.²⁹

Funding is available in Macedonia through several types of credit lines that are disbursed in the form of loans through a number of financial institutions. However, most banks consider the SMEs as a high risk sector for lending. The assessment of collateral may be severely downgraded by the bank wanting to keep some types of collateral out of their portfolio. Thus the Macedonian SME sector still encounters large difficulties in sourcing investment and development financing.

The services provided by the GF was established to offer a solution for SMEs unable to live up to the collateral requirements of the banks, by offering a guarantee based upon cash-flow analysis and backed by separate collateral of satisfactory value. The supplier guarantee was designed by the GF to offer an instrument that could be made available to the client quickly and with a minimum administration. The need for an institution like the Guarantee Fund was also attested by the Tutunska Bank since the GF was able to accept assets that the bank will not and that it was responsible for assessing and alleviate the risk. The clients we met during our visit also confirm the relevance of the GF in the credit market.

When the project started the concept of the GF was highly relevant for the development cooperation with Macedonia as it tied into the involvement by Swedish development cooperation in the agricultural sector and contributing to economic development and sustainable transformation of the agricultural sector.³⁰ The role of the GF is still very relevant in the business environment in Macedonia and even though Swedish development assistance has phased out it is relevant to the Result strategy for the Western Balkan. The development focus of the GF makes it an actor contributing to

²⁹ SBA Fact sheet 2013, European Commission

³⁰ Country Plan for Development Co-operation with Macedonia 2006-2008, Embassy of Sweden, Skopje, 2005-12-15

the private sector development and job creation in the SME sector. This will also in the long run have an effect on poverty alleviation through the SMEs.

3.4.5 Effectiveness

The Guarantee Fund set out to meet its goal to provide support for small and medium enterprises that encounter problems regarding financing and development.³¹ The main objectives were to facilitate access to sources for financing through issue of conditional payment guarantees for bank loans and supplier credits; to design and introduce new guarantee forms; and to offer and provide technical aid and advice in the formation and development of small enterprises to benefit economic development and job creation.

Considering the period 2002 – 2008 it can easily be deduced that the GF met its goal and objectives with creativity and optimism for the long-range development of the services of the GF. The internal procedures were developed and streamlined with the assistance of Swedish TA and the number of guarantees was growing steadily. The institutional assessment that was carried out in 2005 also concluded that the GF was effective. At the onset of the economic down-turn in 2008 and the prospect of returning the conditional loan the organisation lost its sense of longevity. The more restrictive policy of issuing guarantees was unfavourable to its operation.

3.4.6 Sustainability

The sustainability of the results of the project can be assessed in different dimensions. One dimension is the sustainability of the clients that have benefitted from the guarantees and another dimension is the sustainability of the institutional development and the provision of the services of the GF.

The sustainability of the clients is difficult to assess without making a proper impact assessment and meeting with the sufficient number clients. However, judging from the small sample during the evaluation two out of the three clients met have a reasonable chance of growth in their businesses. This may also be confirmed by the statistics referenced above of the survival rate.

The Guarantee fund never really achieved sustainability but in 2007 it was starting to pick up the volume it needed and with the introduction of the two new instruments it looked favourable. The remaining funds after the withdrawal of the Sida loan are not going to be substantial and probably not adequate to start up a guarantee fund again. The remaining funding could be the financing of the cost for re-establishing and starting up the administration.

³¹ Guarantee Fund, Development Plan 2006

Another factor which will make it a challenge for reviving the GF is that it has been out of the market since 2011, it has closed its webpage, and more importantly the staff does not seem to have a confident outlook for the future. If a new funding partner is identified then all the prerequisites are in place in the NGO, the network with the banks and suppliers is there, and with a bit of audacity it can all be started again.

4 CONCLUSIONS

The development of the GF was successful in the sense that it managed to reach out to the market and satisfy a demand. It also managed to create new products to replace the first guarantee instrument.

For some reason a common understanding was that the loan amount was going to be converted into a grant. This may have put the GF off guard and not been planning for sustainability. The absence of a clear exit strategy from the Guarantee fund already from the beginning may have created a false hope that the loan would continue for the foreseeable future.

The communication of an exit from the Guarantee Fund by Sida came in a bad moment when things were starting to be difficult for the GF. After a number of years with good growth rate and the introduction of a really successful instrument, loans were starting to default and the reality of losing the back-up funding changed the operation fundamentally for the GF.

The institutional assessment that was carried out in 2005 made a number of recommendations of which few seems to have been introduced. In particular, it would seem as if TA would have been appropriate at the time when there was a change in the management of the fund and for crisis management when events started to turn difficult.

The number of issued guarantees dropped substantially in 2009 giving a capacity in the non-committed balance of the fund of over 1.2 million Euros. A dialogue with Sida would have been beneficial to discuss how the risk could be shared between Sida and GF and thus give a little more space for the GF to prepare for the exit of Sida.

Without Sida's support, the GF would not have reached the results and performance that it did. GF earned a good reputation at the Ministry of Agriculture and Finance, as well as from World Bank, Skopje Office.

5 LESSONS LEARNED

During the discussions with the present and former staff of the GF several issues surfaced that was experienced during the set-up of the Guarantee Fund and constitutes lessons learned through the capacity building process.

- Know the business sector and analyze the needs of the potential clients, its openness or conservativeness of banking products. Know the different clients in the business sector, start-up companies, interest of the banks and other financial institutions to work with an institution providing guarantees.
- It is important to create a team that has a wide knowledge of economic parameters and evaluation of investment profitability. The ability to assess and evaluate business plans and the economic situation of the clients were something the GF had to experience. The learning and development component of the credit guarantee fund is greater than foreseen.
- Plan for different types of guarantee instruments and introduce them into the market one by one in order to test each one of them and gain experience.
- Make a thorough analysis of the regulations in regards to the financial sector and for assuming ownership of the collateral for the loan and guarantee.
- Anticipate and plan for default guarantees, set a benchmark for acceptable losses and plan for recapitalization from the start by building equity in the fund. This is especially important when the GF works with not very secured collateral.
- When property is being used as collateral it is important to have well in advance made an analysis of the property rights laws, registration of property, and how to realize property rights in a default case.
- Make a thorough assessment of the legal system for handling default guarantees, the efficiency of the court system, enforcement agencies, and the processing time for court cases, appeal system in order to prepare and plan for this process.
- Make sure that you have competent legal support, both for designing agreements and documents and also for court appearances. Do not underestimate the problems in developing basic judicial documents.

- When outside partners provide funding into the guarantee fund make sure that there is a plan for how the partner can leave without causing unnecessary disturbance for the sustainability of the fund.

ANNEXES

ANNEX I: TERMS OF REFERENCE: EVALUATION OF THE GUARANTEE FUND IN MACEDONIA

FIRST DRAFT 20 February 2015

Sida has decided to make an evaluation of the activities and results of the Guarantee Fund (GF) in Macedonia, which Sida has funded. Case number 2005-000570. Plus 76001826.

Background

The cooperation with Macedonia ended in December 2012, except for a few projects. There were two cases when agreements had been entered into before the Swedish decision to phase out was taken. An evaluation of the cooperation with Macedonia was made during 2012 by Indevalop. The report is called "Outcome Assessment and Lessons Learnt from Swedish Development Cooperation with Macedonia (1999-2012)". The evaluation came to the conclusion that Sida's portfolio was relevant to the EU integration process. With a few exceptions the support has been spent efficiently. Swedish development support is often perceived as flexible with a rather quick decision making process. The strategy processes have been transparent and consultative.

One project, the Guarantee Fund, is still active in accordance with an agreement with Sida from 2008.

In 2009, Sida commissioned a study of GF in order to investigate the possibility to transform Sida's conditional loans to GF into a grant that could serve as a basis for a sustainable continuation of GF's support SMEs in Macedonia. The study recommended that the loans be made into grants, but that was not possible to implement due to the Swedish law (Kapitalförsörjningsförordningen). In accordance with the agreement, the conditional loans will be paid back to Sida in November 2015 and the project will be closed.

The study of 2009 did not assess the results of GF, but it provides a valuable description of the objectives and the judicial status of the GF. The two following paragraphs have been copied from the 2009 study:

"Sida has supported the Credit Guarantee Fund in Macedonia since 2002. The goal of the Guarantee Fund is to provide support for small and medium enterprises (SMEs) that encounter problems regarding financing and development, i.e. that they do not have sufficient collateral as required by formal financial institutions. The Guarantee Fund is registered as a company which is a subject to the Business Law of Macedonia. The Fund was established and is owned by an NGO, the "Small and Medium-sized Enterprise Development Center (SMEDC)" which is the one single shareholder. Guarantee Fund DOOEL is an independent legal entity registered in Skopje Court on 18.12.2001 as a limited liability company with SMEDSC as the sole owner.

The Guarantee Fund has obtained a written notice from the National Bank and Ministry of Finance to work and performs operation in the field of issuing guarantees. According the legal regulations this grant and loan money cannot be used for other purposes other than for issuing guarantees. Accordingly, money that would be received in form of grant from donors would and can only be used for increasing the guarantee principal and be used for the purpose agreed with the donors. The Fund has its own account and seal, its own Statute and Manual and is conducting its operations in compliance with these documents and existing laws in Republic of Macedonia (RM)."

Every quarter, the GF has sent a financial and narrative report to Sida. The report from November 2014 covers the period July - September 2014. It reports that the full portfolio provided by Sida has been maintained. There are a number of default cases, but they have been or will be covered by the collateral from clients and/or the GF earned income. It is also reported that the GF guarantees until now have saved and have created possibilities for employment of 1.511 people, according to companies' officials (beneficiaries of guarantees).

Purpose and Scope of Work

The purpose of the evaluation is to learn from the experiences of the GF. Sida has raised the ambitions to use credit guarantees and loans, which makes the experience from GF valuable.

The evaluator shall assess the relevance and effectiveness of the GF and the sustainability of the results. The evaluator shall study the reports of the project and interview the project managers in Skopje. Other stakeholders in Macedonia shall be identified and interviewed, such as the banking system and clients of GF.

The evaluation report should include the following:

- A short description of the way GF has worked and its activities, including the number of assisted SMEs, the credit volume, the relations with the banking system etc.
- An assessment of the relevance of the project, the effectiveness of the GF and the sustainability of results.
- The problems that have occurred and how they have been solved.
- The remaining work of GF until November 2015, when the conditional loans shall be paid back to Sida.
- The plans for activities after November 2015, including an estimate of remaining funds.
- Other lessons learnt from the Macedonian GF.

Time schedule and Qualification of the Evaluator

A draft report shall be delivered to Sida before 10 April 2015. Written feed-back from Sida will be provided within 10 days. Then submission of a final report is expected 7 days after Sida's feed-back.

It is estimated that the time needed for the evaluation amounts to 15 days:

- Preparations, reading reports etc	5 days
- Interviews in Macedonia	5 days
- Writing report	5 days
- Total	15 days

The consultant making the evaluation should have an experience of similar projects and preferably with the countries of the Western Balkans.

Attachments:

1. Johan Hyltenstam: Assistance to Sida in Phasing out Support from the Financial Sector in Macedonia and Kosovo. 2009.
2. Financial and Narrative Report from GF, November 2014

ANNEX II: LIST OF DOCUMENTS

Activity Report Q1 2015, The Guarantee Fund
 Activity Report Q3 2002, The Guarantee Fund
 Activity Report Q3 2003, The Guarantee Fund
 Activity Report Q4 2004, The Guarantee Fund
 Activity Report Q4 2005, The Guarantee Fund
 Activity Report Q4 2006, The Guarantee Fund
 Activity Report Q4 2007, The Guarantee Fund
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ANNEX III: LIST OF INTERVIEWEES

Organisation	Person	Position
Devfin Advisors	Sven Öhlund	Retired
Guarantee Fund	Marjan Stojcev	Manager
Guarantee Fund	Anata Atansovska	Advisor, Guarantee Officer
Guarantee Fund	Valentina Debrevska	Advisor, Guarantee Officer
Jomi Food, Veles	Mr. Zoran Avramov	Manager
Jugoimpex (Supplier), Skopje	Mr. Zoran Popov	Manager
Jugoimpex (Supplier), Skopje	Mrs. Snezana Popova Bogatinoska	Manager
Mebel Centar, Skopje	Mr. Labinot Krueziu	General Manager
NLB Tutunska Banka AD Skopje	Mr. Aleksandar Dimitrievski	Head of CRM Department for SME's
SMEDSC	Aco Spasenoski	President
Swedish Embassy, Skopje	Biljana Džartova-Petrovska	Economic and Trade Relations Officer
Zito Farm, Kumanovo	Mr Goran Arsic	Farmer

ANNEX IV: SCHEDULE FOR VISIT TO MACEDONIA

Time	Contacts persons and program
June 7, 2015 Skopje 19:55	Arrival in Skopje on Turkish Airlines, TK 1005
June 8, 2015 Skopje 09:30 – 15:00	Start-up and introductory meeting at Guarantee Fund office; office work with GF staff; analyzing relevant documents. Mr. Marjan Stojcev Manager Mrs Anata Atanasovska, Advisor, Guarantee Officer Mrs Valentina Debrevska. Advisor, Guarantee Officer
15:30 – 16:30	Embassy of Sweden Mrs. Biljana Džartova – Petrovska
June 9, 2015 Skopje 09:30-12:00	Field visit to Jomi Food in Veles Food processing, making traditional preserves. Mr. Zoran Avramov
13:00 – 14:00	NLB Tutunska Banka AD Skopje Mr. Aleksandar Dimitrievski Head of CRM Department for SME's
14:30 – 15:30	Meeting with Jugoimpex Mr. Zoran Popov, Manager Mrs. Snezana Popova Bogatinoska, Manager (supplier-most active included in the guarantee scheme)
June 10, 2015 09:30 – 10:30	Field visit to Mebel Centar in Skopje Mr. Labinot Krueziu, General Manager
10:30 – 14:00	Field visit to Zito Farm in Kumanovo Mr Goran Arsic
14:30 – 16:30	Meeting with the founder of the Guarantee Fund – SMEDSC (Small and Medium Enterprise Development Support Centre) Mr Aco Spasenovski
June 11, 2015 Skopje 09:30 – 15:00	Final meeting with Guarantee Fund staff Mr. Marjan Stojcev Manager Mrs Anata Atanasovska, Advisor, Guarantee Officer Mrs Valentina Debrevska. Advisor, Guarantee Officer
15:30 – 16:30	Embassy of Sweden Mrs. Biljana Džartova – Petrovska
June 12, 2015 Skopje 09:05	Departure to Sweden on Turkish Airlines TK1004



Evaluation of the Guarantee Fund in Macedonia

This evaluation was contracted by Sida through the Framework Agreement for Sida Reviews, Evaluations and Advisory Services on Results Frameworks and conducted by FCG SIPU International AB. The report presents the findings and conclusions of the "Evaluation of the Guarantee Fund in Macedonia" conducted in May – June 2015.

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